September 12th, 4:00 pm
Max Planck Institute of Economics
Entrepreneurship, Growth and Public Policy Group
Seminar Room V03

Stock market reactions and corporate layoff announcements

This paper analyzes the stock market reaction on the announcement of employee layoffs based on a sample of 222 layoff announcements. The cumulative abnormal returns are calculated using the market model. The results show that the announcements of layoffs lead to a significant negative stock market reaction. Concerning the age of the companies, younger firms show a significant negative stock price reaction of -2.68%, while established firms only show a negative effect of -0.79%. This result is consistent with the size of the company, as small companies show also the most significant negative stock price reaction. Moreover, layoff announcements without socially acceptable layoff procedures lead to a significant negative stock market reaction, whereas layoff announcements that consider socially acceptable layoff procedures do not show a significant negative reaction. Furthermore, reactive layoff announcements lead to a significant negative stock market reaction, while strategically active layoff announcements do not.