IMMIGRANT-FOUNDER FIRM, LAYOFF, AND FIRM PERFORMANCE

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ABSTRACT

This study examines the impact of layoff announcement on firm performance for immigrant-founder firms. Specifically, I examine the difference of financial performance between immigrant-founder companies and non-immigrant-founder companies over the three-year period surrounding layoffs. The study documents that immigrant-founder companies announcing downsizing, on average, perform better than non-immigrant-founder companies prior to and in the year of employee layoff announcement, but perform worse after the year of layoff announcement. Market responds positively to value-enhancing layoff announcements from both immigrant-founder and non-immigrant-founder companies. It implies that companies, especially immigrant-founder companies with deteriorating financial performance, are more likely to implement value-enhancing layoffs to avoid eliciting a negative stock price response that leads to decreased executive equity-based compensation.

Keywords: *Layoff, Immigrant-founder firms, Firm Performance.*

1. INTRODUCTION

Immigrants play an important role in founding some important businesses worldwide and in the United States. A study "The 'New American' Fortune 500" documents that more than 40 percent of the Fortune 500 companies were founded by immigrants or their children, and they employ more than 10 million people worldwide. Moghaddam et al. (2023) find that immigrant-founded entrepreneurial firms are more likely to have strategic relationships with foreign firms. They provide evidence that suggests that immigrant-founder firms have resources such as access to international networks that provide competitive advantage over non-immigrant-founder firms.

Different from non-immigrant-founder companies, on the one hand, immigrant-founder companies are more concerned over firm reputation. Immigrant founder owners usually invest a big portion of their wealth into a single firm, they are less diversified. Further, founder CEOs often consider their firms as their life time achievement and would like to pass their firms to the future generations. Such features may make immigrant founder owners more value-focused due to the fact that their wealth is very closely tied to that of their firms.

Meanwhile, Layoffs have become a common corporate practice to cut costs and improve firm performance. Studies in layoffs focus on antecedents and outcome of layoffs (Datta, Guthrie, Basuil, and Pandey 2010). One of most popular topics in the layoff literature is the performance around layoffs. Scholars examine how layoffs affect firm performance. Most studies in this line find that layoffs have a negative effect on securities market (Worrell, Wallace N. Davidson III, and Sharma 1991). There are also studies showing that the layoff announcements generate positive returns or the effect of layoffs on firm value depends on the reasons cited by the management (Palmon, Sun, and Tang 1997).

Similarly, an emerging research literature contend that layoff announcements in the 1990s were generally considered efficiency-improving and value-enhancing events (Farber and Hallock 2003; De Meuse, Vanderheiden, and Roraff 2004; Groshen and Potter 2003). For example, Farber and Hallock (2003) argue that market reactions were less negatively to layoff announcements over the period of 1970 to