2. Theoretical framework: Definitions, theories, limitations

The following chapter presents an overview of the major concepts and theories utilized in this dissertation. It provides a basic understanding of the research field on family firms in subchapter 2.1., of pay variation in 2.2. and of the combination of both in 2.3. In these chapters, brief definitions of family firm (2.1.1.) and pay variation (2.2.1.) are provided. In the research on family firm subchapter, the SEW concept (2.1.2.), the FIBER model (2.1.3.) and the PSE approach (2.1.4.) are discussed. Regarding the research on pay variation two major theories are presented: Equity Theory (2.2.2.) and Tournament Theory (2.2.3.). Subchapter 2.3. addresses existing literature on compensation (2.3.1.) and pay variation (2.3.2.) in family firms.

2.1. Research on family firms

This chapter on research on family firms serves two major purposes. First, getting acquainted with basic definitions of family firm (2.1.1.) will help to understand how research on family firms evolved, what definitions are used in literature and what definition is applied throughout this study when using the term family firm. Second, theories are presented explaining the distinction of the research field in comparison to non-family firm specific research such as SEW (2.1.2.) and providing more detail by discussing concept enhancements applied in this dissertation such as FIBER (2.1.3.) and PSE (2.1.4.).

2.1.1. Basic definition of family firm

Origins

Research on family firms (the term „family business“ is treated as synonym in this thesis document) is not a new research area. However, in recent decades interest in this topic has increased dramatically not only evidenced by the quantity of journal publications but also in terms of journal quality, as well as in business school programs (Sharma, 2004). Up to 1989, only 33 peer-reviewed articles could be found in an ABI ;search on family business; this rose to an average number of articles per year of eleven in the 90’s, and 49 articles between 2000-2003 (Sharma, 2004). Traditionally, the rationale for research on family firms was triggered by their economical prevalence across many industrialized nations of the world (Astrachan

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and Shanker, 2003; Klein, 2000; Sharma, 2004). However, this alone does not justify the field's becoming a research field of its own (McKinley, Mone, and Moon, 1999).

Early on in family firm research, the field was still undefined and unclear, which led to a problem in providing a general justification for the distinctiveness of the field (Hoy, 2003). One of the most cited statements regarding this matter is provided by Wortman (1994), e.g. quoted by Sharma (2004) in her “Overview of Family Business Studies”: "No one really knows what the entire field is like or what its boundaries are or should be." (Wortman, 1994: p. 4). Initially, different approaches were attempted to achieve a legitimate distinctiveness for the research stream by comparing family firms with non-family firms (Anderson and Reeb, 2003; Lee and Rogoff, 1996; Miller, Lee, Chang, and Le Breton-Miller, 2009). Even though these efforts advanced knowledge in the field, a clear and validated distinction between both firm types could not be achieved (Sharma, 2004).

Therefore, to conduct sustainable research on family firms, consistent definitions are of major importance in distinguishing between family and non-family firms and for ensuring comparability and reliability of research efforts (Habbershon and Williams, 1999; Klein, 2000; Smyrnios, Tanewski, and Romano, 1998) as well as building a cumulative body of knowledge (Sharma, 2004). Still, the struggle to achieve such a definition is ongoing, as much of a paradox as this might seem. Asked about their definition of a family firm, initially one is confident in having one, but then struggle once they have to pin it down concretely (Lansberg, 1988). Finding consistent definitions is thus an ongoing struggle in scientific research as such (Sharma and Chrisman, 1999), as significant effort is invested in the development of an adequate definition and as definition overviews are developed (Chua, Chrisman, and Sharma, 1999; Miller, Le Breton-Miller, Lester, and Cannella, 2007). For example, Habbershon, Williams, and Daniel (1998) identified 44 definitions over a period of ten years, whereas, Miller et al. (2007) reviewed 28. Exemplary definitions deal with ownership (e.g. a family or founder owns more than 5%) (Anderson and Reeb, 2003; Cronqvist and Nilsson, 2003; Villalonga and Amit, 2006), or succession (e.g. successful transfer into the next generation) (Bennedsen, Nielsen, Pérez-González, and Wolfenzon, 2006; Pérez-González, 2006). As a result, consensus creation seems difficult (Hack, 2009; Litz, 1995; Sharma, 2004), even though it cannot be denied that significant advancements have been achieved (Astrachan, Klein, and Smyrnios, 2002; Chrisman, Chua, and Sharma, 2005).

