Does executive pay really pay?

In the aftermath of the global recession, beginning in 2008, the consternation over executive pay soared. Even as the value of companies plummeted, the bonuses and benefits that executives earned continue to rise, sometimes exponentially.

At first glance, these executive packages seem exorbitant—almost indecent, probably undeserved, and certainly unfair. Nevertheless, this revulsion might, actually, reflect envy rather than reality. These bonuses and benefits might, conceivably, be somewhat justifiable. Perhaps these exorbitant packages, somehow, lure inspiring leaders, motivate budding managers, attract more shareholders, or even galvanize employees.

Recent scientific inquiries into this issue, however, do not corroborate this sanguine position. Indeed, scientific research has uncovered a somewhat perturbing discovery: inflated salaries tend to attract the very individuals who, ultimately, stymie change and impede progress.

Expenses versus experience

A comparison between two states or nations—a jurisdiction in which executive pay is exorbitant and a jurisdiction in which executive pay is confined—demonstrates the difficulties that steep wages can elicit. Most, if not all, executives would prefer unlimited pay. Some executives, however, might forego some of their salary, perhaps to accrue some other benefit: a fulfilling role, a pioneering organization, or an esteemed position, for example.

Other executives, in contrast, would be more reluctant to sacrifice any their salary. These executives, therefore, would reside only in a jurisdiction in which their remuneration, in essence, is unbounded. These individuals tend to epitomize one of three types.

First, if executives cherish money and wealth, they are more inclined to reside in the jurisdiction in which executive pay is boundless. Almost everyone values money. Only some individuals, however, prefer money to many other key values: integrity, growth, knowledge, compassion, family, community, and spirituality, for example (Mumford et al., 2002). These individuals, obviously, would reject policies that infringe upon their remuneration.

Hierarchy versus equality

Second, if executives embrace hierarchical—rather than egalitarian—principles, they are also more likely to reside in the jurisdiction in which executive pay is boundless. That is, when executive pay is exorbitant, precepts and principles that justify the existing inequities and hierarchies pervade society (Pratto, Sidanius, & Levin, 2006).

Social dominance theory depicts the evolution of these precepts and principles. According to this theory, in some nations, states, communities, or organizations, the level of pay and the availability of privileges do not vary significantly across society.

In other nations, states, communities, or organizations, pay and privileges vary dramatically.

When remuneration and rewards vary appreciably, these privileged individuals and sectors tend to propagate myths, proverbs, messages, and principles—axioms and arguments that are intended to justify this disparity. They might, for example, promulgate the propositions that “cream rises to the top”, “beggars can’t be choosers”, and “individuals make their own luck”.

Because these privileged individuals also occupy positions of power and influence, these myths and messages permeate hierarchical societies (Pratto, Liu, Levin, Sidanius, Shih, Bachrach, & Hegarty, 2000). Gradually, many sectors of society begin to embrace these proverbs and principles. As a consequence, the general population respects, rather than rejects, the conspicuous disparities between privileged individuals and the broader community.

Members of the general population, for example, frequently perceive the enormous salaries of executives as justifiable instead of contemptible. They often regard the luxurious conditions that privileged individuals enjoy as reasonable rather than unfounded. They generally perceive the characteristic qualities of these executives as desirable and valuable. These principles, thus, perpetuate inequities. In addition, however, these principles can prevent discord, because these existing inequities seem understandable and not unjust.

Nevertheless, the extent to which individuals embrace these myths and accept this hierarchy does vary considerably (Pratto, Sidanius, Stallworth, & Malle, 1994). Some individuals, for example, reject these justifications of inequity. They do not perceive some sectors as more deserving of pay, power, or privileges than other sectors. In contrast, other individuals accept these justifications. They regard some sectors, such as executives, as inherently superior, deserving their privileges—called a social dominance orientation.

Individuals who embrace these myths tend to prefer societies or cultures that manifest these hierarchical principles. That is, they prefer societies in which pay, power, or privileges vary considerably across sectors. They are attracted to cultures that seem to recognize the inherent superiority of some sectors, professions, or individuals.

