

Why executives should think twice before changing industry

Dream job leaps come at a cost — here's why they're worth it anyway.



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Top executives frequently move from one industry to another, seeking to diversify their skillsets, broaden their networks and gain fresh experiences. That's all positive — but their

salaries can suffer as a result.

A [study](#) by IESE's [Marta Elvira](#) and Halil Sabanci of the Frankfurt School of Finance & Management looked at S&P 1500 executives who voluntarily changed companies. It found that those who also switched industries saw lower financial compensation than those who moved within the same industry. And the difference was even more pronounced when executives jumped to higher-status industries.

Industry status is based on public perceptions of the prestige of a particular area of business: information technology and professional and scientific services consistently rank highly, while others, such as oil and gas and government, tend to come in lower down the table.

Executives transitioning to higher-status industries, on average, earn approximately 8% less than those moving to lower-status industries, with the latter experiencing similar compensation variations as those who move within their own industry.

Why executives accept a pay difference

It might seem strange that executives would be willing to sacrifice salary, but it could be because they value the potential long-term gains of accumulating experience in different sectors, the researchers found. Executives understand that their career decisions include long-term horizons, and an immediate compensation change is not the sole motivating factor when moving between companies and industries. Research has shown that accumulated experience in multiple firms and industries can pay off, especially in later career stages.

Executives may also value non-pecuniary rewards: moral and emotional considerations often also play a significant role in their decisions. Because part of their social identity comes from membership in an industry category, the prestige of the type of economic activity can be valued as a nonfinancial employment benefit.

Why organizations discount pay

Seen from the company perspective, the study identifies two reasons why salaries may be softer for executives who change industry: commitment and ambiguity.

Companies naturally want to build lasting relationships with their employees, for the sake of stability and the effective implementation of long-term strategies. (What's more, the cost of replacing a top executive can be up to 200% of their salary.) This makes the individual's

future commitment to the organization especially important.

Recruiters try to evaluate candidates' qualities and performance, but also their potential commitment and flight risk. One way they do this is by looking at the individual executive's employment history. Those who change industry can be seen as potentially lacking future commitment and this is reflected in the compensation offer the organization makes.

Another explanation lies in the concept of ambiguity. Ambiguity arises from the difficulty recruiters have in identifying and assessing the attributes of those who change sector of activity/industry and how those attributes could be applicable to the new industry. Difficulties in understanding how skills and knowledge can be transferred reduce the candidate's perceived value and therefore also the financial effort the company is prepared to make.

As with executives' salary expectations, industry status may also play a part. Higher-status organizations often leverage their status advantage to encourage executives from lower-status organizations to join them at a reduced cost. "Status leapers" — those executives who move to a higher-status industry — often face greater scrutiny and ambiguity, even if they are highly competent. "Status leakers" — those who go from a higher-status industry to a lower-status industry — frequently enjoy some latitude, however, leading to more favorable evaluations of ambiguity and commitment by recruiting organizations.

The dynamics of executive mobility and compensation are far more intricate than they may seem. This study sheds light on the complex interplay between supply and demand in the labor market and how it influences executives' decisions and their ultimate compensation. Status differences across industries further complicate the landscape, making it essential for executives to carefully consider their moves, not just in terms of immediate financial gains but also long-term benefits and non-pecuniary rewards. Understanding these factors is vital for executives looking to navigate the maze of executive mobility successfully.

About the research

The research looked at 1,170 executives from S&P 1500 companies who changed jobs between 1999 and 2014; 538 of those moved to a different industry, while 632 moved to firms in the same industry. ["The outcomes of cross-category career moves: how cross-industry mobility and industry prestige jointly impact executive compensation"](#) was published in the *Academy of Management Journal* (2023).



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