Employee-based Brand Equity

Ralf Wilden, Siegfried Gudergan, Ian Lings, University of Technology, Sydney

Abstract

This paper presents a conceptual framework for employee-based brand equity. It implies that the effectiveness of a brand signal to employees is dependent on its consistency, its clarity, its credibility, and the associated brand investments. This research area is relevant to both marketing managers and academics alike as the search and competition for talented employees requires investing more resources in employment related branding strategies. This conceptualisation articulates a view about brand equity which sets the employee as an additional main stakeholder companies should account for. Accordingly, we argue that employee-based brand equity should ultimately be considered as a component of a wider framework of brand equity complementing existing conceptualisations of customer-based brand equity.

Introduction

Brands and human capital constitute some of the firm's most important assets (Aaker 1991; Backhaus and Tikoo 2004). The development of these intangible assets is an important management task (Sutherland, Torricelli and Karg 2002) for marketers and human resource managers alike. This is likely to become increasingly important due to demographic changes such as the ageing of the population: the proportion of people older than 65 years will increase from 13% (2004) to up to 28% (2051). This will cause a lack in supply of suitable workforce (ABS 2006a; 2006b), especially if the low unemployment rate will stay on its current level (July 2006: 4.8%). Human capital involved in the design and offer of products, in general, and the delivery of services, in particular, influence customer appreciations of brands (e.g. Papasolomou-Doukakis 2003). Simultaneously, the firm's brand affects how existing and potential employees evaluate a firm.

While there has been a vast amount of research that examines the role of branding from a customer perspective and associated customer-based brand equity, there is little research that examines the role branding plays in retaining and attracting employees who constitute the firm's human capital and, ultimately, contribute to the efficient and effective delivery of products and services. This paper focuses on developing a better understanding of the role branding plays in attracting employees or more specifically how to conceptualise employee-based brand equity.

Job markets are characterised by the fact that both the employer and the potential employee cannot necessarily assess the quality of the other with certainty prior to experiencing the work conditions and competencies, respectively (Spence 1974). Therefore, both parties aim at identifying ways to present their competencies and characteristics so that they can reduce information asymmetry and lessen the problem of adverse selection. Asymmetric information for the employees lies in unobserved characteristics of the employer, e.g. work climate and career development (Schmidtke 2002). A way to deal with this phenomenon is to make use of market signals which are described as "…activities or attributes of individuals [or firms] in a market which, by design or accident, alter the beliefs of, or convey information to, other individuals in the market." (Spence 1974, p. 1; words in brackets added by authors).

In the case of firms operating in markets in which potential employees do not have sufficient knowledge of the firms' capabilities, the firms' branding influences the understanding these employees form about those firms. Thus, firms can overcome uncertainties felt by these employees through a purposefully designed branding aiming at targeted job seekers. Research in consumer marketing has shown that brands can act as an effective signal in order to overcome information asymmetries (Tsao, Pitt and Berthon 2006). According to Dell *et al.* (2001, p. 10) “the Employer Brand establishes the identity of the firm as an employer. It encompasses the firm’s values, systems, policies, and behaviours toward the objectives of attracting, motivating and retaining the firm’s current and potential employees”. The extent to which the brand contributes to retaining and attracting employees affects the equity associated with the brand. The importance of this employee-based brand equity is also apparent in the fact that financial markets are increasingly valuing firms on their human capital (Cairncross 2000). Brand equity in this context “applies to the effect of brand knowledge on potential and existing employees of the firm. Employer brand equity influences potential applicants to apply or not, and is the desired outcome of employer branding activities (Backhaus and Tikoo 2004) .” As no research conclusively deals with brand equity measured from the employee perspective, we aim to assess how companies can create employee-based brand equity and how this equity can be measured. The aim of this paper is to develop a conceptual model of employee-based brand equity.

Brand Equity and Signalling So Far

A brand is “essentially a seller’s promise to consistently deliver a specific set of features, benefits and services to the buyers” and “…is intended to identify the goods and services of one seller … and differentiate them from those of competitors” (Kotler 1997, p. 443)“. Perhaps most common brand definitions focus on customers and not on other stakeholders such as employees that are also influenced by brand messages. However, in the context of employer marketing, the employer brand is to be understood as the set of distinctive images of an employer which are manifest in the minds of target groups (Meffert, Burmann and Koers 2002; Petkovic 2004).