One major obstacle regarding definition creation is that family firm research needed to recognize that family firms are not a homogeneous but rather a vast heterogeneous group of organizations (Arregle, Hitt, Sirmon, and Very, 2007; Chua, Chrisman, Steier, and Rau, 2012; Melin and Nordqvist, 2007; Tsang, Eric W. K., 2002). Even though family firms share unique characteristics, they differ in other dimensions, such as family involvement in the TMT, ownership, culture and many more. Certain publications account for this heterogeneity (Sharma, 2004; Westhead and Howorth, 2007), however, show the tendency to simplify (Hack, 2009). Aspects of heterogeneity may evolve in an industry environment and through corporate governance as well as in resources and capabilities (Chua et al., 2012).

First family firm specific concepts and models

In the following paragraphs I will describe relevant research that led to an improved understanding of family firms, starting with the well-established overlapping three-circles model by Lansberg (1988), followed by Chrisman et al. (2005)'s "Components-involvement" and "Components-of-essence" approach, to Astrachan et al. (2002)'s development of the F-PEC scale and concluding in The Socioemotional Wealth concept of Gómez-Mejía et al. (2007). I conclude this subchapter by presenting the applied understanding of family firms in this paper.

The earliest endeavors to categorize family firms apply two overlapping circles standing for family and business (Lansberg, 1983). Tagiuri and Davis (1996) (initially published in 1983) added a third circle representing the ownership system, standing for family membership, ownership and managerial roles of internal family firm stakeholders (Lansberg, 1988). The model helped to understand the distinction of family firms along the parameters represented in each circle (Lansberg, Davis, Gersick, and Hampton, 1996). Each overlap signifies potential conflict in many aspects of family business management and survival over multiple generations (Hoy and Verser, 1994). However, due to the manifold categorical options possible, the circle models could not satisfy the ultimate desire for definition clarity.

To advance in this area, Chrisman et al. (2005) summarized existing literature and named two approaches to remedy this lack of clarity. He based his "Components-of-involvement" approach conceptually on the three-circle-model. "The components-of-involvement approach is based implicitly on the belief that family involvement is sufficient to make a firm a family business." (Chrisman et al., 2005: p. 556). Related definitions that were based on this approach require the firm to have e.g. a family owner, family involvement in management or clear control over the firm. However, as definitions vary substantially, showing large differences of 5% to 100% as an ownership requirement (Chua et al., 1999; Villalonga and Amit, 2006), they are often criticized as they do not necessarily convert into family firm specific behavior (Chua et al., 1999; Hack, 2009).

"The essence approach, on the other hand, is based on the belief that family involvement is only a necessary condition; family involvement must be directed toward behaviors that produce certain distinctiveness before it can be considered a family firm." (Chrisman et al., 2005: p. 556–557). Examples of the required distinctiveness can be based on firm strategies (Sharma, Chrisman, and Chua, 1997; Ward, 1988), firm resources and capabilities (Eddleston, Kellermanns, and Sarathy, 2008; Habbershon and Williams, 1999; Habbershon, Williams, and MacMillan, 2003; Sirmon and Hitt, 2003), and the exertion of control (Litz, 1995; Sharma, 2004; Zellweger et al., 2012). Relatively new statistical methodologies concerning mediation and moderation have enabled researchers to analyze interaction effects between the approaches (Chrisman, Chua, Steier, Wright, and McKee, 2012) combining the strength of both. However, the definition of levels poses concerns as they may not translate into a distinct family firm behavior, raising the question of whether the main threats to the involvement approach may also hold true for the essence approach (Hack, 2009).

