Following several years of prosperity, a dramatic downturn in the U.S. economy in the first years of the third millennium was coupled with attendant increases in downsizing and layoff activity (Langdon, McMenamin, & Krolik, 2002). A shift toward more displacement of white-collar and service industry employees means that organizations need to contend with the consequences of downsizing across their entire workforces (Hipple, 1997; King, 2000; Monks & Pizer, 1998; Schmidt & Svorny, 1998). While research has demonstrated that remaining employees often have negative attitudes toward organizations that have downsized (see Brockner, 1988, and Kammeyer-Mueller, Liao, & Arvey, 2001, for a review), there has not been much investigation of how workforce reduction affects individuals outside of the organization. In particular, no empirical research has studied how job applicants might react to workforce reduction. However, reports in the popular press suggest that for many workers, concerns about downsizing are profoundly affecting job-search strategies (e.g., Deutsch, 2002; Leonard, 2001). If applicants are wary of companies that downsize, efforts to trim nonproductive units or reconfigure a business through downsizing might cause real damage to a company’s ability to recover and reestablish itself for the future.

WORKFORCE REDUCTION AND JOB-SEEKER ATTRACTION: EXAMINING JOB SEEKERS’ REACTIONS TO FIRM WORKFORCE-REDUCTION POLICIES

JOHN KAMMEYER-MUELLER AND HUI LIAO

Empirical research and narrative reports from working managers suggest that employee attitudes can be negatively influenced by organizational downsizing, but the potential impact of downsizing on applicants is not well documented. In this study, we investigate the effect of organizational downsizing on job-seeker attraction to an organization. Respondents were given descriptions of two organizations, coupled with information on workforce reductions in the two organizations. We found that workforce reductions reduced job-seeker attraction. However, companies that downsized but provided assistance and adequate communication to employees were nearly as attractive to applicants as companies that had not downsized. Managerial implications of these results are provided. © 2006 Wiley Periodicals, Inc.

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There are good reasons for companies engaged in downsizing to consider the reactions of potential applicants, especially because nearly all companies downsize under the premise that trimming in the short term allows the company to compete and grow in the long term. Downsizing is a temporary solution that is expected eventually to be followed by hiring at some future point. It is clear that applicants are interested in knowing about the culture and values of companies they plan to work for (Barber & Roehling, 1993; Cable & Turban, 2001; Turban, Forrett, & Hendrickson, 1998), and it is likely that their interest in working for a company is predicted by these perceptions. If applicants see companies that downsize as having a negative culture, then organizations will have to spend a great deal of time and energy improving their reputation before they can attract top-quality applicants. It is also possible for companies to downsize without earning a negative reputation by showing sufficient concern for employees who are losing their jobs (Feldman & Leana, 1994; Kammeyer-Mueller et al., 2001). Our study is the first we are aware of that investigates these questions by using data from applicants.

**Workforce Reduction and Job-Seeker Attraction**

Our fundamental premise is that individuals who are looking for new jobs (i.e., job seekers) are interested in finding work that will match their preferences. As such, job seekers will be interested in obtaining “signals” regarding an organization’s culture and practices. Companies, in turn, should make specific efforts during the process of downsizing to ensure that they are not inadvertently sending off negative signals about their culture and practices.

Evidence indicates that employees are at least as concerned about the reputation of potential employers during the process of job search as they are about the characteristics of the specific jobs they intend to take (Cable & Judge, 1996; Turban & Greening, 1996; Turban et al., 1998). However, it also is recognized that this information-gathering process will not be easy for job seekers. It is often difficult to assess exactly what a company is like, since organizations work diligently to portray themselves in a positive light during recruiting (Wanous, 1992). Many job seekers will be skeptical about the information that companies provide during recruiting and will infer organizational practices from indirect signals.

For example, research shows that job seekers use factors such as product image and advertising to get a broad idea of the company as a workplace (Highhouse, Zickar, Thorsteinson, Stierwalt, & Slaughter, 1999). These indirect signals may lead applicants to infer that athletic companies are active, busy workplaces; pharmaceutical companies are serious, technical workplaces; and Internet companies are creative, intense, and casual workplaces. In a related vein, job seekers may view an organization’s actions during workforce reduction as an indirect signal of their actions in future periods.

One specific example of a high-profile downsizing’s effect on corporate image is the well-known AT&T mass layoff announcement of 40,000 employees in 1996 that was followed by an enormous volume of media coverage and furious public responses. AT&T’s CEO, Robert Allen, received a bonus of options worth about $9.7 million while thousands of employees were about to lose their jobs. He was depicted in the media as a “corporate killer” and a “hit man.” Reflecting on the public relations crisis, AT&T’s former executive vice president of public relations, Dick Martin, noted that how companies manage downsizing carries important political and social symbols, and that the window of opportunity to create positive symbolism is very narrow (Martin, 2005). Martin noted, “Ironically, we eventually did some of the right things, but by the time we did them, it was too late. For example, we ran ads to help displaced workers find jobs. Had the ads ap-
peared in the first days following our downsizing announcement, they would have demonstrated some degree of social responsibility. Ninety days later, they appeared to be a reaction to the public backlash rather than a sincere effort to help our employees” (pp. 43–44). The market punished AT&T for the mismanaged downsizing by sending stock values down 4% months after the downsizing announcement, while for the same period the S&P rose 12 points. This layoff is just one of many high-profile downsizings of Fortune 500 companies.

