

Louvain School of Management

The impact of layoffs on expectation management in publicly traded companies

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Abstract

The purpose of this article is to add to the literature on expectation management by looking specifically at the potential impact of mass layoffs. Its primary objective is to find out whether these layoffs are intentional and for-profit by drawing on a literature review combining expectation management, impression management and mass layoffs. To find a significant correlation between these different elements, the study runs a linear regression on R Studio and analyses the results.

Keywords : Expectation management ; MBE ; Impression management ; Layoffs

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A. Introduction

The aim of this work is to supplement the documentation on expectation management by looking at the impact of a new subject, mass redundancies. In recent years, mass redundancies have become commonplace. Since the arrival of new technologies, many companies have been shedding large numbers of staff to replace them with machines.

The question then arises as to whether this could be intentional or potentially financially motivated. This study attempts to find out if this is the case first with a literature review that addresses the three main themes of the research question namely: expectation management, impression management and mass redundancies. It is important to note that a suitable number of articles have already addressed the subject of impression management and that several of them demonstrate the impact or otherwise of a certain phenomenon on it. Nevertheless, this article, with its focus on large-scale redundancies, experiments with a new variable not yet addressed in the literature.

Having done our research, and posed our hypothesis, we begin the empirical part of this work with a linear least squares regression on 'R Studio', the aim of which is to find a significant correlation. Once this regression has been done, all that remains is to analyse the results, compare them with the hypothesis and the literature review and draw the necessary conclusions. Once we have reached our conclusions, and if necessary, we could also suggest avenues for future research related to this subject.

B. Literature review

a. Expectation Management

Expectation management is an important strategic management practice used by listed companies. Its aim is to influence investors' and analysts' forecasts of future earnings. This influence can have an impact not only on a company's perception of the market, but also on its shares.

There are several strategies put in place by management to manage analysts' expectations, the first of which is to manipulate the timing of financial statements. Some companies take advantage of a busy day or a cleverly chosen time of day to submit their accounts. The aim is to minimise the impact on their shares. In a study carried out by William J. Kross, Byung T. Ro and Inho Suk (2011), it can be seen, for example, that discounts on Fridays have a greater negative impact than on other days, because analysts are able to predict this more easily. On the other hand, companies can take advantage of moments of high market attention to make positive announcements and thus hope to improve the impact on their shares. Again, according to the same study, we are given examples of market attention measures chosen by managers to determine the best time to deliver their announcements. These include the number of press articles relating to financial results, the number of downloads of the EDGAR 8-K report and the number of abnormal searches on Google. (Kross et al., 2011)

H. Fogel-Yaari and J. Ronen (2020) in their work on expectation management, increases the scope of the analysis by bringing in the fact that some indicators are private and others are public. They show that managers have a downward bias when forecasts are private and an upward bias when forecasts are public. (Fogel-Yaari & Ronen, 2020) The study underlines that reducing private communication increases the effectiveness of prices and positively influences managers in their management of expectations.

Another method used by companies is quite simply the voluntary reduction of profits in forecasts. By issuing more pessimistic profit forecasts when the company is doing

slightly worse, managers ensure that they exceed expectations when the results are published. (Versano & Trueman, 2017) Here, the study by Tsahi Versano and Brett Trueman (2017) shows that this practice was widely used before the introduction of Regulation FD (Fair Disclosure). The purpose of this regulation is to ensure that all disclosures of financial information are made in a fair manner.

For managers, it is particularly important to maintain consistency in meeting or exceeding expectations (MBE), as a bonus is awarded to companies that manage to maintain this consistency. It is this bonus that encourages managers to announce lower profits, but also to avoid the costs associated with breaking off a coherent series of MBEs. (Versano & Trueman, 2017)

This MBE principle is at the heart of earnings management strategies and is a real objective for companies. In fact, according to Marie-Anne Verdier and Jennifer Boutant (2016), companies that successfully MBE analysts perform better in the market than others. In their study, they tell us that from 1983 to 1997, companies that outperformed expectations returned 3.2% more than those that did not. (Verdier & Boutant, 2016) As well as showing the positive reaction of investors, this premium reflects the ability of earnings surprises to predict company performance.