Marketing scholars have dealt with concepts that focused on product or corporate brands' impacts on consumers and the associated brand equity (e.g. Keller 1993; Swait *et al.* 1993). Cognitive psychologists focus on the creation of buyer-based brand equity as the outcome of factors like performance and personality and its value is measured by the perceptions of buyers (Tsao 2002). Keller (1993, p. 1) states that “Customer-based brand equity is defined as the differential effect of brand knowledge on consumer response to the marketing of the brand.” According to Aaker (1991, p. 15) “brand equity is a set of brand assets and liabilities linked to a brand … that add or subtract from the value provided by a product or service to a firm and/or to that firm’s customers.” Brand equity provides value to the uninformed party by facilitating the information process and by increasing confidence. Reductions in perceived risk and information costs are consequences of brand equity.

The cognitive approach does not explicitly recognize the informational aspects of markets which are determined by interactions between market actors (Erdem and Swait 1998, p. 133). The information economics approach includes strategic interactions among sellers in its model (Tsao 2002, p. 9) which is important in the employment context as an employment contract can have long-term implications. This approach makes use of signalling theory which deals with problems that arise as asymmetric information exists in markets and with the possibilities to overcome those asymmetries (Spence 1973). Asymmetric information requires

the uniformed party to search for information which creates information costs. The roots of this approach go back to Vickrey (1961), Mirrlees (1971), Akerlof (1970) and Spence (1973). The rather behavioural orientated sciences in marketing and human resource management have increasingly been informed by the information economics theory since the mid-1980ies. Nevertheless, signalling has not obtained much attention in the interface of HRM and marketing (Schmidtke 2002). Signalling theory can be used to conceptualize the dealing with adverse selection (Kirmani and Rao 2000). Signals like warranties, price, and brands influence quality judgements (e.g. Dawar and Parker 1994; Koku 1995). According to Kirmani and Rao (2000, p. 69) brands can be classified as sale-independent default independent signals as they occur regardless of a transaction. Brands have been shown to be capable of communicating unobservable quality (Erdem and Swait 1998).

To summarise, a wide range of literature exists on customer-based brand equity and brands as quality signals in consumer markets. Marketers have not yet dealt intensively with measuring employee-based brand equity and have scarcely used signalling theory as a theoretical foundation to explore brands within an employment context. This is also reflected in little theoretical contributions dealing with employer branding (Ewing *et al.* 2002; Schmidtke 2002; Sutherland, Torricelli and Karg 2002).

Conceptual Framework

Utilizing a similar logic of Spence's job market model (1974), we present a framework in which the employee is the uninformed party and is uncertain about the employment quality. We view an employer brand as a possible signal to overcome this information asymmetry and to affect employee-based brand equity. Accordingly, we argue that a conceptual framework for employee-based brand equity can be based on a consumer-based brand equity model.

Viewing employment opportunities or jobs as products, job evaluations are influenced by search, experience, and trust characteristics (Franck, Pudack and Opitz 2001; Schmidtke 2002; Teufer 1999). Observed characteristics may be location and salary, but characteristics like work climate and employee orientation within the company cannot necessarily be observed completely ex ante. The employee can search for observable information directly or make use of information substitutes. The first strategy is only possible for search characteristics, but for experience and trust characteristics the employee makes use of signals (Weiber and Adler 1995). This search for information creates costs to the employee.

The employer dedicates budget to the chosen employer branding strategy in order to maximise the expected return. Employer branding has effects on the company profile and creates an employer brand signal to the employee. The signal has repercussions on perceived job quality, perceived risk of joining the company, and on the employee's information costs. These three factors create expected utility which can also be defined as employer attractiveness being an antecedent of employee-based brand equity. Employer attractiveness is the set of "envisioned benefits that a potential employee sees in working for a specific organisation"(Berthon, Ewing and Hah 2005).

A mutually acceptable outcome encompasses the employee to choose the company with the highest employer attractiveness and the employer to adjust their budget to the qualification sought. Consequently, an employer brand can work as an effective signal for the uniformed party. Signalling equilibrium is reflected in a set of conditional probabilistic beliefs for the employee which, when translated into qualifications, employer investment responses, and

new market data, are confirmed by the new market data relating wage levels (Spence 1974). Equilibrium is influenced by the availability qualified employers on the market and the costs associated with establishing and maintaining a brand and reputation as employer of choice.

Employer efforts influence the employee's expected utility. Translating the general utility of brands (Meffert, Burmann and Koers 2002) to the job market and using an employer brand as signal offers utility to both employer and employee. To the employee the brand has several functions: help for orientation, relief function, quality assurance function, identification function, prestige function, and trust function. To the employer, the employer brand can create an increase in value of the company, affects the price range in form of the wage paid, can enable a segment specific market development, can support employee retention, influences differentiation from other employers, and affects preferences regarding other employers in the job market.

Building upon the Erdem and Swait (1998) framework of customer-based brand equity, we will develop a model consisting of a set of constructs like clarity, credibility, consistency, brand investments, and the direct and indirect effects of expected utility.