Of course, not all companies publicize detailed process information regarding their layoffs, and not all companies are of sufficient size to warrant large-scale media attention. They probably will not offer this type of information voluntarily at recruitment and job interviews. However, job seekers are not passive information receivers, and downsizing information often is available to those who want to find it. Many individuals on the job market consult career-oriented Web sites (e.g., www.vault.com) or business news sites (e.g., news.yahoo.com/) to search for information pertaining to potential employers. Our own search of these sites turned up examples of downsizing at companies ranging from very small private organizations to Fortune 500 corporations.

Job seekers also may learn about downsizing from family and friends. Networking with friends, family, or other acquaintances is one of the most common ways for seekers to find jobs (e.g., Baker, 1994; Wanberg, Kanfer, & Banas, 2000). In other words, the job-search process is inseparable from an individual’s social relations (Granovetter, 1973). Friends, family, and other acquaintances are good sources of information for company practices as well as for job openings. Research has shown that employees hired through networking and employee referrals tend to have more realistic conceptions of companies where they work (e.g., Griffeth, Hom, Fink, & Cohen, 1997). Thus, job seekers may well obtain information from their personal networks on whether the company had recently downsized and, if it had, why and how it conducted downsizing.

The Mediating Role of Perceived Organizational Characteristics

The discussion thus far has suggested reasons why job seekers might be concerned about organizational reputation. We now turn to specific aspects of an organization’s reputation that are particularly relevant. Workforce reductions that do not fit with social norms for humane, concerned treatment of employees contribute to decreased job security and negative attitudes toward the organization (Kammeyer-Mueller et al., 2001). Job seekers are likely to see how the company treated employees in the past as a reflection of how they might be treated if hired. In this study, we examine three specific applicant perceptions that might be affected by knowledge of a workforce reduction: job security, organizational support, and the overall financial health of the organization.

Job Security

Survey research has repeatedly shown that employees avoid jobs that are insecure (e.g., Greenhalgh & Rosenblatt, 1984; Jacobson, 1991). Schwoerer and Benson (1989) showed that individuals prefer to work in companies that do not have employment-at-will policies. Recent meta-analytic evidence demonstrates that employees who see their jobs as lacking security tend to have lower job satisfaction, less organizational commitment, and a stronger intention to turnover (Sverke, Hellgren, & Näswall, 2002). Prior research shows that those who remain after workforce reductions often believe their jobs no longer offer security (e.g., Armstrong-Stassen, 1998). These individuals conclude that if a company was willing to let workers go in the past, it will be willing to let workers go again in the future. Job seekers are likely to make a similar inference. In other words, firms that establish a history of workforce reductions develop a reputation as being less likely to offer stable employment.
Perceived Organizational Support

Perceived organizational support reflects the extent to which an organization values its employees and cares about their well-being (Eisenberger, Huntington, Hutchinson, & Sowa, 1986; Rhoades & Eisenberger, 2002). Many studies of workforce reduction have examined perceptions of whether reductions are fair and considerate, with results consistently showing a belief that companies owe their employees honesty, direct communication, and assistance during the downsizing process (e.g., Brockner, DeWitt, Grover, & Reed, 1990; Brockner et al., 1994). Studies indicate further that people are interested not only in the treatment they personally receive, but also whether others are treated fairly (Leventhal, Karuza, & Fry, 1980; Rousseau & Anton, 1991; Rousseau & Aquino, 1993). Among employees who remain after workforce reductions, those who believe reductions have been conducted in a fair and considerate manner perceive the organization more positively than those who believe downsizing has been conducted unfairly (Kammeyer-Mueller et al., 2001). However, these results never have been generalized to applicants.

Financial Health

A final factor that might be communicated during the process of workforce reduction is the overall financial health of the firm. Prior research suggests that organizational profitability is among the most important predictors of an applicant’s perception of organizational attractiveness (Cable & Graham, 2000; Turban & Greening, 1996). Firms that are in poor financial health are also more likely to reduce their workforces (Budros, 1999). Potential applicants may be especially concerned about taking a job with an organization that has poor resources, since such organizations will have less to offer in terms of promotion opportunities, resources for compensation, and other pecuniary advantages of the job. In summary, even downsizing companies that appear stable and support their employees might not be seen as good financial risks by applicants interested in building a career.

Combined Hypothesis

Overall, the research on job security, perceived organizational support, and financial health suggests the following hypothesis:

Hypothesis 1: Workforce reductions will be associated with less job-seeker attraction, mediated through lower perceived organizational support and financial health, and decreased job security.

