

Short Title: IDENTITY ECONOMICS MEETS IDENTITY LEADERSHIP

**Identity Economics Meets Identity Leadership:  
Exploring the Consequences of Elevated CEO Pay**

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**Abstract**

Economists have recently proposed a theory of identity economics in which behavior is understood to be shaped by motivations associated with identities that people share with others. At the same time psychologists have proposed a theory of identity leadership in which leaders' influence flows from their creation and promotion of shared identity with followers. Exploring links between these approaches, we examine the impact of very high leader pay on followers' identification with leaders and perceptions of their leadership. Whereas traditional approaches suggest that high pay incentivizes leadership, identity-based approaches argue that it can undermine shared identity between leaders and followers and therefore be counterproductive. Supporting this identity approach, two studies provide experimental and field evidence that people identify less strongly with a CEO who receives high pay relative to other CEOs and that this reduces that leader's perceived identity leadership and charisma. The implications for leadership, economics, and organizations are discussed.

(148 words; 150 words max)

**Keywords:** leadership; followership; identity; charisma; identity leadership; compensation; CEO pay

**Identity Economics Meets Identity Leadership:  
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Leader pay is a topical issue in contemporary organizations and society, and it continues to be the focus of heated debate that rages around the impact that leaders' pay has on their motivation and performance (for reviews, see Garbers & Konradt, 2014; Gerhart & Fang, 2015; Rynes, Gerhart, & Parks, 2005). In this regard, the pay that Chief Executive Officers (CEOs) receive for their work has been a particular focus of both academic and public interest (Bebchuk & Grinstein, 2005; Gabaix, & Landier, 2008; Hacker & Pierson, 2010; Tosi, Misangyi, Fanelli, Waldman, & Yammarino, 2004; Stanford Graduate School of Business, 2016; Wall Street Journal, 2014). The breadth of public interest in this topic suggests that the implications of CEO pay may not be limited to the individual CEO. As we discuss in detail below, there are reasons for expecting that it may even have implications for an organization's employees, such that highly paid CEOs find it harder to connect with, and consequently lead, their employees. If true, this implies that decisions about CEO remuneration need to balance the implications of this for the CEO against those for the rest of the organization.

In the present research, we review identity economics and identity leadership perspectives, attending particularly to their implications for the relationship between the amount CEOs are paid and their capacity to lead. Importantly, as we will show, the resulting predictions sit in sharp contrast to those generated by traditional economic and psychological models of leadership. In particular, where incentive and shareholder value models support the expectation that increasing CEO pay ensures that CEOs will more effectively motivate their employees to work to achieve the organization's goals, the identity model supports the expectation that increasing CEO pay makes salient "us" versus "them" distinctions which erode their ability to connect to, and consequently influence, their workers.

In order to test these alternative expectations, we examine whether perceivers' identification with CEOs and perceptions of their identity leadership and charismatic appeal are positively or negatively affected by their level of pay relative to their peers. This research makes at least three important contributions. First, it presents a framework that, for the first time, articulates the alignment and complementarity of identity economics and identity leadership perspectives and tests this alignment empirically by looking at the issue of leader remuneration. Second, it expands upon the literature on identity leadership by proposing that pay contributes both to people's identification with a leader and to their perceptions of the leader's capacity to cultivate a sense of "we" in the organization. Third, it contributes to theoretical understanding of charisma by advancing the proposition that leader charisma is not only an input into effective leadership but also a consequence of attributions that people make on the basis of social contextual information — in this case, information about leader pay.

### **Identity Economics and Organizational Behavior**

In recent years economists have argued for a new theoretical understanding of their discipline in which economic behavior is understood to be shaped by the identities of economic agents and the norms, values and tastes associated with those identities (Akerlof & Kranton, 2000, 2005, 2010; see also Zehnder, Herz, & Bonardi, 2017). As Akerlof and Kranton (2010) observe in *Identity Economics*, this framework departs from traditional economics in arguing that people's economic choices are not simply a function of the personal utility of those choices, but also derive from their group memberships and the place of those groups within the prevailing social context. By way of example, Akerlof and Kranton (2010, p.10) note that while economists have argued that people's behavior is determined by a desire to be (and be seen to be) "fair", what a person deems to be fair is likely to be shaped by the groups that they are members of and the context in which those

groups find themselves. For example, conservatives and liberals differ in their beliefs about what a fair tax system should look like, and these beliefs also vary as a function of the country in which they are articulated (e.g., the US vs. Sweden). People also tend to see what is fair for ingroups (“us”) as quite different from what is fair for outgroups (“them”) — generally having a more generous and inclusive sense of fairness in the former case (Platow, Hoar, Reid, Harley, & Morrison, 1997; Ullrich, Christ, & van Dick, 2009; Tajfel & Turner, 1979). This model is consistent with the identity model of moral behavior by Bénabou and Tirole (2011) which suggests that individuals’ (personal or social) identities have important implications for the moral value that people attach to assets such that people see significant value in assets that consistent with who they are, while discarding the value of assets that are identity-inconsistent.

Akerlof and Kranton (2010) note that this way of thinking also has quite radical implications for our understanding of organizational behavior. In particular, they note that economic theory has traditionally argued that the key to a successful organization is an incentive structure of wages and bonuses that serves to appropriately incentivize appropriate forms of action (e.g., hard work, loyalty). Identity economics, however, “draws a near opposite conclusion” — namely that “if employees care only about wages and bonuses, they will game the system. They will do what it takes to earn the bonus, but not necessarily what is good for citizens of the firm” (Akerlof & Kranton, 2010, p.14). The recipe for success that they set out is thus very different to that prescribed by standard economic theory:

Identity economics suggests that a firm operates well when employees identify with it and when their norms advance its goals. Because firms and other organizations are the backbone of all economies, this new description transforms our understanding of what makes economies work or fail. (Akerlof & Kranton, 2010, p.15)

Unpacking these ideas further, Akerlof and Kranton note that the utilities of working for an organization differ significantly for those who identify highly with that organization

and for those who don't. In particular, whereas low-identifiers (termed 'outsiders') lose utility if they work hard, high identifiers ('insiders') gain utility the harder they work. A key point here, then, is that organizations will generally become more efficient to the extent that their employees are high identifiers who are intrinsically motivated by a desire to contribute to positive organizational outcomes (rather than extrinsically motivated by the prospect of financial reward; Bénabou & Tirole, 2003; Ryan & Deci, 2000). The approach also suggests that there is value in organizations investing in efforts to change workers' identities — so that low identifiers who are largely motivated by incentives are transformed into high identifiers who are motivated by common bonds of pride, loyalty, and love (Akerlof & Kranton, 2010, pp.40-43). Significantly too, these are predictions that are lent support by a wealth of organizational research which points to links between employees' organizational identification and their motivation and performance (for reviews see Ellemers, de Gilder, & Haslam, 2004; Haslam, 2001; Tyler & Blader, 2000; van Dick, 2001; van Knippenberg, 2000; and for recent meta-analytic evidence, see Lee, Park, & Koo, 2015; Ng, 2015).

### **Identity Leadership and Organizational Behavior**

Identity leadership theorizing derives from the social identity approach which comprises both social identity theory (Tajfel & Turner, 1979) and self-categorization theory (Turner, 1991; Turner, Hogg, Oakes, Reicher, & Wetherell, 1987). A core tenet of this approach is that a person can derive a sense of who they are not only from perceiving self as an individual by homing in on what makes them different from other individuals (their personal identity) but also from perceiving self as a member of a group and homing in on what makes their group different from other (out)groups (their social identity). Furthermore, this approach argues that when people see themselves as part of a group and identify with it, then this has qualitatively different consequences for their feeling, motivation, and behavior. In this way, groups and the sense of identity that people derive from being part of a group are

fundamental to people's psychology in being a basis not only for a range of important psychological resources (such as belonging, meaning, control; e.g., Greenaway, Cruwys, Haslam, & Jetten, 2016) but also for motivation and behavior. In particular, when, and to the extent that, people define themselves in terms of a shared social (i.e., group-based) identity they will be motivated not to find out who they are as individuals and to advance their personal interests but to discover what it means to be a member of the group ('we') and then to act in ways that accord with this understanding of who they are and to advance their shared group interests (Turner, 1982).

Against this background, and as Zehnder et al. (2017) observe, the question of how organizations might cultivate identification among their members is therefore a critical one. The answer, they suggest, is through effective *leadership*. This too is the conclusion reached by Haslam, Reicher, and Platow (2011), in *The New Psychology of Leadership* where the researchers argue — and demonstrate — that *identity leadership* is an important determinant of key outcomes in social and organizational spheres.

More specifically, Haslam and colleagues challenge traditional models of leadership which see this as residing predominantly in the characteristics of leaders (e.g., their personality, style, and behaviour) and suggest instead that leaders' capacity to *influence* followers (which is the true test of leadership; Bennis, 2003) flows from their capacity to create, represent, advance, and embed a sense of shared identity within the group of which both leaders and followers are part (Haslam et al., 2011; Platow, Haslam, Reicher, & Steffens, 2015; Steffens et al., 2014; van Dick & Kerschreiter, 2016).