Propositions

The presented model leads to a number of propositions. One set of propositions refers to brand clarity as companies have to ensure that brand messages and signals are received in a well-defined way. According to Erdem and Swait (1998), clarity of a brand signal is determined by the unambiguity of information conveyed by the employer brand's marketing efforts. Clearly communicated and unbiased signals contribute to brand credibility. Clear signals also reduce information costs as the applicant does not have to spend resources on interpreting brand messages. This leads to reduced perceived risk of joining a company and increased perceived quality as employees gain a distinct image about the employer.

P1a: Greater brand clarity leads to higher credibility regarding the employer.
P1b: Greater brand clarity leads to decreased perceived risk regarding the employer.
P1c: Greater brand clarity leads to decreased information costs regarding the employer.
P1d: Greater brand clarity leads to increased perceived quality regarding the employer.

Credible signals convey information that has the potential to be effective (Tirole 1990). Trust perceived by the potential employee requires a brand being trustworthy so that is demonstrates the quality of an employer (Hoeffler and Keller 2002) and that the firm is willing and able to deliver what is promised (Erdem and Swait 1998). In case of employer branding, the promises made during the recruitment phase affects expectations and subsequent evaluations in the job (Buss 2002). Unfulfilled expectations may lead to employee dissatisfaction and to a lower employee retention rate. Also, negative effects on recruiting may occur as employee referrals will decrease and negative word-of-mouth deteriorates the employer image (Miles and Mangold 2004). If a signal is credible and the employer is considered as being trustworthy, this will result in decreased perceived risk as promises made by the company are likely to be fulfilled and this will ultimately increase the perceived quality. Consequently, employees will reduce their efforts for gaining information about the employer which will result in decreased information costs (Erdem and Swait 2004).

P2a: Greater brand credibility leads to decreased perceived risk regarding the employer.
P2b: Greater brand credibility leads to decreased information costs regarding the employer.
P2c: Greater brand credibility leads to increased perceived quality regarding the employer.

Consistency has a substantial as well as a temporal dimension. The former refers to the degree in which each employer brand component reflects the intended whole (Buss 2002; Erdem and Swait 1998). Furthermore, consistency also stands for the degree to which signals are aligned with the overall objectives and also with product and corporate brands (Backhaus and Tikoo 2004; Mitchell 2002). The temporal dimension reflects the extent to which marketing is consistent over time (Park, Jaworski and Maclnnis 1986). Higher consistency reduces perceived risk by the employee by means of lessening possible confusion through competing brand signals. Consistency also reduces information costs for the employee. Finally, a higher level of marketing mix consistency leads to higher credibility (Erdem and Swait 1998; 2004).

P3a: Greater consistency leads to reduced perceived risk regarding the employer.
P3b: Greater consistency leads to decreased information costs regarding the employer.
P3c: Greater consistency leads to higher credibility regarding the employer.

Credibility is also influenced by additional factors such as consistency. Consistent brand signals strengthen employee's trust toward the company. Furthermore, investments in the brand affect credibility (Dawar 1998). Managers adjust their signalling budget to the requirements and the importance of the job offer. Higher brand investments motivate the company to be truthful in their claims about the job offer and demonstrate commitment (Erdem and Swait 1998; Kirmani and Rao 2000).

P4a: Greater brand investment is associated with greater credibility regarding the employer.
P4b: Greater consistency is associated with greater credibility regarding the employer.

Employer branding efforts aim at creating employee-based brand equity. An antecedent to this is the utility an employee expects from joining a company, which can also be described as employer attractiveness (Berthon, Ewing and Hah 2005, p. 156). If employees commit resources in order to gain insights into a company, the employer may appear less attractive. If the information gained via signals or other direct information is promising and enhances the perceived quality of a job, the expected utility will increase (Aaker 1991). Perceived risk associated with joining a company will consequently lessen employer attractiveness.

P5a: Information costs decrease expected utility/employer attractiveness.
P5b: Perceived quality of the job increases expected utility/employer attractiveness.
P5c: Perceived risk decreases expected utility/employer attractiveness.

Conclusion and Further Research

This paper presents a conceptual framework for employee-based brand equity. It implies that the effectiveness of a brand signal to employees is dependent on its consistency, its clarity, its credibility, and the associated brand investments. This research area is relevant to both marketing managers and academics alike as the search and competition for talented employees requires investing more resources in employment related branding strategies.

Further empirical research is required to test this employee-based brand equity model. This conceptual framework articulates a view about brand equity which sets the employee as an additional main stakeholder companies should account for. Further research should also acknowledge the importance of an employer brand for employee retention and its implications on customer attraction and retention. Furthermore, additional work needs to investigate to what extent employee-based brand equity is a component of a wider framework of brand equity complementing conceptualisations of customer-based brand equity (Ewing *et al.* 2002).

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