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# The Dark Side of Wars for Talent and Layoffs: Evidence from Korean Firms †

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**Abstract:** In this study, we examined the effects of layoffs and wars for talent on firms' performance. The simultaneous use of layoffs and "war-for-talent" practices has become part of the management strategy for adjusting workforce competencies. We suggest that war-for-talent practices decrease organizational performance when laying people off at the same time. Moreover, we argue that investment in employees' skill development during the same period as layoffs and a war for talent can enhance organizational sustainability in increasing employee commitment, trust and organizational flexibility. Using a longitudinal survey conducted at over 653 Korean firms by a government-sponsored research institution, the results show that war-for-talent practices do not have a significant impact on firms' performance. Moreover, our findings indicate a negative relationship between war-for-talent practices and financial performance when conducting layoffs and, as expected, a positive effect of the interaction between a war for talent and layoffs on turnover. Lastly, the results indicate a negative effect on organizational performance in firms pursuing a war for talent is mitigated when investments in employee development are continued during periods of layoffs.

**Keywords:** war for talent; layoffs; employee development; human resources; firm performance

## 1. Introduction

The recent business environment of rapid change and innovation has put renewed questions about how managing human resources (HRM) can contribute to organizational effectiveness and sustainability. The strategic HRM literature in building on resource-based views (RBV) has long argued that one of the key elements for organizational sustainability is the acquisition and retention of human resources that are valuable, unique, and difficult to imitate [1–3]. Against this backdrop, it is no wonder that many firms increase their efforts to obtain this talent and these "wars for talent" continue to heat up. Talent is largely defined as individuals who have the knowledge, skills, and values required for today and tomorrow, work hard, give their discretionary energy to a firm's success and make a real contribution via their work [4]. The notion of a war for talent is referred to as a firm's initiatives to attract such individuals from the external labor market and retain them [5]. Proponents of the concept maintain that new hires from outside with high levels of ability and histories of high achievement tend to generate profits that outweigh the costs of searching them out and hiring them. Therefore, hiring talent can enhance organizational capabilities and sustainability by generating innovation and playing complementary roles in expanding the current capabilities of an organization [6,7].

Despite the popularity of a war for talent as a strategic initiative to gain competitive advantage, empirical research on the impact of this practice on performance is largely absent or characterized at best by mixed results [7–10]. Thus, one objective of this study is to empirically examine the economic effect of war-for-talent HR practices on organizational effectiveness by studying Korean firms. Another key issue in this study is the use of layoffs within organizations pursuing a war for talent. Evidence shows that, since the global financial crisis in 2008, many firms put a greater emphasis on a war for talent during periods of corporate restructuring [11]. Layoffs, the elimination of jobs in an organization, is used as a management tool not only for cost-cutting, but also for enhancing flexibility through removing employees whose skills no longer fit organizational goals or strategies [12]. In this vein, it appears that layoffs are consistent with the notion of a war for talent in that both can help adjust workforce competencies. However, to some degree, using both practices simultaneously to hire employees while laying others off often sends incongruent messages to employees. Therefore, we argue that these two sets of HR practices, when they are used at the same time, may harm organizational performance from the perspective of the remaining employees and suggest that consequently the simultaneous use of this combination may threaten firms' competitive advantage.

Our final objective is to explore how firms could possibly use layoffs along with war-for-talent practices, when needed, without engendering negative effects on organizational performance. The empirical inconsistency of the effectiveness of a war for talent may indicate that firms differ widely in their ability to deal with the negative impact of a such a war for talent on organizational effectiveness [7,13]. Put differently, some organizations may be better able to suppress the destructive impact of layoffs while pursuing a war for talent. However, little research has directly considered how to reduce the negative effects engendered by these combined practices. We drew on views of human capital and internal corporate social responsibility (CSR) to address this issue. We argue that investments in employee development can mitigate the negative impact of layoffs on the relationship between war-for-talent practices and organizational performance. From the CSR perspective, we expect that continuous investment in employee development through internal CSR initiatives will enable firms to better manage employees' distress during times of layoffs and wars for talent. Specifically, retained employees who receive ongoing investment in their development may come to view constructively the firm's goals in its war for talent and layoffs in return for receiving reciprocal investments from the firm [14]. Put another way, if firms continue to invest in employee development during periods of layoffs, war-for-talent practices may not be incongruent with layoffs. We argue that delivering enhanced support and skill development to the remaining employees will mitigate the negative effect of perceived contract breaches caused by both practices.

Using a longitudinal survey conducted on over 653 Korean firms by a government-sponsored research institution, we measured both war-for-talent practices and layoffs at three points in time to test a prediction that investments in employee development attenuates the negative effects of layoffs in firms implementing war-for-talent practices.

## 2. Literature Review and Hypotheses

### *2.1. War for Talent and Organizational Performance*

The rationale behind a war for talent implicitly assumes the existence of multiple HRM systems within a single organization. The idea is that firms are better able to manage a diverse workforce by using multiple HRM systems to differentiate the value of human capital than they are by relying on a single HRM system. Proponents of multiple HR systems within a firm have pointed that a one-size-fits-all approach is unrealistic and that differentiated HRM systems can help with the attraction and retention of talent, leading to improved performance [3,15]. Conversely, some researchers in favor of a single HRM system within a firm [16,17] have contended that differentiated HRM systems diminish organizational effectiveness because such differentiation may discourage cooperation among employees and demotivate those who do not belong to the talented group [18,19].

There are several reasons for organizations to strive to acquire an outstanding workforce from outside the organization. First, these firms promptly acquire valuable knowledge and skills they cannot develop internally. This is particularly pronounced when a firm seeks innovation and change [20]. Second, when firms hire outside talent to improve the performance of existing competencies, such hires may boost exploitation of a firm's current knowledge and capabilities, leading to a greater performance [8]. New hires with high levels of ability and histories of high achievement tend to generate profits that outweigh the costs of searching them out and hiring them. As Williamson [21] noted, it is unlikely that knowledge workers suffer productivity losses or declines in performance when they move to another company. Thus, knowledge and skills gained from hired talents will play a complementary role in expanding and exploiting current capabilities, and such complementarity may then lead to higher productivity and sustainability [22]. Moreover, allowing star performers to rotate in and out of team is beneficial because this expands the star's network and promotes knowledge transfer to employees [7]. In sum, these arguments suggest that hiring talent can enhance organizational capabilities and sustainability.