A key question here, then, is who group members turn to in order to discover the meaning of their identity. The obvious answer is to fellow ingroup members (i.e., insiders), and, more specifically, to those particular ingroup members who are *prototypical* of the group (i.e., those who embody shared group norms, values, goals and ideals; Hogg, 2001; Turner &

Haslam, 2001; van Knippenberg & Hogg, 2003). By way of example, a member of ‘Organization A’ (Joe) is more likely to select a leader from ‘Organization A’ (Anne, say) and be open to their influence than a leader from a competitor ‘Organization B’ (Barbara). Beyond this basic point related to shared group membership, people also vary in the degree to which they embody a group (with some being seen as a marginal and others as a core member of a given group) and this will affect how people respond to them. In particular, Joe will be more open to Anne’s leadership to the extent that Joe perceives her to embody what makes ‘Organization A’ special and distinct from ‘Organization B’. It is important to note that being group prototypical in this sense does not entail being an average group member, but rather it entails embodying ‘the best version of us’ (Haslam & Reicher, 2016; Steffens, Haslam, Kessler, & Ryan, 2013; van Knippenberg, 2011).

Consistent with these claims, there is a large body of research which shows that leaders’ capacity to influence group members, and be perceived by them as having extraordinary capabilities (including charisma) rests on their capacity to be seen as prototypical of the group (e.g., Platow, van Knippenberg, Haslam, van Knippenberg, & Spears, 2006; for recent reviews see Barreto & Hogg, 2017; Hogg, van Knippenberg, & Rast, 2012; Haslam et al., 2011; van Knippenberg, 2011). As Akerlof (2011, p. xvi) observes:

People take stock in their group’s leader; the leader’s actions symbolize for them what they should or should not do. The leader is the archetypal “one of us.” In some cases leaders are so great that we cannot even aspire to be like them, but nevertheless their actions still indicate what we are supposed to do.

Related to this, being representative is not just about being seen to be *of* the group, but also involves being seen to be acting *for* the group. In line with this proposition, there is abundant evidence that leaders’ capacity to engender followership is undermined to the extent that they are seen to be acting for themselves or for an outgroup (Haslam & Platow, 2001). As suggested above, this analysis extends to perceptions of a leader’s charisma. While

charisma has traditionally been seen as a personal attribute that great leaders possess and which then helps to explain their greatness (i.e., an input; for a recent review, see Antonakis, Bastardo, Jacquart, & Shamir, 2016; see also Bass & Riggio, 2006; House, Spangler, & Woycke, 1991), there is a growing body of evidence showing that it is an output of identity processes. For example, there is evidence that leaders are seen as more charismatic (a) if they are seen to be prototypical of the group they are leading (Platow et al., 2006), (b) if they are seen to prioritize the interests of ingroup members (Haslam et al., 2001) and (c) after their death (partly because this serves to heighten the sense that they are connected to the fate of the group; see Steffens, Peters, Haslam, & van Dick, 2017).

Yet while this theory of identity leadership argues that leaders' capacity to represent and advance the group in these two ways is critical, the theory also recognizes that the leadership process is not a passive one in which would-be leaders wait around until the mantle of prototypicality falls on their shoulders. Instead, as Reicher and colleagues have argued, leaders need to work actively to cultivate a sense of their own prototypicality (Augoustinos & de Garis, 2012; Reicher & Hopkins, 1996; 2001; Reicher, Haslam, & Hopkins, 2005). Again there are two important aspects to this. First, leaders need to be *identity entrepreneurs* who work to define both themselves and the group they want to mobilize in ways that bring them into alignment. Accordingly, they need to create and invoke a sense of 'us', and, to the extent that they succeed in doing this, there is a greater likelihood that their own attempts at influence will too. A case in point is research examining the speeches of Australian Prime Ministerial candidates since 1901 (Steffens & Haslam, 2013; see also Reicher & Haslam, 2017; Weiss, Kolbe, Grote, Spahn, & Grande, 2017). This found that leaders who make more references to "we" and "us" in their official election campaign speeches go on to win 80% of elections (using these pronouns once every 79 words compared to their losing counterparts who used them every 136 words).

But it is not enough for leaders simply to talk about shared identity, they also need to be seen to enact it. More particularly, second, this means that they need to be *impresarios of identity* who work to create and choreograph a material world that makes notions of shared identity compelling and real, so that group members can live them out together. Indeed, in this respect, the power of such things as commemorations, conferences, festivals, rallies, and rituals is precisely to bring people together in ways that translate the idea of ‘us’ into lived experience. This is seen clearly, for example, in the work that Paul did to cement his position as a leader of the Christian church by devising and embedding a range of practices and activities (e.g., baptism) that united an array of hitherto disaggregated sects into a meaningful organized whole (Esler, 2003; Horrell, 2005).

As Akerlof (2011) observes, the significance of this analysis of identity leadership is three-fold. First, it speaks to the importance of identity for organizational (and general social) behavior in a way that is entirely consistent with principles of identity economics. Second, it speaks to a gap in the economics literature associated with the fact that while there is recognition of the role that leaders play in shaping economic and organizational life (e.g., Jones & Olken, 2005), their capacity to do this by engendering *followership* has, historically, tended to be largely overlooked (Garretsen, Stoker, & Weber, 2017; Hermalin, 1998; Zehnder et al., 2017). Moreover, third, while suggesting that “the theory seems so very right that it may come as a surprise that this is not already the concept of leadership everywhere”, Akerlof (2011, p. xvi) notes that the theory of identity leadership “runs counter to the major trends in both economics and psychology [because] it expands motivation to take into account our identification as a *we*, and the associated notion of how *we* should behave”.

## **Applying Identity Economics and Identity Leadership to Understand Consequences of CEO Pay**

Yet despite the compatibility of identity economics and identity leadership literatures, to date there has been no attempt to align them empirically. In part, this reflects the fact not only that the methods of economics and psychology are quite different, but also that each discipline has somewhat different analytical priorities (Akerlof, 2011). However, one leadership topic in which both economists and psychologists — together with the public at large — have been perennially interested is that of CEO pay (Finkelstein & Hambrick, 1988; Garbers & Konradt, 2014; Gerhart & Fang, 2015; Hollander, 1995a, 1995b; Rynes et al., 2005; Stanford Graduate School of Business, 2016; Tosi et al., 2004; Wall Street Journal, 2014). Below we will outline historical trends in CEO pay before discussing two sets of predictions regarding its consequences. As we will see, here the predictions of traditional economic and psychological theories diverge appreciably from those of the identity models outlined above.

Incomes of CEOs have risen dramatically in recent decades. Estimates of the increase in CEO salaries in major US corporations since the 1970s vary from 600 per cent between 1980 and 2004 (Gabaix & Landier, 2008) to 1000 per cent between 1978 and 2014 (Mishel & Davis, 2015). Regardless of the exact estimate of this increase, this rate of growth contrasts with the near-stagnation of real wages for most workers. Mishel and Davis (2015) estimate a growth of 10.9 per cent in a typical worker's annual compensation between 1978 and 2014, while other estimates indicate that real average wages US have fallen by 3.7% between 2000 to 2014 (Desilver, 2014).

This increase in CEO incomes also contrasts with decelerating productivity growth. When compared to the growth in the decades after the Second World War, the growth in productivity since the 1970s has been weak, with the slowdown being particularly marked in

the decade of the Great Recession beginning in 2007. At the same time, corporate profits have grown strongly (Sprague, 2017) and increasing CEO pay has occurred in parallel with an increase in corporate profitability and the market value of corporations. Gabaix and Landier (2008) estimate that the increase in CEO pay has been more or less proportional to the increase in corporate market value (even though a given CEO's compensation does not necessarily correspond directly with the organization's market value; Aguinis et al. 2017). Other estimates by Mishel and Davis (2015) indicate that CEO pay has risen almost twice as fast as the stock market, a view that is consistent with the suggestion of Bebchuk and Fried (2003) that CEO incomes have been shaped by managerial power and an absence of corporate governance. **Indeed, speaking to the broader relevance of these issues, researchers have suggested that the high income of top managers, including CEOs, has been a driving force in the rising level of overall inequality that has been seen in many societies since the 1980s (Piketty, 2014; Piketty & Saez, 2014).**

To understand what impact this growth in CEO pay may have had on their ability to effectively influence their workers (among other things, by affecting perceptions of their identity leadership and charisma), we turn first to traditional economics perspectives. These perspectives highlight the importance of incentive structures in ensuring that those who have responsibility for running organizations are sufficiently motivated to do their jobs well (Rynes, Gerhart, & Minette, 2004). The logic here is also that because there is high demand for those (ostensibly few) people who have the ability to run an organization, high wages are needed both to lure them into CEO positions and to keep them there (Gabaix & Landier, 2008; Pekala, 2001; for discussions see Perry, 2001; Sturman, Trevor, Boudreau, & Gerhart, 2003). This approach also aligns with classical "great man" theories of leadership which see organizational and social progress as something that is achieved through the contributions of an elite cadre of superior individuals (Carlyle, 1840), and where, in the words of Heraclitus,

“The many are worthless, good men are few. One man is ten thousand if he is the best” (500bc; cited in Harter, 2008, p.69). From this perspective then, any organization that wishes to attract and motivate a highly capable CEO needs to offer highly competitive compensation package.

