Employee-based brand equity: why companies with strong brands pay their executives less

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A recent publication by London Business School professors Nader Tavassoli and Rajesh Chandy and Texas A&M professor Alina Sorescu suggests that executives who work for U.S. companies with strong brands tend to be paid less than if they worked for a company with a less-recognisable brand.

They reason that strong brands can provide benefits great enough for executives to be willing to accept lower pay. Rather than as money, these benefits come in the form of "*self-enhancement*" for the individual.

Background

The researchers based the reasoning for their hypotheses on "*identity theory.*" This theory states that self-enhancement is a core motivation for individuals to identify with particular entities. Self-enhancement can be defined as "the accrual of social, psychological, or economic benefits." So, the more well known the brand, the greater the opportunity of self-enhancement for the individual.

"Individuals use brand affiliation to express and enhance identity both publicly and privately," write the researchers. For example, owning an iPhone gives a certain status that most other phones do not provide. Association with an established brand promotes a certain image of a person; in the case of executives, working for a well-known brand allows them to be an "insider" of the brand, rather than solely an owner of it.

Data from this study was sourced from U.S. Young & Rubicam BAV metrics, a source of brand equity data that spans over 10 years, and compensation data from ExecuComp. The researchers controlled for a company "being a great place to work" in order to keep this factor separate from brand equity.

Findings

In their publication, the authors present three main hypotheses that they test and prove through statistical analysis:

- *Companies with strong brands pay their executives less*
- *The negative effect of brand strength on executive pay is strongest for the CEO compared to other executives*
- *The negative effect of brand strength on executive pay is stronger for younger executives compared to older executives*

Finding #1: Companies with strong brands pay executives less

As mentioned previously, identity theory and self-enhancement provide the reasoning behind this finding. When a company has a well-known brand, executives have more to gain in the form of self-enhancement. According to the article, "…professional peers, future employers and current or future members of their social circle may (rightly or wrongly) associate part of the brand equity of the company to the actions and qualities of its leaders."

Finding #2: The negative effect of brand strength on executive pay is strongest for the CEO compared to other executives

The study shows that CEOs are more likely to accept lower pay than other executives when the strength of a brand is high. The higher ranking the executive, the more negative the effect of brand strength is on his or her pay. Due to the high visibility of their role, CEOs are more likely to be closely identified with a brand. As the leader of the company, the CEO becomes almost synonymous with the brand they lead. Going back to identity theory, a stronger identification with the brand will provide more social self-enhancement benefits, which act as a substitute for higher pay.

Finding #3: The negative effect of brand strength on executive pay is stronger for younger executives compared to older executives.

Younger senior executives are more likely to experience a higher negative effect of brand strength on their pay. The authors propose two reasons for this result. First, younger executives have less previous experience with which they can build up their identity. Working for a well-renown brand can make up for lack of identity and/or experience. Secondly, the ability to include a popular brand on a CV increases self-enhancement; the younger executive will be willing to accept lower pay for a job that will provide greater future opportunities. For older executives, who already have an established identity through previous experience and have less incentive to consider future positions, the effect of brand strength on their pay is weaker.

Implications

Overall, the article claims that strong brand identity leads to increased self-enhancement, which acts as a partial substitute to executive pay. This has several implications for future marketing research and HR practices:

- *Implications for marketing research*

Historically, any market research on the contributions of brands to company value has been consumer focussed; mainly, how a strong brand can attract customers and increase revenue. However, there is room for greater research on the contributions brands have on company value through effects on employee pay. These findings call for an improvement to the ways in which returns to marketing are measured.

- *Implications for HR hiring practices*

Since a strong brand identity can partially substitute for executive pay, HR managers should emphasise the strength of their brand when recruiting and benchmarking pay. It is another tool they should add to their recruiting methods.

There were alternative theories to explain results. One alternative is that executives accepted lower pay because there was less company risk. Intuitively this has appeal, because companies with strong brands tend to be less volatile, and hence careers are more secure. The statistics did not support this hypothesis given that younger and presumably less risk averse executives were more willing to take less pay to work for companies with more brand equity than older executives.

Another obvious theory is that executives employed by strong brands use this brand equity to command a higher salary in subsequent jobs. For these executives, in the first year on their new job, the researchers did indeed find a positive relationship between previous brand strength and current total pay. This could also explain why executives who were younger accepted lower pay to work as companies with high brand equity. By the way, young executives, by having less experience, would presumably be paid less. Inconveniently, however, the researchers say that there was insufficient data on serial job hoppers to fully gauge the validity of this hypothesis.

Whether or not the researchers same conclusions would hold in Australia is unknown. However, given the similarities between U.S. and Australian culture, strong brand identity could act as a substitute for executive pay here as well.

The research can be found HERE.