In a study by Shikha Jaiswal, Cong Wang and Dexin Zhou (2023), we learn that there are also companies that modify their financial results. These manipulations, whose aim is always to facilitate MBEs, give us non-GAAP earnings (Generally Accepted Accounting Principles). To do this, managers remove or reduce exceptional or non-recurring items from their results, thereby presenting a much better image of their company. The study also shows that some companies play with accruals, i.e. discrete accounting items such as depreciation or provisions for bad debts. It should be noted that repeated use of the non-GAAP system can be noticed and have a negative impact on the company. (Jaiswal et al., 2023)

In their research, Ed deHaan, Terry Shevlin and Jacob Thornock (2015) look at market anomalies that can influence the forecasts of some managers. The study suggests that there are biases in the analysis of managers and that these are more pronounced than those of analysts. (deHaan et al., 2015) This gap widens when companies are in a

period of strong confidence, or when managers are overly subjective and overly confident about their future earnings.

Although it may not be instinctive, manipulating results and expectations is not always a terrible thing, and according to some studies it can even have positive economic effects. Indeed, in their study, Eli Bartova, Dan Givolyb and Carla Hayn (2002) show us that MBE could be a reporting method whose aim is to smooth out profits. This could have positive repercussions in the long term, even if short-term benefits are neglected. They add that the MBE principle could be an incentive for managers to surpass themselves and improve their company's performance. (Bartov et al., 2002)

In conclusion, the management of expectations and the MBE principle are key issue in the management of companies by executives. As well as trying to manipulate things, through the various methods we have just seen, it is also an opportunity for companies to perform, with the aim of maintaining their financial health at the highest level. Nevertheless, there is always the possibility that companies will try to go beyond the normal way of doing things by using particular methods. That is what this work is all about, trying to find a link between mass redundancies and expectation management.

b. Impression management :

Next, in the interests of a better understanding of our subject, I am going to look at the concept of impression management by companies. This is a multi-dimensional and rather complex area whose primary interest lies in being able to manipulate stakeholder perceptions. According to Pratima Bansal and Geoffrey Kistruck (2006), there are two main categories of impression management tactics: demonstrative and illustrative. Demonstrative tactics give us specific details and facts that companies put into action. Illustrative tactics, on the other hand, are more like images or general comments on what companies are doing. (Bansal & Kistruck, 2006)

In "Seeing Is (Not) Believing" (Bansal & Kistruck, 2006), we are given the example of a company's environmental involvement and the way in which the use of impression management techniques helps to reinforce the credibility of the actions taken. However, the article also warns of the risks of such transparency, as it can

reduce managerial flexibility when making decisions. On the other hand, the "Managing Impressions in the Face of Rising Stakeholder Pressures" (M. D. van Halderen et al., 2014) article broadens the vision of the problem by studying the reactions and strategies of companies faced with the pressure imposed by stakeholders. M. D. van Halderen et al. (2014) uses the example of oil companies Exxon and BP, which have had to adapt their strategies in response to environmental concerns. These companies went through various stages: initially maintaining their initial position until finally adapting to meet expectations. This gradual adaptation proves that managing expectations is an evolving process that depends on the goodwill of companies. To maintain their legitimacy, therefore, companies will always seek a balance between substantial and symbolic actions. (M. D. van Halderen et al., 2014)

At the same time, D. Talbot and O. Boiral (2015) provides us with an additional comparison, that of sustainability reports. The article shows that some companies use impression management techniques to improve their image. They do this by manipulating data thematically or visually, or by selecting only the specific information that interests them. This is made possible by means such as enhancement, which consists of idealising the image presented, or obfuscation, which hides certain elements. (Talbot & Boiral, 2015) All of this nevertheless raises issues about the reliability and veracity of the information provided to stakeholders by companies. Some companies use these different techniques to clear themselves of dubious practices and reduce the negative impact of their bad decisions. This, at least, is what the case studies in the document reveal, and it shows the importance of having reliable audits. (Talbot & Boiral, 2015)

Furthermore, in their article, Sandy J. Wayne and Robert C. Liden (1995) talk about the relationship between subordinates and supervisors in impression management. In fact, it is a question of subordinates putting in place impression management strategies such as self-assessment or the improvement of others to improve their performance in the eyes of their supervisors. This may help them to obtain additional resources, better support and favourable treatment, but it also boosts their actual performance. (Wayne and Liden, 1995) The study also highlights the importance of a longitudinal approach to better observe the behaviour of the various players.