Economic approaches focusing on shareholder value support similar expectations. A shareholder value model assumes that all organizational members (i.e., leaders and their subordinates) will prioritize their own personal interests at work; among other things, this means that they will seek to gain the best possible trade-off between monetary returns and effort. From this assumption, it follows that organizations need to implement incentives and sanctions to bring individual self-interest into alignment with organizational goals. This is achieved by incentivizing CEOs so that they are motivated to maximize profit for shareholders by extracting the greatest possible benefit from bargains with workers (who, in the terminology of Akerlof & Kranton, 2010, are ‘outsiders’). Here too, elevated CEO pay is perceived to be an important incentive that has the capacity to increase shareholder value.

Similar expectations can be derived from work in the psychological and management literatures which argues that people use cues to make self-relevant inferences about leadership (Lord, Binning, Rush, & Thomas, 1978). From this perspective it can be argued that elevated CEO pay will have a positive impact on organizational outcomes because it serves as a *signal* of effective leadership, where this signal can be expected to have a positive impact on followers. There are at least two interrelated reasons for this. First, followers should be inclined to regard a leader as more attractive, more effective, and more charismatic to the extent that he or she receives higher pay (Rush, Thomas, & Lord, 1977; see also Binning & Lord, 1980; Lord et al., 1978; Moody, 2005). This may be the case because of a direct effect (due to followers’ knowledge of the leader’s pay) but also indirectly because leaders who receive high pay may display status symbols (e.g., by wearing expensive cloths,

living in expensive houses, driving expensive cars). Second, a leader's high pay should have a positive motivational impact on followers in giving them a high goal to both identify with and aspire to (Baker, Jensen, & Murphy, 1988; Latham & Locke, 1991; Locke & Latham, 2013).

Against these various ideas, however, principles of identity economics and identity leadership suggest that the impact of CEO pay on organizational performance will in large part depend on its impact on organizational members' sense of identification with both the leader and the organization. Core to these perspectives is the idea that, other things being equal, workers who identify with the leader are also more likely to identify with the organization, and therefore act in the interests of the organization as a whole (Sluss, Ployhart, Cobb, & Ashforth, 2012; van Dick, Hirst, Grojean, & Wieseke, 2007; Wieseke, Ahearne, Lam, & Dick, 2009). However, the idea that high pay is needed to attract and motivate the best CEOs is antithetical to these identity leadership processes. In particular, this is because if the CEO is seen to act as a self-interested 'outsider' by demanding the highest possible pay, then this should undermine followers' sense that they are representative, and acting in the interests, of a bigger "we". Indeed, because huge wage disparities have the capacity to undermine a sense of shared identity between leaders and followers, the identity approach suggests that their impact will generally be negative — not least because the identity divisions that large wage differentials open up may create a sense of illegitimacy and unfairness (Blader & Tyler, 2009; Hollander, 1995a, 1995b; Tyler & Blader, 2000; 2003). Such suggestions align with Drucker's (1992) recollection of J. P. Morgan's observation that the defining feature of his poorly performing clients was a tendency to overpay those at the top of the company:

Very high salaries at the top, concluded Morgan — who was hardly contemptuous of big money or an 'anticapitalist' — disrupt the team. They make even high-ranking people in the company see their own top management as adversaries rather than as colleagues. ...

And that quenches any willingness to say ‘we’ and to exert oneself except in one’s own immediate self-interest. (p. 14, cited in Haslam, 2001, p.90; for related evidence from academic and sporting domains, see Bloom, 1999; Pfeffer & Langton, 1993).

Principles of identity leadership thus suggest that, by compromising a sense of shared social identity between CEOs and employees, high wage disparities are likely to create “us-versus-them” distinctions whereby employees perceive CEOs as members of a different group (‘them’) in ways that reduce those putative followers’ personal identification with them (as shown by Steffens, Haslam, & Reicher, 2014). To the extent that this is the case, this in turn would be predicted to undermine those employees’ sense that CEOs are (a) good identity leaders (i.e., who are creating, representing, advancing and embedding ‘us’; Steffens et al., 2014) and (b) charismatic. This latter prediction is important because a growing body of research shows that perceptions of charisma are a key component of leaders’ (including CEOs’) effectiveness (Antonakis et al., 2016; Bass, 1985; Judge & Piccolo, 2004) and are predictive of a range of important group and organizational outcomes (Geyery, & Steyrer, 1998; Waldman, Ramirez, House, & Puranam, 2001; for a meta-analytic review, see Wang et al., 2011). Significantly, though, as we have noted, the identity approach leads us to see charisma not simply as a psychological commodity that leaders bring with them to social and organizational settings but also as an *outcome* of identity processes such that leaders are generally seen as more charismatic — and more able to motivate and inspire followers as a result — to the extent that they are seen as embodying the shared identity of the group that they lead (Platow et al., 2006; Steffens et al., 2014; see also van Knippenberg & Sitkin, 2013).

### **The Present Research**

The foregoing review makes it clear that when it comes to understanding the consequences of a high discrepancy between the compensation received by a CEO and that received by other members of their organization, the predictions that flow from principles of

identity economics and identity leadership are very different from those of standard economic and psychological models. More specifically, where high CEO pay has tended to be justified by claims that it will incentivize leaders to inspire their followers and hold them to account, thereby driving organizational performance, identity models lead us to hypothesize that it has the capacity to (a) reduce followers' identification with those leaders (H1) and thereby reduce those followers' sense that CEOs are both (b) good (identity) leaders (who are representing and advancing the interests of the group; H2), and (c) charismatic (H3).

To test these three hypotheses we conducted two studies to examine the nature of the relationship between leader (CEO) pay and people's personal identification with leaders. The studies also examined whether, by affecting followers' personal identification with a leader, CEO pay has a bearing on perceptions of that CEO's (a) identity leadership and (b) charisma. Study 1 provided an experimental test of our hypotheses that involved manipulating a (male) CEO's pay and then assessing individuals' identification with that leader and their perceptions of his identity leadership and charisma. To provide insight into the generalizability of the findings of this first study, we then conducted a second field study in which we assessed identical constructs in a survey where a sample of respondents from the general public provided ratings of the CEO of their own organization.

In both studies we assessed and controlled for respondents' social dominance orientation (SDO; i.e., their preference for group hierarchy; Pratto, Sidanius, Stallworth, & Malle, 1994) and meritocracy beliefs (i.e., their belief that resource distributions are based on merit; Son Hing et al., 2011). These are two important variables in this context because social dominance orientation captures individuals' beliefs that there are some groups in society that are legitimately superior to others, which might influence individuals' responses to leaders as a function of whether those leaders receive low or (superior) high pay. Meritocracy beliefs is a second key variable in this context because people often justify high pay by referring to

notions that those who receive significant resources (such as pay) deserve this on the basis of their contribution (e.g., Frank, 2016). We included these variables as control variables with the aim of conducting sensitivity analysis to examine the extent to which hypothesized relationships are influenced by, and hold above and beyond, individual differences in these two factors.

## Study 1

### Method

**Participants and design.** Six-hundred-and-twenty-seven US residents participated in the present study after being recruited via Amazon's Mechanical Turk (for discussions of strengths and limitations of this platform, see Harms & DeSimone, 2015; Landers & Behrend, 2015). Thirty-seven participants who failed to respond to three control questions as requested ("This is a control question—please select '1' / '2' / 'strongly disagree'") were excluded, leaving a total of 590 participants in the final sample ( $M_{\text{age}}=35.35$  years;  $SD=10.56$ ; 46% female). Participants were reimbursed \$US1.50 upon completion of the study. They were randomly assigned to one of two experimental conditions (leader pay: low vs. high). The study received ethical clearance from the Behavioral and Social Sciences Ethics Research Committee at the first author's institution.

**Procedure and measures.** Participants were invited to participate in a study entitled "People's perceptions of the CEOs of various American companies". Having done so, they read a one-page biography about Ruben Martin who was introduced as the CEO of the US technology company Diebold. They then read one of two summary biographies of Ruben Martin as presented in Figure 1. These provided identical details of Martin's experiences, accolades, company successes, and technological innovations but differed (only) in his reported level of compensation. In the *low leader pay* condition, the summary was entitled "*Ruben Martin: Big on Technological Advance, Small on Salary*". Additionally, the summary

concluded by observing that “Ruben Martin is moderately paid for his role, being paid less than 97% of American CEOs”. In the *high leader pay* condition, the summary was entitled “*Ruben Martin: Big on Technological Advance, Big on Salary*” and concluded by noting that “Ruben Martin is highly paid for his role, being paid more than 97% of American CEOs”. It is possible that people’s responses would also be impacted by the comparison between pay of the CEO relative to the pay of employees. In the present research, we focused on CEO pay relative to other CEOs for two key reasons. First, CEOs often justify their own levels of pay by comparing their work, responsibilities, and pay not with those of other employees but with those of other CEOs (*The Guardian*, 2018). Second, CEOs tend to be the most highly paid individuals in an organization and so in most cases, even though one might argue that varying degrees of higher pay compared to employees would be consequential, comparisons with employees as a whole will almost always be highly favorable for CEOs. The benefit of focusing on CEO pay relative to the pay of other CEOs (vs. other employees) thus derives from the fact that there greater variance in this variable. This is an issue we return to in the General Discussion.

After they had read the biography, participants in both conditions responded to the same dependent and control measures, and also provided demographic data before being debriefed about the purpose of the study.

