A Descriptive Analysis of Layoffs in Large U.S. Firms Using Archival Data over Three Decades and Interviews with Senior Managers

Kevin F. Hallock
Cornell University, kfh7@cornell.edu
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Abstract
This paper uses data on over 4,600 layoff announcements in the U.S., covering each firm that ever existed in the Fortune 500 between 1970 and 2000, along with 40 interviews of senior managers in 2001 and 2002 to describe layoffs in large U.S. firms over this period. In order to motivate further work in the area, I investigate six main issues related to layoffs: timing of layoffs, reasons for layoffs, the actual execution of layoffs, international workers, labor unions, and the types of workers by occupation and compensation categories. The paper draws on literature from many fields to help further understand these issues.

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A DESCRIPTIVE ANALYSIS OF LAYOFFS IN LARGE U.S. FIRMS USING ARCHIVAL DATA OVER THREE DECADES AND INTERVIEWS WITH SENIOR MANAGERS

Kevin F Hallock
School of Industrial and Labor Relations
Cornell University
387A Ives Hall
Ithaca, NY 14850 and
National Bureau of Economic Research
(607) 255-3193
(607) 255-1836 (fax)
kfh7@cornell.edu
www.ilr.cornell.edu/directory/kfh7

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This paper uses data on over 4,600 layoff announcements in the U.S., covering each firm that ever existed in the Fortune 500 between 1970 and 2000, along with 40 interviews of senior managers in 2001 and 2002 to describe layoffs in large U.S. firms over this period. In order to motivate further work in the area, I investigate six main issues related to layoffs: timing of layoffs, reasons for layoffs, the actual execution of layoffs, international workers, labor unions, and the types of workers by occupation and compensation categories. The paper draws on literature from many fields to help further understand these issues.
This paper uses data on more than 4,600 job loss announcements over the past 30 years, along with detailed information from 40 interviews with senior managers in U.S. firms that have faced layoffs to provide a description of when and why firms let workers go. There is a great deal of interest in the business press lately over the growing number of firms announcing layoffs. Although we know a great deal about what happens to workers in the wake of layoffs\(^1\) very little is known about what happens to firms before, during, and after these layoffs. A great deal is known about job loss more generally, however. From an economic point of view, Farber (2003) carefully documents changes in the incidence and consequences of job loss from the early 1980s through 2001. Kammeyer-Mueller, Liao, and Arvey (2001) carefully organize the literature on downsizing from a “stakeholder” perspective by drawing on research from a variety of fields related to human resources management. They discuss “organizational actions” (such as reduction strategies, logistics, and goals), discuss stakeholders related to job loss (including employees, applicants for jobs, the community, and stockholders), reactions by these stakeholders (including job performance, attitudes, health, depression, and stock price changes), and finish by discussing organizational outcomes.

My paper is intended to be a useful step in a wider plan to study job loss and firm outcomes. Along the way, I will address some of the ideas in the work by Kammeyer-Mueller, Liao, Arvey (2001) and by others. In related work, my co-authors and I have collected a great deal of data regarding layoffs in large U.S. firms over the past thirty years and have begun to

\(^1\) For example, note the idea that job loss and unemployment have been associated with psychological distress (e.g. Hepworth, 1980, Jackson, Stafford, Bank, and Warr, 1983, Grunberg, Morre, and Greenberg, 2001, and Brenner, 1977). Also see Neumark (2002) and the associated papers and references.
understand some of what happens to firms around the time of layoffs (Hallock, 1998, Farber and Hallock, 2003, and Billger and Hallock, 2005).

However, the methods used in these studies are limited and some questions cannot be answered by only using these kinds of standard archival data. In addition to using more conventional data, I use information from a set of 40 interviews I conducted with senior managers in U.S. firms from October 2001 through October 2002. Combining these two sources of data, this paper aims to provide a description of layoffs in large U.S. firms over the past 30 years, with one goal being motivating further work in the area.

While the “interview” method used for part of this paper is common in many areas of Human Resource Management, it is not common among labor economists today. It was common among economists several generations ago (e.g. Lester, 1948). Several recent examples have shown that such interviews can shed important light onto labor market questions that more conventional theory (by today’s view) and empirical work cannot address\(^2\). Bewley (1999) is one recent example. He was interested in why wages are “rigid” and thought that the best way to find out would be to ask people who had considerable institutional knowledge by using free-form interviews. Blinder, Canetti, Lebow, and Rudd (1998) asked managers about price stickiness but used a much different method than Bewley. Blinder and his colleagues used structured interviews completed by a set of Princeton graduate students. In still another example, Freeman and Rogers (1999) began with focus groups and developed a formal survey to help determine “What Workers Want”.

This paper aims to specifically answer a set of simple questions about what happens around the time of layoff announcements in large U.S. firms. Clearly, this is a sub-set of the

\(^2\) Other sets of interviews or case studies related to layoffs can be seen in Gordon (1996), Illes (1996), Rudolph (1998), and The New York Times (1996).
issues covered by Kammeyer-Mueller, Liao, and Arvey (2001) plus a set of new ones. The major focus here, however, is on my unique data and on the effects of job loss on firms. One of the issues is time. Do firms manipulate the timing of announcements of job loss (and other financial news)? Are there incentives to make announcements of layoffs during certain days of the week or certain weeks during the year? I will provide survey evidence and evidence from the archival data on each of these questions. Many authors have used stated "reasons" for layoffs (or other events) culled from the newspaper. I, therefore, ask how believable these data are and then document the wide (and changing) variety of reasons for layoffs in large U.S. firms. Next, the paper is concerned with the actual execution of the layoffs and considers various methods and issues such as security and survivors, etc. The following sections outline complications regarding international workers and labor unions. I then consider the types of workers let go. There has been increasing discussion that the distribution of the kinds of workers let go (e.g. white collar versus blue collar) has changed over the past few decades. This section sheds some light on this issue. The final section concludes and offers some suggestions for future research, including how these issues may vary by industry.

BACKGROUND LITERATURE AND LEGISLATION

This section briefly describes some background literature on layoffs. The first part is focused on the relationship between job loss announcements and firm outcomes such as CEO compensation and long-term stock performance. This section also provides some background on the Worker Adjustment Retraining Notification (WARN) Act.
Background Work on Relationship Between Layoffs and Firm Outcomes

Although a great deal has been written about the relationship between job loss and outcomes for workers and their families, very little attention has been paid to the relationship between layoffs and what happens to firms.

Throughout the past decade there have been reports in the popular press that firms with highly paid CEOs were firing thousands of workers only to see large increases in their firm's stock price (and their own wealth) and their pay in the following year. Hallock (1998) seeks to address these issues. He investigates whether these claims were true by collecting data on all job loss announcements for a large set of U.S. firms over a seven-year period. It turns out that firms that announce layoffs in the previous year pay their CEOs more and give their CEOs larger raises when compared to firms that do not have at least one layoff announcement in the previous year. However, the likelihood of a layoff varies dramatically along other dimensions, for example, firm size, which are correlated with CEO pay. Once these other detailed characteristics are controlled for, the CEO pay premium for laying off workers disappears. In addition, there is a small negative share price reaction to layoffs, at least for the period 1988-1995.

Farber and Hallock (2003) follow-up on this work by considering the share price reaction to a series of layoff announcements over the years 1970-1999. While a host of authors have documented a small negative relationship between job loss announcements and stock prices (e.g. Abowd, Milkovich, and Hannon, 1990, Blackwell, Marr, and Spivey, 1990, Caves and Kreps, 1993), most of these studies were concentrated in the 1980s and considered relatively small samples. Among the findings in Farber and Hallock (2003) are that the distribution of stock market reactions to job loss announcements has shifted to the right (become less negative) over time. One possible explanation is that, over the period studied, job loss announcements designed
to improve efficiency have become more common relative to job loss announcements designed
to cope with reductions in product demand. While this explanation gets some support in the
data, a more complete explanation for the patterns in the data is needed.

Since it is clear that the most senior managers ultimately make decisions about the size of
employment in their firms, and it is clear that at some times in recent decades share prices have
reacted to job loss announcements, Billger and Hallock (2005) study the relationship between
large-scale job loss announcements and CEO turnover (job loss). They were motivated to try to
consider whether there was a relationship between the turnover of workers and of the senior
manager. Using 25 years of data, they find that there is a strong negative relationship between
firm performance and management changes and a positive relationship between market
performance and CEO turnover (conditional on own-firm performance). They also find an
unusual result: top management changes are strongly positively associated with mass job loss
announcements two years earlier.