On the other hand, a war for talent can hurt organizational performance, and its negative impact on organizational effectiveness will be particularly detrimental in collectivistic cultural contexts such as in Korea. First, a war for talent emphasizes the individual rather than the team, implying that a firm's performance is simply the sum of the contribution of individual employees [23]. Scholars have argued that individual-oriented work practices such as merit pay do not always lead to a higher performance because they generate excessive internal competition [9], create perceptions of unfairness and demotivate nontalent employees [24,25], hamper cooperation [18] and discourage the sharing of knowledge inside firms [9].

Second, the glorification of outsiders by a war for talent will bring about a tendency to derogate the firm-specific knowledge and skills accumulated over time that employees will perceive negatively and hamper their continuing to contribute to the firm's base of institutional knowledge [9]. The preferential treatment that hired talent may receive, including relatively higher positions compared with comparable current employees with similar job experience, higher compensation, and additional organizational support and benefits, will be salient to other employees [26]. Moreover, equity theory predicts that comparisons with newly hired talent may negatively affect current employees' perceptions of fairness [10,27,28]. Such a comparative process exacerbates such a presumed negative response because of uncertainty that outsiders' performance will meet expectations in their first two to three years with a firm. Studies have found that it takes two or three years for newcomers to contribute to a firm's performance [29,30], including developing new skills specific to a company [29–31] and its internal network [8,32]. Moreover, hired talents' knowledge, skills, and capabilities will not be easily leveraged and used in the new organization [29,33]. Some studies have found that not all such talent hires have the social and managerial skills needed to manage employees and leverage their own human capital [9,29]. Thus, the benefits of a war for talent may not outweigh the costs associated with its acquisition. Several studies are summarized in Table 1.

The negative impact of a war for talent on performance will be particularly pronounced in collectivistic cultural context. This is consistent with the argument by Krishnan and Scullion [13] in that formal and exclusive approaches to talent management do not fit with the more egalitarian culture of teamwork and undermine the morale of those employees who are not identified as especially talented. Traditional HRM practices in Korea are rooted in organizational identity and a collective sense of "organization man" rather than in an emphasis on the individual. The practices associated with a war for talent can discourage senior managers who have been devoted to their company since they were in entry-level positions and who have continued to develop firm-specific tacit knowledge. Therefore, this leads to Hypothesis 1.

**Hypothesis 1 (H1).** *The use of war-for-talent practices is negatively associated with organizational performance.*

**Table 1.** Some exemplary studies on the relationship between war for talent practices and organizational performance.

| Overall Effect | Research | Rationale |
|---|---|---|
| Positive (+) | Powell 1996 | Acquires knowledge and skills that cannot be developed internally |
| | Groysberg and Lee 2009 | Enhances exploitation of a firm's current knowledge and capabilities |
| | Aguinis and O'Bolye 2014 | Widens the star's network and takes full advantage of knowledge transfer |
| Negative (−) | Bloom 1999 | Hampers cooperation between talent and non-talent employees |
| | Pfeffer 2001 | Glorification of outsiders will bring about a tendency to derogate firm-specific knowledge; Excessive internal competition |
| | Hitt et al., 2001 | Hired talents' knowledge, skill, and capabilities will not be easily leveraged and used in the new organization |
| | Gelens et al., 2014 | Perceptions of distributive justice were significant lower for employees identified as non-talents (or high potential) |
| | Krishnan and Scullion 2017 | Would not fit with the egalitarian culture of teamwork and undermine the morale of most employees |
| Mixed | Aguinis et al., 2014 | Other HR functions such as compensation practices would fit into talent management |
| | Krishnan and Scullion 2017 | Cultural and institutional characteristics such as organizational size may depend on the relationship |

### *2.2. Wars for Talent, Layoffs, and Organizational Effectiveness*

Layoffs are used pervasively to enhance efficiency in contemporary organizations [34]. The main purposes of layoffs are to lower labor costs, maximize efficiency, and increase profitability [12,34]. Despite their supposed benefits, the empirical results of layoffs on organizational performance are mixed at best [12,34,35]. Some studies show that layoffs can have negative effects on the remaining employees, such as perceived violation of a psychological contract [36,37], decreased commitment, lowered productivity [38,39], lessened job involvement [40], job insecurity [41], increased stress and symptoms of burnout [42], and voluntary turnover [43].

It is noteworthy that the simultaneous use of a war for talent and layoffs became a management fashion after the global financial crisis in 2008 [44]. We argue that layoffs can be more detrimental to an organization focusing on a war for talent for the following reasons. First, organizations that implement both a war for talent and layoffs together can send inconsistent messages to "survivor employees", thereby damaging organizational trust and commitment from these employees. A war for talent implies a workforce expansion through the hiring of outsiders while layoffs emphasize workforce reduction by terminating some employees. Such an incongruence sent by HRM practices, called "double-blind communication", negatively affects employees' trust in, and commitment to, an organization's management [45]. Studies have found that survivors' reactions are influenced by a sense of organizational justice [43,46]. Survivors who were highly committed to the organization before layoffs feel they were treated unfairly compared with employees with lesser trust or commitment to their firm [39].

In addition, the simultaneous use of layoffs and war-for-talent practices can hurt knowledge creation and sharing [47,48]. As noted above, the use of these practices when employees are laid off may imply that accumulating firm-specific knowledge is not worth pursuing. Further, employees may perceive hired talent as rivals who stole their positions and limited their opportunities for promotion. Casciaro and Lobo [49] found another negative effect in that hired talent reduces employees' reliance on task competence as a criterion for their choice in work partners. Thus, hired talent's knowledge, ideas, and skills cannot be easily transferred and leveraged with incumbent employees in these organizations.

