Owner Culture and Pay Inequality within Firms

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Introduction

Introduction

- Relative to firms owned by immigrants from the United States, firms owned by immigrants from most other countries have significantly smaller pay inequality.
- We only consider the firms in Canada, all firms operate in the same country, and the firms thus face similar economic and institutional environments.
- We asserts that the within-firm pay inequality across owners' country of origins can be largely attributed to variations in the owners' cultural heritages.
- Our hypothesis is that, pay inequality is smaller in more collectivistic countries, and greater in more individualist countries

Methodology

- $\mathrm{WFI}_t^j = I_{SC}^j \times \beta_1 + X_t^j \times \beta_2 + IndustryFE + ProvinceFE + YearFE + \epsilon_t^j$
- I_{SC}^j is the indicator variable of firm jś owner's source country.
- $beta_1$ is the owners' country of origin fixed effect
- X_{jt} are the characteristics of firm or owner that may affect within-firm pay inequality.

Origins Effect

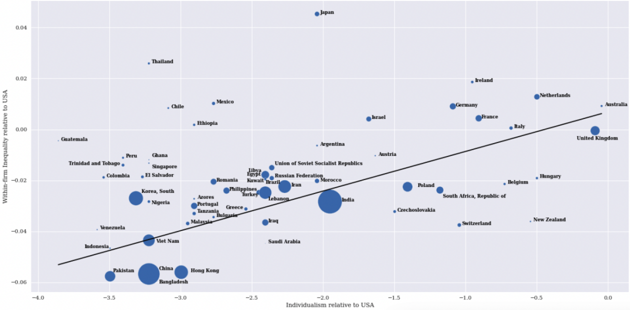
Origins does affect inequality

- Column (2) (3) & (4) are regression with different characteritics set X_t^j
- Most of the origin countries effect significantly mitigate inequality.
- The results are robust across various specifications with different fixed effects and using different sets of control variables.

	(1)	(2)	(3)	(4)
	Within-firm pay inequality			
Afghanistan	-0.0564***	-0.0447***	-0.0381***	-0.0356***
	(0.011)	(0.0109)	(0.0109)	(0.0109)
China	-0.0621***	-0.0567***	-0.0455***	-0.0445***
	(0.0091)	(0.0009)	(0.0090)	(0.0090)
Egypt	-0.0202*	-0.0178	-0.0073	-0.0088
	(0.0115)	(0.0114)	(0.0113)	(0.0113)
France	0.0026	0.0044	0.0143	0.0155
	(0.0114)	(0.0112)	(0.0113)	(0.0113)
Germany	0.0129	0.0091	0.0087	0.0108
	(0.0124)	(0.0122)	(0.0124)	(0.0125)
Hong Kong	-0.0607***	-0.0560***	-0.0473***	-0.0440***
	(0.0097)	(0.0096)	(0.0096)	(0.0097)
India	-0.0310***	-0.0283***	-0.0177**	-0.0185**
	(0.0091)	(0.0009)	(0.0090)	(0.0090)

Origins indivisualism

- We replace the owners' country of origins fixed effects I_{SC} with Hofstede's measure of individualism at the country level
- We set the indivisualism score of U.S as 0, most other countries I_{SC} are negative.
- We run the regression of inequality on indivisualism score: $\text{WFI}_t^j = I_{SC}^j \times \beta_1 + X_t^j \times \beta_2 + ... + \epsilon_t^j$
- Positive significant association between individualism and within-firm pay inequality.