The obvious next step is to investigate the long-term relationship between job loss
announcements and firm performance. Do firms that make the decisions to let workers go fare
well in the longer-run? Cascio, Young and Morris (1997) make an important first step in this
area and investigate this for a sample of firms and conclude that firms that simply "downsized"
did not show higher returns when compared with other firms in their industries\(^3\). However, firms
that "downsized" and restructured their assets did have higher stock returns and returns on assets
than comparable firms in their industries. However, their analysis is based on 5,479 employment
changes as reported by Standard & Poor's COMPUSTAT between 1980 and 1994. These

\(^3\) Cappelli (2000) is an interesting and informative examination of downsizing and establishment
performance.
employment data are missing for many firms and are not audited so are sometimes thought to be unreliable. More work in this area would be interesting.

*The WARN Act*

One piece of legislation that is particularly relevant to this paper is the Worker Adjustment and Retraining Notification Act (WARN). This Act went into effect on February 4, 1989. The Act “requires employers with 100 or more full-time employees to provide 60 days’ written notice of a plant closing or mass layoff to representatives of the affected workers (to the worker directly in the absence of a union), to local government, and to the state dislocated worker unit.” (Addison and Blackburn, 1994). If firms do not provide this notice, they must pay back wages and benefits for each day notice was not given, and may be subject to a small fine. Brislin (1990) provides very specific details on related questions such as “which employers are covered”, “what is a plant closing,” “what employees are counted,” and “what are the situations that do not require giving notice”.

**DATA SOURCES AND WARNINGS**

The data for this paper are collected from two entirely different sets of sources. The first set of data is the archival data. They were collected from articles in the *Wall Street Journal* along with additional information on the firms collected from Standard and Poor’s COMPSTAT. The second set of data is from 40 detailed interviews I had with managers of firms. Both sources are described in more detail below.

*Archival Data*

The information on the announced reductions in force was collected from the *Wall Street Journal*. First, the sample frame was identified. All firms that were ever in the Fortune 500 in
any year between 1970 and 2000 were included in the sample. Next a spreadsheet was created for each of the 31 years. Included in this spreadsheet was a list of all of the firms (in the first column) and a set of relevant variables (e.g. number of employees in the announced Reductions in Force (RIFs), dates, reason for the RIF) at the top of each of a number of subsequent columns. Then paper copies of the Wall Street Journal Index were searched for each firm for each year in the data. The Index is a listing by firm name of an abstract of each article that appeared in a given year's Wall Street Journal. Therefore, for every firm in every year each abstract was checked to see whether it had any information about a job loss announcement.

After completing this process, it became clear that there wasn't enough detailed information in the abstracts of the Wall Street Journal. For example, there was only information on the number of employees involved in the RIF for 31% of the announced RIFs. A decision was made, therefore, to go back to each original full-length article in the Wall Street Journal. This provided much more detailed information (e.g. now the number of employees involved in the RIFs is available for 90% of the observations). In addition, a host of new variables were collected at this stage such as region of the country and type of worker (e.g. white collar versus blue collar, salaried versus hourly). Over the 31 years of data, there were 4,604 announced RIFs made by 791 firms. I estimate that it took roughly 3,000 hours to collect these data. The firms are all, obviously, quite large (see Table 1).

-- TABLE 1 ABOUT HERE --

The Interviews
I also conducted interviews with 40 managers from 26 firms headquartered in the United States. The managers included, Chief Executive Officers, Chief Operating Officers, a Chief Financial Officer, and many Senior Vice Presidents of Human Resources. The firms varied widely in industry, geographical location of the headquarters, and size. I interviewed managers in firms with more than 100,000 employees and managers in firms with fewer than 1,000 employees. Most, however, are large Fortune 500 firms. The interviews lasted between 30 minutes and 90 minutes and were conducted either in person or on the telephone. Although I do include many direct quotes from those I interviewed, promises of confidentiality obviously keep me from revealing any information that would help to identify a specific person interviewed or the associated firms. I identify managers by their broad industry and provide only some information about their position (e.g. CEO, CFO, COO, other senior manager).

I worked from a set of 17 basic questions but did not always ask each respondent each of the 17 questions. This was typically because we focused on a specific area, I already knew the answers to certain “facts” since I may have already questioned several people in the same firm about the same issue, or we simply ran out of time. The issues included questions such as “Do firms have incentives to make announcements at certain times,” “what happens to survivors,” “how are the layoffs actually executed,” “were people surprised when they were asked to leave”? A broad list of the questions I used to guide my interviews is included in Appendix 1.

Warnings

There are several warnings that should be taken into consideration. First, the archival data cover all layoff announcements in any firm that was ever in the Fortune 500. Although this is a substantial number of firms, they are for a particular type of firm – very large ones. Therefore, any inferences drawn here can only apply to very large (and, no doubt, high profile
firms). Second, I assume that all announcements of layoffs by all of these firms are actually recorded in the Wall Street Journal. There is quite a bit of evidence that many of the announcements actually make it into the Wall Street Journal as there are many instances of relatively small firms (for the Fortune 500) announcing very small layoffs. It is also clear from the discussion above concerning the WARN act that it is hard to imagine that these organizations do not report job loss. In any event, to the extent that some of the announcements are too small or firms are too small, I may under-count the true number of layoff announcements.

The third issue is that it must be clear that these are layoff announcements and not necessarily actual layoffs. So, these events can either be taken as simply layoff announcements (which they are) or actual layoffs (which they may be). I should also note that multiple announcements of the same layoffs are only included as a layoff announcement on the first day. I asked most of the 40 managers whether the announced layoffs actually happen. A great majority noted that yes, they do happen. However, some commented that firms may tend to slightly “over-announce” so that they have a cushion and don’t need to go back to the market, workers, and customers, and announce again. There is a detailed discussion of this below.

**TIME**

The issue of time and job loss announcements has many interesting features. The first important issue is the distribution of job loss announcements over the past few decades. The second part considers whether there is “manipulation” of the timing of job loss announcements within years or weeks. That is, do firms announce at certain times of the week or year so as to gain some advantage, either for the firm or the managers? The last issue is whether the layoffs actually happen at all. As I noted in section 2, these are just announcements of layoffs. The end
of this section considers whether firms follow-through on the announcements and actually let workers go.

*When do the layoffs happen over time?*

The number of job loss announcements or reductions in force (RIF) varies considerably over the years in the data. Figure 1 plots the number of layoff announcements (left hand axis) and the civilian unemployment rate (right hand axis) against the 31 years from 1970 – 2000. The mean number of layoff announcements per year is 149. The median number is 129. There were only 48 announcements in 1997 but 320 in 1982. It is clear from Figure 1 that the relationship between the civilian unemployment rate and the number of announced RIFs is very strong, especially for the years 1972 – 1997. It is particularly striking to see the divergence between the two series starting in 1998. There the unemployment rate continues to drop but the number of job loss announcements stays high. In general, however, the number of job loss announcements follows the business cycle quite closely.

-- FIGURE 1 ABOUT HERE --

*Is there any manipulation of the timing of announcements? Time of week, time of year.*

Now that we have some information about the frequency of job loss announcements over the years, it is interesting to consider whether there is any “manipulation” of the timing of job loss announcements within the year or even within the week. Yermack (1997) provides evidence that is consistent with the hypothesis that senior managers manipulate the timing of the release of news information concerning their firms for their own benefit. He finds that firms are relatively more likely to announce “bad” news just prior to option grants to senior managers and are
relatively more likely to announce "good" news just prior to stock option exercise by senior managers. In this section I will briefly summarize some of the comments of the managers I interviewed on this topic and provide statistical evidence on the timing of job loss announcements from the archival data.

**Time of Year**

Given the work of Yermack (1997) and others, it seemed natural to see whether the managers could provide insight into whether there was "gaming" of the timing of announcements throughout the year or if there were other reasons for differences in when firms announce layoffs. Surprisingly some admitted that there was probably some gaming of timing so as to benefit senior managers but for the most part, not in their current firms. Others were vehemently opposed to such actions and found them "deplorable". One other main theme with respect to timing throughout the year seemed quite common. The idea was to start a financial period (year or quarter) "clean". That is, the firm wanted to count its expenses for severance in the pre-period and try to move for better performance in the next one.

I was surprised that so many admitted that there may be some kinds of manipulation so as to help the senior managers profit in the short term, along the lines suggested by Yermack (1997).

