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THE COVID CRISIS, CEO PAY BALANCE AND FIRM PERFORMANCE

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Abstract: *This study examines how the COVID crisis affected CEO pay balance. CEO pay balance is defined as the total CEO compensation relative to the average employee's compensation and relative to the other officers' compensation. The paper focuses on the ten most valuable firms traded on NASDAQ. The previous literature has contradictory results. While some papers argue that CEOs get a pay cut in times of crisis, others argue that firms increase CEO pay to motivate the CEO to navigate the firm during these tough times. The current study also looks at the relationship between CEO pay balance and firm performance. For firm performance, the paper focuses on profitability. Does increasing the CEO's relative pay cause an increase in firm profitability? The paper contributes to both streams of research, namely, CEO pay in tough economic times, and whether increasing CEO pay contributes to the performance of a firm.*

Keywords: *COVID, CEO, Nasdaq, President, VP, pay ratio, profitability.*

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Classification JEL: *G01, G30, I15, I18, M12*

1. Introduction

This study aims to look at two issues: First, it looks at the relationship between the COVID-19 crisis and CEO pay balance. CEO pay balance is CEO relative pay compared to the average employee of the firm or compared to the other officers of the firm. Did "CEO pay balance" increase after COVID started? Then, it looks at the relationship between CEO pay balance and firm performance. For firm performance, we use profitability measures. Does firm profitability increase when CEO pay balance increases?

The paper first looks at the trend in CEO pay balance. Over time, did the CEO pay balance increase or decrease? Then, it compares the pre-COVID period to the post-COVID period to see if there is any significant difference in CEO pay balance before and after COVID. We run nonparametric tests as well as regressions to achieve this objective. Finally, we test to see if there is any relationship between CEO pay balance and profitability. Again, we use regression analysis to see this relationship.

2. Results and Discussion

2.1 Literature Background

Several studies offer relevant context. Afzali et al. (2022) report that firms facing declining revenues and profits during COVID adopted cost-cutting measures that included salary reductions across all levels. Ahmad et al. (2023) find that CEOs at firms with stronger governance structures were more insulated from pay cuts, while Cambrea et al. (2023) show that CEOs who also served as board chairs were better able to preserve their compensation.

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Previous research presents mixed and often inconclusive findings on the relationship between CEO pay and financial performance.

2.2 Methodological Approach

The study focuses on the ten most valuable firms listed on the Nasdaq, including the six largest publicly traded U.S. companies by market capitalization. The pre-crisis period is defined as 2017–2019, and the post-crisis period as 2020–2022. CEO pay balance is measured relative to the average employee, the company President, and both the top-earning and average-earning Vice Presidents.

The research employs trend analysis, non-parametric tests, and regression analysis to determine the effects of the COVID-19 crisis on CEO pay balance and to evaluate the relationship between CEO pay balance and firm profitability.

2.3 Key Results and Interpretation

The objective of this paper is to see the impact of the COVID-19 crisis on CEO Pay Balance and to examine the relationship between CEO Pay Balance and firm performance. The first part of the paper investigates the impact of the COVID-19 crisis on CEO pay balance, defined as the CEO's compensation relative to that of the average employee and other top executives. The study finds that the relationship between the COVID-19 crisis and CEO pay balance is not clear. If there is a link, it is weak.

The second part of the study involves the examination of the relationship between CEO compensation and firm performance. While some research supports the view that generous CEO compensation can motivate effective leadership in crisis contexts, other studies stress that adaptability, employee engagement, and organizational resilience may be more critical drivers of success.

The current paper shows that if there is any change in relative CEO pay, this change did not correspond to improved financial performance. Based on accounting-based profitability metrics, there is no support for the notion that higher CEO pay balance improves firm performance.

5. Conclusions

The current study finds very limited evidence of an increase in CEO Pay balance after COVID started. Also, the study did not find any significant relationship between CEO pay balance and firm performance. Future studies may extend the sample to see if these results hold for the larger market. Future studies may also focus on cash versus other types of compensation. Also, future studies may try to answer the following question: By motivating the top executives more than the average employee, were these firms able to improve their performance? In other words, was this a good decision by the firms? As suggested here, this stream of research can be expanded in several directions.

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