***Personal identification with Leader.*** Participants responded to the 4-item personal identification measure from Steffens, Haslam, and Reicher (2014; after Doosje, Ellemers, & Spears, 1995) ( $\alpha=.89$ ; “I identify with [this leader]”; “I feel strong ties with [this leader]”; “I am pleased with [this leader]”; “I feel committed to [this leader]”). On these and all other scales, unless indicated otherwise, participants rated their level of agreement on scales with anchors ranging from 1 (*not at all*) to 7 (*completely*).

**Identity leadership.** Participants responded to the four items of Steffens et al.'s (2014) *Identity Leadership Inventory-Short Form* to assess the extent to which the leader was seen to cultivate a collective identity in his organization (Diebold) ( $\alpha=.91$ ; “[This leader] is a model member of [the organization]”; “[This leader] acts as a champion for [the organization]”; “[This leader] creates a sense of cohesion within [the organization]”; “[This leader] creates structures that are useful for members of [the organization]”).

**Leader charisma.** Participants responded to an adapted version of the 8-item *Attribution of Leader Charisma* (ALC) scale developed by Platow and colleagues (2006). This scale is based on the *Multifactor Leadership Questionnaire* (Bass & Avolio, 2004; but in contrast to the MLQ it is freely available for research purposes) and maps onto Bass and Riggio's (2006) conceptualization of charisma as consisting of the idealized influence and inspirational motivation dimensions of transformational leadership. In line with suggestions by Antonakis and colleagues (2016) and following the empirical operationalization by Steffens et al. (2017), we used only the three items of the scale that map onto the refined conceptualization of charisma (see Antonakis et al., 2016: Table 1;  $\alpha=.85$ ; “[This leader] has a compelling vision for the future”; “[This leader] is an inspiring person”; “[This leader] has a sense of mission”).<sup>1</sup>

**Social dominance orientation.** We used the 16-item *Social Dominance Orientation* (SDO) scale from Pratto et al. (1994) to assess individuals' preference for social hierarchy and their acceptance of the dominance of high-status over low-status groups ( $\alpha=.96$ ; e.g., “In getting what you want, it is sometimes necessary to use force against other groups”; “Some groups are simply inferior to others”). Scale anchors ranged from 1 (*strongly disagree*) to 7 (*strongly agree*).

**Meritocracy beliefs.** Participants responded to the 15-item *Perceptions that Meritocracy Exists* (PME) scale by Son Hing and colleagues (2011). This measured the

extent to which they believed that outcome allocations are based on merit ( $\alpha=.65$ ; e.g., “In organizations, people who do their job well rise to the top”; “In life, people get what they deserve”) on scales ranging from 1 (*strongly disagree*) to 7 (*strongly agree*).

**Manipulation check.** To determine whether participants’ perceptions were consistent with the experimental manipulation, they responded to the item “Martin is one of the top-paid CEOs in the US” on a scale ranging from 1 (*strongly disagree*) to 7 (*strongly agree*).

## Results

**Manipulation check.** Means, standard deviations, and correlations between measures are presented in Table 1. Analysis of variance (ANOVA) indicated that participants’ perceptions of leader pay varied as a function of experimental condition,  $F(1,589)=2606.71$ ,  $p<.001$ ,  $MD=5.08$ , 95% CIs [4.89, 5.28], Cohen’s  $d=4.18$ . As expected, participants believed that the high-paid CEO was a top-paid CEO in the US ( $M=6.78$ , 95% CIs [6.70, 6.86]) more than they believed that this was true of the low-paid CEO ( $M=1.70$ , 95% CIs [1.52, 1.88]). This indicates that our manipulation of leader pay was successful.

**Personal identification with leader.** ANOVA indicated that individuals’ personal identification with the leader varied significantly as a function of experimental condition,  $MD=.49$ , 95% CIs [.27, .70],  $d=.36$ . Consistent with H1, respondents identified less strongly with the high-paid CEO ( $M=3.83$ , 95% CIs [3.67, 3.99]) than with the low-paid CEO ( $M=4.31$ , 95% CIs [4.17, 4.46]).

**Indirect effects on identity leadership and charisma.** To test the indirect effects of pay on identity leadership and leader charisma through personal identification with leaders, we ran bias-corrected bootstrapping with 5000 resamples using PROCESS (Model 4; Hayes, 2013). Supporting H2, this revealed a significant negative indirect path from leader pay to leader’s identity leadership through reduced personal identification with the leader,  $\gamma=-.10$ ,  $SE=.03$ , 95% CIs [-.16, -.06],  $R^2_{Model} = .35$  (coefficients for individual paths in model: from

pay to personal identification with leader:  $a = -.48$ ,  $SE = .11$ , 95% CIs  $[-.70, -.27]$ , from personal identification with leader to identity leadership controlling for pay:  $b = .22$ ,  $SE = .02$ , 95% CIs  $[.17, .26]$ , from pay to identity leadership,  $c = -.18$ ,  $SE = .07$ , 95% CIs  $[-.32, -.04]$ , from leader pay to identity leadership while controlling for personal identification,  $c' = -.07$ ,  $SE = .07$ , 95% CIs  $[-.21, .06]$ ). In other words, as shown in Figure 2, higher leader pay led to respondents being less identified with the leader, which in turn was associated with reduced perceptions of his identity leadership.

Providing support for H3, bootstrapping analysis also indicated that there was a significant indirect path from leader pay to leader charisma through reduced perceivers' personal identification with the leader,  $\gamma = -.14$ ,  $SE = .04$ , 95% CIs  $[-.22, -.08]$ ,  $R^2_{\text{Model}} = .47$  (coefficients for individual paths in model: from pay to personal identification with leader:  $a = -.48$ ,  $SE = .11$ , 95% CIs  $[-.70, -.27]$ , from personal identification with leader to charisma controlling for pay:  $b = .30$ ,  $SE = .02$ , 95% CIs  $[.26, .35]$ , from pay to charisma,  $c = -.21$ ,  $SE = .07$ , 95% CIs  $[-.35, -.07]$ , from leader pay to charisma while controlling for personal identification,  $c' = -.07$ ,  $SE = .07$ , 95% CIs  $[-.19, .06]$ ). Again, this indicated that leader pay reduced personal identification with the leader which in turn was related to diminished perceptions of the leader's charisma.

**Sensitivity analyses.** We ran several additional sensitivity analyses in order to examine the robustness of the above relationships. First, we conducted a series of hierarchical linear regression analyses that controlled for individuals' SDO and beliefs in meritocracy. In these, we entered the experimental condition (low-paid vs. high-paid leader dummy coded as 0 and 1) in Step 1 and the (*Z*-standardized) SDO and beliefs in meritocracy in Step 2. The results are presented in Table 2 and these indicated that experimental condition remained a significant predictor of personal identification with the leader even after controlling for SDO and meritocracy beliefs,  $b = -.48$ , 95% CIs  $[-.69, -.27]$ ,  $\beta = -.18$ ,  $t(585) = 4.48$ ,  $p < .001$ .

Second, we examined whether the effect of pay was moderated by SDO and/or meritocracy beliefs. Here regression analyses examining moderation by SDO revealed a significant effect of experimental condition on individuals' identification with the leader,  $\beta = -.18$ ,  $t(587) = 4.47$ ,  $p < .001$ , and a significant effect of SDO at Step 1,  $\beta = .15$ ,  $t(587) = 3.63$ ,  $p < .001$ . Adding the interaction term at Step 2 yielded a non-significant interaction term between the two variables,  $\beta = .06$ ,  $t(586) = .96$ ,  $p = .336$ . Furthermore, analysis examining moderation by meritocracy beliefs revealed a significant effect of condition on individuals' identification with the leader,  $\beta = -.18$ ,  $t(586) = 4.43$ ,  $p < .001$ , and a significant effect of meritocracy beliefs at Step 1,  $\beta = .18$ ,  $t(586) = 4.61$ ,  $p < .001$ . Adding the interaction term at Step 2 indicated a non-significant interaction effect,  $\beta = .12$ ,  $t(585) = 1.94$ ,  $p = .053$ . These sensitivity analyses indicate that leader pay had an impact on perceivers' responses above and beyond perceivers' ideological beliefs, while providing no evidence that those beliefs moderated the effect of leader pay.

Finally, we conducted additional indirect-effects analyses controlling for SDO and meritocracy beliefs. Analysis yielded a very similar pattern of results with indirect paths through individuals' reduced personal identification with the leader on both identity leadership,  $\gamma = -.10$ ,  $SE = .03$ , 95% CIs  $[-.16, -.06]$ ,  $R^2_{\text{Model}} = .38$ , and leader charisma,  $\gamma = -.15$ ,  $SE = .03$ , 95% CIs  $[-.22, -.08]$ ,  $R^2_{\text{Model}} = .50$ .

## **Discussion**

The results of Study 1 provide causal evidence that, in line with principles of identity economics (Akerlof & Kranton, 2005, 2010) and identity leadership (Haslam et al., 2011; Steffens et al., 2014), individuals identify less with a high-paid CEO than with one who is low paid (H1). Furthermore, results revealed indirect effects of CEO pay through personal identification with that leader to perceptions of their identity leadership and charisma. More specifically, findings indicated that individuals identify less strongly with a high-paid CEO

and that this in turn was associated with perceptions that the CEO was (a) less capable of cultivating a collective identity (supporting H2) and (b) less charismatic (supporting H3). Finally, sensitivity analysis indicated that these relationships are not simply a reflection of individual differences in ideology in so far as the above patterns hold when also controlling for individuals' social dominance orientation and beliefs in meritocracy.

