7-2011

Linking Compensation and Job Losses During a Recession

Kevin F. Hallock
University of Richmond, president@richmond.edu

Follow this and additional works at: https://scholarship.richmond.edu/economics-faculty-publications

Part of the Economics Commons, Human Resources Management Commons, and the Labor Relations Commons

Recommended Citation

This Article is brought to you for free and open access by the Economics at UR Scholarship Repository. It has been accepted for inclusion in Economics Faculty Publications by an authorized administrator of UR Scholarship Repository. For more information, please contact scholarshiprepository@richmond.edu.
Linking Compensation and Job Losses During a Recession

In recessionary times, what is the link between compensation and job losses? Are job losses really inevitable?

Lifetime Employment in Cleveland?

For more than 60 years, Lincoln Electric has maintained a policy of guaranteed continuous employment — no permanent U.S. employee has been laid off for lack of work. Per Lincoln Electric, employee layoffs aren't a last resort, the option just even up for discussion. Instead, work-based bonus pay, mandatory furlough reductions, and nimble project assignments are all among the tools that Lincoln Electric's leadership draws on when it needs to respond to business cycles turning south. (The most complete discussion of Lincoln Electric's unique management is found in Frans Koop's 2010 book, "Spark: How Old-Fashioned Values Drive a Twenty-First-Century Corporation: Lessons from Lincoln Electric's Unique Guaranteed Employment Program," PublicAffairs, a member of Perseus Book Group.)

How has this company fared through the Great Recession? It's pretty well. 2010 marked the 10th consecutive year that Lincoln Electric increased its dividend, and stock price gains have fairly consistently outperformed the S&P 500 during the past five years.

As the company explains in its annual report, "During the recession, we shifted talented employees with appropriate skills and expertise into specific R&D, production and development and market development projects with strong future potential."
Where similar systems are in place in many other countries including Belgium, Denmark, France, Germany, and Sweden. In any event, why few firms choose to use WSI is a question for more research. Questions can include why other workers choose not to be insured in the United States, why some states allow it and other states do not, and why the long-term consequences are of WSI.

Is There a Link Between CEO Pay and Job Losses?
Some have argued that there are issues when workers are fired while CEOs and other executives enjoy large pay increases and increased wealth. Research conducted on more than 800 companies for a period of seven years (O'Donohue, C. B., Layoffs: Top Executive Pay and Firm Performance, The Economic Review, 86(4), September 1996, 711-724) showed that if there are not two groups—one that lays off and one that does not—then the group that conducted layoffs paid their CEOs more and gave their CEOs larger raises when building their compensation. However, when the size of the organization is controlled, as well as many other characteristics of the CEO and company, there is no relationship between worker job losses and CEO pay. Furthermore, since CEOs tend to work in their firms, it is interesting to examine the stock price reaction to job loss announcements, because if the stock price goes up, on average, at the time the job loss announcements, the CEOs’ stock profit takes place. The evidence suggests that they did not profit in this way. In a related paper I wrote with Stephen C. Billings and Kevin F. R. Murphy, “Morale and Layoffs: Evidence of CEO Turnover, Employment Protection, Industrial Relations, 44(4) (2003), 663-689, about the relationship between CEO turnover and job losses, our research showed that during the stock price reaction following a firm’s job loss announcement, there is no evidence not only the CEO will lose his job. If the market reacted more negatively right after the layoff announcement, the CEO is likely to stay. Yet, if stock prices go down in the aftermath of the announcement, chances are much higher that the CEO will lose within a few years. A large fraction of costs most organizations is labor and related expenses. Compensation and benefits account for at least one-third of total expenses, and for many companies, it is the largest single cost. As the global labor market continues its recovery from the Great Recession, research will again expand our knowledge of employer practices and possibilities for softening job losses while maintaining competitive edges. We look forward to research insights informing constant improvement and innovative practices for maximizing the value of talent for shareholders while considering the mounting social costs.

Research for the Real World