I've never been a part of something like that but I would assume there is potential to do it. I imagine you time it just right to drive the stock price. I think firms game options. Senior Manager, High Tech
Yes. There are discussions like that. Our quarterly earnings release and conversation with analysts is day $x$ so the announcement is day $x+1$. Vice President, Agriculture

People see patterns of announcements depending on the timings [of options]. Senior Manager, Nondurable Goods Manufacturing

On the other hand there were many managers who found the idea of actually using the announcement of a layoff as a way for the senior managers to potentially gain from their stock options incredibly distasteful.

No gaming. [Layoffs] can be absolutely devastating. One woman was lying on my floor screaming and crying. Senior Manager, Nondurable Goods Manufacturing

You make them when you have to make them. There has to be a catalyst event. It is a human decision. It is hard. We cut [a large percentage] of employees ... It is deplorable to manipulate for short-term financial gain. CEO, Mining

One firm felt that its employees perceived that they may be using the announcement time so as to avoid a potential "commitment" to stock option compensation that has not yet vested. They felt it was necessary to make a layoff announcement at a particular time that happened to be nine days prior to a vesting of a large number of stock options for employees.
We made layoffs on a Saturday. There was a big vesting nine days later. Some thought that, oh it is since you don’t want the options to vest … So we actually gave employees until [nine days] to vest.

Senior Manager, High Tech

One manager suggested that "gaming" of the timing used to be more common but that it was virtually impossible in the most recent period due to the fact that analysts know so much about the companies and are on site practically every day.

This used to be important. This is of no impact. In this industry everything is so close to the analysts … Analysts hate surprises.

Senior Manager, Durable Goods Manufacturing

A group of managers suggested that they had some flexibility in when they could announce layoffs and therefore tended to focus on fiscal quarters. The idea being that they may have already been suffering financially and therefore would take an additional "bath" and count charges such as severance in a quarter that was already bad. They could then go into the new quarter (or year) "fresh".

Our fiscal year starts on [X] of each year. We may make sure that all employees are out for the end of the fiscal year so we can have everyone out and lower costs for the next year. Senior Manager, Durable Goods Manufacturing

Fiscal year? I don’t know. This business of taking a one-time charge. In [X] or the first weeks of [Y]. You report 2000 results
plus exceptional one-time charge for severance and then you go into next year clean. Vice President, Durable Goods Manufacturing

Many of the managers mentioned the “holidays”. They found having to execute layoffs (see below) to be among the more painful experiences of their lives. They felt that complicating this by delivering such news near holidays was just not “fair”.

No one wants to do it at Thanksgiving or Christmas. Senior Manager, High Tech

There is always a year-end crisis … So take the charge at the end of the year to make next year get better. Is that appropriate to be laying people off around the holidays? Senior Manager, Nondurable Goods Manufacturing

We didn’t want to have layoffs in December for emotional reasons, not financial … We don’t want to lay people off at Christmas.

That just [expletive deleted]. Senior Manager, High Tech

In summary, there seemed to be three different types of explanations for making (or not making) decisions at different times during the year, “gaming”, “coming clean in the new financial period”, and the extreme distaste of making layoffs at the end of the calendar year due to the “holidays”. The top left panel of Figure 2 shows the distribution of job loss announcements by week during the calendar year for the entire sample period of the archival
data: 1970-2000. It is clear that job loss announcements are more likely either early or late in the calendar year. In fact, given the interviews, both are surprising. Several managers noted that they felt it was simply inappropriate to either let people go or even announce that you would let them go at a later date around the “holidays” in late November though December.

Also, several managers noted that sometimes layoffs were timed so as to “clean the slate” for a new year. That is, once you have made a decision to let people go, it is better to do it before the end of a fiscal quarter so that you can count the severance as an expense in the current period and the next period will look all the better. Perhaps the firms that are making the layoff announcements that account for the spikes in January (Figure 2) have fiscal year ends at the end of January (retailers). Determining the relative importance of firms wanting to avoid layoffs near the “holidays” and firms trying to “clean the slate” before a new fiscal period is the subject of future research.

Figure 2 also shows the distribution of the timing of announcements throughout the year by decade. The 1970s shows the most dramatic spikes in the first and fourth quarters. However, it is clear that in all decades, that layoff announcements are no less likely in the November and December than in other months.

*Time of Week*

It is very interesting to see the diversity on views regarding the time during the week. Several managers mentioned that the firms serve three constituencies, shareholders, customers,
and employees (not necessarily in that order). It became clear in the discussions with managers that in terms of the timing during the week, they were concerned with all three but most often they were considering the employees who were left behind – the “survivors” of the layoff. Some were concerned about logistics. One firm, a particularly small one in the high tech sector, hoped to release the information over the weekend in hopes that things aren’t scrutinized by the press so much on the weekend.

To begin, it was clear that everyone I asked about this felt that a layoff should not span a weekend. One manager in the high tech industry highlighted that the timing during the week might depend quite a bit on the size and scope of the layoff. So she had a practical or logistical reason for wanting to start the process on a Tuesday.

We needed a three day period. We chose Tuesday, Wednesday, and Thursday. A lot of us felt Friday was bad … I would have chosen Tuesday if there was only one day. We did them all around the world so one day was difficult. Senior Manager, High Tech

Most of the managers were concerned about how the layoff would affect “survivors” (there is a further discussion of the workers that are left after a layoff below).

I don’t think it matters if it’s a Monday or a Friday … I’ll pick the day in which I can pick the event and counseling with each one. If I can get it all done on a Friday then fine. If there are 100 workers, I may need a few days. Senior Manager, Durable Goods Manufacturing

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This is consistent with Kammeyer-Mueller, Liao, and Arvey (2001).
If you are laying one person off and you are afraid of safety you might do it at the end [of the week]. If it is a mass layoff – middle – need to prepare in the middle and deal with the aftermath. Senior Manager, Agriculture

Never do it on a Monday. Always on a Thursday and people have time to chill out on Friday and we can message about it. COO, High Tech

In HR practice, we always try to announce sort of the middle of the week or maybe later. We like to have some control of what is happening. We don’t want them to go home and make up stories. Senior Manager, Financial Services

The motivations with which I am concerned are internal motivations. There are two schools of thought on timing in the week. On the one hand, you want it early in the week so survivors have time to recover. Or, the school of thought, that you make an announcement on a Friday so that it gets in the Saturday paper.

Senior Manager, High Tech

An additional issue that concerned several of the managers I met in one company had to do with the fact that they liked to have the layoffs on Friday’s. In fact, they would time it just so
that the news would not appear in the local papers until Saturday – because of the feeling that readership was down considerably on the weekend.

We always time layoffs so they hit the papers on Saturday. Ninety percent of readership is lost on the weekend. We are cognizant of timing, spin, and letting customers know that we aren’t going under. This is just a bump in the road. Senior Manager, High Tech

This was a small firm with only one location in the U.S. and they may have felt that local reaction was important. This is probably much less of an issue in most national firms.

In summary, the view of the managers on the timing of job loss announcements is quite mixed. Clearly, some suggest that announcements should be made very late in the week so as to avoid news coverage. Others prefer to have time after the announcement so that workers have time during the week and after the layoff to discuss matters. The upper left panel of Figure 3 is a plot of the distribution of the 4,604 job loss announcements by day of the week they appear in the Wall Street Journal. Announcements are more frequently published in the Journal on Mondays and Fridays than Tuesday through Thursday. Clearly, Friday is by far the most popular day for announcements to appear. Furthermore, if when the distribution of announcements by day of week is examined by decade, it is clear that in all decades Friday is the most common day for an announced layoff and Monday is less important over time.

-- FIGURE 3 ABOUT HERE --
As I noted above, one problem with examining *announcements* of job loss is that we are not specifically certain that these actually lead to loss of jobs. In fact, there is anecdotal evidence that some firms simultaneously hire and fire workers. I asked many of the managers “Do the layoffs actually happen?” Some of the answers suggested that although a certain number of positions would be eliminated, it didn’t mean that that many people actually would lose their jobs. This is due to the fact that people were given the opportunity to take other positions elsewhere in the firm.