Workforce-Reduction Strategies

While downsizing may generate negative reactions among applicants, not all downsizings are created equally. Many organizations take specific steps to ensure that downsizing has as little negative impact on employees as possible. These strategies can be described in terms of assistance, participation, and communication (Kammeyer-Mueller et al., 2001). Assistance includes providing financial help to individuals losing their jobs, including severance payments, outplacement, and continuation of medical benefits. Participation reflects the amount of input that individuals within the organization have into the process of workforce reduction, especially the use of retirement incentives and other incentives to encourage voluntary separation. Finally, communication can be described in terms of how much a company discloses to employees about the downsizing process and the timeliness of this information. Increasing assistance, participation, and communication has been advocated as a method to increase employee satisfaction and commitment during the workforce-reduction process (cf. Cameron, 1994; Feldman, 1994; Feldman & Leana, 1994; Kammeyer-Mueller et al., 2001), but has not
been considered in the recruiting process previously.

Policy-capturing studies show that severance packages do improve external observers’ perceptions of the fairness of a workforce reduction (Rousseau & Aquino, 1993). These results are supported by subsequent research showing that “gentle” layoffs involving outplacement assistance and severance pay were viewed as more fair than “harsh” layoffs in which no assistance was provided (Charness & Levine, 2000; Feldman & Leana, 1994). Together, these findings suggest that organizations that assist employees will be perceived as providing greater support. Assistance such as severance may also increase perceived security. Finally, firms that provide assistance to workers will be perceived as more healthy financially since they are able to afford such services. In sum, assistance should be related to all three proposed mediators.

Hypothesis 2a: Assistance will have positive effects on job-seeker attraction by increasing perceived organizational support, financial health, and job security.

Another major antecedent of job-seeker reactions to workforce reductions is the extent to which the organization provides advance warning to those who lose their jobs. Providing ample communication demonstrates that the organization keeps employees “in the loop” about important decisions before they affect employees and, therefore, will reduce concerns about job insecurity. Communication also shows that an organization is up front and honest in interacting with employees, a signal of organizational support. Employees who lose their jobs during downsizing and received adequate advance communication have more positive perceptions of the reducing organization and increased intention to exert effort on the job compared to downsized employees who did not receive similar warnings (Brockner et al., 1990). Employees who have been laid off also report more positive perceptions of employers when adequate levels of communication have been provided in advance (Eby & Buch, 1998; Feldman & Leana, 1994; Konovsky & Folger, 1991; Wanberg, Bunce, & Gavin, 1999). As we have argued, job seekers may expect that they will be treated similarly by the organization. Thus, we propose the following:

Hypothesis 2b: Communication will have positive effects on job-seeker attraction by increasing perceived organizational support and job security.

A final component of reduction strategies is the elicitation of active participation from employees. While research in the workforce-reduction literature has not examined the relationship between employee participation as a predictor of satisfaction with workforce reduction, the perception that employees are involved in decision making regarding negative events will serve as a signal that the organization values employee input (Eisenberger et al.; 1986; Fasolo, 1995; Rhoades & Eisenberger, 2002). It is also likely that employees will take participation to mean that those who wish to remain with the organization have some control over the situation. If applicants believe former employees were given options about the reduction process, it will decrease their perception that these employees were powerless, and they will see the jobs as more secure (Jacobson, 1991).

Hypothesis 2c: Participation will have positive effects on job-seeker attraction by increasing perceived organizational support and job security.

**Methods**

To investigate our main hypotheses, we developed an experimental simulation of organizational recruiting materials and gave it to
graduate and undergraduate students who were on the job market for professional work. We chose the experimental approach because it ensured us complete control over the level and form of information students received about the organizations. Although an experimental procedure is not identical to the actual job-choice process, we attempted to ensure that the information provided to students was similar to what they would find during a job search.

**Experimental Design**

Two short vignettes were presented to respondents describing two hypothetical organizations. One organization was Frisch Manufacturing, which "produces implements for farming and other agricultural applications." The other organization was Johnson Diversified, which "is a large, publicly traded organization which manufactures and markets medical devices such as surgical supplies, latex gloves, pain-reduction drug delivery systems, and catheters." These hypothetical organizations were based on companies that actively recruited graduates from the universities where the research was conducted.

To ensure that these presentations were realistic, the text of the vignettes was synthesized from numerous workforce-reduction announcements provided in newspapers, business magazines, and Web news sites. The layoff announcement was either "The organization reduced its workforce by approximately 10% in the previous year. Top management cited a need to improve core organizational operations and reduce overhead due to labor costs," or "The organization reduced its workforce by approximately 10% in the previous year. The company's CEO indicated, 'The reductions were based on a need to increase our focus and improve our portfolio of investments.'"

The content of reduction policies was modeled based on those described in large-scale surveys of human resources professionals (Smith & Walker, 2000). The reduction policies included descriptions of the severance packages offered to employees, whether the layoff was accompanied by a voluntary attrition program, and descriptions of the types of information communicated to employees. This information was supplemented with details from publicly available organizational filings with the Securities and Exchange Commission and company Web sites. The use of these sources of information is consistent with the premise that prospective employees will seek out detailed information about an organization to which they are intending to make a long-term commitment, and potentially favor information that comes from an external, unbiased source (Cable & Turban, 2001).