In an attempt to take research one step further, Astrachan et al. (2002) designed and validated the now ready-to-use “F-PEC scale” of family influence, consisting of the subscales power (P), experience (E), and culture (C). The F-PEC scale allows consolidation of the subscales into one metric variable (Klein, Astrachan, and Smyrnios, 2005), measures "family influence on any business organization" (Sharma, 2004: p. 4) and applies a variety of interchangeable influence dimensions on the family firm continuum (Sharma, 2004). The power dimension is of particular importance as it represents the power a family exercises through various direct or indirect means such as ownership, management or controlling bodies of the organization (Klein et al., 2005; Sharma, 2004). The experience scale processes quantitative and qualitative aspects by measuring which generation owns the firm, number of generations / members involved in managing the firm and which generation is involved in the governance board (Klein et al., 2005). Finally, the culture subscale measures family’s value reflection on the firm. Still, also the F-PEC scale was criticized regarding certain aspects.

Obviously, different scores on specific dimensions can lead to the same overall family score, may neglecting individual minimum requirements per dimension (Hack, 2009). Additionally, data requirements for the scale are quite substantial and as some information may not be collected via cross-sectional data, an application is difficult (Zellweger, 2006).

The latest theoretical approach towards family firm distinctiveness described in this subchapter takes into consideration many aspects of previous research and criticism, but is only briefly discussed. An in-depth discussion will be presented in the following subchapter 2.1.2. Gómez-Mejía et al. (2007) introduced the notion that family firms differ substantially from non-family firms as the preservation of socioemotional wealth (SEW) endowment ,also referred to as non-financial goals, prevail over financial goals. Examples of such behavior might be that firms would accept higher risks to secure firm control (Gomez-Mejia, Makri, and Kintana, 2010; Gómez-Mejía et al., 2007) or would pollute less to improve public reputation and image (Berrone et al., 2010). Further, Hauswald and Hack (2013) state that aspects of socioemotional wealth such as family control and influence may also impact how a benevolent stakeholder perceives family firms. These findings, among many others, enable family research not only to achieve research field distinctiveness but also to differentiate between family firms, acknowledging the field's heterogeneity.

Applied definition

As we can see, no single definition turns up when going through family business research. However, empirical studies tend to rely on measurable aspects of family firm characteristics. One prevailing aspect is measuring ownership (Astrachan et al., 2002; Engelskirchen, 2007). In this dissertation, we require family share ownership as minimum requirement to qualify as family firm (Anderson and Reeb, 2003; Anderson and Reeb, 2004; Lee, 2006; Miller et al., 2007; Villalonga and Amit, 2006). Furthermore, the selected companies had to have at least one family member actively involved with the firm, either through direct ownership activities, management or control activities (Gomez-Mejia, Larraza-Kintana, and Makri, 2003). Additionally, all companies selected defined themselves as family firms (Eddleston, Kellermanns, and Zellweger, 2012; Kotey, 2005a; Kotey, 2005b).

2.1.2. Socioemotional Wealth Concept

Introduction

The Socioemotional Wealth concept is in its beginning phase of use but already becoming quite popular as its notion enables practitioners and researchers alike to understand family firm reality and acknowledge the existence of "multiple salient goals that are driven by the values of the family and that change over time" (Berrone et al., 2012: p. 262). SEW goes back to Gómez-Mejía et al. (2007), explaining family firm specific behavior using the example of Spanish olive mills to illustrate that family firms place non-economic or non-financial goals above economically rational reference points. These non-economic utilities that owner families obtain holistically or individually are labelled SEW or affective endowment (Berrone et al., 2012). This implies that, as owning families strive to maximize or preserve SEW instead of financial performance in whichever form it is measured (Gomez-Mejia et al., 2011), the SEW maximization approach becomes the reference point for family firm decision making (Berrone et al., 2010; Gomez-Mejia et al., 2010; Gómez-Mejía et al., 2007; Zellweger et al., 2012), and may stand in opposition to other stakeholders of the firm such as minority shareholders and their goals (Gómez-Mejía et al., 2007; Kellermanns et al., 2012b). However, this does not imply that economic aspirations are completely set aside, as in the long run firm survival obviously depends on this necessary condition and SEW “extinction” would be risked (Berrone et al., 2012).

