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IWS briefing, Summer 2006 Volume 6 Issue 2

Abstract

[Excerpt] A newsletter on workplace issues and research from the School of Industrial and Labor Relations at Cornell University.

Keywords

ILR, Institute for Workplace Studies, labor, market, employee, managers, Larry Williams, Kevin Hallock, compensation, layoffs, white-collar

Comments

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Workplace Series Honors Prof. Williams

ILR lost a venerable member of its faculty last year, when Prof. Lawrence K. Williams passed away. Prof. Williams was a veteran and valued teacher, mentor, and researcher who left an indelible mark on students and colleagues alike. To honor his contributions to the school, the *Institute for Workplace Studies (IWS)* dedicated the 2006 Workplace Colloquium Series to the memory of Prof. Williams.

"Larry Williams was brilliant," says Samuel Bacharach, director of the *IWS*, McKelvey-Grant Professor at *ILR*, and a colleague of Prof. Williams. "He mentored me for 30 years and I don't think I ever learned two more profound truths than those he taught me when I arrived at Cornell. The first: simple theory is elegant and complex. The second: *ILR* is a community. I am immensely grateful to his tutelage."

After earning a Ph.D. in social psychology from the University of Michigan in 1961, Prof. Williams joined *ILR* as an assistant professor in the growing organizational behavior department. He spent the next 36 years, until his official-but-not-quite-full retirement in 1997, filling critical niches at the school. Prof. Williams served on scores of graduate thesis committees and chaired more than 70, directed the graduate studies program for 21 years, taught an assortment of courses that ranked among the most popular at *ILR*, and undertook research on topics ranging from the impact of technological change on individuals and organizations to the effect of cultural differences on workers' attitudes. He co-directed a project with another

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The Future of Higher Education Looks Cloudy

AERICAN HIGHER EDUCATION may be at a tipping point. Declining government support, rising tuition, dwindling need-based financial aid, and a thinning pipeline of Ph.D. students all threaten to undermine the quality and accessibility of a college education. *ILR*'s Ronald Ehrenberg, the Irving M. Ives Professor of Industrial and Labor Relations and Economics, the Stephen H. Weiss Presidential Fellow, director of the Cornell Higher Education Research Institute (CHERI), and newly elected faculty trustee on Cornell's Board of Trustees, has long been concerned about this possibility and its negative consequences for American society.

Prof. Ehrenberg holds fast to the notion that education is a social good that yields returns through higher incomes and tax revenues, increased economic growth, and greater intergenerational mobility. He is particularly outspoken about the importance of public colleges and universities in furthering these outcomes. As the son of two New York City public school teachers, the husband of a public school superintendent, and a graduate of Harpur College at the State University of New York—Binghamton, Prof. Ehrenberg comes by this belief almost as a matter of course.

"Those of us—faculty and students—at Cornell-type institutions are privileged to be here," he says. "But 80% of American students are enrolled at public institutions, and what goes on in public higher education nationwide is more important for our nation's future than what goes on at Cornell or any other selective private college or university."

Part of the "what" Prof. Ehrenberg has in mind is the so-called privatization of public colleges and universities. This development has its roots in state budget problems during the 1990s and a deepening conviction among policymakers that students should shoulder a greater share of the cost of their own schooling. It also coincides with policymakers' evolving view that efficiencies would be enhanced if the "publics" competed for scarce resources, and with a parallel shift in the publics' own preferences to be freed of at least some government constraints. Indeed, the best of the public colleges and universities have begun competing with, and behaving more like, their private counterparts.

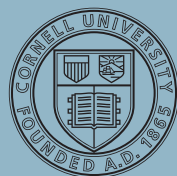
This is not necessarily good news. The resulting hikes in tuition that only partially offset reduced government contributions, combined with changing financial aid practices that increasingly favor merit over need, are closing the doors to public higher education for less affluent students. Meanwhile, the publics are struggling financially. They lack the endowments (and thus

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A newsletter on workplace issues and research from the School of Industrial and Labor Relations at Cornell University



Higher Education

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the investment income) that buoy the operating budgets of private colleges and universities and lag far behind in their ability to generate ongoing donations and bequests. They pay lower faculty salaries and hire more non-tenure track lecturers to teach undergraduates, a trend that research shows has a negative impact on graduation rates. “When you cut funding, you cut quality,” Prof. Ehrenberg says.

The privatization issue was given a full airing in a volume edited by Prof. Ehrenberg titled *What’s Happening to Public Higher Education?* that was published this spring in the ACE/Praeger Series on Higher Education. (ACE is the American Council on Education.) The papers in the book were first presented in May, 2005 at a conference designed to assess the situation of public higher education and to generate buzz about a trend Prof. Ehrenberg, and others, find worrisome. Sponsored by CHERI, the conference attracted researchers, university administrators, and policymakers.

CHERI has been addressing a variety of related topics since it was founded by Prof. Ehrenberg in 1998. With support from several foundations, including the Andrew W. Mellon Foundation and the Atlantic Philanthropies (USA) Inc., CHERI funds research, organizes conferences on the challenges facing higher education, and brings together faculty from Cornell and other academic institutions around the world. CHERI’s current research interests range from governance in academia to science and the university, the training of Ph.D. students, and reducing inequality of access to higher education.