Prior to administering our survey, we used a test group to determine if the description of the layoff event was understood by participants. Test participants indicated whether they believed that the information in the scenarios was similar to information they had actually used for job searches. Some in the test group also described the information they had come across in their own job searches. Following this test survey, we modified the content of the scenarios to ensure that they were representative of a realistic job-choice situation.

The use of an experimental procedure permits independent consideration of workforce-reduction elements and also ensures that workforce reduction is the causal factor. The manipulated independent variables related to the levels of severance assistance, prior communication, and participation provided by the organization during the workforce-reduction process. This set up leads to a $2 \times 2 \times 2$ design plus one nonreduction scenario, for a total of nine scenarios. Each of the nine scenarios was paired with the other eight scenarios for a total of 72 possible pairings. Then these 72 pairings were put in random order, yielding an overall total of 144 possible scenario sets. Each respondent received one of these 144 sets and rated the at-
tractiveness for the two descriptions that made up the set. The wording of the manipulations between the two organizations was modified slightly to make the study design less obvious. An example of one of the scenarios is presented in Appendix A.

The high-assistance condition was “Those who left the organization received a severance package which included outplacement assistance as well as a two month continuation of salary and health insurance.” The low-assistance condition was “The organization offered a brief workshop on résumé writing for those who left the organization, but reported that they would not provide severance or continue health insurance coverage.” The high-participation condition was “Reductions in force were accomplished through employee-initiated separations rather than layoffs,” while the low-participation condition was “Selection of which jobs were to be cut was made based on organizational forecasts for subsequent product demand.” Finally, the high-communication condition was “The organization provided employees with a detailed warning regarding the possibility of downsizing approximately six months prior to the downsizing event,” while the low-communication condition was “The week before specific job cuts were made, a brief announcement was made to all employees that the organization was conducting a downsizing.” Because the length of recruiting messages is related to applicant attraction (Gatewood, Gowan, & Lautenschlager, 1993), we included a counterbalance of additional neutral information for scenarios that did not include workforce reductions. The counterbalance was designed to make the workforce reduction policy difference more salient. The counterbalance statement read, “The organization has planned to maintain its current number of employees into the near future. The organization does maintain a standard policy of employment at will, meaning employment can be terminated with or without cause, and with or without notice, at any time, at the option of the company or the employee. Most employees report that jobs are fairly secure, and the company has generally suggested that large-scale workforce reductions would be used only as a last resort. The company’s director of human resources recently noted in an interview that, ‘We believe in keeping talent within the organization whenever possible.’ The company does not have a history of conducting large scale workforce reductions over the past ten years.”

It would be unrealistic to only describe companies in terms of downsizing policies. Therefore, downsizing was just one of several differences between organizations. To minimize the transparency of the study design, other characteristics of the workforce reduction or the stable employment firms were included in the description, including the firms’ industry, company size, and hiring practices.

Participants

Study participants were graduate and undergraduate students from two large Midwestern universities who were either on the market seeking jobs or planning to enter the job market within the next year. Three hundred and seven surveys were distributed. Two hundred and three usable surveys were returned, resulting in a response rate of 66%. Participants averaged 6.54 years of work experience, and 77.5% of respondents were employed at the time they completed the survey. The mean age of the final sample was 25.10, and 66% were female. The majority of students were business majors (77.04%), while an additional 7.65% were computer science or engineering majors, 6.63% were social science majors, and the remaining 8.6% of respondents had majors across the liberal arts. Overall, 61.43% of respondents were graduate students, while the remaining 38.57% were undergraduates.

Measures

Respondents first answered demographic and job-search questions, along with the per-
sonality scales. Both scenarios were presented next. Respondents were instructed to think of these organizations as recruiting on campus for jobs in their majors, with open positions in the city or town where they would like to live. After the scenarios came questions regarding their beliefs about the practices in each organization and their interest in pursuing employment at these organizations.

Control Variables

To increase the precision of estimates, a number of control variables were included in the study (Maxwell, Cole, Arvey, & Salas, 1991). The controls included years of prior work experience, gender, age, and whether they were currently on the job market. Order of presentation (first or second scenario in the set) and type of organization (Frisch Manufacturing vs. Johnson Diversified) were also included as controls.

Mediating Variables

The measure of perceived organizational support used in this study was based on five items from an established survey (Eisenberger et al., 1986; Lynch, Eisenberger, & Armeli, 1999). Examples of the five included items are “this organization strongly considers employee goals and values” and “this organization really cares about employee well-being.” Responses for these questions ranged from 1 = strongly disagree to 5 = strongly agree. The internal consistency reliability of this scale was α = 0.82.

Because there were no readily available measures of applicant perceptions of firm financial performance, five items were developed for this study. Items included “this organization has a positive overall financial profile” and “this seems to be a financially successful organization.” Responses for these questions ranged from 1 = strongly disagree to 5 = strongly agree. The internal consistency reliability of this scale was α = 0.89.