The SEW concept enables us to grasp family firm’s motivations and strategic targets driving their behavior (Astrachan and Jaskiewicz, 2008) and represents a significant differentiation criteria between family and non-family businesses (Chrisman et al., 2004; Chua et al., 2012). Furthermore, the importance of SEW is not equal among family firms due their heterogeneous nature, but is related to the form and grade of family empowerment (Berrone et al., 2012) such as ownership, management influence, cross-generational involvement or firm maturity (Astrachan et al., 2002; Chua et al., 2012; Klein et al., 2005; Ling and Kellermanns, 2010).

Origins and development

The origins of the SEW approach lie in behavioral agency theory (Gomez-Mejia, Welbourne, and Wiseman, 2000; Wiseman and Gomez-Mejia, 1998), arguing "that preferences are shaped by existing endowments" (Miller and Le Breton-Miller, 2014: p. 713), and integrating aspects of prospect theory and agency theory as well as behavioral theory of the firm (Berrone et al., 2012). The basis of this behavioral agency theory approach lies in the decision making process of family firms considering the family firm's leading values, principals and goals as reference point for their actions. Berrone et al. (2012) summarized this by stating: "Fundamental to this theory is the notion that firms make choices depending on the reference point of the firm's dominant principals. These principals will make decisions in such a way that they preserve accumulated endowment in the firm. In the case of family principals, the emphasis on preserving SEW becomes critical. Hence, family owners frame problems in terms of assessing how actions will affect socioemotional endowment. When there is a threat to that endowment, the family is willing to make decisions that are not driven by an economic logic, and in fact the family would be willing to put the firm at risk if this is what it would take to preserve that endowment." (Berrone et al., 2012: p. 259) SEW, as a consequence, sums up the affect-related benefits a family generates by their position as firm owner.

Key to the concept is that SEW can only be experienced completely by family members as it is a deeply embedded and intrinsic psychological goal that requires preservation, even though non-family employees may feel part of it (Berrone et al., 2010). As a result, anything in opposition to SEW preservation and endowments leads the family to be in a "loss mode", according to behavioral agency theory and will lead the family to choose strategies to counter this possibility, and they may even be in opposition to the goals of other shareholders and / or stakeholders. As SEW preservation is the primary reference point for family firm decision making, it cannot be explained by applying economic reference points as it even overshadows financial risks and concerns if they threaten SEW legacy (Berrone et al., 2012; Zellweger et al., 2012). A reconsideration or shift in the decision reference point is only possible if the family is forced to do so due to the fear of severe external threats to the firm's survival or the family's standard of living (Gómez-Mejía et al., 2007).

Furthermore, the SEW concept allows family firm researchers to discover new research areas due to its strong theoretical base and allows the creation of a new hypothesis, such as agency theory, clarifying existing contradictions or anomalies in classic family firm research. This includes occasional opportunistic behavior as well as risky or non-risky behavior of firms as long as it has a positive SEW effect (Anderson and Reeb, 2003; Gomez-Mejia et al., 2010; Gómez-Mejía et al., 2007). Additionally, it not only includes insights from agency theory but draws also from stewardship theory (Donaldson and Davis, 1991) as it accounts for collaborative behaviors (Sundaramurthy and Lewis, 2003) and emotional aspects (Baron, 2008) of family firms; however, it does not include naïve assumptions about the perfect steward (Berrone et al., 2012).