When we made the public announcement, I don’t think we told the number. We might have said approximately [X] percent but we didn’t want to tie our hands. How did we arrive at the number? It was the dollars we were trying to cut from overhead. We cut other things too including capital budgets and expense budgets. Senior Manager, Durable Goods Manufacturing

People were laid off by one organization [in the firm] and hired by another… You try to find a home for them. Vice President, High Tech

There is reshuffling – we are going to eliminate 10,000 jobs but only 4,000 people to lose their jobs. Senior Manager, Nondurable Goods Manufacturing
About [one-third] found positions elsewhere in the company.

Senior Manager, Financial Services

It is also interesting to think about whether the firms had some tendency to “over-announce” layoffs. For example, suppose that a firm was expecting with reasonable certainty that 1,000 positions had to be eliminated and also expected that there was some chance that another 200 might have to follow within a few months. In cases such as these, a large fraction of the firms seemed to believe that it was worth “over-announcing” so that the workers, shareholders, customers, and suppliers wouldn’t have to receive the negative employment news twice. So I asked the managers: “Is there an idea to over-announce so you don’t have to go back and announce more”. Here is a sampling of some of their answers.

Yes. Yes. Absolutely. I personally have been part of doing things like that. You just don’t want to announce bad news twice. Senior Manager, High Tech

The 100 [person layoff] might be [slightly lower than 100 or slightly higher than 100]. I can see that we would tend to communicate the high number. Senior Manager, Durable Goods Manufacturing

That is the notion absolutely. That is a common notion. … I know we had fairly good insight that an additional one would be coming. We said we would be laying off [X]. [X-15% of X] today, then [15% of X] when projects get completed. From a public relations
standpoint, let’s just announce the whole thing. My guess would be that … that is common. Senior Manager, High Tech

Very much an over-estimate. Senior Manager, High Tech

[At my previous employer] we over-announced. Over a two year period, we got up to it. Senior Manager, High Tech

You’d rather err on the high side in the numbers of people in groups. It is better to say hey we had less going out than more. Senior Manager, Agriculture

I think most of them over-announce them. I can remember, certainly in the 70s, there was a stigma – shame on the firm. Now organizations expand and contract. I think there is almost an implied incentive to please the street. Senior Manager, Nondurable Goods Manufacturing

We absolutely overinflated the number – especially with the second one. [X] is a very legally conservative company. … If anything the announced numbers are an overestimate. Manager, High Tech.
Publicly owned company? Yes. If they say they are going to make a layoff and don’t, they get killed by investors. Partner, Consulting

On the other hand, managers at some firms were very specific and clear that they never over-announced. This is for a variety of reasons. For example, if you over-announce, you may unnecessarily worry too many workers.

We do ours right down to the head. We take it really really seriously. Senior Manager, Durable Goods Manufacturing

We don’t want to scare any more than we have to. Senior Manager, Financial Services

In some cases there is overestimation and in some cases underestimation. You don’t want to overestimate, chicken out, and wait for attrition. You don’t want to de-motivate employees. We make sure to do what we say we are going to do. CEO, Mining

**REASONS FOR LAYOFFS**

Work by Farber and Hallock (2003) uses stated “reasons” for layoffs in the *Wall Street Journal*. Specifically, they try to decompose the change in the share price reaction to job loss announcements from the 1970s through the 1990s into a part that is due to a change in the fraction due to certain “reasons” (e.g. deficient demand versus efficiency) and another part due to
changes in share price reactions within reason types. They find that up to one-third of the change in the stock price reaction to job loss announcements is due to a change in the mix of reasons. Some literature suggests that “reasons” for layoffs really do matter to employees. For example, Rousseau and Anton (1988) suggest that layoffs that are justified by economic factors such as “changing technology” are perceived by employees to be more “fair”. This section begins by considering some of the stated reasons for layoffs using the archival data over the past thirty-one years and then goes on to discuss whether the senior managers believe the reasons we read about in the Wall Street Journal or other parts of the business press are related to the actual reasons for announced layoffs.

What are the Stated Reasons for Layoffs?

The “reasons” for the layoffs were recorded after reading the individual 4,604 Wall Street Journal articles and were categorized into primary, secondary, and tertiary reasons. The 20 primary reasons are listed in Table 2. Of course, organizations could include more than one reason in an announcement but for these primary reasons, the one that best reflected the issues in the announcement was recorded. The category “demand slump” is associated with more layoffs than any other. This is true overall and within each decade, but has become less important in the most recent decade. “Cost Control” is also important, and has become increasingly more important over time. “Reorganizations and Restructurings” are frequently cited and much more so recently.

-- TABLE 2 ABOUT HERE --
Farber and Hallock (2003) had the idea that the change in the stock price reaction from negative in the 1970s to about zero in the 1990s could have been due to the fact that layoffs are occurring for different “reasons”. For example, perhaps they were more likely to occur for “deficient demand” type reasons (that would send stock prices down) in the 1970s and more for “efficiency” reasons (that would tend to send stock prices up) in the 1990s. If we see more “efficiency” reasons in the 1990s, this may exactly account for the changing share price reaction to layoff announcements overall.

In Figure 4, these twenty categories are organized into only five. Clearly the categorization into each of these five groups is somewhat arbitrary, but it seems natural to try to examine them in a more aggregated way in order to try to detect any patterns. The five categories are “reorganization” (reorganization, restructuring, and in-house merger), “plant closing” (leave market and plant closing), “slump in demand” (demand slump, excess supply, structural), “cost issues” (cost control, posting losses, increase earnings, restore profitability), and “other” (increased competition, merger, bankruptcy, strike, and other). There are two stark patterns that are clear from Figure 4. First, the category “reorganizations” is much more prevalent. Second, “slump in demand” is much less common.

Are the Reasons in the WSJ Related to Actual Reasons?

Now that the stated reasons for announced layoffs in the Wall Street Journal are clear, it seems natural to consider whether these reasons are believable. After all, these may be filtered many times. First, a press release may be made by a firm. Then an author from the Wall Street
Journal interprets this press release and writes a story. Then the researcher tries to consider which of twenty categories this most closely matches. I specifically asked the managers “Why do firms make announcements? and “are the stated reasons in the Wall Street Journal related to actual reasons?”

Several of the people I interviewed thought that the news articles were simply not true and that there was, at best, a slim relationship between the reason stated in the article and the actual reason for the announcement.

No. I don’t believe them. Most of it seems to be management screw-ups. Senior Manager, Nondurable Goods Manufacturing

Businesses absolutely manipulate the reasons in the Wall Street Journal. But don’t necessarily put a negative connotation on this word. You do everything you can to message … In the last year, there was almost no negative connotation of layoffs. Firms can make massive layoffs with almost no repercussions. COO, High Tech

Every meeting we go to we talk about a layoff or a downsizing, whatever the [expletive deleted] you want to call it … Why does the CEO get any satisfaction from using the words we are compressing the size of company? Nobody ever wants to tell the truth. Senior Manager, Durable Goods Manufacturing
Should I have any confidence about what is said? No. Audiences are different. The *Wall Street Journal* is speaking to potential investors so the spin is to make opportunities to buy the company stock. Senior Manager, Durable Goods Manufacturing

No. Rarely. There is so much corporate speak\(^5\) … It is all spun because the constituency is the current workforce, shareholders, consumers. Senior Manager, Nondurable Goods Manufacturing

They won't admit poor judgment. Some truth, but it doesn't include we screwed up. Senior Manager, Wholesale Trade

In fact, most respondents felt that the articles in the *Wall Street Journal* were not false but may have had some type of spin put on them. Others felt that they were only part of the story.

I never feel that the stated reasons are lies or incorrect. But I do feel that they are never complete … The PR guy's job is to describe that the glass is half full. Senior Manager, High Tech

I think the companies are trying to collectively manage their image and investor confidence. I think they spin the information. I always wonder what is really happening. That is the job of the

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\(^5\) O'Neil and Lenn (1995) note that middle managers' anger over layoffs "was directed at top managements' willingness to accept superficial slogans to justify the harsh reality of layoffs and corporate restructuring."
reporter. I rarely think the company is lying. They just need to put the best light on it. Senior Manager, High Tech

Firms might take the most glamorous reason … We would have a PR agency involved in layoffs and would craft that into what the market wanted to hear. … As with all – layoffs are a scapegoat for poor performance. Weak managers. Senior Manager, High Tech

I think so. Well, I think as positive sounding as we can. We try to frame it in a positive light. It is a sad story. We try to emphasize that we are trying to do right by the employees. CFO, High Tech

Probably not accurately. We spin it a certain way and they take it from there. … They accurately portrayed specific pieces. They spin it to make news. Senior Manager, High Tech

I guess, reasonably confident, that what is in the Wall Street Journal tells about 80 percent of the story, possibly… Typically what you see is all true. There just may be additional details. Senior Manager, Agriculture

Only a few of the managers responded that they felt that what was reported in the Wall Street Journal or other business press was the whole truth and nothing but the truth.
I believe they are absolutely, positively the actual reasons … We said it was overcapacity and that was why. Senior Manager, High Tech

Any company is reporting what actually is. Senior Manager, Nondurable Goods Manufacturing

There has been a recent explosion in layoffs that are described for the reasons of “reorganization or restructuring”. Also, while there is some variation in the beliefs of managers about how they feel about the reported “reasons” for layoffs, most feel that the news that is reported in the business press is most of the truth but not all of it. Only a handful of managers state that they perfectly believe what they read in the business press.