Moreover, these practices may lead survivors to withdraw from the organization. Employees suffering from "survivors' syndrome" because of the layoff process show symptoms such as anger, stress, and insecurity, and consequently tend to lower their effort, commitment, involvement in their job, and lessen their intention to stay in the organization [50]. Additionally, the possibility of losing colleagues will lead to a loss in co-worker complementarity. Hayes et al. [51] found that the departure of one pair of employees would increase the probability of others leaving as well. Employees will be dejected when a coworker or boss departs who spent a lot of time working with them and investing in firm-specific skills. Hayes et al. [51] also suggested that the departure of a long-tenured manager would have a significant impact on the likelihood that another manager of long tenure would leave and that managerial turnover is significantly higher when an incoming manager has shorter tenure with the firm than those he or she will supervise. Therefore, it is expected that a simultaneous implementation of these practices will lead to an increase in the turnover of long-tenured managers who have substantial firm-specific knowledge and skills.

In Korean firms, the simultaneous implementation of both war-for-talent and layoff practices may be particularly detrimental to organizational effectiveness. In countries emphasizing collectivism, group harmony and job security are regarded as critical factors to achieving organizational goals and sustainability [52]. It is no wonder that layoffs and an influx of external talent can break the implicit contract of job security and group harmony [53]. Therefore, we propose the following hypotheses.

**Hypothesis 2a (H2a).** *The negative relationship between the use of a war for talent and organizational performance is stronger during layoffs.*

**Hypothesis 2b (H2b).** *The positive relationship between the use of a war for talent and voluntary turnover is stronger during layoffs.*

### *2.3. Wars for Talent and Investments in Employee Development in Firms Conducting Layoffs*

Although the simultaneous implementation of both a war for talent and layoffs has potentially negative impacts on employee productivity and employee retention in an organization, it is nevertheless necessary that their HRMs respond to a changing business environment [54]. As Barney [55] notes, "Although a firm's resources and capabilities have added value in the past, changes in customer tastes, industry structure, or technology can render them less valuable in the future" (p. 51). Sometimes firms need not only the flexibility to quickly acquire the skills suited to changing customers' tastes but also equal flexibility and agility to shed those skills no longer needed in the market. When firms are faced with such situations, it is worth asking how they, while pursuing talent at the same time they are shedding employees, can retain their firm-specific human capital and enhance organizational flexibility without provoking losses in productivity and incurring increased turnover.

We argue that uninterrupted investment in employee development during the period of implementing both practices can mitigate their negative impact on a firm's performance. Such continued investment may improve not only firm-specific skills but also carry extensive benefits for the general skills and knowledge needed for employees' overall career development. Workers themselves bear the expense of the development of generic skills, but firms incur the expenses of investment in firm-specific training [3]. The evidence shows that enhancement in employability through a firm's investment in employees' general skills does not increase turnover but instead positively affects a firm's performance and employee retention [56–58]. Additionally, Zatzick and Iverson [12] indicated that individuals who view themselves as marketable may perceive layoffs as less threatening. Therefore, we posit that a firm's investment to improve both firm-specific skills and general skills can attenuate the negative effects of the simultaneous implementation of a war for talent and layoffs on a firm's performance.

Similarly, human capital theory holds that when combined with a war for talent, investment in employee development during layoffs will lead to an increase in both the numerical and functional flexibility of an organization. An organization will achieve numerical flexibility [59] through adjustment of its number of employees by hiring and termination based on its needs. In addition, functional flexibility, which is related to employees' ability to accomplish many diverse tasks [54,60], will be increased through constant training and educational opportunities and the knowledge and skills the hired talent brings into the organization. Studies show that a high level of functional flexibility leads to higher organizational sustainability [15,61,62]. Even during layoffs, current employees would perceive positively the opportunities to develop their careers through the extensive training and development practices available to them and the opportunity to acquire new skills from the newly hired top performers. The result would be to improve organizational competitiveness and help employees manage their expanded roles more effectively. In sum, these practices result in enhancing employees' perceived control and, as a further result, cause growth in productivity [34].

Moreover, from the CSR perspective, investment in employees' development enhances their trust and commitment to organizations that pursue war-for-talent and layoff practices. Previous studies on CSR show that development of employees' skills through training and further education is a service provision by a firm and that employee development is an essential part of internal CSR [63,64]. Internal CSR focuses on what can be done inside in the organization to improve the well-being of employees, their lives, and productivity while external CSR is referred to as actions directed outside the boundaries of the organization such as customers, business partners, and local communities [63]. The internal CSR perspective posits that social exchange between employees (internal stakeholders) and organization is based on the reciprocity that one feels obligated to do good for the other party. The goodwill obtained from an organization is acquired through various experiences such as investments in employee development and perceptions within the organization [65]. For example, employees who perceive the businesses they work for as moral, seek to do what is desirable for their organizations. In this vein, internal CSR reduces some uncertainty involved in the employment relationship and serves as a proxy for trust and mutual support, thereby fulfilling employees' needs for control [66,67].

