The Resilience of Executive Compensation in the U.S.

Why do executives in the U.S. continue to be paid so well, even in the face of economic crises and increased concerns about inequality?

(Boston, Mass.) – In a new paper published in Socio-Economic Review, researchers from the University of Massachusetts Boston and Northwestern University shed light on why executives in the U.S. continue to be paid so well in the face of economic crises and increased concerns about inequality.

In their paper, “Unpacking the Dynamics of a Contested Practice: The Case of Executive Compensation and the Shareholder Value Orientation in the U.S.,” Edward Carberry, Associate Professor at UMass Boston’s College of Management, and Edward Zajac of the Kellogg School of Management at Northwestern University examined changes in two forms of stock-based executive compensation between 2002 and 2012. This period was defined by corporate scandals and economic crises, leading to criticism not only of lucrative forms of stock-based compensation, but of corporate America’s primary focus on shareholder value.

Their findings reveal that firms facing external challenges from the media and shareholder activists provided less valuable stock-based compensation, particularly stock options. However, firms in which CEOs had more power over their boards of directors used restricted stock grants more heavily and did so even in the face of media criticism. The authors conclude that although stock options were vulnerable to change, stock-based compensation overall remained resilient because the structural power of CEOs, a central corporate governance practice of shareholder value capitalism, also remained resilient.

“Although our findings examined what happened in the first decade of this century,” said Carberry, “they suggest that without changes in the formal structure of corporate governance, executives will continue to receive stock-based compensation as we fight the pandemic and deal with the economic fallout. As the economy inevitably recovers, executives will likely do very well, but what about employees? Why not give them the same stake through broad-based employee ownership and recognize everyone’s shared sacrifice right now? That would promote an economy that is more equitable and resilient than the current one in which only a small group of executives receive stock in the companies for which they create value.”

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