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Dependent Variables

Job-seeker attraction to the firm was measured by four questions. First, valence of a job was assessed through the questions “How attractive is this company as an employer, for you?” and “How attractive is this job, for you?” Intention to accept a job was assessed through the questions “How likely would you be to accept a job if offered by this organization?” and “How likely is it that this company would be your first choice as an employer?” These items have been used as indices of employee attraction to an organization in a number of previous studies (e.g., Turban & Dougherty, 1992; Turban et al., 1998). The internal consistency reliability of this scale was α = 0.91.

Analysis

Because each respondent rated two distinct organizations, dependence of the observations suggest that ordinary-least-squares (OLS) regression is not appropriate. We estimated a variance-covariance matrix that allows interdependent error terms within a single respondent as well as accounting for heterogeneous errors across respondents (Rogers, 1993). The conventional variance-covariance matrix is weighted by each respondent instead of each individual rating, so the effective sample size for statistical tests is equal to the number of respondents rather than the number of scenarios. Analyses were performed with STATA 7.0. All continuous
scales were standardized prior to analysis so coefficients could be interpreted as the effect in standard deviation units of a one standard deviation change in the independent variables. For dichotomous variables indicating workforce reduction, reduction strategies, organization, and gender, the coefficients indicate the effect of the characteristic of interest on the dependent variable in standard deviation units. Using unstandardized coefficients for dichotomous variables with interactions is also helpful for interpreting the magnitude of these interactions (see Cohen, Cohen, West, & Aiken, 2003).

To ensure that the manipulations of organizational workforce-reduction characteristics were successful, four manipulation checks were performed. The manipulation check questions were at the end of the survey and required respondents to indicate, without looking back to the survey, whether they believed a reduction had occurred, and to what extent the organization’s reduction policy involved assistance, communication, and participation if a reduction had occurred. Of those who read about reductions, 91.8% recognized them as such, and 91.4% of those reading about organizations that did not conduct reductions recognized them as such, with a phi correlation for two dichotomous variables of \( \phi = 0.66 \). The high-assistance condition was perceived as involving higher levels of assistance than the low-assistance condition, \( d = 1.31, 95\% \text{ C.I.} = (1.12–1.50) \), the high-communication condition was perceived as involving higher levels of communication than the low-communication condition, \( d = 0.89, 95\% \text{ C.I.} = (0.69–1.09) \), and the high-participation condition was perceived as involving higher levels of participation, \( d = 0.70, 95\% \text{ C.I.} = (0.49–0.90) \).

Results

The basic descriptive statistics for the scenario-level variables are displayed in Table I.1

Hypothesis 1 proposed that job seekers would be less attracted to companies that engaged in workforce reduction, because companies that downsized would be seen as providing lower organizational support for employees, being less financially healthy, and lacking in job security. Support for this hypothesis would be found if: (1) job seekers were less attracted to companies that downsized; (2) downsizing companies were seen as offering less organizational support, less financial health, and had lower job security; and (3) there was no relationship between workforce reduction and job-seeker attraction once perceived organizational support, financial health, and job security were added in the regressions. The results presented in Tables II and III revealed that this hypothesis was partially supported. As shown in Model 1 of Table III, job seekers were significantly less attracted to companies that engaged in downsizing (\( \beta = -0.47, p < .01 \)). In addition, as shown in Model 1 and Model 3 of Table II, job seekers believed that companies that engaged in workforce reductions provided less organizational support (\( \beta = -1.06, p < .01 \)) and less job security (\( \beta = -1.29, p < .01 \)). Further, as shown in Model 2 of Table III, once perceived organizational support, job security, and financial health were added in to the regression to predict job-seeker attraction, the effect of workforce reduction became nonsignificant, and at the same time, perceived organizational support (\( \beta = .33, p < .01 \)) and financial health (\( \beta = .24, p < .01 \)) were significant. These results suggest that job seekers do perceive companies that downsize more negatively, and that the reason that they are less attracted to downsizing companies is because they believe downsizing companies are less supportive of their employees. However, it is worth noting that job seekers did not tend to avoid companies that offered less job security, and they did not think companies that downsized were less financially stable.

Hypothesis 2a predicted that providing employees with assistance in workforce re-
### TABLE I  Means and Correlations for Scenario-Level Data

<table>
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<tr>
<th></th>
<th>Mean</th>
<th>S.D</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>7</th>
<th>8</th>
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<th>10</th>
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<tr>
<td>1. Order</td>
<td>0.50</td>
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<td>2. Organization</td>
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<td>0.50</td>
<td>0.19**</td>
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<tr>
<td>3. Reduced workforce</td>
<td>0.91</td>
<td>0.29</td>
<td>-0.09</td>
<td>-0.03</td>
<td>--</td>
<td></td>
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<td>4. High assistance</td>
<td>0.42</td>
<td>0.49</td>
<td>-0.02</td>
<td>0.05</td>
<td>0.27**</td>
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<td>5. High communication</td>
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<td>0.03</td>
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<td>0.11*</td>
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<td>6. High participation</td>
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<td>0.30**</td>
<td>0.08</td>
<td>0.10*</td>
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<td>7. Organizational support</td>
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<td>0.14**</td>
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<td>0.82</td>
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<td>-0.25**</td>
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<td>9. Financial health</td>
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<td>0.01</td>
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<td>0.04</td>
<td>0.39**</td>
<td>0.24**</td>
<td>0.35**</td>
<td>0.91</td>
</tr>
</tbody>
</table>

n = 406

* $p < .05$

** $p < .01$

* Internal consistency reliability on diagonal. For the dichotomous control variables, order was coded 1 = first scenario and 2 = second scenario; organization was coded as 1 = Johnson Pharmaceuticals and 0 = Frisch Manufacturing.
TABLE II  Perceived Organizational Characteristics as a Function of Descriptionsa