Empirical evidence suggests that internal CSR is positively related to affective and normative organizational commitment and to the level of employee trust, further suggesting that high CSR initiatives are able to "manage the pain" better in times of organizational turmoil like layoffs [65,66]. When layoff decisions are announced, employees' initial levels of trust may erode. Then, survivors who initially distrusted top management will change their perception when the organization constantly puts substantial effort into developing employees' work and personal competencies. Even during layoffs, the employees' belief that top management cares for them may lead to a less threatening appraisal and resultant constructive responses [46]. Therefore, employees may become "active advocates" and may change their perception so that they see both the layoffs and the hiring of high performers from outside the firm as "necessary actions" to enhance organizational effectiveness, thereby siding with top management. The perceived legitimacy of an organization's accounting for layoffs and a war for talent has been related positively to survivors' perception of procedural justice [67,68]. Thus, employees are not afraid to take risks or to develop novel ways to improve a situation [46,69]. Ultimately, they seek to achieve the goals of the war for talent and layoffs with constructive attitudes in return for receiving reciprocal investment from the firm [70]. Overall, trust in top management caused by continuous investment in employee development will facilitate more organizational attachment, which in turn may lead to lower voluntary turnover after layoffs [37,58,71]. Relatedly, development of employees' skills can mitigate the negative effect on organizational performance that occurs when organizations rely on both layoffs and war-for-talent practices. An organizational climate of trust and cooperation is widely considered critical to increasing both social interaction and the likelihood of exchanges of information among employees [48,72]. Thus, high levels of trust and cooperation also increase employees' tendencies to offer help and to promote the exchange of valuable ideas among core knowledge workers. Consequently, these qualities of trust and cooperation can lead to innovation, firm growth, and sustainability [48]. Casciaro and Lobo [49] found that favorable feelings toward someone increase a person's reliance on competency, thus facilitating access to organizational resources related to the task. Thus, employees are willing not only to acquire new skills and novel information from hired talent to respond flexibly to a fast-paced business environment, but they also are willing to transfer their tacit knowledge to work together effectively.

Overall, the interaction of the three practices—a war for talent, layoffs, and continuous investment in employee development—is expected to yield results in which employees' skill development will mitigate the negative effects predicted in Hypothesis 2 and then help increase employee productivity and retention. Therefore, we propose a three-way interaction hypothesis as follows:

**Hypothesis 3a (H3a).** *Interaction of a war for talent, layoffs, and continuous investment in employee development is positively associated with organizational performance.*

**Hypothesis 3b (H3b).** *Interaction of a war for talent, layoffs, and continuous investment in employee development is negatively associated with voluntary turnover.*

## 3. Methods

### *3.1. Sample and Procedures*

To test the hypotheses in this study, we used the Human Capital Corporate Panel (HCCP) Surveys of 2005, 2007, and 2009, all of which were conducted by the government-sponsored Korean Research Institute for Vocational Education and Training (KRIVET), and KISLINE data from the Korea Information Services (KIS) from 2004 to 2010. It is noteworthy that layoffs and war-for-talent practices were most frequent in the years from 2004 to 2010 [73–75]. Therefore, we constructed this sample because it was longitudinal and contained information on a variety of practices related to the war-for-talent and education practices for employees, details of the number of layoffs and voluntary turnover, and financial information.

The survey respondents were business strategy managers and HRM managers, each of whom responded to the items related to his or her specialization. KRIVET conducted face-to-face interviews and collected the information. Over 450 Korean companies participated in this survey for each of the relevant years. Participation in the survey was restricted to companies with 100 or more employees. However, to generalize the results of the study across all industries, firm sizes, and types (i.e., KOSDAQ, listed corporations), we did not limit the other organizational characteristics to this research. We used these three years (i.e., 2004, 2006, and 2008) of data to acquire HR-related information but used all publicly available data from 2004 to 2010 to obtain financial information. Four hundred ten companies included in the 2005 survey also participated in 2007, and 358 of the companies that participated in 2007 also responded to the survey in 2009. Therefore, our usable sample was 358 companies that completed the survey.

### *3.2. Measures*

#### 3.2.1. War-for-Talent Practices

Companies that pay attention to the war for talent use diverse attraction and retention tools. Our measure of the extent of execution of the war for talent had two dimensions: (1) recruitment tools to attract talent; and (2) retention tactics to retain them. We measured the extent of the two-dimensional war for talent according to the items noted below. All the war-for-talent items were dummy coded as 1 if a company practiced them and as 0 if it did not. We then calculated the number of yes (1) responses. Included were items related to recruitment tools and diverse recruitment channels.

- Recruitment Tools. Competitive compensation packages are a major way firms undertake to attract and retain superior talents [76–78]. Such packages are essential because high-performers are likely to reject any job offer lacking a competitive compensation package and also are likely to leave companies where they feel underpaid [79]. In this study, we used two items to measure monetary reward tactics representing competitive compensation packages: "Providing signing bonuses for top talent when hiring them" and secondly, "Providing talent with higher salaries than current employees who have similar job experience." Signing bonuses, which are one recruitment tactic, are well-known as an attraction tool commonly used to hire promising applicants from the external labor market [78] and to gain acceptance of job offers [80].

- Diverse Recruitment Channels. According to the RBV, the core resources that enable firms to create sustainable competitive advantages are rare and valuable [2]. Thus, the firms that strive to win the war for talent in a tight labor market use a variety of recruitment tools to attract the best people. To measure those practices, we used six items that asked the respondents if practices, such as overseas recruitment, organizing units to recruit talent exclusively, establishing databases of the top talent in their industry, utilization of search firms, and other recruitment tools, were being implemented in their organizations. Since there are many difficulties in local markets in recruiting a sufficient number of top talents who meet ongoing business needs, many firms rely heavily on overseas recruitment [77]. Overseas recruitment can be implemented through creating an extensive network of contacts at local and international recruitment agencies, including the use of headhunters or the efforts of a specialized recruiting team charged with hiring the best people possible [77]. Moreover, firms establish databases of the top performers in an industry and regularly update it to include newcomers and track changes in status among old entrants.
- Retention tactics. The extent of a firm's intensity of talent retention was measured by whether retention practices—including support from top management and the existence of an HR manager(s) who is (are) exclusively charged with retaining talented people—were being implemented. One common retention strategy is related to the work environment, specifically, encouragement from top management, which is one of the most effective and popular strategies in retaining talented employees [76].

#### 3.2.2. Layoffs

Respondents reported the number of employees laid off during a year. This survey clearly distinguished layoffs from voluntary turnover and other types of turnover, such as resignations, retirements, and firings for cause. Layoffs are planned and implemented to achieve an organizational strategic aim and designed to enhance organizational performance and responsiveness to environmental change [12,35].