Mark C. Bolino, José A. Varela, Belén Bande and William H. Turnley in "The Impact of Impression-Management Tactics on Supervisor Ratings of Organizational Citizenship Behavior" (2006) talk about organisational citizenship behaviours (OCBs) and the impact of impression management on their evaluations. According to them, OCBs are positively correlated with techniques such as opinion support or praise, while direct appreciation of the work done by the employee himself is negatively correlated. This shows us that it is important for a manager to strike a balance between good behaviour and impression management techniques to avoid evaluation bias. (Bolino et al., 2006)

Impression management is a important and essential practice for the smooth running of companies. Depending on whether it is well or poorly managed, it can have a totally different impact on a given decision. We have just seen that there are a host of techniques that can be put in place by managers, but also by employees or, more generally, from one company to another. The aim of all this is, of course, to lend credibility and strengthen the reputations of the various parties. However, care must be taken with these techniques, as the above studies have also shown that they can lead to a lack of reliability and transparency. Obviously, this is not something you want in an inter- or intra-entrepreneurial relationship.

c. Layoffs

In recent years, there has been a lot of talk in the press and on the networks about redundancies. There has even been talk of mass redundancies, but what does that mean? When a company is doing badly, it can face a number of choices: reduce employee pay, cut shareholder dividends or cut staff numbers directly. It is this last point that will interest us here.

Since the health crisis of 2019, hundreds of companies have made mass redundancies, particularly in the technology market. The proof is in the pudding: some sites called 'Trackers' have even specialised in listing the redundancies that have taken place over the last few years. According to one of them: "As COVID drove everyone online, tech companies hired like crazy. Now we are hitting the COVID tech bust as tech giants

shed jobs by the thousands. (informationweek.com). Another even gives us figures for the total number of redundancies in the US in 2023 (news.crunchbase.com).

One explanation for this, according to the Echo newspaper, is the massive arrival of new technologies, particularly artificial intelligence. In their article: "Google, Amazon... Le secteur tech secoué par une nouvelle vague de licenciement" (Google, Amazon... The tech sector shaken by a new wave of redundancies), we read: "This restructuring comes at a time when technology giants such as Microsoft and Google are betting more and more on generative artificial intelligence, a trend stimulated by the dazzling success of ChatGPT, developed by OpenAI". This idea is backed up by scientific opinion, which estimates that in the next few years, up to 47% of American jobs could be at risk. (Soucidan & Shoghari, 2024).

With the number of redundancies quite high now, we wondered whether the arrival of new technology was the only reason why managers were firing so many employees at once. We were also thinking of a financial reason, i.e. to make money. To do this, we looked more closely at the direct effects of redundancies and the factors that explain this phenomenon.

The stock market takes a fairly negative view of mass redundancies, which have the effect of depressing share prices. In their study, Nancy Ursel and Marjorie Armstrong-Stassen (1995) tell us that the reaction of shareholders is very often negative, even if it is more so for the first announcement than for subsequent ones. At the same time, the study also shows that shareholders react more intensely to large-scale redundancy announcements. (Ursel & Armstrong-Stassen, 1995) Greg Filbeck and Shelly E. Webb in " Information Asymmetries, Managerial Ownership, and the Impact of Layoff Announcements on Shareholder Wealth " (2001) add that large-scale redundancies increase the negative impact on share prices.

All this coincides with the results obtained by Dan L. Worrell and his co-authors (1991), who show that redundancies after financial problems lead to a sharp fall in the share price. This is directly in line with what Oded Palmon et al. say in their " Layoff Announcements: Stock Market Impact and Financial Performance" (1997) study. According to them, redundancies are seen by investors as financial distress, and this

reinforces their negative reaction to the subject. At first sight, the announcement of the redundancy of a large part of the workforce can be frightening and partly explains the immediate and critical reactions of shareholders.

While we are on the subject of immediate reactions, the “Layoff announcements and intra-day market reactions” (Velàquez et al., 2016) study looked at the Helsinki Stock Exchange and more specifically at investors' intra-day reactions. The article reveals that the most negative and strongest reactions to redundancy announcements are usually within 10 minutes of the announcement. However, we are also told that in the hours that follow, many of the decisions taken following the announcement are reviewed and re-examined, proving that markets need a certain amount of time to process complex information. (Velàquez et al., 2016)

In a study by Peggy M. Lee, comparing reactions to redundancies in the United States and Japan, we can also see something interesting. The fall in share prices after the announcement of a mass redundancy in the United States is on average 1.78% whereas in Japan it is only 0.56%. (Lee, 1997) This difference can be explained by several factors, but by the cultural differences between the two countries and the governance structures specific to each. In Japan, redundancies are much more stigmatised and less common.