<table>
<thead>
<tr>
<th>Control variables</th>
<th>Perceived Organizational Support Model 1</th>
<th>Perceived Financial Health Model 2</th>
<th>Perceived Job Security Model 3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Work experience</td>
<td>0.00</td>
<td>-0.02*</td>
<td>-0.01*</td>
</tr>
<tr>
<td>Gender</td>
<td>-0.18*</td>
<td>0.16</td>
<td>-0.04</td>
</tr>
<tr>
<td>On the job market</td>
<td>0.05</td>
<td>-0.13</td>
<td>0.08</td>
</tr>
<tr>
<td>Order</td>
<td>-0.05</td>
<td>-0.06</td>
<td>0.04</td>
</tr>
<tr>
<td>Organization</td>
<td>0.00</td>
<td>0.27**</td>
<td>-0.34**</td>
</tr>
<tr>
<td>Reduced workforce</td>
<td>-1.06**</td>
<td>-0.09</td>
<td>-1.29**</td>
</tr>
<tr>
<td>High assistance</td>
<td>0.67**</td>
<td>-0.10</td>
<td>0.51**</td>
</tr>
<tr>
<td>High communication</td>
<td>0.37**</td>
<td>0.21</td>
<td>0.27**</td>
</tr>
<tr>
<td>High participation</td>
<td>0.13</td>
<td>-0.06</td>
<td>0.05</td>
</tr>
</tbody>
</table>

\[ R^2 \]  
\[ \text{Adjusted } R^2 \]  

\[ n = 203 \]

* \( p < .05 \)

** \( p < .01 \)

a For the dichotomous control variables, gender was coded 1 = male and 0 = female; on the job market was coded 1 = yes and 0 = no; order was coded 1 = first scenario and 2 = second scenario; and organization was coded as 1 = Johnson Pharmaceuticals and 0 = Frisch Manufacturing.
duction will positively affect job-seeker attraction by increasing perceived organizational support, financial health, and job security. As shown in Model 1 and Model 3 of Table II, companies that offered assistance were seen as providing more organizational support ($\beta = .67$, $p < .01$) and job security ($\beta = .51$, $p < .01$). However, according to the results in Model 1 and Table III, assistance did not significantly increase job-seeker attraction. This means that providing assistance to employees during the downsizing process does not affect job applicants’ willingness to seek a job with a company.

Hypothesis 2b predicted that providing communication during workforce reduction will increase job-seeker attraction by increasing perceived organizational support and job security. The results in Model 1 and Model 3 of Table II showed that communication was positively associated with perceived organizational support ($\beta = .37$, $p < .01$) and job security ($\beta = .27$, $p < .01$). In addition, as shown in Model 1 and Table III, communication increased job-seeker attraction ($\beta = .22$, $p < .05$), and this positive effect became nonsignificant once the proposed mediators were added in the equation in Model 3. Further, perceived organizational support ($\beta = .33$, $p < .01$) and financial health ($\beta = .24$, $p < .01$) had a significant, positive effect on job-seeker attraction. Therefore, employees were more willing to work for companies that provided better communication, primarily because they also thought these companies provided more support for their employees.
Finally, Hypothesis 2c predicted that allowing employees to participate in workforce reductions will positively affect job-seeker attraction by increasing organizational support and job security. This hypothesis was not supported, because participation was not significantly related to job-seeker attraction, perceived organizational support, or perceived job security. In fact, employee participation did not affect job-seeker perceptions of an organization at all.

Discussion

Many researchers have examined how workforce reductions affect employee attitudes (Brockner, 1988; Kammeyer-Mueller et al., 2001). However, few studies have examined how these findings generalize to applicants, leaving a considerable gap in our knowledge of what organizations should expect when they try to hire new employees after they downsize. Our results suggest that job seekers have a negative view of companies that downsize, particularly organizations that downsize without communicating with workers. Also as hypothesized, it appears that the reason communication is related to job-seeker attraction is because it creates a perception of organizational support for employees. However, the results also showed that factors such as job security and perceived financial health were less important than we predicted. We discuss the managerial and theoretical implications of our findings in the sections that follow.