Consequently, we also counted as layoffs "honorable" retirement as well as forced transfers to jobs in a subsidiary, involuntary turnover caused by spin-offs, and dismissal for managerial reasons. In a Korean context, honorable retirement has been regarded as an involuntary tool for employment adjustment unlike an early retirement in the U.S. context [35]. Although an early retirement may be classified as voluntary turnover and often as an alternative to layoffs [81], Korean organizations use honorable retirement for downsizing.

We calculated the layoff rate over a two-year period as the current year layoffs plus those of the previous year divided by the number of total employees in the year that was surveyed plus the number of layoffs for two years. Note that the number of production employees of a manufacturer was excluded from the numbers above because the HR practices applicable to them (production workers) differed from those for other employees.

#### 3.2.3. Investments in Employee Development

We measured the extent of investment in employee development by the number of practices and policies in place to build employees' knowledge and skills. Our measurement items consisted of extensive training and education policies and programs, including two dimensions of HRD: training focused on firm-specific skills (e.g., succession plan and Career Development Plan) and practices for developing employees' general skills (e.g., providing tuition fees for local/overseas graduate schools) [82]. The extent to which a firm invested in employee development was measured by calculating the number of practices formally provided for employee development. The items used to measure the variable comprised 18 practices, including the following items: (a) e-learning programs; (b) leave for training and development; and (c) providing time to get certificates at work, and so on. All the "investments in employee development" items were dummy coded as a dummy variable 1 if a company implemented the practice (Yes) and as 0 if it did not (No). Then, we calculated the number of yes (1) responses.

#### 3.2.4. Dependent Variables

We used two organizational performance indicators as dependent variables. First, we measured improvement in employee productivity as the difference between productivity (t + 1) and productivity (t) [83,84]. Productivity improvement has been used in various research in the HRM area as a proxy of firm performance [84,85]. We used net income per employee to measure employee productivity. It is noteworthy that revenue per employee to measure productivity is inappropriate to use to account for productivity changes resulting from layoffs because such job cuts falsely increase sales per employee [86,87]. In addition, it would often cost too much to implement practices to attract and retain superior talent. Therefore, it is important to use a measure of employee productivity that captures both the revenue generated by employees and the costs associated with management of the war for talent.

Secondly, we measured improvement in ROA as an indicator of operational performance [35,57]. The measure of ROA was the different between ROA (t + 1) and ROA (t). ROA was measured as the ratio of net income to total assets. Lastly, turnover rate was measured by the number of the voluntary turnover divided by the number of total employees in a given year

#### 3.2.5. Control Variables

We used the following control variables in our analysis. First, we included variables related to organizational characteristics; these were organizational size, age, industry, union, type of business strategy, changes in several factors of businesses and markets such as difficulties in the forecast of demand, and changes in technologies, market share of main products, organizational structures, and development and introduction of new products [88].

Several empirical studies have highlighted important roles for products and markets in downsizing and recruitment decisions [89]. In addition, technology, products, and market characteristics are highly related to layoff decisions. Thus, we controlled variables, such as main products, technologies, and organizational structure and changes in markets, including market share and demand [54]. We also included the extent of firms' outplacement assistance programs for laid-off workers. We measured the firms' efforts to help outplacement by the number of practices used for these employees, including training programs and financial assistance to look for new jobs or to start new businesses [46].

### 3.3. Results

Table 2 presents the descriptive statistics and correlations for variables in the study.

Tables 3 and 4 present the results of the hierarchical regression analyses. Table 3 shows the results of the effect of the independent variables on changes in productivity (net income per employee) and ROA. We present our results as a hierarchical regression to better depict the variances explained by the different sets of predictor variables. In Step 1 of Table 3, which contains only the control variables, the coefficient for organization size is statistically significant and positive. In Step 2, all the independent variables were added to test Hypothesis 1. However, unlike our expectation, the variances explained from the war for talent are not statistically significant, neither positively nor negatively. The layoff rate is significantly negatively associated with productivity ($\beta = -0.29$, $p < 0.001$) and ROA ($\beta = -0.32$, $p < 0.001$). Coefficients for investment in employee development are significantly positive (productivity: $\beta = 0.12$, $p < 0.05$; ROA: $\beta = 0.10$, $p < 0.05$). Thus, we do not have any evidence that war for talent has an effect on organizational performance.

**Table 2.** Descriptive Statistics.

| | Mean | S.D. | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 | 13 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 1. War for talent practice | 2.30 | 1.55 | | | | | | | | | | | | | |
| 2. Layoff rate | 0.07 | 0.12 | 0.05 | | | | | | | | | | | | |
| 3 Employee development | 5.38 | 3.23 | 0.44 ** | −0.05 | | | | | | | | | | | |
| 4. Productivity [b] | 9.31 | 12.1 | 0.08 ** | −0.29 ** | 0.11 ** | | | | | | | | | | |
| 5. ROA | 0.01 | 0.29 | −0.02 | −0.32 ** | 0.08 ** | 0.72 ** | | | | | | | | | |
| 6. Turnover rate | 0.15 | 0.22 | 0.03 | 0.41 ** | −0.11 ** | −0.35 ** | −0.61 ** | | | | | | | | |
| 7. Organization size [b] | 5.89 | 1.13 | 0.31 ** | −0.21 ** | 0.49 ** | 0.17 ** | 0.10 ** | −0.17 ** | | | | | | | |
| 8. Organization age | 26.94 | 17.2 | 0.02 | −0.05 | 0.09 ** | 0.09 ** | 0.02 | −0.12 ** | 0.29 ** | | | | | | |
| 9. Changes in Business | 3.12 | 0.93 | 0.28 ** | 0.04 | 0.29 ** | 0.02 | −0.03 | 0.04 | 0.22 ** | 0.04 | | | | | |
| 10. Changes in market | 2.98 | 0.97 | 0.12 ** | 0.01 | 0.11 ** | 0.02 | −0.03 | 0.04 | 0.04 | −0.00 | 0.35 ** | | | | |
| 11. Business strategy | 2.09 | 0.77 | 0.24 ** | −0.08 * | 0.22 ** | 0.01 | −0.01 | −0.01 | 0.19 ** | 0.05 | 0.33 ** | 0.13 ** | | | |
| 12. Extent of outplacement program | 0.09 | 0.40 | 0.15 ** | 0.08 * | 0.32 ** | 0.06 ** | 0.01 | −0.03 | 0.31 ** | 0.08 ** | 0.07 ** | 0.03 | 0.09 ** | | |
| 13 Union [c] | 0.74 | 0.44 | 0.04 | 0.08 * | 0.16 ** | 0.05 | −0.09 ** | 0.28 ** | 0.30 ** | 0.06 * | 0.07 ** | −0.03 | 0.10 ** | | |
| 14. Union power | 1.59 | 1.76 | 0.01 | −0.01 | 0.23 ** | 0.08 ** | 0.07 ** | −0.14 ** | 0.37 ** | 0.34 ** | 0.07 * | 0.04 | 0.01 | 0.19 ** | 0.72 ** |

