The Impact of CEO-Employee Pay Ratios on Organizational Attractiveness: The Mediating Role of Fairness Perceptions

22.01.2026
Bachelor of Science

Lily Wunderskirchner
Li.Wunderskirchner@campus.lmu.de

Purpose/Motivation: CEO-Employee pay ratios have become a salient indicator of organizational inequality and are frequently discussed in public debates. While prior research has examined how such pay ratios affect consumers and employees, relatively little is known about how potential job seekers respond to this information. In particular, existing research provides limited insight into whether large CEO-Employee pay ratios reduce the attractiveness of organizations as potential employers and what role fairness perceptions play in this process.

Theories/Hypotheses: According to signaling theory, job seekers rely on observable organizational cues to infer unobservable characteristics of potential employers under conditions of information asymmetry (Connelly et al., 2011). CEO-Employee pay ratios may serve as such signals, providing information about organizational values and compensation practices. Drawing on distributive justice theory, large pay disparities are likely to be perceived as less fair, which may negatively affect evaluations of the organization (Adams, 1965). Prior research has shown that high CEO-Employee pay ratios can lead to less favorable reactions among consumers and employees (Benedetti & Chen, 2018). Consequently, the main hypotheses were:

> H1: A higher CEO-Employee pay ratio is associated with lower organizational attractiveness.
>
> H2: The negative effect of a higher CEO-Employee pay ratio on organizational attractiveness is expected to be mediated by fairness perceptions.

Approach/Methodology: A quantitative online experiment with a between-subjects vignette design was conducted ($N = 67$). Participants evaluated a fictional German company that was described as having either a low CEO-Employee pay ratio (10:1) or a high pay ratio (50:1). Organizational attractiveness and perceived fairness were measured using established scales adapted from prior research. Regression and mediation analyses were performed in R.

Findings: The results did not support the proposed hypotheses. Participants exposed to a high CEO-Employee pay ratio perceived the organization as significantly less fair ($b = -0.50$, $p =$

.02). However, the pay ratio had no significant effect on organizational attractiveness ($b = -0.22$, $p = .23$). Furthermore, fairness perceptions did not significantly predict organizational attractiveness and therefore did not mediate the relationship between pay ratio and attractiveness. Exploratory analyses additionally revealed no moderating role of achievement-related motives.

Research Limitations: The study relied on a relatively small convenience sample and used a fictional company vignette, which may limit the generalizability of the findings. Furthermore, participants evaluated hypothetical employment situations rather than making real job decisions. The use of German pay-ratio levels may also restrict comparability with predominantly US-based research.

Research Implications: The findings suggest that CEO-Employee pay ratios primarily function as signals that shape fairness judgments rather than broader evaluations of employer attractiveness. This suggests that the effects of compensation-related signals may be more limited than previously assumed.

Practical Implications: Organizations should be aware that large CEO-Employee pay gaps may negatively affect perceptions of fairness among potential applicants. However, such perceptions do not necessarily translate into lower employer attractiveness.

Contribution: This study extends the literature on CEO-Employee pay ratios by examining their effects from the perspective of potential job seekers. It contributes to signaling and organizational justice research by suggesting that fairness perceptions and organizational attractiveness represent distinct evaluative processes. The findings highlight that compensation-related signals can shape moral judgments without necessarily influencing employer attractiveness.

Paper type: empirical

Further readings:

Benedetti, A. H., & Chen, S. (2018). High CEO-to-worker pay ratios negatively impact consumer and employee perceptions of companies. *Journal of Experimental Social Psychology*, *79*, 378–393. https://doi.org/10.1016/j.jesp.2018.09.003

Cropanzano, R., Bowen, D. E., & Gilliland, S. W. (2007). The Management of Organizational Justice. *Academy of Management Perspectives*, *21*(4), 34–48. https://doi.org/10.5465/amp.2007.27895338

Connelly, B. L., Certo, S. T., Ireland, R. D., & Reutzel, C. R. (2011). Signaling Theory: A Review and Assessment. *Journal of Management*, *37*(1), 39–67. https://doi.org/10.1177/0149206310388419

Highhouse, S., Lievens, F., & Sinar, E. F. (2003). Measuring Attraction to Organizations. *Educational and Psychological Measurement*, *63*(6), 986–1001. https://doi.org/10.1177/0013164403258403

Przychodzen, W., & Gómez-Bezares, F. (2021). CEO–Employee Pay Gap, Productivity and Value Creation. *Journal of Risk and Financial Management*, *14*(5). https://doi.org/10.3390/jrfm14050196