The key strength of this first study was that the use of experimental methodology allows us to make causal inferences about the role that CEOs' pay plays in shaping followers' identification with those CEOs and is thereby associated with perceptions of their leadership and charisma. Nevertheless, the study was limited by the artificiality of the leadership scenario and, in particular, by the fact that it did not examine responses to real leaders with whom participants had a real relationship (e.g., because they worked for the same organization). To address this issue and examine the generalizability of the present results, we therefore conducted a field study in which employees responded to the most senior leader of their own organization.

## Study 2

### Method

**Participants and design.** We recruited 502 participants who resided in the US via a professional research participation organization, *Prolific* (Prolific, 2016; Peer, Brandimarte, Samat, & Acquisti, 2017) to complete an on-line survey. To be eligible for the study respondents had to work full- or part-time in a company that had a Chief Executive Officer (CEO, or equivalent) as the most senior executive in their company. Fifty-two participants who failed to respond to three control questions as requested ("This is a control question — please select '1' / '7' / 'strongly disagree' ") were removed, resulting in a final sample of 444 participants who entered the analyses ( $M_{\text{age}}=30.47$ ;  $SD=9.63$ ; 194 female; 249 male; 1

undisclosed). Three-hundred-and-twelve participants worked full-time and 117 worked part-time (15 undisclosed).

**Procedure and measures.** Participants were invited to participate in a survey about “People’s Perceptions of the Chief Executive Officer (CEO) / Managing Director of their Company”. At the start of the survey, they provided data about their CEO, including their gender (male=357, female=87) and tenure as CEO ( $M=10.07$  years;  $SD=9.38$ ; 6 undisclosed). They then responded to measures that were exactly the same as those included in Study 1. In particular, they first responded (a) to an item assessing CEO pay that was identical to the manipulation check in Study 1 (“This CEO is one of the top-paid CEOs in the US”) and then responded to measures assessing (b) their personal identification with their CEO ( $\alpha=.94$ ; 4 items), (c) the CEO’s identity leadership ( $\alpha=.94$ ; 4 items), and (d) the CEO’s charisma ( $\alpha=.88$ ; 3 items). As in Study 1, we also assessed SDO ( $\alpha=.95$ ; 16 items) and meritocracy beliefs ( $\alpha=.60$ ; 15 items) and requested participants’ demographic data before debriefing them about the purpose of the research.

We also included two new measures. The first asked participants to specify their CEO’s comparative pay using an adjustable slider that was anchored with “my CEO receives more pay than 0% of other CEOs” and “my CEO receives more pay than 100% of other CEOs”). The second asked participants to provide their best estimate of the number of people who worked in their company in order to control for a relationship between CEO pay and the size of the organization (Gabaix & Landier, 2008). The study received ethical clearance from the Behavioral and Social Sciences Ethics Research Committee of the first author’s institution.

## Results

**Effects on personal identification with leader.** Table 3 presents means, standard deviations, and correlations between measures. To test H1, we ran linear regression analysis

with CEO comparative pay predicting personal identification with their leader. For ease of interpretability (and to allow for consistency with the sensitivity analyses that examines interactions), predictor variables (CEO pay, SDO, and meritocracy beliefs) were Z-standardized in all subsequent analyses. Results from all regression (including sensitivity) analyses with details of inferential statistics and effect sizes are presented in Table 4.

Results of the main linear regression analysis supported H1 in revealing a negative relationship between comparative CEO (leader) pay and individuals' personal identification with that leader,  $b = -.32$ , 95% CIs  $[-.46, -.16]$ ,  $\beta = -.19$ ,  $t(442) = 4.01$ ,  $p < .001$ . Thus, to the extent that people regarded their CEO to be highly paid relative to other CEOs, they identified less strongly with him or her. In terms of effect size strength, comparison with benchmarks in the HRM and OB literatures indicates that this effect is larger than about 70% of the effect sizes reported in the HR and OB literatures and larger than about 50% of the effect sizes in the leadership literature (Paterson, Harms, Steel, & Credé, 2016).

**Indirect effects on identity leadership and charisma.** As in Study 1, we examined indirect effects from comparative CEO (leader) pay via personal identification with leaders to perceived identity leadership and leader charisma by means of bias-corrected bootstrapping with 5000 resamples using PROCESS (Model 4; Hayes, 2013). Providing support for H2 and H3, results revealed a significant indirect negative path from comparative CEO pay through individuals' reduced identification with that CEO to both (a) perceived identity leadership,  $\gamma = -.11$ ,  $SE = .03$ , 95% CIs  $[-.17, -.05]$ ,  $R^2_{\text{Model}} = .64$  (coefficients for individual paths in model: from pay to personal identification with leader:  $a = -.20$ ,  $SE = .05$ , 95% CIs  $[-.30, -.20]$ , from personal identification with leader to identity leadership controlling for pay:  $b = .55$ ,  $SE = .03$ , 95% CIs  $[-.04, .10]$ , from pay to identity leadership,  $c = -.08$ ,  $SE = .04$ , 95% CIs  $[-.17, .00]$ , from leader pay to identity leadership while controlling for personal identification,  $c' = -.03$ ,  $SE = .03$ , 95% CIs  $[-.04, .10]$ ) and (b) perceived leader charisma,  $\gamma = -.11$ ,  $SE = .03$ ,

95% CIs  $[-.17, -.05]$ ,  $R^2_{\text{Model}} = .67$  (coefficients for individual paths in model: from pay to personal identification with leader:  $a = -.20$ ,  $SE = .05$ , 95% CIs  $[-.30, -.10]$ , from personal identification with leader to charisma controlling for pay:  $b = .55$ ,  $SE = .03$ , 95% CIs  $[.49, .35]$ , from pay to charisma,  $c = .00$ ,  $SE = .04$ , 95% CIs  $[-.08, .09]$ , from leader pay to charisma while controlling for personal identification,  $c' = .12$ ,  $SE = .03$ , 95% CIs  $[.05, .18]$ ).<sup>2</sup> These results are presented in Figure 3.

**Sensitivity analyses.** We conducted several additional sensitivity analyses. First, as in Study 1, we examined the extent to which the above results hold when controlling for individual differences in SDO and meritocracy beliefs. As can be seen from Table 4, sensitivity analyses controlling for these variables yielded a virtually identical pattern of results to that reported above. Specifically, results show that (a) elevated CEO pay is associated with reduced personal identification with the leader even after controlling for the impact of SDO and meritocracy beliefs, while (b) providing no evidence that the pay–identification link is moderated by SDO or meritocracy beliefs. Furthermore, additional indirect effects analyses controlling for SDO and meritocracy beliefs yielded largely identical results and significant indirect paths through followers’ personal identification with their leader to identity leadership,  $\gamma = -.11$ ,  $SE = .03$ , 95% CIs  $[-.17, -.06]$ ,  $R^2_{\text{Model}} = .46$ , and leader charisma,  $\gamma = -.12$ ,  $SE = .03$ , 95% CIs  $[-.17, -.06]$ ,  $R^2_{\text{Model}} = .47$ .

Second, we examined whether the relationship between CEO (leader) pay and personal identification with that leader is curvilinear in order to examine whether there are diminishing returns associated with increasing comparative pay. This involved computing the quadratic term of CEO pay and adding it to the (Z-standardized) linear term of CEO pay as a predictor of outcomes. Analysis revealed that the quadratic term was unrelated to individuals’ personal identification with their leader,  $b = .01$ , 95% CIs  $[-.14, .14]$ ,  $\beta = .01$ , and did not

account for additional variance beyond that accounted for by the linear term,  $\Delta R^2 < .001$ ,  $p = .959$ . There was thus no evidence that the focal relationship takes a non-linear form.

Third, we repeated the main analysis using the alternative measure of leader pay (ranging from more than 0 to 100% of other CEOs). Results for this second measure revealed substantively identical results to those revealed by the primary measure,  $b = -.009$ , 95% CIs  $[-.015, -.002]$ ,  $\beta = -.13$ ,  $t(442) = 2.68$ ,  $p = .008$ . In other words, the more CEOs were paid relative to their peers, the less workers identified with them.

In our final analysis, we examined whether the above relationships could be accounted for by variations in the size of participants' organizations. Although we found that organizational size was negatively associated with workers' identification with their CEO,  $r = -.12$ ,  $p = .011$  and positively associated with perceived CEO pay,  $r = .31$ ,  $p < .001$ , including it as an additional control in the above linear regression did not eliminate the focal effect. That is, comparative CEO pay had an independent negative association with workers' personal identification with the CEO,  $b = -.180$ , 95% CIs  $[-.286, -.074]$ ,  $\beta = -.17$ ,  $t(442) = 3.35$ ,  $p = .001$ ; while at the same time the size of the organization was not a significant predictor of workers' personal identification,  $\beta = -.07$ ,  $t(442) = 1.41$ ,  $p = .159$ .

## Discussion

Findings from this study replicated those of Study 1 and again supported the predictions of identity economics (Akerlof & Kranton, 2005, 2010) and identity leadership (Haslam et al., 2011; Steffens et al., 2014) in showing that elevated CEO pay is associated with reduced personal identification with that leader on the part of employees in that CEO's organization (H1). Furthermore, results show that individuals' lower identification with a high-paid leader is in turn associated with a diminished sense that the leader (a) is displaying identity leadership (H2) and (b) is charismatic (H3). Moreover, as in Study 1, findings indicate that the link between elevated leader pay and reduced identification with the leader

holds even when controlling for individual differences in ideology (specifically, social dominance orientation and beliefs in meritocracy). Additional analyses also provided no evidence that the relationship between a leader's pay and personal identification with that leader was curvilinear. It is important to note too that hypothesized relationships also held when using an alternative descriptive measure of comparative CEO pay, and when controlling for organizational size.