A conference planned for October, in fact, will focus on doctoral education and the faculty of the future; Cornell University Press has already agreed to publish the conference papers in an edited volume. “The Mellon Foundation has spent \$80 million over 10 years on its Graduate Education Initiative,” Prof. Ehrenberg explains. “There is a huge

amount of data and a number of working papers with detailed results.” For example, researchers have found that even generous financial aid packages are associated with high drop-out rates among graduate students. The key variable seems to be academic departments’ expectations for students’ dissertations. “If it’s supposed to be a student’s life’s work and therefore takes longer, the probability of dropping out increases,” Prof. Ehrenberg notes. “If the goal is to get out quickly, the student is more likely to finish.”

Tackling these vexing issues is only part of CHERI’s agenda — involving undergraduates in research projects also falls within its purview. Prof. Ehrenberg sees this objective as an antidote to the falloff in the number of American students entering Ph.D. programs. “Who will be the next generation of college professors?,” he asks. Part of the problem may be the lure of high salaries and high glamour associated with other professions, such as finance and technology. But Prof. Ehrenberg also observes that many students are put off by the lack of relevance in their studies and by an academic work environment that often makes it difficult, especially for women in the sciences, to combine family and career. In an effort to enlarge the pool of American Ph.D. students, Prof. Ehrenberg recruits **ILR** undergraduates to join CHERI research projects and write or co-author a working paper. To date, three CHERI undergraduate research associates have been accepted in Ph.D. programs.

As Prof. Ehrenberg winds down his work on privatization and on doctoral education, he will begin exploring new topics. Among the questions on his list: Why are there so few low-income students at selective private universities? When does a college or university decide to adopt the “common application” and what are the effects?

Clearly, Prof. Ehrenberg is developing a corpus of significance to American higher education. ■

Prof. Williams

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esteemed **ILR** faculty member, Prof. William Foote Whyte, which resulted in a co-authored book (*Toward an Integrated Theory of Development*) that became the basic training manual for the Peace Corps.

Around Ives Hall, Prof. Williams was known for his generosity of spirit, his accessibility, and his humor. Students found him approachable and his questions often thought-provoking. He was concerned about their well-being and committed to furthering the success of under-represented minority graduate students. Prof. Williams lavished similar care on his faculty colleagues, who prized the support he gave their junior ranks in the form of tips about time allocation, office politics, and the like. Given his keen ability to observe and distill organizational dynamics, as well as remember critical moments in **ILR**’s institutional life, Prof. Williams became the resident historian. He was also the resident punster, whose verbal cleverness was always on point and nearly impossible to top.

This year’s colloquium speakers drew on Prof. Williams’s legacy in providing stimulating presentations about provocative workplace issues. In February, human resources professor Kevin Hallock talked about the value of employee stock options and their cost to firms. (See page 3 for more about Prof. Hallock.) A month later, Rep. Maurice D. Hinchey, who represents the 22nd district of New York in the U.S. House of Representatives, spoke about federal health care policy, its impact on society and the economy, and the benefits of a national health plan. Prof. William Sonnenstuhl, a friend and colleague of Prof. Williams from the organizational behavior department, moderated the session. And finally, the Rev. Michael Livingston, president of the National Council of Churches, discussed the role of religion in the workplace and within the community. His presentation was hosted by Prof. Nick Salvatore, a labor historian at **ILR** and author of *Singing in a Strange Land: C.L. Franklin, the Black Church and the Transformation of America* (2005. Little, Brown and Co.)

“This diversity of topics perfectly captured Larry’s spirit and love for the diversity of the **ILR** curriculum,” Prof. Sonnenstuhl says.

(With thanks to professors Sonnenstuhl, George Boyer, and Tove Hammer for their written remembrance of Prof. Williams, which served as source material for this article.)

Large Data Sets Fuel This Research Agenda

EMPLOYEES ARE HANDED PINK SLIPS. Stock prices decline and then rebound. Managers are awarded raises. On the surface, each set of events seems to follow its own inexorable logic—or no logic at all. Maybe demand has fallen. Perhaps the economy is sputtering. Conceivably, individual performance, or, gasp, personal characteristics account for the bump in pay. Then again, random happenstance may be the only plausible explanation.

To Kevin Hallock, associate professor of human resource studies at **ILR**, clues to understanding such occurrences lie in thousands of discrete data points. A labor economist by training, Prof. Hallock is fascinated by the minutiae of data as they pertain to employment and the workplace. It is not uncommon for him to spend hundreds of hours combing through archival material or public records to amass the numeric and descriptive details he needs to test his theories about why things happen the way they do. His research agenda ranges widely, across topics such as executive compensation, employee stock options, the gender pay gap in top corporate jobs, and the effect of layoffs and strikes on companies' financial performance. "What links these papers?" Prof. Hallock asks rhetorically. "Data collection and interesting questions."