Managerial Implications

Studies investigating long-term financial data from hundreds of downsizing organizations suggests that downsizing does not provide companies with the positive financial outcomes they anticipate, and in fact, the net effect of downsizing on long-term profitability is usually slightly negative (e.g., Worrell, Davidson, & Sharma, 1991). One reason for this negative effect may be because of the negative consequences of downsizing on existing employee attitudes (Cas- cio, Young, & Morris, 1997). We believe that the negative attitudes of potential employees are another reason downsizing organizations may underperform. If an organization that downsizes damages its reputation among job seekers, it will incur additional recruiting costs, higher wages may be required to offset the organization’s negative reputation, and it may need to accept individuals who are not as qualified.

Based on these results, we see three important questions managers should ask themselves during the downsizing process. The first question is whether the labor savings entailed by downsizing will be worth the potential loss of reputation among future employees. The costs of attracting quality candidates in the future will be a question each organization needs to address based on their estimate of future needs. The potential negative outcomes of downsizing will be much greater for organizations that plan to hire in the near future, such as companies that are eliminating some divisions while investing in others. Organizations that are engaging in a permanent size reduction in size probably will not have the same costs of recruiting.

A second clear managerial question regards the relative costs of providing high-quality outplacement and severance versus the costs of potentially losing out on quality job candidates in the future. The costs of providing employee assistance are often considerable, but there are ways to keep costs in line and still achieve the aforementioned reputational gains. First and foremost, communication appeared to be the most effective and the least expensive organizational intervention. To simplify the process of providing assistance, organizations can establish a single-day job-search assistance program and link employees with job service boards. The cost of making preliminary contacts with other local businesses to determine if they have openings for former employees through media advertising is likely to be minimal. Additional low-cost assistance might be provided by contacting state un-
employment services offices for additional job-search resources.

Given these first two questions, organizations that are faced with an imminent downsizing should also ask themselves about what steps they might take to maximize the yield of their assistance efforts. Our results certainly assume that job seekers are in fact aware of the steps organizations take to assist their employees. This is largely a matter of skillful public relations. Because mass media outlets are likely to announce downsizings, organizations must take control of the process of this media coverage by explicitly noting that their employees had received advance warning and job-search assistance. Two of the strategies described under cost minimization are likely to enjoy a high media profile. Namely, well-publicized connections with area businesses will be noted by employees in the businesses that have been contacted and may also be covered in the media. Connections with government unemployment offices may also be publicized in regional news outlets.

Many scholars have proposed, based on anecdotal evidence, that high-quality employees are more likely to leave employers as workforce reduction increases (Bedian & Armenakis, 1998). Coupled with the current results, problems of talent loss through voluntary attrition could be exacerbated by problems of inability to recruit new talent when the organization’s operating environment improves. Perhaps employers should use alternative “employment buffering strategies” that maintain the core workforce, such as part-time employment, redeployment, or training during lean years to maintain their ability to rebound when the environment improves (Evans-Klock, Kelly, Richards, & Vargha, 1999; Gutchess, 1985). On the other hand, we found no evidence that reactions to organizational workforce reduction were moderated by any individual differences variables.

Theoretical Implications

First, companies that avoided downsizing altogether, or gave employees assistance and communicated during downsizing, increased perceived organizational support and job security. In fact, assistance was seen as more relevant than communication as a description of the company’s treatment of workers in general and of the relative security of the remaining positions. These results indicate that not all workforce reductions send job seekers the same signals. None of the downsizing characteristics were related to perceived financial health, eliminating a key alternative explanation for why downsizing might reduce applicant attraction. In short, downsizing and downsizing practices primarily send signals to potential applicants about a corporation’s general treatment of its employees.

Moving to the applicant attraction model, we found that early communication with departing employees significantly improved applicant attraction. However, contrary to our hypotheses, assistance and participation were not significantly related to applicant attraction. The results indicate that potential employees may fail to see assistance or participation for departing employees as personally relevant. It is interesting to note that communication, the only factor significantly related to applicant attraction, was the one variable that would affect potential employees. In other words, the company’s decision to provide little assistance or participation for departing employees may be seen as particular treatment for these departing employees, but the decision to provide little information during the process would be seen as treatment of employees in general. The findings suggest that providing clear and open communications regarding layoffs will be viewed favorably not only by current employees (Feldman & Leana, 1994), but also by potential job applicants of the company.

Limitations and Future Research Directions

There are several limitations to this study related to the use of simulated employment
situations. This study involved a laboratory-based manipulation of job security. One possibility for future research is to turn to field studies examining reactions job seekers have to firms that have downsized. While this is a valid strategy, there also is an argument for studying such reactions in a controlled laboratory setting. First, previous research suggests there may be low concordance between individuals in rating the same organization’s reputation and practices as well as the sources from which they obtained information (Gatewood et al., 1993). The use of experimentally manipulated information sources ensures that all respondents received equivalent information about the downsizing events. Second, Van den Bos (2001) proposes that researchers working with new models and theories first test their hypotheses in experimental settings instead of using correlational field data. Third, the careful design of the vignettes used in this study and the use of a student job applicant sample established a level of realism that offers a degree of confidence in generalizing the findings beyond the laboratory environment.