Companies' marketing and sales strategies are also strongly affected by mass redundancies. According to Vardit Landsman and Stefan Stremersch (2020), after a mass redundancy announcement, advertising elasticity falls by 9.8%, while price elasticity rises by 19.2%. All this makes advertising efforts futile and shows how sensitive consumers are to price variations. As for sales, they can fall by up to 8.7% compared with average levels after such an ad. (Landsman & Stremersch, 2020)

To talk a little about the effects of redundancies on companies, Kenneth P. De Meuse and Guangrong Dai (2013) develops two distinct theories. The first, "Economic Theory" suggests that the impact of redundancies can be financially beneficial in the long term. This is due to the reduction in costs associated with downsizing, but also to improved efficiency. The second, the "Psychological Contract Theory", postulates on the contrary that redundancies considerably increase the risks for companies. Indeed,

by breaking the relationship of trust that existed between employers and employees, this leads to a significant drop in commitment and motivation and, therefore, in the overall performance of the company. (De Meuse & Dai, 2013)

In response to this problem, the study conducted by Nita Chhinzer (2023) encourages companies facing financial problems to maintain the loyalty and proactivity of their remaining employees through more humane and motivating policies. The study also encourages companies to take care of their communication policies during or after a redundancy, so that their brand and performance do not suffer too much from the negative impact of the situation. (Chhinzer, 2023)

When faced with the problem of mass redundancies, companies need to pay attention to multiple issues. Not only do they have to consider the problem in the short term, with effective communication and careful attention to the reaction of shareholders. But they also need to predict the long-term problem and manage employee morale, productivity and potential turnover. In this context, and in order to maintain motivation and a good relationship of trust with the remaining employees, it is important for companies to offer all kinds of assistance, such as outplacement programs, training services or redundancy payments. All of this, of course, needs to be accompanied by good, empathetic and transparent communication, with the primary aim of supporting those who have been made redundant. It is also important not to overlook the perception of consumers: a company that makes large-scale redundancies can be perceived as being in difficulty, and this can result in a loss of loyalty and/or purchase intent.

In conclusion, mass redundancies have a dual effect, and it is particularly important for companies to think carefully about their strategy when faced with this problem. Although this phenomenon is a safe way of cutting costs and restructuring the entire organisation, the negative impact that it can have should not be underestimated. From the negative reactions of shareholders and stock markets to the direct impact on employee performance and reputation, nothing should be left to chance. The articles and theories cited above show that, in order to cope in the best possible way, companies need to have the best possible communication as well as good management of human needs. Therefore, a balance must be struck between the economically

positive aspects and the potential risks if the transition at this time is to go as smoothly as possible.

C. Hypothesis

Having analysed the various documents and articles above, we can now say that managers are using various techniques to try and manipulate expectations. On the other hand, and this after having done our research, we notice that mass layoffs are increasingly frequent and are not only due to the arrival of new technologies. As a result of these two considerations, we have produced our hypothesis.

- *Managers of listed companies use mass lay-offs as an expectation management technique.*

To verify our hypothesis, we will try to find a significant correlation between lay-offs and expectation management in R Studio.

D. Empirical part

In this section, we want to find out whether analysts' and investors' expectations are influenced by lay-off decisions. To do this, we will use a database containing almost 300,000 observations for 702 variables. This dataset contains information on the number of employees dismissed, data on expectation management and company financial data. This includes variables such as profits, revenues, debts and many other relevant financial ratios.

For the linear regression, the dependent variable (Y) here is GuidancePct, which represents the company's future positive or negative expectations as a percentage. The first independent variable of interest is "total_value", which represents the number of people laid-off by a company. Then we have all the independent control variables and

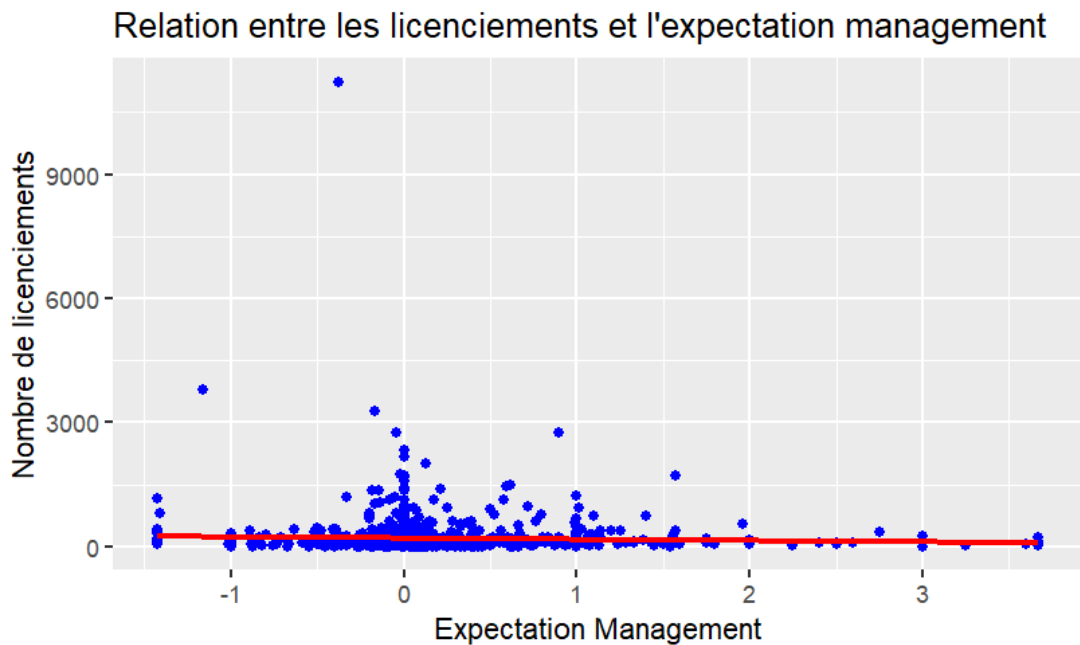
three factors. These variables are, for example, ROA, sales or, for the factors, the SIC or the year. The model is as follows:

```
r ← lm(GuidancePct ~ total_value + log(ATQ) + NIQ + log(SALEQ) + DLCQ +
Loss + Sales_growth + ROA + special_item + factor(fyear) + factor(LOC) +
factor(sic2), data = data)
```