These results are consistent with those found in Study 1. However, it is important to note that because this study employed a cross-sectional design, its findings do not provide evidence of causality and cannot rule out alternative explanations. Among other things, we cannot exclude the possibility that it is employees' low levels of identification with their leaders that increases CEO pay (rather than the reverse). For instance, decision-makers in organizations whose employees do not identify with leaders may actually pay CEOs higher wages in recognition of the associated leadership challenges. Alternatively, employees who do not identify with their leaders may (incorrectly) perceive that these leaders are paid high salaries. This means that these results must be interpreted with caution. Nevertheless, it is noteworthy that follow-up analyses did not provide any evidence for other alternative explanations (i.e., that the relationship between a leader's pay and personal identification with that leader was curvilinear) and that we also found that hypothesized relationships held when using an alternative descriptive measure of comparative CEO pay, and when controlling for organizational size.

### **General Discussion**

In the U.S. in 2016 the median annual income of a CEO of one of the largest 500 companies was \$10.3 million — nearly 250 times greater than the average wage of \$44,148 per annum (Brandesky, 2016); in Britain in the same year the average take-home pay for CEOs was £4.5m, around 160 times the average annual wage of £28,200 (High Pay Centre,

2017). The scale of these disparities ensures that the issue of CEO pay and its implications for organizational performance is both highly topical and highly contentious (e.g., see Garbers & Konradt, 2014; Gerhart & Fang, 2015; Stanford Graduate School of Business, 2016). The aim of the present paper was to shed light on this controversy with a view to achieving two important goals. One of these was to provide the first empirical analysis integrating themes from recent work informed by theories of identity economics (Akerlof & Kranton, 2005, 2010) and identity leadership (Haslam et al., 2011; Steffens et al., 2014). Although these theories have a common intellectual heritage, it is apparent that they have not previously been used to shed light on the same set of issues. In this respect the significance of the present treatment is that it bears testimony not only to the ways in which this alignment can be achieved but also to its capacity to prove analytically fruitful (in ways suggested by Akerlof, 2011; Zehnder et al., 2017). A second goal was to compare predictions advanced by traditional economic and psychological models which focus on the incentivizing impact of high leader pay, with those of identity models which focus on its impact for organizational members' sense of shared group membership.

Consistent with principles of identity economics and identity leadership, the results from two studies show that a CEO's elevated pay is associated with individuals' reduced personal identification with that leader. More specifically, findings from an experiment (Study 1) provide causal evidence that high (vs. low) CEO pay reduces the extent to which people identify with a CEO (supporting H1). Furthermore, this study revealed indirect effects whereby the lower personal identification with the leader that results from high pay is associated with perceivers' sense that the leader (a) does not cultivate a collective identity (a sense of "we") within the organization (supporting H2) and (b) is not charismatic (supporting H3). Study 2 replicated these findings in a field survey that examined people's responses to the CEO of their own organization. Results from both studies also indicated that elevated

CEO pay reduces individuals' identification with a CEO above and beyond individual differences in ideology (i.e., social dominance orientation and beliefs in meritocracy). Findings from Study 2 further indicate that the relationship between leader pay and individuals' personal identification with the leader was linear, with no evidence of a curvilinear relationship.

As well as showing that wage disparities have important consequences as a function of their implications for perceptions of shared identity, the present findings also challenge economic and psychological assumptions that are often invoked to justify high CEO pay (for relevant discussions see Aguinies et al., 2017; Perry, 2001; Rynes et al., 2004; Sturman et al., 2003). In particular, our results show that while pay may be intended to motivate and reward good performance on the part of leaders and to encourage followers to view them positively and be motivated to emulate them, there is little evidence of the latter effects in our studies. Indeed, on the contrary, the impact of high CEO pay on followers is rather to diminish their sense of connection to that leader (in ways suggested by Drucker, 1986; Haslam, 2001; Hollander 1995a), and, as a result, to diminish their sense either that they are good leaders for 'us' or that they are charismatic. These latter effects are significant as there is an abundance of evidence which speaks to the fact that perceived identity leadership and charisma are powerful predictors of a range of organizational outcomes (e.g., Antonakis, et al., 2016; Bass, 1985; Geyery, & Steyrer, 1998; Judge & Piccolo, 2004; Puranam, 2001; Steffens et al., 2014; van Dick et al., 2018; Wang et al., 2011).

### **Further Implications**

Aside from their implications for our hypotheses, the present results also have at least three further important implications. The most obvious of these is that high CEO pay has the capacity to undermine followership and thereby compromise organizational performance. Until recently, the dominant view of CEO pay has been that of 'pay for performance' (i.e.,

the idea CEOs should be rewarded on the basis of the value they generate for shareholders). It is noteworthy, though, that Jensen and Murphy (1990) observed that CEO pay was only weakly related to the market value of corporations and imputed this weak relationship to political constraints. During the 1990s, and subsequently, political constraints on CEO pay disappeared, and payments to CEOs increased greatly. The lack of any corresponding improvement in economic performance led critics such as Bebchuk and Fried (2003) to argue that the present pay arrangements reflect a managerial ‘rent-seeking’ model of ‘pay without performance’. Theoretical explanations for drawbacks of pay-for-performance models focus on agency problems. For instance, Holmström and Milgrom (1991, 1994) pointed to problems that could arise when payment is tied to one, easily measurable aspect of performance, while other, less observable tasks are neglected. Similarly, CEO are rewarded on the basis of quarterly profits might neglect long-term investment (arguments that fed into an ongoing debate over the problem of short-term bias in decision making; Bolton, Scheinkman, & Xiong, W, 2006; Lavery, 1996; Narayanan, 1985; Quiggin 1995). The present findings provide an additional explanation of externalities of the application of pay-for-performance ideas to CEO pay such that elevated CEO pay can create distance between CEOs and followers that is a barrier for CEOs’ leadership.

At the same time, though, it is also apparent that it *need not* have this impact — not least because organizations (and their CEOs) may go to a lot of trouble to restrict access to information about executive salaries (Bebchuk, & Fried, 2003) and to make it very hard to decode the total compensation package that CEOs receive (Pozen & Khotari, 2017). Indeed, the fact that estimates of median annual CEO salary in the largest U.S. companies typically underestimate this by a factor of 10 (so that the modal estimate is \$1m p.a. when it is actually \$10.3m; Brandeisky, 2016) suggests that this strategy is quite successful. Moreover, the present research shows that there may be good reasons for this secrecy (Belogolovsky, &

Bamberger, 2014) because to the extent that people are not aware that leaders receive exorbitant pay, then the capacity for this to disrupt organizational functioning is minimized. Indeed, it seems plausible that organizations may be motivated to keep information about executive salaries to themselves precisely because they have an implicit understanding of the patterns revealed by the present research.

A second major implication of this research is for the literature on charisma. Research has typically conceptualized charisma (of leaders, CEOs) as a personal quality (and commodity) that leaders bring into organizational environments (Antonakis, Fenley, & Liechti, 2011; Den Hartog & Verburg, 1997; House et al., 1991; House & Howell, 1992; Keller, 2006) and which then goes on to drive enhanced organizational performance (Tosi et al., 2004; Waldman et al., 2001; Wang et al., 2011). At the same time, though, the literature on the social construction of charisma demonstrates that perceptions of leader charisma are *inferred* on the basis of a range of contextual factors — in particular, (a) improved group or organizational performance (Meindl, Ehrlich, & Dukerich, 1985), (b) belief that leaders are responsible for positive organizational outcomes (Schyns, Felfe, & Blank, 2007), (c) leaders' embodiment of a group identity (Platow et al., 2006), and (d) leaders' death (Steffens et al., 2017). The present results extend this line of research by showing that people also attribute charisma to leaders on the basis of the remuneration that those leaders receive — so that they are seen as more charismatic the less they personally benefit from group performance. As with our main findings, this makes sense from the perspective of identity leadership theory because it suggests that leaders are valued and valorized to the extent that they are seen to be 'in it for us' rather than 'in it for themselves' (Haslam et al., 2011).

Third, the present results have broader implications for workers' loyalty to employers. Aggregate evidence particularly from the U.S. suggests that the identity model of leadership is being displaced by one in which the interests of managers are aligned with those of

shareholders while relationships between managers and employees are essentially transactional, with each side seeking to gain as much, and give as little, as possible. As discussed above, the pay of CEOs has risen broadly in line with (though perhaps more rapidly than) the market valuation of corporations, while wages have barely moved. In line with such a transactional perspective, loyalty to an organization is not rewarded. Masakure (2016) finds that workers in the UK who express high levels with loyalty to their employers (assessed by agreement with statements such as ‘I share many of the values of my organization’; ‘I feel loyal to my organization’ and ‘I am proud to tell people who I work for’) earn lower wages, on average, than workers with similar characteristics who have lower loyalty. These findings also align with findings from the US suggesting that firms do not in general reward loyalty (Cohen, 2008; see also Judge et al., 2012). The large observed increases in CEO pay are consistent with the abandonment of an ‘identity leadership’ role in favor of one where the primary role of the CEO is to act as an agent for shareholders, extracting as much as possible of the surplus generated by the organization. Although this approach may be profitable over the relatively short time horizons relevant to shareholders and senior managers, the present results show that this reduces the bond of workers to their leaders and organizations, which in turn is likely to have significant consequences for the long-term viability of organizations.