The effect sizes for the organizational downsizing variables were generally moderate, and comparable to factors such as the general organizational characteristics and financial health. The relationship between organizational financial health and applicant attraction is consistent with previous research (Cober, Brown, Levy, Cober, & Keeping, 2003; Saks, Wiesner, & Summers, 1996), and the generally greater attraction of an industry like pharmaceuticals relative to the heavy industry sector is not surprising. These results do not, however, suggest that downsizing is an unimportant part of applicant attraction. Rather, it appears that organizational downsizing can be as powerful a predictor of applicant attraction as more generally recognized organizational features.

The participants in this study were primarily students. A student population is not necessarily an ideal sample if one wants to generalize to the entire workforce. However, because the participants were either upper-division undergraduate business students or students earning master’s degrees in business, they are similar to the typical population of new entrants to the workforce. The master’s students all have some full-time work experience in corporations that recruited at the university from which we collected data. The types of firms that employ these students are large, profitable organizations that have a strong need for managerial skills. It is likely that individuals with fewer employment opportunities than these students would not be as selective regarding jobs. The hypothetical nature of the job choice may also be a problem, although research suggests that the same factors we included in this study are predictive of both hypothetical and actual job preferences (e.g., Cable & Graham, 2000; Richardson, 1966; Stuhlmacher & Stevenson, 1994).

One possibility that might be examined in future research is the relationship between how individuals learn about workforce reductions and their perceptions of the organization. Employees who believe they are treated unfairly during the reduction procedure report less willingness to endorse their former employers to others who might seek employment there (Konovsky & Folger, 1991; Wanberg et al., 1999). Because many individuals learn of job openings through their social networks, the effects obtained in the current study will be even more pronounced.

While this study primarily focused on whether workforce reductions influence job seekers’ attraction to their employing organization, it is also possible that the mediating variables of interest in the current study could affect posthire attitudes among job seekers who accept jobs. As noted by Cable and Turban (2001), “[T]he effects of recruitment do not end at a job choice decision” (p. 157). The process of anticipatory socialization involves the attitudes toward the employer that are developed before hiring occurs (Wanous, 1992). Researchers have begun to investigate the manner in which pre-entry
attitudes affect posthire attitudes, with results often suggesting that there is considerable carryover (e.g., Hom, Griffeth, Palich, & Bracker, 1999). The results from the current study suggest that even among those who accept jobs, downsizing firms can expect to find new recruits with lower perceptions of organizational support. Future research should examine whether these perceptions hold long after the downsizing is over.

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Both authors contributed equally to this research. Order of authorship is alphabetical by last name. We thank Chris Brown-Mahoney, Theresa Glomb, Andy Miner, Connie Wanberg, Julie Beth Paine, Arnoldo Rodriguez, Timothy Shields, Evridiki Tsounta, and Aparna Joshi for their assistance in data collection, and Zhaoli Song and Deborah Rupp for helpful comments.

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REFERENCES


Johnson Diversified is a large, publicly traded organization that manufactures and markets medical devices such as surgical supplies, latex gloves, pain-reduction drug delivery systems, and catheters. The organization's mission is to produce medical supplies and devices to improve the lives of patients worldwide, while maintaining a strong profit profile for investors.

Financial Statement

The organization has been moderately affected by recent economic trends. Sales for the three- and six-month periods ended July 27, 2001, were flat compared to the same periods of the previous fiscal year. Net sales of basic surgical supplies and instruments for the past year increased 5% during the six-month periods ending July 27, 2001, compared to the same periods a year ago. Revenues for basic surgical instruments packages were essentially unchanged over this period, while increases in revenues were stronger for specialty sets for orthopedic and obstetrics applications. The introduction of the new, high-end Aventron set of orthopedic surgical instruments was an especially strong driver of sales. These increases were offset by slowdowns in the market for disposable instrument lines in the European Union, where changes in regulation forced revamping of several production lines. The organization's division of Anesthesia Systems was formally changed to Pain Management Systems, following the planned introduction of two new products designed to control chronic pain.

Employment at Johnson Diversified

Approximately 25,000 individuals are employed at Johnson Diversified. Jobs are centered around a fast-paced, team-oriented environment. Employees are encouraged to participate in their own career management through a development management system. Johnson's objective is to reward employee performance and development competitively. The market value of jobs in relevant labor markets determines the range of the pay system, while individual compensation is determined by individual contributions and development. Flexible work schedules are available, and low-cost child care is provided for qualifying employees.

Hiring at Johnson is a two-step process. The initial recruiting phase involves an examination of your credentials, experience, and background. This initial recruiting phase also allows employees a chance to find out how they fit with the organization. The second phase is a more in-depth interaction through a visit to the company's main offices. Based on your performance during a series of simulation exercises designed to evaluate your job performance, organizational managers will make a hiring decision.

The organization reduced its workforce by approximately 10% in the previous year. Top management cited a need to improve core organizational operations and reduce overhead due to labor costs. The organization offered a brief workshop on résumé writing for those who left the organization, but reported that they would not provide severance or continue health insurance coverage. The week before specific job cuts were made, a brief announcement was made to all employees that the organization was conducting a downsizing. Selection of which jobs were to be cut was made based on organizational forecasts for subsequent product demand.