[b]: log transformed; [c]: value 1: unionized; 0 otherwise *: $p < 0.05$ **: $p < 0.01$

Hypothesis 2a suggests a negative interaction between wars for talent and layoffs for firms' performance. As shown in Step 3 of Table 3, the interaction effect of wars for talent and layoffs is statistically significant and negative (productivity: β = −0.38, $p < 0.001$; ROA: β = −0.48, $p < 0.001$), indicating the negative effect of war for talent on organization performance during layoffs. Moreover, the results of the regression analyses depicted in Step 3 of Table 4 also provide information related to Hypothesis 2b, which proposes a positive effect on turnover from the two-way interaction of a war for talent and layoffs. As shown in Table 4, the interaction effect is statistically significant and positive (β = 0.49, $p < 0.001$). Therefore, we can interpret these results as showing that the simultaneous use of war-for-talent and layoff practices negatively affects organizational effectiveness. Therefore, Hypotheses 2a and 2b are supported.

To test Hypothesis 3a, which proposes a positive effect of the three-way interaction among a war for talent, layoffs, and investment in employee development on firm performance, requires entering all the two-way interactions along with the three-way interaction to identify the true interaction effect and interpret it (Aiken and West, 1991). The findings presented in Step 4, Tables 3 and 4, show that the three-way interaction among three independent variables is positive and significant when regressed on productivity (β = 1.09, $p < 0.001$,) and ROA (β = 1.37, $p < 0.001$), and negative and significant when regressed on turnover (β = −0.84, $p < 0.001$) as predicted by Hypothesis 3b. Interestingly, as shown in Table 3, all the two-way interaction effects on financial performance (productivity and ROA) are negative, and the two-way interaction between investment in employee development and layoffs is not significant. These results indicate investment in employee development can attenuate the negative effect of layoffs on the relationship between war-for-talent practices and organizational performance. In addition, the results support that a firm's initiatives to invest in employee development can also reduce turnover when a war for talent and layoffs occur together as predicted by Hypothesis 3b. In the next section, the interpretation of these findings is explained in detail.

**Table 3.** Results of Regression Analyses for Productivity and ROA [1].

| | Employee Productivity | | | | ROA | | | |
|---|---|---|---|---|---|---|---|---|
| **Variables** | **Step 1** | **Step 2** | **Step 3** | **Step 4** | **Step 1** | **Step 2** | **Step 3** | **Step 4** |
| **(1) Control variables** | | | | | | | | |
| Organization size | 0.16 *** | 0.04 | 0.04 | 0.06 | 0.11 ** | −0.01 | −0.02 | 0.00 |
| Organization age | 0.04 | 0.01 | 0.00 | −0.01 | 0.00 | 0.01 | 0.00 | −0.02 |
| Industry_finance | 0.04 | 0.03 | 0.02 | 0.02 | −0.00 | 0.01 | −0.01 | 0.01 |
| Industry_service | 0.00 | −0.01 | −0.01 | −0.01 | 0.06 * | 0.02 | 0.02 | 0.03 |
| Changes in business | −0.01 | −0.07 † | −0.06 | −0.04 | −0.03 | −0.06 | −0.04 | −0.02 |
| Changes in market | 0.02 | −0.04 | −0.03 | −0.02 | −0.01 | −0.04 | −0.04 | −0.02 |
| Business strategy | −0.02 | −0.07 † | −0.07 † | −0.06 † | −0.01 | −0.03 | −0.04 | −0.03 |
| Extent of outplacement program | 0.02 | 0.05 | 0.04 | 0.01 | −0.03 | 0.02 | 0.02 | −0.03 |
| Union | 0.01 | 0.12 † | 0.12 † | 0.04 | 0.11 * | 0.14 * | 0.15 * | 0.05 |
| Union power | −0.02 | −0.01 | −0.01 | 0.06 | −0.03 | −0.06 | −0.06 | 0.04 |
| Year dummies | yes | yes | yes | yes | yes | yes | yes | yes |
| **(2) Independent variables** | | | | | | | | |
| War for talent | | −0.03 | 0.07 | 0.40 *** | | −0.05 | 0.07 | 0.42 *** |
| Layoff rate | | −0.29 *** | 0.04 | 0.40 ** | | −0.32 *** | 0.1 | 0.59 *** |
| Investment in employee development | | 0.12 * | 0.12 ** | 0.12 † | | 0.10 * | 0.11 * | 0.09 |
| **(3) Two-way interactions** | | | | | | | | |
| War for talent * layoffs | | | −0.38 *** | −1.57 *** | | | −0.48 *** | −1.91 *** |
| War for talent * investment in employee development | | | | −0.42 *** | | | | −0.43 *** |
| Investment in employee development * layoffs | | | | −0.12 | | | | −0.26 |

**Table 3.** *Cont.*

| | Employee Productivity | | | | ROA | | | |
|---|---|---|---|---|---|---|---|---|
| **Variables** | **Step 1** | **Step 2** | **Step 3** | **Step 4** | **Step 1** | **Step 2** | **Step 3** | **Step 4** |
| **(4) Three-way interactions** | | | | | | | | |
| War for talent * layoffs * investment in employee development | | | | 1.09 *** | | | | 1.37 *** |
| N | 1290 | 690 | 690 | 690 | 1312 | 697 | 697 | 697 |
| F | 4.19 *** | 7.76 *** | 9.02 *** | 15.92 *** | 3.36 *** | 6.97 *** | 9.32 *** | 20.05 *** |
| $R^2$ | 0.038 | 0.147 | 0.177 | 0.311 | 0.030 | 0.133 | 0.180 | 0.360 |
| Adjusted $R^2$ | 0.029 | 0.128 | 0.157 | 0.291 | 0.021 | 0.114 | 0.160 | 0.342 |

[1,†]: $p < 0.10$; *: $p < 0.05$; **: $p < 0.01$; ***: $p < 0.001$; All $p$-values are based on two-tailed tests.