THE EXECUTION OF LAYOFFS

This section is mainly focused on how firms actually “do” layoffs. This encompasses a number of areas including how the news is actually delivered, whether people are “surprised” by being asked to leave, safety and security issues and how the firm deals with “survivors”. Perhaps more so than in any other section, the answers to these kinds of questions varied quite a bit depending on the type of layoff.

How is it done? Are they sent out the door?

One of the first layoffs that I heard about was communicated in a large auditorium with more than 1,000 workers present. Roughly 40 percent of the workers at the site were to be laid off and the senior manager on site made this announcement to the entire group. He also said that each individual would be given an envelope upon leaving the auditorium with information about
whether they still had a job, or not. When I told some other managers about this, they though it was unusually “harsh”. The managers who thought this was harsh were less likely to have been involved in a large layoff, however. Others felt that communicating information quickly is extremely important and that this, therefore, might be a particularly useful way to do it. Below are a few examples of how layoffs were executed in the sample of manager interviews. Also see Brockner (1992) for a set of “how to” suggestions for managers facing layoffs, including advance notice, assistance, and communication.

You need to have a fast and furious execution of the layoff. There has to be lots of communication. There is a company meeting. The survivors go to one place. The non-survivors go to another. There is messaging there and then individual messaging. Then all of the survivors are brought together again. COO, High Tech

We aren’t debating the decision. Kind of like your marriage is over. Good severance, communication, prompt notification.

Senior Manager, High Tech

I think you owe people a few things. 1. Prompt notice. 2. All their answers to their questions as quickly as possible. You don’t want them to sit around with ambiguity. As management of the company, you have all the answers. Senior Manager, High Tech
[It was a] Thursday. Chairman [X] announced 3,500 layoffs [in person] would happen that day if name called. … Empty boxes were left by the offices of those who had been laid off. Men with 35 years service were sobbing. Psychologists were there. No work got done. On Monday it was as if nothing happened. Senior Manager, High Tech

When we closed the plant in [major city], the VP of the area went to make the announcements along with the director of HR for that area to the day shift at 2. Then stayed and talked with the second shift and then came back at 11 and talked with the 3rd shift. Then break out groups to talk about benefits, timeline, and other information. Senior Manager, Nondurable Goods Manufacturing

They had the day to get their things (not supervised). If they wanted to, they could come back. Computer access was cut. We took their badges. They may have had access through that day. We put a lot of trust. We got good marks from those who were let go and those who stayed. Senior Manager, High Tech

The top four things are money, money, money, and communicating … By and large, letting people say their goodbyes is important. But nobody’s going to get any work done. Partner, Consulting
At [our company], it’s a pretty nice process. [Our company] actually has … a … list – there are 45 days to find a job in [the company] or take the package. Senior Manager, Nondurable Goods Manufacturing

Rehearse, say what you need to say, and send them to outplacement. Senior Manager, Agriculture

The reactions are very strong and emotional. Have to do it in private and have to have the department manager deliver the news with the HR professionals right there. Senior Manager, Durable Goods Manufacturing

Of course, these are just a set of examples. Greenhalgh, Lawrence, and Sutton (1988) outline a host of strategies for firms when arranging for layoffs. They suggest that a number of factors influence the choice of strategies by managers. Several managers mentioned communication. In a study of 108 individuals, Wanberg, Bunce, and Gavin (1999) found that communication was crucial. In particular, they found that communicating with employees lead to employees thinking the process was fair and to employees being more likely to “endorse” the firm in the future. See DeMuse and Marks (2003) and Marks (2003) for additional strategies firms may use in executing layoffs.
Are people surprised when they are asked to leave?

Most managers felt there was some diversity in how employees reacted to layoffs, although the majority did answer that workers were “surprised” that they were being laid off.

Often surprised. We are getting a little better at that. We have changed our strategy a bit there. We used to wait until everything was dotted and crossed before the announcement. Now we announce earlier. In our estimation we will be making changes. You may have opportunities for early retirement or voluntary separations. Here is the timeline. ... We know it makes them nervous but it is better. Senior Manager, Durable Goods Manufacturing

There is no middle ground of mild surprise; they are shocked or completely understanding. Is Bob getting laid off? How the [expletive deleted] can that happen? Senior Manager, High Tech

Oh, shocked. They may say, well, I sort-of expected it. My experience is that the reality is so harsh. Senior Manager, High Tech

Even if you are expecting it, when you hear it, it is a surprise.

Senior Manager, Nondurable Goods Manufacturing
When they are one-offs you sometimes get [surprise]. ... A lot of them tell you they saw it coming. Kind of they personalize it. You get a lot of shocked people. What tends to happen – I hate to use this metaphor – if someone knows a family member is going to die – they even know it might happen – you still get shock when you get the news. ... It hits them when they go home. ... Despite all of that, most people don’t want to go home and slam the company. They want to be able to defend their company. Senior Manager, Financial Services

Another set of managers had quite strong views that their employees were not surprised when the layoffs came. These were generally workers in firms where the work was more cyclical and workers who had not been performing well recently.

No, they are not surprised. But occasionally there is a person who doesn’t understand. But it makes sense that they are leaving.

CEO, Mining

... people in a business unit that is in trouble. They are not surprised but deeply disappointed. Senior Manager, Durable Goods Manufacturing

The low performers were not surprised but angry. Senior Manager, High Tech
Our workers are set up to know. We have quarterly ... meetings.
This is the state of the business and what it means to you. Here is
the good side and the downside. We may have to make careful
decisions. Here is what you can do to help. Are they surprised?
Some are. Senior Manager, Agriculture

I have never ever found an employee surprised to hear that layoffs
will occur. No one disagrees with the headline but they almost all
say why me? ... With [a recent merger] some people virtually had
no work to do. Senior Manager, Nondurable Goods

Manufacturing

I think it varies. It is never an easy decision. If it is performance
related they normally get it. Senior Manager, Financial Services

Are There Safety and Security Concerns?

Safety is clearly an issue around layoffs for at least two reasons. The first is the actual
physical safety of the workers at the work site. Some literature suggests that this is a serious
concern. For example, Mishra and Spreitzer (1998) point out that if employees don’t trust senior
managers then the remaining employees may be more likely to be threatened and more likely to
be destructive. In addition, Folger and Skarlicki (1998) document survey evidence that if layoffs
are thought to be due to “mismanagement” then managers making layoffs are much more likely

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to anticipate confrontation with employees. Finally, Kammeyer-Mueller, Liao, and Arvey (2001) suggest frustration and aggression (Berkowitz, 1998) as issues.

Second is the “security” of the intellectual property of the organization. A very large majority of the organizations had little concern for either. Of course, some were in industries with no proprietary information so this was obviously a non-issue. A handful had some concerns as described here.

We have plain clothes [security] people, just to be prudent. Senior Manager, Durable Goods Manufacturing

Security is always a concern. More so a few days after than on the day of the layoff. We try, in a non-obvious way to beef up security. Senior Manager, Nondurable Goods Manufacturing

We haven’t been burned, although we are cautious. We pre-identify anyone who may be a problem. Senior Manager, High Tech

We had security at work and security at home for some people. We put the responsibility on the [very senior managers]. We installed a glass door with an electronic lock and installed alarm systems for deterring breaking into people’s houses. CEO, Mining
I’ll tell you a funny story. In [city] we walked in with the head of security about two hours before [opening of the work day]. He was on our list. … Minutes after the announcement our rental car was towed. … It was a 45 minute ride and not a nice place and we had to pay $150 to get the car back. Senior Manager, Durable Goods Manufacturing.

What about survivors?