Mechanism

Pay-for-performance compensation

- Indivisualistic owners like to give monetary incentives, they pay for higher ability employees who are likely to perform well.
- To test such point, we run the regression:
$y_t^{i,j} = HighAbility_t^{i,j} \times \alpha_1 + HighAbility_t^{i,j} \times IDV^j \times \alpha_2 + ...$
- Where $y_t^{i,j}$ is the salary of worker i in company j at time t. And IDV^j is the owner of company j's origin individualism score.
- If $\alpha_1 = 0$ and $\alpha_2 > 0$, this indicates a high ability worker will only get extra compensation from a company owned by an individualistic boss

Only individualistic owner give monetary incentives

	(1)	(2)	(3)	(4)
	Log (Earnings)			
High ability × Individualism	0.2096***	0.2097***	0.2045***	0.2044***
	(0.0541)	(0.0541)	(0.0543)	(0.0543)
High ability	0.0443	0.0446	0.0464	0.0464
	(0.0288)	(0.0288)	(0.0290)	(0.0290)
Ability	0.3100***	0.3099***	0.3099***	0.3100***
	(0.0147)	(0.0146)	(0.0147)	(0.0147)
Log (# employees)		-0.1417***	-0.1876***	-0.1885***
		(0.0512)	(0.0539)	(0.0538)
Log (Capital-labor ratio)		0.0055	-0.0098	-0.0094
		(0.0232)	(0.0180)	(0.0180)
Log (Revenue)			0.0749	0.0715
			(0.0751)	(0.0756)
Log (Firm age)			-0.1748	-0.1711

Individualistic owner select groups of employees with more dispersed employee ability

- Regression of variance of ability on individualism score: $\text{Var}(\text{Ability}) = \text{IDV}^j \times \gamma_1 \ldots$

	(1)	(2)	(3)	(4)
	Variance (New hires' ability)			
Individualism	0.0783***	0.0723***	0.0670***	0.0666***
	(0.0140)	(0.0140)	(0.0143)	(0.0143)
Log (# employees)		0.0228***	0.0098	0.0111
		(0.0049)	(0.0068)	(0.0068)
Log (Capital-labor ratio)		0.0110***	0.0068**	0.0067**
		(0.0023)	(0.0029)	(0.0029)
Log (Revenue)			0.0127***	0.0125***
			(0.0043)	(0.0043)
Log (Firm age)			0.0016	0.0011
			(0.0199)	(0.0200)

Difference-in-differences analysis

- Owners' countries of origins may be systematically correlated with firms' company sector. E.g. some countries immigrants are more likely to hold an technology companies which usually have more inequality pay
- So we need to fix a firm and to see it's inequality after it's taken over by new owner from another country
- treated group (owner from another country), control group (owner from the same country)
- $WFI_t^j = I(Post_{jt} \times Treated^j)\mu_1 + I(Post_{jt} \times Treated^j \times \Delta Culture_t^j)\mu_2 + ...$
- If $\mu_1 = 0$ and $\mu_1 > 0$, it means only culture change is the key

Difference-in-differences analysis cont.

- Changing the owner's country doesn't directly affect the inequality
- Culture changing affects the inequality

	(1)	(2)	(3)	(4)
	Within-firm pay inequality among all employees			
Post × Treated	0.0009	0.0004	-0.0026	-0.0017
	(0.0168)	(0.0168)	(0.0168)	(0.0168)
Post × Treated × Δ Culture	0.0374**	0.0372**	0.0321**	0.0330**
	(0.0157)	(0.0157)	(0.0157)	(0.0157)
Log (# employees)		0.0520***	0.0611***	0.0616***
		(0.0091)	(0.0109)	(0.0109)
Log (Capital-labor ratio)		-0.0009	0.0022	0.0030
		(0.0053)	(0.0057)	(0.0057)
Log (Revenue)			-0.0051	-0.0058
			(0.0100)	(0.0100)

Difference-in-difference analysis cont.

- Repeat the DiD analysis on a subsample of employees who work in the firm both before and after the ownership change (do not consider thoese new staffs brought by the new owner). Such result still holds.
- Result also holds when only focusing on Restaurant Accommodation and Food Service industry

Conclusion

Conclusion

- Relative to firms owned by U.S. immigrants, firms owned by immigrants from most other countries have significantly smaller pay inequality.
- Individualistic owners emphasize monetary incentives, but others focus more on group harmony and equal pay.
- We find an increase in within-firm pay inequality after the firm was taken over by immigrant owners from a more individualistic country.

Thanks!

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