Accordingly, executives who embrace hierarchical principles, and thus adopt a social dominance orientation, will tend to be attracted to jurisdictions that offer exorbitant pay to executive managers. Executives who embrace egalitarian principles, in contrast, tend to be attracted to jurisdictions that limit executive pay.

Legitimized versus unrecognized qualities

Third, if executives demonstrate the qualities that epitomize the dominant sectors in society, perhaps the attributes of powerful business leaders for example, they are also more inclined to reside in the jurisdiction that does not confine executive pay. To demonstrate, executives who share the same values towards wealth—as well as the same attitudes towards hierarchy—might nevertheless be attracted to different jurisdictions. Specifically, these executives are likely to prefer societies in which their qualities are valued. That is, if these attributes are valued, these executives are more likely to be remunerated handsomely.

In societies or cultures in which a gregarious, sociable, bold, and assertive demeanor is valued, extraverted executives, for example, are more likely to attract exorbitant salaries. In societies or cultures in which a reliable, diligent, methodical, and ambitious personality is sought, conscientious executives are inclined to earn these inflated wages.

Interestingly, in hierarchical societies, in which executive remuneration is often exorbitant, a specific profile of characteristics is most likely to be treasured. In particular, the characteristics that epitomize the dominant and privileged sectors of society are usually valued. That is, to justify their privileges, these dominant sectors of society attempt to inflate the value and utility of their characteristic qualities and traits (Sidanius & Pratto, 1999).

For example, in societies or organizations in which the leaders tend to be white, aggressive males, other individuals who correspond to this demographic are likely to receive elevated levels of pay. In societies or organizations in which the leaders tend to be reserved, sensitive, and considerate, individuals who share this profile will often receive a sizeable wage.

Thus, executives who epitomize the characteristic traits of dominant sectors in society will be valued in hierarchical cultures. These executives, therefore, are more inclined to choose jurisdictions that encourage, rather than prohibit, exorbitant remuneration of senior managers.

As these reflections highlight, when exorbitant packages are prohibited, the profile, personality, and proficiency of executives in society are likely to change. First, the extent to which these executives cherish riches and rewards might diminish. Second, the degree to which these executives espouse principles that reinforce the existing hierarchies will also subside. Finally, the extent to which these executives demonstrate the characteristics that epitomize the dominant sectors of society will decrease.

As the profile of these executives changes, the entire fabric of society shifts as well. Whether or not these shifts are desirable—whether these shifts facilitate or stifle progress—is the key question.

The love of money and the decline of society

Exorbitant salaries can attract exorbitant executives—individuals who, sometimes, value money and wealth over wisdom, creativity, autonomy, integrity, friendship, family, divinity, and security. Interestingly, and perhaps disturbingly, individuals who prioritize money and wealth are often the most unsuitable leaders.

Some individuals do not value money and wealth inordinately. These individuals, instead, prefer to attend social gatherings, to assist close relatives, to engage in altruistic activities, to embark on creative tasks, to acquire useful knowledge, or to refine key skills. They engage in activities that fulfill three fundamental and immediate needs: relationships, autonomy, and competence.

In contrast, some individuals value money and wealth, sometimes obsessively. To accumulate this wealth, these individuals must often sacrifice their fundamental, immediate needs. They might not be able to cultivate their relationships, autonomy, or competence

These individuals, for example, might not be able to attend social gatherings, family functions, or charitable events—but must work extensively and arduously. They might need to relinquish their autonomy and independence, merely to accommodate the needs and preferences of their employer. They might not be granted the time or opportunity to develop their expertise.

Hence, to accrue wealth, individuals need to inhibit their immediate inclinations, focusing instead on future goals and objectives. The inhibition of these inclinations, and the pursuit of future objectives, activates a specific circuit in the brain, primarily located in the left hemisphere, called intention memory (Kazen & Kuhl, 2005). When this circuit is activated, individuals exhibit several recognizable characteristics.

First, when intention memory is activated persistently, individuals are more motivated to seek power and authority than to form trusting and cooperative relationships. Hence, individuals who value money and wealth—and thus inhibit their natural inclinations—will also tend to eschew cooperation in the pursuit of power (Kuhl & Kazen, 2008).

Indeed, even mere references to money can inhibit cooperation and altruism. In one study, for example, some participants were first instructed to estimate the amount of money they might donate to a charity. Other participants received a different instruction: to estimate the amount of time they might donate to support a charity.