**Table 4.** Results of Regression Analyses for Turnover rate [1].

| | **Step 1** | **Step 2** | **Step 3** | **Step 4** |
|---|---|---|---|---|
| **(1) Control variables** | | | | |
| Organization size | −0.16 *** | 0.01 | 0.04 | −0.04 |
| Organization age | −0.06 † | −0.07 | −0.05 | −0.04 |
| Industry_finance | 0.02 | −0.01 | 0.02 | 0.03 |
| Industry_service | −0.03 | −0.03 | −0.01 | −0.03 |
| Changes in business | 0.07 † | 0.09 | 0.09 | 0.07 |
| Changes in market | 0.03 | 0.05 | 0.04 | 0.01 |
| Business strategy | 0.00 | 0.04 | 0.02 | 0.02 |
| Extent of outplacement program | 0.02 | 0.01 | 0.03 | 0.03 |
| Union | −0.01 | −0.06 | −0.05 | 0.04 |
| Union power | −0.07 † | −0.01 | −0.03 | −0.09 |
| Year dummies | yes | yes | yes | yes |
| **(2) Independent variables** | | | | |
| War for talent | | 0.10 | −0.08 | −0.38 ** |
| Layoff rate | | 0.37 *** | −0.03 | −0.26 |
| Investment in employee development | | −0.16 * | −0.18 ** | −0.02 |
| **(3) Two-way interactions** | | | | |
| War for talent * layoff | | | 0.49 *** | 1.44 *** |
| War for talent * investment in employee development | | | | 0.35 * |
| Investment in employee development * layoff | | | | −0.05 |
| **(4) Three-way interactions** | | | | |
| War for talent * layoff * investment in employee development | | | | −0.84 *** |
| N | 909 | 303 | 303 | 303 |
| F | 4.88 *** | 5.64 *** | 7.03 *** | 10.12 *** |
| $R^2$ | 0.056 | 0.215 | 0.269 | 0.391 |
| Adjusted $R^2$ | 0.045 | 0.177 | 0.231 | 0.352 |

[1 †]: $p < 0.10$; *: $p < 0.05$; **: $p < 0.01$′ ***: $p < 0.001$; All $p$-values are based on two-tailed tests.

## 4. Discussion and Conclusions

Our first purpose in this study was to examine the impact of war-for-talent practices on organizational performance. Hypothesis 1 predicted the negative effect of war-for-talent practices on organizational performance. Based upon a survey of 358 publicly traded Korean firms and on archival financial data for six years, we did not find strong evidence of a significant impact of a war for talent on the improvement of employee productivity and efficiency. We argue that attracting and retaining certain types of human capital such as "star employees" or "top performers" could be costly. However, the absence of an effect suggests that early investment in such human capital in the Korean economy may not, on average, produce substantial short-term benefits to offset the investment costs. Our results specifically in a Korean context are consistent with U.S.-based prior research showing mixed effects of talent management on performance [7,13]. These results call for further investigation of the process by which wars for talent influence organizational performance by identifying the context or contingency variables in determining the strength of such relationship.

The simultaneous use of layoffs and war-for-talent practices has become part of a management strategy for firms to remain flexible and able to quickly adjust workforce competencies to their changing environments [3]. Hypothesis 2a predicted that the negative relationship between the use of a war for talent and organizational performance intensifies during layoffs. We found that the hypothesized interaction of a war for talent and layoffs had a negative effect on firms' performance, suggesting that a war for talent threatens their competitive advantage when they are conducting layoffs at the same time. In addition, we found that, as predicted by Hypothesis 2b, the relationship between a war for talent and turnover is positive. The results imply that layoffs breach the psychological contract between a firm and its employees, which in turn could lead to decreased performance and to increased turnover [90]. Organizations that implement a war for talent and layoffs together send inconsistent messages to employees. Such inconsistency in HRM practices may erode trust and loyalty to organizations. Moreover, layoff survivors tend to perceive as unfair their firm's subsequent centering of its resource allocation, such as lucrative incentives and various retention tactics, on newly hired top talent. Thus, survivors are less willing to cooperate with the new talent to such a degree that these new hires have difficulty in using their own competencies. Moreover, such detrimental impacts on a firm's performance are especially pronounced in collectivistic cultures such as in Korea. When both practices occur together, group harmony and collaboration, which have been the critical factor in organizational success for decades, will be substantially weakened, which in turn hampers organizational performance and sustainability.

Our final objective was to understand *how* firms could use layoffs along with war-for-talent practices, when necessary, but lessen their negative effect on performance. Hypothesis 3a predicted that the interaction of a war for talent, layoffs, and continuous investment in employee development is positively related to organizational performance. We found that investment in employee development can mitigate the negative impact of layoffs on the relationship between war-for-talent practices and organizational performance. Moreover, the results support that, as predicted by Hypothesis 3b, a firm's initiatives to invest in employee development can also reduce turnover when a war for talent and layoffs occur together.