Sources of SEW and Outcomes

But where does the source of striving for SEW endowment lie? Miller and Le Breton-Miller (2014) state that "there are many possible types of social and affective endowment that accrue to family members as a result of controlling a business" (Miller and Le Breton-Miller, 2014: p. 714). These can include aspects of community life to enhance reputation (Sharma and Manikutty, 2005), social status and social capital (Arregle et al., 2007; Kets de Vries, 1993; Tagiuri and Davis, 1996) or to amass political power, but could also refer to less altruistic drivers such as making firm resources available to or offering challenging career opportunities to family members such as children or to satisfy family ego and/or pride (Gomez-Mejia et al., 2011; Lubatkin, Durand, and Ling, 2007; Miller and Le Breton-Miller, 2014).

Further, affectively motivated needs can refer to the requirement of a harmonious family life or the desire to feel close to the family but also to maintain family control over the firm or to maintain values within the company like trust and reputation. Additionally, family firms often strive to enable dynastic succession and maintain patriarchal duties (Berrone et al., 2010; Gomez-Mejia et al., 2011; Gomez-Mejia et al., 2010; Gomez-Mejia, Nunez-Nickel, and Gutierrez, 2001; Gómez-Mejía et al., 2007; Schulze, Lubatkin, and Dino, 2003), focus on continuing the family firm to the next generation (Handler, 1990; Kets de Vries, 1993), or identity generation and feeling part of the family and firm, (Ashforth and Mael, 1989; Kepner, 1983). In line with this, a potential loss of trans-generational control, as in the case of a family firm disposition process, would stand for a loss in SEW and would thus lead to overly proportional prices as this loss in SEW endowment needs to be priced in (Zellweger et al., 2012). Additionally, it may also influence firm valuation from the view of private equity investors as a loss of family involvement may actually reduce firm value to the new owners (Ahlers, Hack, and Kellermanns, 2014). Miller, Le Breton-Miller, and Lester (2013) even argue that the more family members are actively involved in managing and owning the firm, the more closely the firm is aligned with its SEW goal which is in congruence with its general strategic alignment.

But along with identifying the sources and motivations of SEW, I have to analyze potential effects and outcomes of striving for SEW in family firms. Here, negative and positive outcomes can be observed and are analyzed in existing research. Among the negative outcomes identified regarding norms, values and traditions were risk aversion and dysfunctional conservatism, both connected to the maintenance of control by all means and the attempt to provide benefits to forthcoming family generations (Handler, 1990; Schulze et al., 2003; Schulze, Lubatkin, Dino, and Buchholtz, 2001). Furthermore, a tendency towards nepotism may be present in family firms, yielding management that may not be up to the requirements of the position (Mehrotra, Morck, Shim, and Wiwattanakantang, 2011; Volpin, 2002) and family entrenchment may cause the firm to stagnate and to gamble with potential strategic opportunities as well as its future (Bertrand and Schoar, 2006; Bloom and van Reenen, 2007).

However, among the positive outcomes are concern for important stakeholders in general. through community work and engagement thereby achieving a positive public image and maintaining local community foundation (Cennamo et al., 2012; Kellermanns et al., 2012b; Miller and Breton-Miller, 2005) or by building dedicated business partners that may even foster financial performance (Berrone et al., 2010). Still, outcomes of family firms' performance may be biased by time and respective environmental influences; negative outcomes at first sight, such as extreme conservatism, may benefit company's performance in unchanging industries and may be detrimental to it in fast-moving environments (Naldi, Cennamo, Corbetta, and Gomez-Mejia, 2013).

Challenges

However, there are also several challenges connected to the Socioemotional Wealth concept. These relate to the heterogeneity of the research field, cause and effect relationships, specificity of the theory to its main purpose, many white research spots and the non-availability of direct measures in existing literature (Miller and Le Breton-Miller, 2014).