When the managers were asked about survivors, the majority mentioned that they felt that there should be a great deal of communication. A great majority also felt that if those who were being asked to leave were treated well (e.g. communication, severance, treated with respect) that the remaining “survivors” would feel very good about the company as well. As an example that is consistent with this, Brockner, Grover, Reed, DeWitt, and O’Malley (1987) use data from 132 subjects in a lab setting and 504 survey questionnaires from a retail chain that had recently closed many of its outlets. Among the findings were that survivors reacted most negatively when they identified with those laid off who were perceived to have been paid poorly as a result of the layoffs. In a related paper, Brockner, Grover, Reed, and DeWitt (1992) use similar data to document an “inverted-U” relationship between job insecurity associated with the layoffs and work effort by those who survived the layoff.

I think this is hugely important and often overlooked. You have to treat those leaving fairly. If not, what will the others think? You
I think there are a couple of levels worth distinguishing. There are the best players – have to have private, back door, conversations. On one hand, it can allay their fears. On the other hand, they can feel guilty about the special attention. The main event is the garden variety survivor who because of their role or unit, they survived. I would say we haven’t paid enough attention to the survivors. I guess we have assumed that due to generous severance, we haven’t been so concerned. Senior Manager, Durable Goods Manufacturing

The survivor issue is more important for salaried employees. Sales people are spread out. … With salespeople survivors generally are people who need to do more with less money. Didn’t know who the other guy was anyway since salespeople are spread out. Senior Manager, Durable Goods Manufacturing

This is far and away the biggest issue. How do we do this and make the survivors know about it? … When this first started, we had stay and retention bonuses. Ultimately it was so severe that
the environment is so bad that they should just be lucky to have jobs. COO, High Tech

We tried not to call them survivors. We did special training for remaining employees. Senior Manager, High Tech

The theory is that if people leave well, then the people left will likewise feel best about the place. Senior Manager, Agriculture

The first thing we worried about was that people would leave. The reality is – to survivors. Is it over? The reality is there might be more – it depends on business. Honesty is the best way. It is hard enough to worry about if they have a job. Then if management isn’t being straight, then what? CEO, High Tech

Terminate low performers. Reductions in force of this or any variety start with poor performers. Frankly, this is received pretty well. Senior Manager, Financial Services

Communicate, communicate, communicate. ... Employees want to know you did it fairly. Senior Manager, Agriculture
It is important internally, not just externally to take layoffs seriously. CEO, Mining

There is pretty heavy use of retention bonuses during acquisitions. I have not seen us use retention bonuses due to an economic layoff. In any event, I will tell you, just as focused as you are, we pay equal attention on the survivors as the victims. Senior Manager, Nondurable Goods Manufacturing

No it is pretty easy to keep survivors. We are a good company in a great market with good compensation. Senior Manager, High Tech

In addition, there is some literature with coping following layoffs. Examples include Latack, Kinicki, and Prussia (1995), Hamilton, Hoffman, Broman, and Rauma (1993), and Wanberg (1997).

A few of the managers noted that they felt that being laid off could be good news to workers. At the same time, they noted that it is extremely difficult (and not warranted) to tell these workers. The idea is that workers may not be entirely happy with their jobs but alternative jobs are uncertain and the workers are not willing to take on the possible downside risk of switching. When laid off workers have no choice but to switch jobs and are often happier (in the longer run) as a result. This idea was first introduced to me by a manager at a forum on layoffs we had at the University of Illinois in 2001. In fact, several audience members were quite upset
with this explanation, until the speaker explained that he had been laid off twice himself and found that the jobs he was matched with shortly thereafter were each better.

Everybody was worried about their jobs. Most were worried about a job they didn’t like. President, Financial Services

What everyone told me was that you would be in a better spot. That certainly helped me. You get caught in the inertia. Coming back to [major city] was a huge personal and professional upgrade. Going through the process [expletive deleted]. For some people, it’s awesome. Suddenly someone pays them to get out of a bad situation. End result, people are going to be fine. Can’t say that to victims. Senior Manager, Wholesale Trade

Devine, Reay, Stainton, and Collins-Nakai (2003) surveyed 667 health care workers in Canada after an enormous downsizing where 17 percent of the health facility budget in the region was cut. They concluded that “victims” (who secured jobs elsewhere) “actually fare better” than those who kept their original jobs.

INTERNATIONAL WORKERS

Most of the managers I interviewed work for firms that have operations internationally. I wondered about differences with international workers and whether things were more difficult. Many of the managers understood this to mean workers working in units outside of the United States. Others interpreted this as non-U.S. workers working in the United States. For the group
that considered workers in other countries, most all felt it was simply "harder" to lay workers off elsewhere. There were some examples, however, typically in a few countries, where it was somewhat easier.

_In other countries_

Most of the managers felt that it was considerably more difficult to make layoffs outside of the U.S. than inside of the U.S. See Carabelli and Tronti (1999) for an introduction and review of papers discussing management redundancies in Europe and Van Audenrode (1994) who discusses employment contracts in OECD countries.

It is totally different due to laws and underlying values. How people get laid off [overseas] is just totally different. Senior Manager, High Tech

Every other country in the world has way more restrictions. Senior Manager, Durable Goods Manufacturing

Yes. Much more so. Depends on the country. In Brazil, Columbia, and Latin America, dismissals are extraordinarily expensive for the firm. In Europe many countries are the same way. This makes us much more sober in terms of whether there should be layoffs. … We are very careful in terms of adding workers. But there are significant protections on the front end. Senior Manager, Nondurable Goods Manufacturing
France. Germany is hard. Italy is really hard. Asian countries are difficult. Dynamics are different. In Japan, they have to agree. Actually agreeable and publicly acceptable. On the other hand, you have a different kind of employee / employer relationship. “Obedient” employees. France and Italy are hard since you have to pay so much and it takes so long. Senior Manager, High Tech

[In] Europe, the laws are very different. … If you take somewhere like Belgium – one of the most difficult places to get rid of an employee – but if you want to operate in Belgium you just have to swallow it and hire a good lawyer. I would say, when you know the rules, you manage better and reduce your potential liability, the probable cost of getting rid of people – things work better. I think risks and costs of layoffs [in the U.S.] are much greater than in the UK. Senior Manager, Financial Services

[The French rules] make it so difficult. There are other tough countries. Korea was difficult. China would be difficult but we have a relationship with the government. Senior Manager, High Tech
I feel like U.S. [versus East Asia\textsuperscript{7}] laws are more complicated. For example, you must be aware of possible age discrimination in the U.S. In Southeast Asia laws are pretty straight. They just want people to be treated fairly by the big monster company. Minimum standards. In Singapore you can ask to leave and give just one month. In Indonesia there were lots of negotiations involved on a case by case basis. If there is any twist with the person there is a lot of negotiation. Usually you know the minimum standard which is very low. Most multinationals talk and benchmark. Senior Manager, Agriculture

You need to count California as a different country. There are a bunch of laws. Senior Manager, Wholesale Trade

In Australia the person has no recourse whatsoever. In France and Germany there is a lot of protection. In Belgium, it is incredible what you have to pay in severance. Senior Manager, Durable Goods Manufacturing

In some cases, it obviously wasn't clear whether it was more difficult to make layoffs in other countries since this required managers to understand the rules and customs in multiple countries, or if it was simply technically more difficult in other countries.

\textsuperscript{7} See Godement (1999) for an account of job loss in Asia.
It was very interesting to have spoken with some managers who found it so difficult to fire workers in some countries that they have basically made the decision to not even hire in those countries any more.

It is a complete [expletive deleted]. Next time we have a chance to hire people in France … never mind. Senior Manager, High Tech

Some managers found that letting workers go in other countries was “different” than doing it in the United States but that it was, in fact, easier.

There are no age or minority restrictions in [some] other places we employ workers. CEO, Mining

*International Workers Working in the United States*

Some managers interpreted my initial questions about “international” workers to mean non-U.S. citizens working for their firm in the United States.

Another side is foreign visa holders who get laid off. … I think, technically, once they stop working, they have ten days to leave the country. It has become apparent to me that there are lots of these with expired visas still in the country. Manager, High Tech

Another manager recounted a story where her firm, in several instances, agreed to keep workers on the payroll (at lower pay) so that the workers could maintain their visas while they looked for a new job.
Without doubt, letting “international” workers go seems, on average, to be more difficult than letting workers go in the United States. This is for at least two reasons. The first is that when asking managers in the United States (who are most familiar with U.S. law and procedure), to compare the way things work in the U.S. versus all other countries, they are typically far more familiar with the U.S. than most any other places. The second reason is that (except for a few examples), the U.S. laws and procedures around layoffs are much more straightforward and clear, and there are fewer regulations. This seems to be particularly true, especially as compared with Europe.

