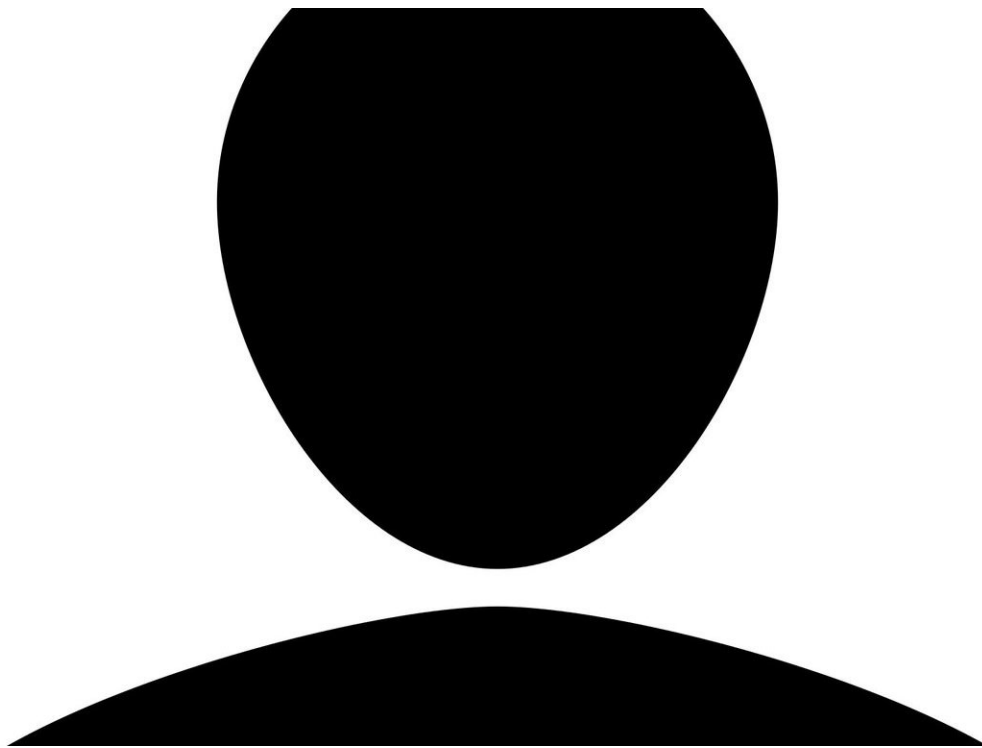


# CEOs paid less than peers more likely to engage in layoffs, research finds

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CEOs who are paid less than their peers are four times more likely to engage in layoffs, according to research led by faculty at Binghamton University, State University of New York.

Scott Bentley, an assistant professor of strategy at Binghamton

University's School of Management, worked on the research as a Ph.D. student at Rutgers University. He and fellow researchers Rebecca Kehoe and Ingrid Fulmer, both associate professors at the Rutgers School of Management and Labor Relations, sought to find out if CEO pay was related to layoff announcements made by CEOs.

"In terms of [strategic decisions](#) that a CEO can make that could lead to higher pay, layoffs are one of the easiest to do," Bentley said. "Relative to other decisions such as mergers or acquisitions, layoffs typically don't need the approval of shareholders, the board or regulators, and they don't take years to do. Layoffs can be determined overnight."

Researchers analyzed data that included CEO pay and layoff announcements made by S&P 500 firms from 1992-2014 in the financial services, consumer staples and IT industries.

Adjusting the analysis for a number of different factors that could influence a layoff (industry conditions, company size, firm performance, etc.), researchers found that the "underpaid" CEOs were four times more likely to announce a layoff, even when all of those other factors were accounted for.

"In a way, CEOs are just like any other type of employee. They are going to compare their pay to those around them," Bentley said. "The difference is that the average employee can't make strategic decisions for the company that influences their own pay. Executives can."

Bentley says what surprised him most was that the relationship between lower pay and the likelihood of layoffs all but disappears when a CEO is paid more than his or her peers.

"Right around the point where CEOs are paid equal to their peers, the effect kind of goes away. We found that there's this huge dropoff in the

likelihood of announcing layoffs once your pay is relatively the same as, or more than, your peers," he said.

So, do these actions actually pay off for the CEO? Well, it depends.

On average, researchers found CEO pay generally increased in the year following a layoff when [firm performance](#) also improved.

"While there are some instances where pay increased when performance decreased, we found that if the company and the shareholders don't benefit from the layoffs, neither does the CEO in most cases," Bentley said.

He said the findings highlight the importance of corporate governance and aligning the interests of the CEO with shareholders and employees.

"While we can't necessarily restrict a CEO's behavior or motivations, there may be ways to restrict the extent to which they are rewarded or impacted by decisions such as [layoffs](#)."

**More information:** F. Scott Bentley et al, Payoffs for layoffs? An examination of CEO relative pay and firm performance surrounding layoff announcements, *Personnel Psychology* (2018). [DOI: 10.1111/peps.12293](#)

Provided by Binghamton University

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