Based on results, this study makes the following contributions. First, the prior research on the effects of war-for-talent practices on organizational performance has been characterized by mixed findings. A handful of studies call for the needs to extend the effect of war for talent on firm performance [7,13]. For instance, Aguinis et al. [7] suggested that the alignment of talent management with other HR functions such as compensation and training can be critical in determining the effectiveness of talent management. Krishnan and Scullion [13] also suggested other institutional characteristics such as culture and size of an organization play important roles in determining the relationship. Such empirical inconsistency regarding the effectiveness of war-for-talent practices may indicate that firms differ widely in their ability to deal with the negative impact of a war for talent in combination with layoffs. However, little research has directly considered how such negative effects may be reduced. Thus, we have explored the possibility that a firm's continuous investment in employee development can mitigate the effect of these value-decreasing practices. Building on human capital theory and a resource-based view (RBV) of the firm, the complexity of the relationship between war for talent practices and organizational performance is evidenced by the existence of two- and three-way interactions but an absence of the main effects of war-for-talent practices.

Second, our findings suggest how the social exchange relationship from the CSR perspective operates in the context of layoffs and wars for talents. The simultaneous use of layoffs and war-for-talent has become popular in many organizations, but employees perceive it a violation of the psychological contract [36]. Our results indicate that the combined practices create a detrimental work environment if implemented poorly because of the high degree of social exchange in the firms.

In addition, the CSR perspective helps explain our findings with the proposal that continuous investment in employee development as internal CSR initiatives can manage the pain better during times of adjusting workforce competencies by recourse to layoffs and wars for talent. Although a war for talent and layoffs undertaken simultaneously may not be the best option for managing workforce competencies, our results indicate that employees can be led to seek to achieve the goals of a war for talent and layoffs with constructive attitudes in return for receiving reciprocal investments from the firm [7,14]. This result is consistent with two previous studies on layoffs in that organizations with more extensive high commitment-based HR systems can reduce productivity losses from downsizing by enhancing their consideration for employees' morale and trust [12,91]. Thus, the effect of war for talent during layoffs on the social exchange relationship is a potential venue calling for more research. In particular, a study incorporating employees and firm-level data will be valuable in examining how employees respond to receiving reciprocal exchange in the use of a war for talent practices during layoffs.

Furthermore, according to the human capital theory, continued investment in employee development opportunities during times of layoffs helps firms gain numerical and functional flexibility in the management of their workforces [3,15]. Such investment can enhance employees' knowledge, skills, experience, and marketability, thereby increasing productivity growth and employee morale [12]. This result is also consistent with Lepak and Snell's [3] proposition that firms need to use multiple employment modes to exploit different market opportunities: An organization's HR strategies should change as employee values and uniqueness change.

Finally, our results relate to the broader talent management and layoff literature. Prior research has presented mixed performance results for talent management and downsizing organizations, respectively. When combined with layoffs, war-for-talent practices convey inconsistent message to employees in terms of managing workforce capabilities. Our results confirm that the implementation can make difference for organizational performance. Specifically, we found that organizations investing in employee development as internal CSR incurred less suffering, fewer productivity declines, and lower voluntary turnover when they used war-for-talent practices during layoffs. Issues such as internal CSR and reciprocal exchange such as investment in employee development are important to maintain commitment and trust during wars for talent and layoffs. Therefore, organizations should dedicate their efforts to understanding the consequences of implementation strategies [91].

Our study also has limitations that suggest future research and refinements. First, our use of a dichotomous measure, meaning the existence of a formal HR practice, was a limitation. We could not assess the actual usage of war-for-talent practices and employee development programs. However, we did confirm that our measurement of the presence of employee development is significantly correlated to the actual dollar amount firms spent on education, training, and development, all of which were obtained from archival financial data. Second, there is lack of measurements for employees' perceptions of war-for-talent practices, investment in employee development, and layoffs. Many studies have emphasized the negative employee perceptions associated with layoffs and wars for talent. Despite the theoretical explanations we provide for these underlying processes, we do not have behavioral data to measure perceptions that influence employees' behavior and performance. Hence, there is an essential need for field research that directly examines the effects of HRM practices on employee relations, perceptions, and behavior.

Considering the full range of practices, our evidence does not suggest a reverse-causal explanation where relatively less successful organizations are more likely to use layoffs and extensive wars for talent to challenge the status quo. Our findings with respect to the lagged structure of differenced outcome, capturing improvements after certain HRM practices, are inconsistent with a reverse-causality concern. However, our study calls for further study that examines the long-term effects of wars for talent and their interaction with layoffs on organizational effectiveness.

It is also worthwhile to ask whether our focus on Korean workplaces limits the generalizability of our findings. Layoffs and war-for-talent practices have become common business practices and are viewed as important devices with which management directs firms through changing environments around the world. However, geographical context may matter because there is a great deal of variation in regulatory environments with respect to layoffs [12]. Korea has a relatively more limited "safety net" than some other countries such as Switzerland. The lack of a safety net may make it more difficult for firms to justify a layoff decision. Thus, further research is necessary to verify that our findings are generalizable to other countries.

Overall, this study contributes important insights to the wars for talent and layoff literature. Specifically, we observed that layoffs may be acceptable within firms pursuing a war for talent as long as these firms continue to invest in employee development while layoffs are underway. Continued investments such as skill training, sponsoring school programs, and job enrichment in employee development help layoff survivors recover from "survivors' syndrome", including anger and job insecurity, and rebuild mutual trust and commitment to organizations by serving as an internal form of CSR [14,71]. This study is a first step in linking both wars for talent and layoffs to organizational performance. Several important questions remain. For instance, future research would extend to taking a multi-level approach to relate these practices to employee behaviors and attitudes. Moreover, researchers need to examine the impact of these practices on the process of social exchange relationship. These are just a few of examples that researchers attempt to answer for the benefit of the use of a war for talent practices during layoffs.

**Author Contributions:** Hee-jung Cho developed the theoretical approach to war for talent and the interaction effect of investment in employee development and conducted the empirical analysis. Ji-Young Ahn developed the theoretical approach to layoffs and its interactive effect on war for talent. Both authors jointly developed and supported the research model and relationships hypothesized. All authors contributed to the conclusions, as well as writing, reading and improving the final manuscript.

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