### **Limitations and Future Research**

For all their strengths, as with any research, the present studies also have a number of limitations. First, the results show that the focal relationship that we have studied is quite robust in so far as it holds across experimental and field studies and above and beyond social dominance and meritocracy beliefs. Nevertheless, there would be value in examining the extent to which this relationship is influenced by other potential (moderating) factors including characteristics of the leader (e.g., their perceived competence or group

prototypicality) and characteristics of respondents such as their own level of pay, their beliefs about pay differential between CEO and employees, their own position in the organizational hierarchy, and their ideology and culture (Ensari & Murphy, 2003; Pillai & Meindl, 1998). Similarly, there would be value in examining to that extent to which the effect is moderated by the transparency of an organization's approach to executive pay as well as salience of leader pay (Belogolovsky & Bamberger, 2014). It is possible, for instance, that the strength of the effects we have observed are diminished to the extent that organizations adopt an open and transparent approach to leader pay in ways that communicate, and build, a sense of shared identity and trust with organizational members (Helliwell & Huang, 2011; Peters, Morton, & Haslam, 2010). We would highlight that in Study 2 participants first responded to leader pay before completing dependent variables (which may have increased the salience of pay) and the strength of the relationship may be weaker when participants respond to these questions in the reverse order. Indeed, with this in mind, it certainly would worthwhile examining the relationship between leader pay and people's responses to pay as a function of varying levels of the salience of leader pay (as well as the different practices that organizations adopt to manage its salience). **Other potentially interesting factors might be (a) the type of industry (and the prevailing norms within it) as well as (b) the nature of employment and organizational structures (not least because, in times of increasing short-term employment, employees may be less able to connect to, and develop identification with, leaders in their organization).**

Second, the present research examines a limited number of dependent variables. Clearly, in future work it would be valuable to extend the suite of dependent variables to test identity and alternative standard models more fully by providing a more comprehensive picture of the range of consequences associated with high leader pay. At the same time, there is reason to believe that effects observed on other indicators of organizational effectiveness

are likely to be parallel to the ones we observe here not least because evidence indicates that identity leadership (van Dick et al., 2018) and charisma (Banks et al., 2017) are positively associated with employee motivation and performance. Nevertheless, it would be interesting to examine how leader pay affects company performance by shaping not only followers' motivation and willingness to make an effort for the leader but also leaders' own motivation and effort, as well as their effects on organizational performance. Similarly, there would be value in examining whether leaders who receive elevated pay engage in other behaviors (e.g., displaying status symbols, exhibiting confidence) that may have a positive effect on perceptions of their charisma (indeed, the fact that in Study 2 the residual coefficient for the path from pay to charisma when controlling for personal identification is positive speaks to the possibility of simultaneously operating opposing effects). It is also important to note that the present indirect effects do not provide causal evidence for all paths. For instance, it is possible that identity leadership and charisma may also serve to increase individuals' personal identification with the leaders, a possibility that future research should interrogate.

We would also highlight that identity leadership is not necessarily a path to 'good' leadership. For instance, it is likely that (a) the extent to which individuals who identify with the leader also identify with the organization may depend on individuals' beliefs about what the leader and the organization stand for (Sluss et al., 2012; Steffens et al., 2014) and that (b) the content of an identity (what people believe the group is about) will affect how members act when they identify with the group (so that in an unethical or hyper-competitive climate, shared identification may have counterproductive consequences).

Third, the present work restricted its focus to an examination of responses to the pay of an organization's most senior representatives and figureheads. Accordingly, the data do not allow us to make inferences about the generalizability of the present findings to other less senior leaders. Similarly, the present research does not shed light on responses to CEO pay

when a CEO is a person's immediate supervisor. These are another interesting questions for future research to address.

Finally, economic and psychological scientists have traditionally sought to answer questions from different perspectives and have placed emphasis on, and employed, unique methods and statistics to generate knowledge. That is, economists have tended to focus on behavior and used a suite of methods and statistics to address issues of endogeneity and causality, while psychologists have focused on people's experiences and perceptions as well as behavior and used a variety of methods and statistics to shed light on phenomenology and co-occurrence of variables (as well as causal relationships). In economics (and to a lesser extent in psychology), issues of endogeneity and causality have been regarded as particularly important in evaluating evidence for or against a given claim.

We certainly believe that well designed studies that can identify causal relationships are very valuable and that experiments are very suitable for this purpose. Nevertheless, it is also important to recognize that human psychology is complex where most behaviors, emotions, and perceptions, are determined not by single but by multiple causes. Furthermore, there is no 'perfect' study but only studies that are more or less good at answering the question they seek to answer (and providing the best evidence at the time) while being necessarily limited in being based on a sample observation of a subset of potentially relevant psychological processes. A study can never rule out, theoretically, that a different interpretation may be more accurate or, empirically, that a different variable from the one that is believed to be a cause may in fact be responsible for causing a phenomenon. This may be the case not only because we have not measured a variable that is important but also because the current state of knowledge leaves us unaware of a third variable, or indeed because particular aspects of an independent variable are in fact the active ingredient (e.g., because people make sense of a variable in a different way than is assumed). Against this

background, we are likely to come closer to understanding the true nature of phenomena not by examining isolated effects but by developing integrative theory that comprises a network of falsifiable hypotheses (with theories standing in opposition to each other) and then by examining hypotheses not in isolation and with a single method but in comparison to each other using multiple complementary methods.

### **Conclusion**

The pay that leaders receive for their effort and achievement is a topical issue for organizations and their members, with the dominant focus on the extent to which pay serves a motivating function for those who receive it. The present work expands upon previous research by using recently developed theories of identity economics and identity leadership in an attempt to provide novel insight into the consequences of CEO pay. In line with the radical tenets of these theories (and in ways that challenge traditional economic and psychological theory), the findings of two studies show that elevated CEO pay impacts followers' perceptions of the extent to which they share identity with those leaders and that this in turn is associated with a sense that those leaders are neither 'in it for us' nor charismatic. Ironically, then, while elevated pay is typically justified by a desire to reward and inspire good leadership, it appears that it in fact achieves the very opposite. We would argue, however, that much of the power of the new models of economics and leadership that we have tested is precisely to expose such ironic effects — and thereby to encourage a deeper interrogation of the conventional economic and psychological wisdom by which contemporary organizational practice and social policy are guided.

### Notes

1. Analysis of leader charisma using the original 8-item scale ( $\alpha=.93$ ; including the additional items: “[This leader] is a charismatic person”; “[This leader] has a special gift for seeing what is worthwhile”; “[This leader] motivated people to see that they can do more than they think they can”; “[This leader] increases others’ optimism for the future”; “[This leader] gives people a sense of overall purpose”) yielded substantively identical results with an indirect effect of leader pay through personal identification to leader charisma,  $\gamma=-.18$ ,  $SE=.04$ , 95% CIs  $[-.26,-.10]$ ,  $R^2_{\text{Model}}=.56$ .
2. As in Study 1, analysis using the full 8-item scale yielded substantively identical results, indicating a significant indirect effect from leader pay through personal identification with the leader to leader charisma,  $\gamma=-.12$ ,  $SE=.03$ , 95% CIs  $[-.19,-.06]$ ,  $R^2_{\text{Model}}=.72$ .

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## Tables and Figures

**Table 1.** *Study 1: Means, Standard Deviations, and Bivariate Correlations between Variables*

Variable	Mean	SD	1	2	3	4	5
1. Personal Identification with Leader	4.07	1.35	-				
2. Leaders' Identity Leadership	6.09	0.86	.35**	-			
3. Leader Charisma	6.07	0.88	.47**	.63**	-		
4. Social Dominance Orientation	2.39	1.29	.15**	-.07	-.07	-	
5. Meritocracy Beliefs	4.10	0.59	.19**	.14**	.18**	.11**	-

*Note.*  $N = 590$ ; due to missing data in one case for meritocracy beliefs, the sample size is reduced to  $N = 589$  for corresponding analyses.

\*  $p < .05$ . \*\*  $p < .01$ .

**Table 2.** Study 1: Hierarchical regression analyses assessing effect of the experimental condition on personal identification with the leader (including sensitivity analysis with SDO and meritocracy beliefs as control variables)

Variable	Main analysis					Sensitivity analysis (with controls as main effects)					Sensitivity analysis (with controls as interaction effects)				
	<i>b</i>	<i>SE</i>	95% <i>CI</i> s	$\beta$	<i>t</i>	<i>b</i>	<i>SE</i>	95% <i>CI</i> s	$\beta$	<i>t</i>	<i>b</i>	<i>SE</i>	95% <i>CI</i> s	$\beta$	<i>t</i>
<i>Step 1</i>															
Leader Pay Condition	-.48	.11	-.70,-.27	-.18	4.38**	-.48	.11	-.69,-.27	-.18	4.48**	-.48	.11	-.69,-.27	-.18	4.48**
<i>Step 2</i>															
SDO						.17	.05	.07, .28	.13	3.20**	.14	.08	-.02, .29	.10	1.76 <sup>†</sup>
Meritocracy Beliefs						.23	.05	.12, .34	.17	4.25**	.13	.08	-.03, .28	.09	1.56
<i>Step 3</i>															
Leader Pay X SDO											.06	.11	-.15, .28	.03	.58
Leader Pay X Meritocracy Beliefs											.19	.11	-.03, .40	.10	1.72 <sup>†</sup>
<i>Model</i>															
$\Delta R^2$					.03**					.05**					.00
$R^2$					.03**					.08**					.08**

Note. *N* = 590 for main analysis; due to missing data *N* = 589 for analysis including control variables; SDO = Social Dominance Orientation; Variables are Z-standardized, while condition is dummy coded as 0 (low pay) and 1 (high pay).

