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Industrial Trends and Macroeconomic Forecasts

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Perspective

We investigate the extent to which present industry downsizing intensity, changes in future macroeconomic outlook and a firm's prior performance trend influence the relationship between downsizing magnitude and investor response, based on behavioural decision-making theory. Our findings show that negative investor reactions to downsizings are amplified during periods of industry downsizing waves, in the face of changes in macroeconomic outlook, and after deteriorating firm financial performance, based on an analysis of a large-scale sample of downsizing announcements in the United States over a 12-year period. When non-union employees were downsized throughout each event period studied, the market reaction was more unfavourable than when unionised staff was downsized. The market reaction to the layoff news of unionised staff was actually positive in the two days preceding the release, whereas the reaction was negative when non-union employees were the topic of the statement. The Economist Intelligence Unit has long been the gold standard in nation analysis and macroeconomic forecasting, with one of the world's largest and most experienced teams of country experts. Our experts are now projecting major industry trends by country, based on our forecasting model, and using the same tools including econometric modellingthat have earned us a reputation for forecasting. In addition to our country expertise, we have a dedicated editorial staff that focuses on industry-specific topics.

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When non-union employees were laid off throughout each event period studied, the market reaction was more unfavourable than when unionised staff was laid off. The market reaction to the layoff notice of unionised staff was actually favourable in the two days leading up to the announcement, whereas the reaction to the layoff news of non-union employees was negative. We argue that employees in medium-scale downsizing try to rescue the compromised, partially working routines, whereas large-scale downsizing necessitates a more fundamental rethinking and re-creation of routines, resulting in more positive outcomes. Our research contributes to downsizing research by using the organisational routine approach to understand downsizing financial results. We differ from the widely held notion in the downsizing literature that the link between downsizing magnitude and firm performance is linear in this way. Our research also builds on previous work on organisational routines by emphasising the value of viewing routines as mindful successes, in which the temptation to engage in path-breaking cognitive effort may produce greater benefits than path-dependent routine restoration.

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