Among the variables collected from the newspaper accounts of the layoff announcements was whether the job loss announcement was in an “international” or “foreign” unit of a U.S. firm. If the layoff announcement contained information about workers in Chicago losing jobs this would be coded as zero. If the article mentioned workers in London, this would obviously be coded as a 1. If workers in Chicago and London were let go, then this would also be coded as a 1. Of the 4,604 job loss announcements, this information was missing for 406 of them (about 9 percent). For the other observations, it appears from Figure 5 that the fraction of announced layoffs that had some connection to an international unit ranged from between 10 and 20 percent for each of the years from 1970 – 2000, with the exception of the years between and including 1993 and 1999. In fact, in 1995 and 1997, the fraction was over 35 percent.8

--- FIGURE 5 ABOUT HERE ---

8 Of course, this just may mean there are more international workers in these firms over time.
LABOR UNIONS

I also asked managers how they felt about labor unions around the time of job loss. That is, I was interested to know if having labor unions made the process of laying off workers “easier” or more “difficult”. My original expectation was that it would be “easier” in the sense that union contracts may be more clearly laid out and that most of the layoffs would have to be done through seniority. On the other hand, I suspected that since there may be “bumping” within labor unions that the process may actually take much longer to complete. Several managers thought it was “easier to deal with unions”.

Yes. Usually it is easier. Since it is all laid out. It still is a little emotional. With a union you have we/they issues. We would tend to follow seniority, all the things being equal, even in non-union situations. Senior Manager, Durable Goods Manufacturing

It is much easier with unions. All you need to do is follow the collective bargaining agreement to the letter. COO, High Tech

I would argue that it is easier. I think there is the assumption that there is less legal risk versus any layoff in a nonunion setting. Senior Manager, Nondurable Goods Manufacturing

In contracts it is pretty well spelled out. It is easier to do layoffs with unions. Senior Manager, Wholesale Trade

9 Bennett, Martin, Bies, and Brockner (1995) discuss coping by workers around job loss in a unionized setting.
On the other hand, some managers found dealing with labor unions during a layoff made the process more difficult.

There is no question that it is harder with unions. Typically when we do a layoff it is an economic reason, but that is usually a bad time to make performance distinctions. You must have a performance system in place ahead of time. Senior Manager, Durable Goods Manufacturing

Much harder. Much, much harder. Administrative jobs were all unionized at [former employer] ... There is deadweight that never left. Use things as a way to take out the bottom. Senior Manager, High Tech

I had a union at [my former employer] but it was the teamsters and I never had to do a layoff. But they would have challenged it – it would have made it more difficult. Senior Manager, Agriculture

Only a handful of managers felt that the union and non-union situations were identical.

Exactly the same. Senior Manager, Nondurable Goods Manufacturing

Well, I guess when you weigh it all, it's all the same. You never wake up and say I can’t wait to tell people you are going to lose
your jobs. ... Whether union or non-union they are our people. ...

[Company name] is quite paternalistic. Treat them with dignity.

Senior Manager, Durable Goods Manufacturing

Most of the managers I interviewed either did not have unionized workers in their firms or did not deal with unions directly. Of those who did have labor unions, there was a relatively even mixture between those who thought having the labor unions made the process of layoffs more “difficult” and those who thought it was “easier”.

**TYPES OF WORKERS**

My goal is to never terminate a good employee. Senior Manager,

Nondurable Goods Manufacturing

It is interesting to consider who is actually laid off. Some managers seem to have the feeling that layoffs can be a “useful” way to terminate some employees who are not necessarily a good match for the firm, for whatever reason. Although this was not the majority view, some argued that in “early” layoffs at a given location, it is not particularly difficult to select those for dismissal. This is because the first few workers that are asked to leave probably should have been asked to leave anyway, but layoffs are difficult to do. Therefore, when some sort of financial pressure or other issue arises, it is in some sense a relief for the manager as it is a simple way to remove some workers who aren’t well matched for the firm.

In anybody’s initial layoff, the people who are fired could have been anyway. The first few are easy. Senior Manager, High Tech
There has also been recent discussion of the potential increase in white-collar or salaried workers losing their jobs, relative to blue-collar workers. In fact, the number of news stories related to job loss increased dramatically in the early to mid 1990s (even after the recession) as compared with the mid to late 1980s (Farber and Hallock, 2003). Some have hypothesized that this is, at least in part, due to the fact that as more white-collar workers are being laid off, there is increasing attention from the media (also white-collar workers).

Using the archival data on all of the layoffs from the *Wall Street Journal*, I examine whether the relative fraction of white-collar (or salaried) workers who are let go has increased relative to blue-collar (or hourly) workers. The data on layoffs were categorized by occupation type and compensation type. For occupation type, news stories about layoffs were categorized so that it was clear whether white-collar workers, blue-collar workers or both were involved in the layoff. Unfortunately, this variable is missing for a great majority (81 percent) of the observations. This rate of missing data is fairly constant over the 31 years of the sample. Of the remaining 19 percent of the sample for which I have complete data, 40 percent were categorized as white-collar, 25 percent were categorized as blue collar, and 35 percent as both. Interestingly, as can be seen in Figure 6, the fraction categorized as white-collar increased quite dramatically starting in the early 1980s and through to the early 1990s where it has seemed to have stabilized.

As with international workers, this may be due to an overall increase in white-collar workers in the labor force. In order to see this more clearly in Figure 7 I plot the fraction of layoffs including white collar workers on the right hand axis. On the left hand axis, I plot the
fraction of all workers in the Current Population Survey outgoing rotation group files who are white collar in each year from 1979 – 2001. It is clear that this has also increased steadily over the past few decades. Furthermore, Farber (2003) notes that “while the least educated workers continue to have the highest rates of job loss, there appears to have been a secular increase in the job loss rates of college educated workers from the early 1990s onward”.

-- FIGURE 7 ABOUT HERE --

I have also examined the fraction of the articles attributable to salaried workers, hourly workers, or both types. In this case the data are missing for 76 percent of the observations. For the remaining cases, 25 percent are associated with salaried workers, 35 percent to hourly, and 40 percent to both. As seen in Figure 8, this case is also consistent with the idea following Farber and Hallock (2003). The fraction attributable to salaried workers began a dramatic rise in either the early or mid 1980s up through the mid 1990s.

-- FIGURE 8 ABOUT HERE --

CONCLUSIONS AND SUGGESTIONS FOR FUTURE RESEARCH

Kammeyer-Mueller, Liao, and Arvey (2001) outline a careful review of the literature on job loss from a stakeholder perspective. This paper is aimed at trying to investigate six issues

---

10 Workers were defined to be white collar if in the years 1979 through 1982 their two-digit occupation codes were 1-17 and in the years 1983-2001 their three digit occupation codes were between 3-199 inclusive or between 203 and 289 inclusive.

11 It is clear in Figure 7 that these two variables are measured on substantially different axes. Recall that the archival data are for layoff announcements that include white-collar workers among those let go. The CPS data are for individual workers.
related to job loss by specifically focusing on the firm. It uses two entirely separate sources of data to try to document the kinds of layoffs and characteristics of layoffs in large firms in the United States from 1970 through 2002 and to consider how and why firms make layoffs. The first set of data is from detailed summaries of each layoff announcement by any firm ever in the Fortune 500 from 1970 through the end of 2000 that was reported in the Wall Street Journal. The second set is from detailed interviews in 2001 and 2002 with 40 managers (HR managers, COOs, CEOs etc.) of very large (for the most part) U.S. firms. Combining both methods was the only way to answer the set of questions posed here.

