The Information Content of Cost Behavior Components

Discussion By
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Principal Contribution

• Builds on estimates of firm level asymmetric cost behavior in response to direction of sales changes
• To explain and predict macro-economy level behavior of gross job inflows and outflows
Asymmetric Cost Behavior

Think of managerial decisions when changing level of resources
Some Factors Causing Asymmetry

• Optimism/Pessimism
  – E.g. repeated sales declines
  – Direct study of German CEOs

• Adjustment costs
  – When reducing resources
    – Comparative study of OECD countries
  – When adding resources
    – Comparative study of different industries

• Managerial incentives
  • Studies of manufacturing firms, healthcare organizations, electricity distribution firms
Inferences from Observed Behavior

- Optimism about Future Demand
  - Experience Sales Changes
  - Managerial Incentives
  - Adjustment Costs
  - Decision to Change Resource Level
Strategy and Cost Asymmetry

• What value proposition requires greatest cost asymmetry?
  • Product Leadership
  • Customer Intimacy
  • Operational Excellence

• Conduct studies of industry-level job inflows and outflows