Individuals who first estimated the amount of money they might donate to a charity were, subsequently, less generous. Individuals who had, instead, estimated the amount of time they might donate to a charity were more benevolent. That is, when granted an opportunity to donate money several minutes, these individuals offered sizeable contributions.

Second, when intention memory is activated persistently, individuals often seem more rigid rather than flexible. In particular, when intention memory is activated, individuals construct plans to reach some goal or objective in the future. These plans, however, are often devoid of contextual details: sights, smells, sounds, feelings, and features, for example.

That is, when individuals form plans, they cannot envisage the precise context. If individuals seek an executive position, for example, they cannot anticipate the mood, style, and behavior of the recruiters. They cannot predict the items or scents that might pervade the office.

As a consequence, when intention memory is activated, individuals attempt to form plans that generalize across many situations, settings, and surroundings. These plans—perhaps to secure a promotion or to improve their reputation—do not entail any information about specific cues, objects, emotions, noises, aromas, and so forth.

As a consequence, the intentions and behavior of these individuals is often insensitive to subtle changes, variations, and complications in the environment. These individuals do not adapt to unexpected requests, unanticipated, problems, or unforeseen opportunities. They seem rigid and conventional rather than flexible and adaptable (Hayes, Brownstein, Zettle, Rosenfarb, & Korn, 1986).

As these arguments imply, if individuals treasure money and wealth, and thus intention memory is often activated, their choices and behavior do not seem to be flexible, adaptable, innovative, or creative. Many studies, indeed, have confirmed this contention.
For example, in one study, individuals were asked the extent to which they value facets of life such as money, status, friendships, family, and human rights. Individuals who value money, status, and prestige over friendships, family, and human rights were subsequently less innovative on a managerial task (Mumford et al., 2002).

High on hierarchy and low on novelty

Societies and institutions that offer sizeable wages to senior managers will not only attract individuals who value money and wealth—but will also entice executives who espouse hierarchical principles. These executive uphold the myths and assumptions that reinforce the existing hierarchy.

Individuals who accept these myths, as well as embrace the entrenched hierarchy, demonstrate an extensive suite of traits that impede change and progress. In particular, these individuals tend to dismiss attitudes, attributes, routines, and rituals that depart from the prevailing norms of society. They reject diversity and variety. They exhibit prejudice against other ethnicities, religions, occupations, and sexes (e.g., Amiot & Bourhis, 2003).

As a consequence of these inclinations, these individuals reject any policy that could threaten the hierarchies that underpin society. These individuals, for example, condemn immigration as well as criticize other manifestations of change.

Preferred executives do not translate to progressive managers

In addition to valuing material wealth or embracing the existing hierarchy, inflated wages also attract executives who epitomize the dominant sectors of society. The specific profile of these executives will vary across societies. In many western organizations, executives who are male, white, confident, proud, articulate, innovative, assertive, and masculine typify the dominant echelons. In many Asian institutions, executives who are male, stoic, modest, reserved, detached, and intelligent exemplify these echelons.

Despite these variations, executives who epitomize the dominant sectors of society share some key features. In particular, because they epitomize the dominant sectors of society, their attitudes and values will often conform to the prevailing opinions and norms of their community (Haley & Sidanius, 2005). That is, as a consequence of their power and influence, dominant sectors, such as business leaders, can shape the attitudes and assumptions of society. Executives who epitomize these dominant sectors will, therefore, espouse the same values and assumptions.

These executives, therefore, will seldom challenge, defy, extend, or clarify the practices, protocols, and paradigms that pervade society. They will tend to reinforce the existing assumptions rather than facilitate novel perspectives.

Many studies, indeed, have shown that organizations are more innovative, rather than stagnant, when the attitudes, values, and qualities of executives diverge from one another. Executives who epitomize the dominant echelons temper this diversity and thus stifle creativity (see Cannella Park, & Lee, 2008).

In summary, when executive salaries are unduly inflated, change and progress is stymied. In particular, many of the executives often value money and wealth inordinately—a value that often coincides with uncooperative or rigid behavior. Alternatively, these executives often embrace the existing hierarchy, which culminates in the unmitigated rejection of divergent attitudes and attributes. Finally, these executives often epitomize the dominant echelons of society, and hence diversity is infringed and creativity is inhibited.