Once this regression has been run, we can see that the "total_value" variable has a coefficient of $-8.718e-05$ with a p-value of 0.0465, which means that there is a significant and negative relationship between layoffs and expectation management. The R-squared of the model is 0.03054, which means that only 3% of the variation in 'GuidancePct' is explained by the independent variables in the above model.

The graph below shows the relationship between layoffs and expectation management, which confirms that there is an impact of one on the other.

Relationship between layoffs and expectation management



E. Analyse

Now that the results have been presented, it's time to analyse them. To begin with, let's look at the direct impact of layoffs on expectation management. According to the results, a layoff of 1000 people has a direct negative impact of 0.08718% on expectation management. This may not seem like much, but on the scale of large companies, it represents a lot of money. As the p-value associated with this coefficient is 0.0465, this impact is significant. We can therefore deduce that layoffs are linked to a reduction in analysts' and investors' expectations.

Another important point to note is the R-squared. This is 0.03054, which means that layoffs represent only a small part of the variations in expectation management. Indeed, it is logical that companies manage expectations by thinking about several other phenomena such as potential profits and outstanding debts, and not just layoffs. Nevertheless, we cannot deny that the impact of layoffs is significant.

Having analysed our regression it is important to compare our results with our literature review. According to our literature, managers see expectation management as an additional way to optimise their revenues and make extra margin. To do this, they use impression management techniques whose aim is to distort the vision of investors and analysts. It is therefore not unthinkable to imagine layoffs as an additional expectation management technique.

Especially since, if our results on R Studio are to be believed, layoffs do have a negative impact on expectation management.

F. Conclusion

In this work we first sought to find out whether mass layoffs, a current phenomenon, could have an impact on companies' expectation management. To do this, we looked at expectation management as well as impression management and information manipulation techniques. Secondly, it was important to learn more about the mass layoffs that have been appearing more and more recently, and to understand the possible links with expectation management.

Once our documentary research was complete, it was time to get down to the nitty-gritty and manipulate the data. Using R Studio software and a database containing financial and layoff information from thousands of companies, we were able to conclude that there was an impact of layoffs on expectation management. Admittedly the impact in question is not huge, but it is significant. We can therefore assume that managers are taking advantage of the negative impact to announce lower profits and thus have to produce less in the eyes of investors while remaining more than profitable.

In conclusion, we can say that managers use mass layoffs as an expectation management technique. The aim is to reduce analysts' forecasts and thus continue to meet or beat expectations more easily.

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Abstract :

The purpose of this article is to add to the literature on expectation management by looking specifically at the potential impact of mass layoffs. Its primary objective is to find out whether these layoffs are intentional and for-profit by drawing on a literature review combining expectation management, impression management and mass layoffs. To find a significant correlation between these different elements, the study runs a linear regression on R Studio and analyses the results.

Résumé :

Cet article a pour but de compléter la documentation sur la gestion des attentes avec comme spécificité de regarder le potentiel impact des licenciements de masse. Son objectif premier est de découvrir si ces licenciements sont intentionnels et à but lucratif en s'appuyant sur une revue de littérature mêlant la gestion des attentes, la gestion des impressions et les licenciements de masse. Pour trouver une corrélation significative entre ces différents éléments, l'étude exécute une régression linéaire sur R Studio et en analyse les résultats.

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