Recently, Prof. Hallock has been working with a data set he collected that contains more than 4,200 layoff announcements made by Fortune 500 companies between 1970 and 1999. He is trying to discern the announcement effect on the price of the companies' stock. In other words, did the share price reaction to layoff announcements change over three decades? If so, why? For each event, Prof. Hallock recorded the stated reason for the reduction in force, how many blue-collar and/or white-collar employees were being let go, and whether the dismissals involved a foreign or domestic subsidiary. He also checked closing stock prices for the three days prior to each announcement and noted any other news, such as an earnings release or a stock split, that might have affected prices.

As Prof. Hallock delved into the research, he developed a hunch about the answer.

The early years of the study period were characterized by "deficient demand" in the marketplace, so he expected share prices would have reacted negatively to layoff announcements. During the 1990s, when concerns about operating efficiencies prompted companies to discharge workers, Prof. Hallock figured share prices would have reacted more positively, or less negatively, to such news. Indeed, after running the data through a series of econometric models, he documented big changes over time, and in the directions anticipated.

Next, Prof. Hallock wanted to determine why stock prices behaved as they did. More specifically, he wondered what fraction of the change in prices could be explained by the stated reason for the layoff? Getting an accurate answer to this question required assessing the simultaneous impact on share prices of additional factors, such as the industry in which the company operates, the stage of the business cycle, the type and number of workers involved, and the layoff duration. The analytic results proved somewhat disappointing: at least two-thirds of the negative stock price reaction cannot be explained by the factors noted above, and the stated reason for the layoffs explains, at most, one-third of the price changes. Prof. Hallock is still chipping away at the problem and has already interviewed more than 40 executives to derive the qualitative data that could help clarify the reasons underlying stock price swings.

One byproduct of Prof. Hallock's data-driven research is his ability to debunk myths about newsworthy topics. Take the perceived pay differential between men and women in high-level corporate jobs. For this particular topic, Prof. Hallock used a sample of the five high-

est earners at 1,600 companies listed in three Standard & Poor indices and then combined this data with other relevant variables. His analysis revealed that women earn 45% less than their male counterparts but that this gap almost disappears after firm size, occupation, age, and seniority are accounted for. "This is not necessarily evidence of no discrimination," Prof. Hallock says. "It could be that firms that pay well don't recruit women. Also, men tend to work in much bigger firms in terms of market value, sales, and assets."

Another myth-busting project involved investigating the relationship between layoffs and compensation paid to chief executives. According to Prof. Hallock, the common perception is that CEOs who trim the workforce are paid more, or given bigger raises, the following year than those who did not order layoffs. Data from 1,200 companies suggested that CEOs do benefit personally after implementing layoffs. Then again, factors such as company size and other "unobserved" characteristics also affect layoff decisions and executive pay. "If you control for these factors," Prof. Hallock says, "the pay gap disappears;" ergo, there is no relationship between layoffs and CEO pay.

Prof. Hallock's intellectual inclinations were set while an undergraduate at the University of Massachusetts. He wrote a thesis on gender and faculty salaries during his senior year and, foreshadowing future findings on a related topic, discovered the pay gap between male and female faculty members vanished once department and professorial rank were accounted for. And, in what proved to be a fortuitous encounter, he attended a seminar at nearby Amherst College where he met **ILR's** Prof. Ronald Ehrenberg. They spoke at length about the field of labor economics and the excitement of an academic career. Last fall, in a felicitous twist of fate, the two became professional colleagues when Prof. Hallock joined the **ILR** faculty. (See story about Prof. Ehrenberg in this issue.) ■

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ATTENTION **ILR** ALUMNI! **ILR** undergraduates seeking one-semester internships with NYC employers. Students interested in workplace issues; motivated, energetic, hard workers. Desire opportunity to apply classroom learning in real-world context and bring lessons learned back to school. International exposure a plus. Don't delay. Call now to become an employer sponsor...

All kidding aside, **ILR** is keen to sign up more employers in New York City as sponsors for its highly-regarded internship program. Participating students earn a full semester of credit by working 30 hours a week, writing a paper supervised by a faculty member, and enrolling in a course taught in the city by organizational behavior professor Samuel Bacharach, who also directs the *Institute for Workplace Studies*. The students' on-the-job responsibilities are related to the disciplines studied at **ILR** and are consistent with work performed by professionals.

Prof. Bacharach's class focuses on leadership, change, and organizational politics. The wonders of distance-learning technology enable Ithaca-based students to simultaneously take this course, making for productive interaction between the two locales. "The link enables the interns in New York to feel they are part of campus life," Prof. Bacharach says. "In return, the interns provide pragmatic input." Prof. Bacharach also benefits from the interns' experience and freely acknowledges that their comments and observations helped shape the manuscript for his forthcoming book, *Keep Them on Your Side* (2006. Platinum Press.).

To learn more, contact Prof. Bacharach at sb22@cornell.edu, Prof. Cletus Daniel (program director) at ced6@cornell.edu, or Brigid Beachler (program coordinator) at bk30@cornell.edu. ■

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