Several years ago, a small house, in the outskirts of Sydney, near the Blue Mountains, was plagued with rats. The resident of this house, an elderly woman who lived alone, could not afford to purchase any cats. Therefore, every morning, to attract feral cats into her yard, and ultimately to deter these rodents, she would arrange saucers of milk along the perimeter. After two weeks, no cats had been spotted. Nevertheless, over five liters of milk had been consumed—by the burgeoning number of rats that had infested her yard, most of which now seemed very satisfied and slightly plump.

Her strategy, although absurd in hindsight, mirrors the approach of many organizations. To attract the most effective executives—the executives who could inspire change, innovation, and progress—organizations sometimes offer exorbitant salaries. These exorbitant salaries, however, merely attract the very executives who had stifled these changes and developments in the first place.

Reputation and remuneration

Executives who receive generous packages, therefore, do not seem to expedite change and progress. Nevertheless, some commentators assume the expectations these exorbitant salaries elicit, and not the behavior of executives, might facilitate change.

When an executive is offered an enormous salary, other stakeholders—employees, managers, shareholders, customers, and suppliers—might assume this person must be outstanding. This executive must offer extraordinary qualities or resources: an astonishing intellect, remarkable instincts, an extensive network, or vast experience. The morale of employees, the commitment of managers, the confidence of shareholders, the loyalty of customers, and the flexibility of suppliers might all escalate accordingly.

The evidence of this contention, however, is limited. Few studies or scientists have explored this assumption explicitly or convincingly. Furthermore, these studies tend to challenge this contention.

One study, for example, examined whether the remuneration of CEOs impinged on the attitudes to work in middle managers (Miller & Wiseman, 2001). This study showed that executive salaries, contrary to the contentions of some business commentators, did not inspire confidence in the CEO—or enhance commitment to the organization. These CEOs were not regarded as exceptional, inspirational, or insightful but, instead, were perceived as egocentric, unwilling to forego their personal interests to fulfill the workplace objectives.

The basis of bonuses

If these exorbitant salaries culminate in stagnancy, disloyalty, or even decline, the obvious question, then, is why these generous packages are offered. Why does this practice of offering sizeable, and sometimes untenable, packages still persist? Several accounts might explain the perseveration of these exorbitant salaries.

First, the dominant systems of society—the segments that disproportionately influence the selection of executives—prefer candidates who will uphold the existing hierarchy. That is, these dominant sectors will select the executives who endorse the principles that maintain the prevailing distribution of power and privilege. Exorbitant salaries tend to attract the executives who uphold these principles. Dominant sectors of society, therefore, are motivated to offer sizeable remuneration packages, partly to maintain their power and authority (Sidanius & Pratto, 1999).

Second, many of the individuals who select executives—individuals who usually occupy senior positions in the organization—tend to value money and power. Indeed, this pursuit of money, power, and status often expedited their ascent into positions of influence and authority.

Usually, individuals prefer candidates with whom they share some similarity. Research has even shown that individuals prefer anyone with whom they share trivial attributes, such as initials or birthdates (Burger, Messian, Patel, del Prado, & Anderson, 2004).

The individuals who select executives, thus, will tend to prefer candidates who also prioritize money and power over competing values—especially if they do not need to compete with these prospective executives. Hence, generous packages, which attract executives who value money and power, will tend to be offered.

A recent incident, at a security firm in Australia, epitomizes this inclination to select managers fixated on money and power. A strong and bellicose male, perhaps 45 years of age, had responded to a job advertisement, in which a senior manager was sought. A week later, the human resource manager, a younger woman, interviewed the male applicant. After 15 minutes or so, the male applicant rose belligerently, approached the human resource manager, who retreated into the corner. The man confined the woman within the corner for several minutes, yelling that he did not appreciate her questions.

After the man eventually departed, the human resource manager, still distressed and perturbed, described this incident to the male CEO. The CEO pledged to meet and rebuke this applicant. A week later, the human resource manager discovered the CEO had decided to recruit the applicant—and was indeed impressed with his “vigor and intensity”.

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