I investigated six main areas related to layoffs in order to develop a unique picture of layoffs in the United States: timing of layoffs, reasons for layoffs, the actual execution of layoffs, international workers, labor unions, and the types of workers by occupation and compensation category. However, I concentrated most of the discussion on the first three. Managers have differing views about when layoffs should take place within the week. In the archival data, more layoffs are announced on Friday than any other day, and this has kept up over time. Also, in the interviews, many managers seem to find making layoffs near the “holidays” distasteful. However, there are certainly more layoffs actually announced in the final calendar quarter of the year than in the middle two quarters. There has been a recent explosion in layoffs that are described for the reasons of “reorganization or restructuring” in recent years. Also, while there is some variation in the beliefs of managers about how they feel about the reported “reasons” for layoffs, most feel that the news that is reported in the business press is most of the truth but not all of it. This paper also spent considerable time describing how layoffs are actually executed, including safety and security issues, and how to deal with “survivors” of layoffs. Also, on average, most managers find it considerably more difficult to lay off workers in other countries.
than in the U.S. At the same time there has been recent growth in the fraction of workers being let go who are in foreign units of U.S. companies. Finally, although there are many missing observations, there seems to have been a dramatic increase in the relative fractions of layoffs associated with white-collar (relative to blue-collar) workers and salaried (relative to hourly) workers.

Perhaps an interesting area for future work is to consider how layoff experiences vary by industry (Table 3 displays the frequency distribution of layoffs by industry overall and for each of the three decades). Experiences with the layoffs, the procedures used, the reasons for the layoffs, and the types of workers effected could plausibly vary by industry. It was clear, in speaking with the managers that issues such as how to deal with survivors and using HR practices such as retention bonuses varied quite dramatically by industry. For example, in one high tech business, managers felt it unnecessary to use retention bonuses after the "bottom fell out" in their industry whereas other firms in other, perhaps, more stable industries, were equally likely to use them at all points in the business cycle. At the same time it would be interesting to investigate issues of fairness (e.g. Wanberg, Bunce, Gavin, 1999), earnings losses (e.g. Jacobsen, LaLonde, and Sullivan, 1993), and health (e.g. Grunberg, Reay, Stanton, and Collins-Nakai, 2003) by industry.

-- TABLE 3 ABOUT HERE --

It is also clear that combining different research methods to investigate one common issue is potentially useful. Several of the questions in this paper could not have been answered by interviews or more standard archival data alone. I think it would be additionally useful to
combine a third method with these two – a formal wide-scale survey (as in, for example, Brockner, Grover, Reed, DeWitt, and O’Malley, 1987, Devine, Reay, Stainton, and Collins-Nakai, 2003, and others discussed in Kammeyer-Mueller, Liao, and Arvey, 2001). Based on my own work, that of others, and the combination of archival data collections and the survey of the 40 managers, it is clear that also asking exactly the same set of very specific questions to a very large sample of managers of all types would be extremely informative. This is particularly the case when considering questions such as how the practices and experiences of laying off workers varies by industry.
Acknowledgments

I am grateful to the Alfred P. Sloan Foundation for extremely generous funding under research grant B2001-46. I am also grateful to the Center for Human Resource Management, the College of Commerce and Business Administration, and the Institute of Labor & Industrial Relations at the University of Illinois for generous funding. Gail Pesyna was extremely supportive in getting this work started. Joe Martocchio made particularly helpful comments that have improved this work. I also thank John Abowd, Larry DeBrock, Todd Elder, Wally Hendricks, David Levine, Darren Lubotsky, Craig Olson, Clayton Reck, Justin Wolfers and seminar participants at the University of Illinois and at the Society of Labor Economists in Toronto for helpful suggestions. I am indebted to Sherrilyn Billger and Henry Farber for countless discussions over our joint work on layoffs. Michelle Arthur, Sara Christopher, John Deke, Erica Field, Charles Fields, Clayton Reck, and Kristen Stanton provided excellent research assistance. I am particularly grateful to the 40 executives who spent time with me explaining their personal experiences with layoffs.
Appendix 1. Broad Areas for Questions to 40 Managers in the Study

1. Tell me a little bit about your most recent layoff. Do you have any hard and fast rules?

2. Why do firms make the announcements? Are the stated reasons in WJ related to actual reasons?

3. Do the layoffs actually happen? They are announced but do they actually happen? Is there an idea to announce more so don’t have to go back and announce more?

4. Do firms have incentives to make announcements at certain times? Is there gaming of the timing of announcements?

5. Who is laid off? How is that decision made? Who makes the decision?

6. What happens to survivors? Is there anything the firm provides for them?

7. Are people ever hired back? What about those with historical human capital (specific capital)?

8. What happened to your stock price after your most recent layoff?

9. Are your workers ever offered a choice of lower pay or layoffs?

10. Were these people surprised when they were asked to leave?

11. Are there any differences with international workers?

12. Have you had to deal with unions? Would you treat anything differently?

13. Do you have a legal staff that deals with layoffs? Are you concerned about impacts on particular groups women/older workers?

14. Are there particular severance benefits or outplacement services you provide?

15. How is the layoff actually executed? Do you send them right out door? Is there a safety or security issue? Is someone from HR involved?

16. Do you ever use consultants or have you used consultants to help with your layoffs?

17. Is there anything else about the layoffs in your firm or in other firms you have been with that you think might be important?
References


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# TABLE 1. Summary Statistics

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<td>Firm Value</td>
<td>12270 (374) [3826]</td>
<td>10703 (550) [2188]</td>
<td>9330 (415) [3257]</td>
<td>16966 (855) [8305]</td>
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<td>N = 1246</td>
<td>N = 1014</td>
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<td>Assets</td>
<td>8015 (211) [2725]</td>
<td>9339 (354) [2994]</td>
<td>8517 (387) [2598]</td>
<td>5353 (324) [2388]</td>
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<td>N = 1135</td>
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<td>Sales</td>
<td>29473 (710) [8902]</td>
<td>28689 (811) [7996]</td>
<td>32553 (1339) [9378]</td>
<td>27441 (1258) [10901]</td>
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Note: Means, standard errors (in parentheses), and medians [in brackets]. Data are from Standard and Poor’s COMPUSTAT. All data are reported in real (year 2000) dollars.
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<td>Other</td>
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Source: Data on RIFs collected from *Wall Street Journal* from 1970 – 2000

Notes: Sum of last three columns does not equal first column for each row since the year 2000 is included in the first column but in none of the last three.
TABLE 3. Distribution of Industries for Announced RIFs Over Time

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<td>Construction</td>
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<td>1</td>
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<td>Wholesale Trade</td>
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<td>Retail Trade</td>
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<td>Professional, Scientific, and Technical</td>
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<td>13</td>
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<td>Accommodation and Food Services</td>
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<td>1</td>
<td>0</td>
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<tr>
<td>Other Services (Except Public Administration)</td>
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<td>Health Care and Social Assistance</td>
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<td>Unclassified Establishments</td>
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<td>Beverage and Tobacco Production</td>
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<td>Textile Mills</td>
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<td>Wood Product Manufacturing</td>
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<td>Printing and Related</td>
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<td>37</td>
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<td>Transportation Equipment Manufacturing</td>
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<td>Miscellaneous Manufacturing</td>
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</table>

Source: Data on RIFs collected from *Wall Street Journal* from 1970 – 2000. Industry data collected as NAICS from Standard & Poor's COMPUSTAT.

Notes: Sum of last three columns does not equal first column for each row since the year 2000 is included in the first column but in none of the last three.
FIGURE 1. Frequency of Announced RIFs by Year with Annual Unemployment Rate
FIGURE 2. Frequency of Announced RIFs by Week in the Year

Layoff Announcements by Week During the Calendar Year

FIGURE 3. Frequency of Announced RIFS by Day of the Week They Appeared in the *Wall Street Journal*

Layoff Announcements by Day of Week

FIGURE 4. Distribution of Stated Reasons for Announced RIFS Over Time

Reasons for RIFs Over Time

Note: These five “reason” categories are a consolidation of the twenty categories listed in Table 2. The five categories are “reorganization” (reorganization, restructuring, and in-house merger), “plant closing” (leave market and plant closing), “slump in demand” (demand slump, excess supply, structural), “cost issues” (cost control, posting losses, increase earnings, restore profitability), and “other” (increased competition, merger, bankruptcy, strike, and other).
FIGURE 5. Fraction of Announced Layoffs in a Foreign Unit of a United States Firm

\begin{center}
\begin{tikzpicture}
\begin{axis}[
    width=\textwidth,
    height=0.5\textwidth,
    xlabel=Fraction of Layoffs in Foreign Unit,
    ylabel=Fraction in Foreign Unit,
]
\addplot+[only marks] table {data.csv};
\end{axis}
\end{tikzpicture}
\end{center}

FIGURE 6. Fraction of Workers by Occupation Type

FIGURE 7. Fraction of White Collar Workers in Archival Data and in the Current Population Outgoing Rotation Group Files

FIGURE 8. Fraction of Workers by Compensation Type

END.