<sup>†</sup>  $p < .10$ , \*  $p < .05$ , \*\*  $p < .01$ ;

**Table 3.** Study 2: Means, Standard Deviations, and Bivariate Correlations between Variables

Variable	Mean	SD	1	2	3	4	5	6
1. Leader Pay	2.39	1.56	-					
2. Personal Identification with Leader	4.02	1.70	-.19**	-				
3. Identity Leadership	5.31	1.43	-.09 <sup>†</sup>	.65**	-			
4. Leader Charisma	5.14	1.36	.01	.66**	.76**	-		
4. Social Dominance Orientation	2.42	1.22	.06	.13**	-.03	-.01	-	
6. Meritocracy Beliefs	4.18	.58	.01	.31**	.34**	.27**	.18**	-

Note.  $N = 444$ .

<sup>†</sup>  $p < .10$ , \*  $p < .05$ , \*\*  $p < .01$ ;

**Table 4.** Study 2: Hierarchical regression analyses assessing effect of leader pay on personal identification with the leader (including sensitivity analysis with SDO and meritocracy beliefs as control variables)

Variable	Main analysis					Sensitivity analysis (with controls as main effects)					Sensitivity analysis (with controls as interaction effects)				
	<i>b</i>	<i>SE</i>	95% <i>CI</i> s	$\beta$	<i>t</i>	<i>b</i>	<i>SE</i>	95% <i>CI</i> s	$\beta$	<i>t</i>	<i>b</i>	<i>SE</i>	95% <i>CI</i> s	$\beta$	<i>t</i>
<i>Step 1</i>															
Leader Pay	-.32	.08	-.47,-.16	-.19	4.01**	-.33	.08	-.48,-.18	-.20	4.39**	-.34	.08	-.49,-.19	-.20	4.45**
<i>Step 2</i>															
SDO						.15	.08	-.01, .30	.09	1.89 <sup>†</sup>	.14	.08	-.01, .29	.08	1.84 <sup>†</sup>
Meritocracy Beliefs						.50	.08	.35, .65	.30	6.56**	.51	.08	.36, .66	.30	6.61**
<i>Step 3</i>															
Leader Pay X SDO											.09	.07	-.05, .23	.06	1.30
Leader Pay X Meritocracy Beliefs											.08	.07	-.06, .23	.05	1.15
<i>Model</i>															
$\Delta R^2$					.04**					.10**					.01
$R^2$					.04**					.14**					.15**

Note. *N* = 444; SDO = Social Dominance Orientation; Variables are Z-standardized.

<sup>†</sup> *p* < .10, \* *p* < .05, \*\* *p* < .01;

**Ruben Martin:  
Big on Technological Advance, Small on Salary**

Ruben S. Martin III, aged 42, is the Chief Executive of American-owned security technology company, Diebold. He is one of the most economically paid CEOs in the U.S. Currently, Diebold is leading advancements in financial security technology, with their current innovation focus being the design of an ATM service which can detect fraud and robbery via the use of fingerprints and facial scanning. This ATM also has an inbuilt panic alarm.



Mr. Martin was born in Little Rock, Arkansas, where he spent the majority of his youth and early adulthood. He was both a gifted high achiever at his local school and a keen contributor to his family's cattle farm. His academic achievement continued when he leaped straight from high school to an IT Degree at the University of Arkansas, where a scholarship awaited.

However, during his penultimate year of his degree, in 1993, his mother was seriously assaulted and robbed of her account's contents at a local bank. Martin quickly postponed his studies to be with his family and to look after his mother, who was lucky to be alive and spent two weeks in hospital with stab wounds to her back. The perpetrator was never caught.

Upon returning to his studies, Martin developed an avid interest in technological advancement, particularly in the field of financial security. His mentor, Professor Bill Jenkins, notes that he left a lasting impression. "To date I've never seen a student like Ruben," he remarks. "He was innovative, creative, and seemed to have a burning desire to help make the world better." By 2000, Martin was already the CEO of Diebold, where he spearheaded fresh ideas and turned focus towards technology that would help protect people from fraud and robbery. During his tenure at Diebold, he has also been lauded for his refusal to outsource employment and his efforts to stimulate workforce growth in the industry.

Outside Diebold, Martin is a football fanatic and a keen supporter of the Arkansas Razorbacks. He rarely misses a home game, and when he's there he always checks in to see how his family is going. Martin has never forgotten the importance of his roots.

Six months ago, Martin announced that the prototype ATM design was nearing completion. He hopes that Diebold's latest innovation will make the streets of America that little bit safer.

Ruben Martin is moderately paid for his role, being paid less than 97% of American CEOs.

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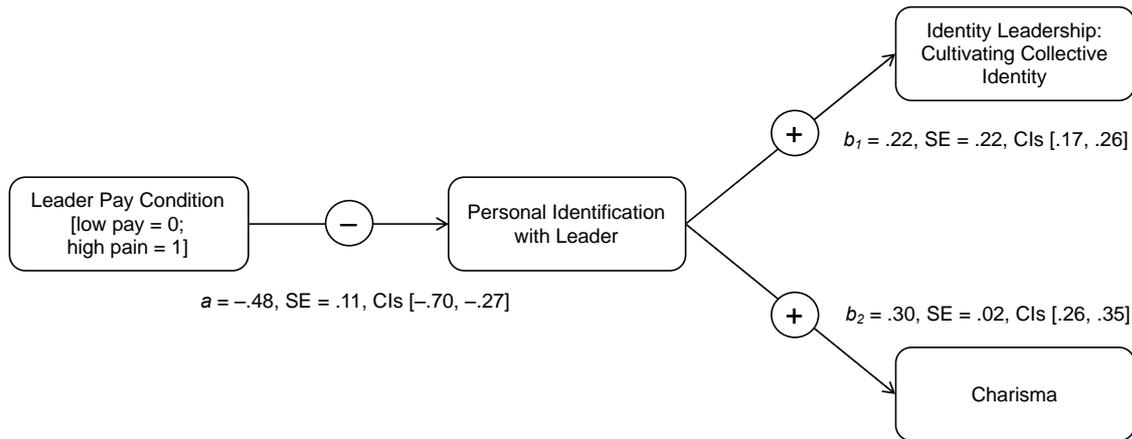
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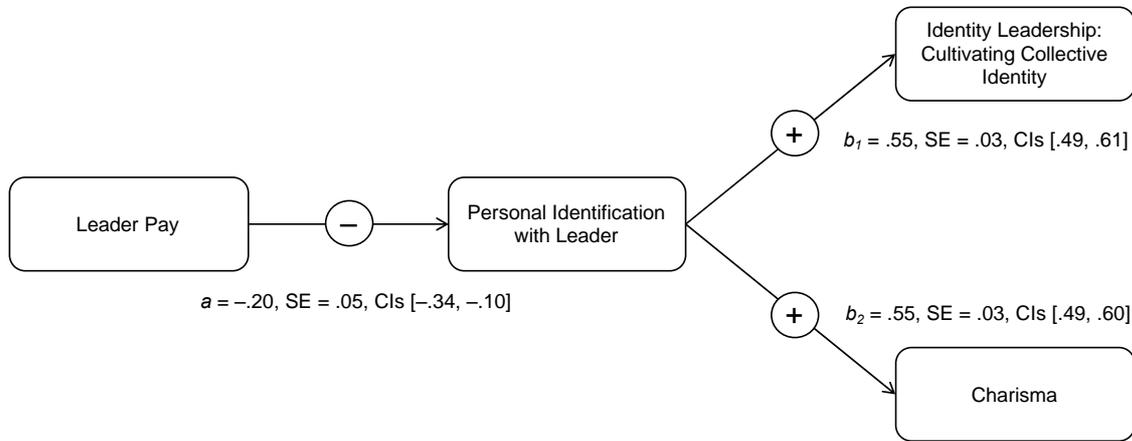
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Ruben Martin is highly paid for his role, being paid more than 97% of American CEOs.

**Figure 1.** Summary biographies of Ruben Martin for low-paid (left) and high-paid (right) conditions



**Figure 2.** Study 1: Indirect effect from experimental condition leader pay through perceiver personal identification with leader to (a) identity leadership and (b) charisma. Asterisks indicate significant coefficients (\*\* $p < .01$ ). Numbers in parentheses are path coefficients after controlling for follower identification with leader.



**Figure 3.** Study 2: Indirect effect from leader pay through perceiver personal identification with leader to (a) identity leadership and (b) charisma. Asterisks indicate significant coefficients (\*\* $p < .01$ ). Numbers in parentheses are path coefficients after controlling for follower identification with leader.