First, due to the heterogeneity of the field, SEW priorities change significantly not only between firms but also between different family members and throughout the lifecycle of individual family firms. This shift in reference point and its current relative importance may have many reasons but it is easily understood that a firm founder may focus on handing the firm over to his offspring, whereas the offspring may focus on the wealth and/or status inherent to the firm (Le Breton-Miller and Miller, 2013; Lubatkin, Schulze, Ling, and Dino, 2005). Different priorities may also become evident between family members who are formally involved and strive for certain strategic goals, such as firm growth, which may require cash investments and family members that have no longer any direct connection to the firm and may be interested in cash outs (Miller and Le Breton-Miller, 2014).

Second, Miller and Le Breton-Miller (2014) argue that the effects of labeled SEW preservation strategies may not in fact be connected to SEW at all, as the theory would claim. This cause and effect challenge can be illustrated by the example of family firms that strive for economic returns rather than SEW when pursuing internationalization, diversification, risk taking (Gomez-Mejia et al., 2010) or external stakeholder collaboration strategies (Freeman, 2010). Furthermore, SEW preservation activities, such as community involvement and stakeholder management, among others, may be done to achieve a certain intrinsic instrumental financial goal or employee performance improvement rather than a normative SEW goal. The inverse also holds true since improved financial performance may lead to enhanced social capital and prestige, just as passing control to the next generation may generate competitive advantages through strategic and personnel consistency. As a consequence, clearly identifying motives and the underlying cause and effect relationships remains elusive and is therefore worthy of further research (Miller and Le Breton-Miller, 2014).

Third, it is challenging to attribute SEW concerns uniquely to family firms. Miller, Le Breton-Miller, and Lester (2011) found that entrepreneurs may see rapid growth as a goal in its own right, one that provides emotional satisfaction in contrast to striving for status and identity. A similar rationale holds true for managers seeking continuous and transparent profit development to foster a reputation with financial analysts (Healy and Wahlen, 1999). This combination of dimensions, in this case social and emotional, are also typical of family firms and their founders and may not be unique to them (Miller and Le Breton-Miller, 2014).

Fourth, as SEW is still a nascent theory there are many aspects of family firms still to be explored. The designation of the theory as socioemotional wealth already acknowledges its multidimensionality as family firm matters are so complex that several dimensions are needed to grasp in full depth and breadth of the research field (Miller and Le Breton-Miller, 2014). However, it may still be too restrictive in its past research agenda as political and cultural aspects have not yet been in the research focus and may explain even better, at least for some firms, family firm specific behavior. It is comprehensible that acquiring political power or satisfying community needs may be beneficial for firms (Miller and Le Breton-Miller, 2014). Thornton, Ocasio, and Lounsbury (2012) have already stated that institutional rationalities concerning religion, state, market, community may all be related to family firm specific behavior.

Finally, SEW has not yet directly been measured. Even though Berrone et al. (2012) have provided a ready-to-use list of items, it has not yet been validated. In contrast, until now, items used were mostly proxy variables in the hope to grasp the SEW notion and inferring that these variables actually measure what they are intended to (Miller and Le Breton-Miller, 2014). These are largely connected to governance variables, such as ownership, management involvement, age in years and generations, etc. (Gomez-Mejia et al., 2011) or behaviors such as risk aversion (Gómez-Mejía et al., 2007), degree of innovation (Kraiczy, Hack, and Kellermanns, 2014a) or environmental responsibility matters (Berrone et al., 2010).

New developments

To meet at least some of these challenges, new approaches are presented to deepen the understanding of the research community. Two approaches, the FIBER model and the Proactive Stakeholder Engagement approach, are discussed more in detail in the upcoming subchapters 2.1.3. and 2.1.4. as they resolve some of the previous aspects; other challenges go deeper and thus remain. Still, Miller and Le Breton-Miller (2014) have introduced a new orientation towards SEW by differentiating between restricted and extended SEW priorities in order to achieve improved precision by simultaneously acknowledging SEW diversity, addressing outcomes and including non-family stakeholders. The applied typology consists of a dichotomy between SEW priorities that provide a "narrow and short-term benefit to the family" (Miller and Le Breton-Miller, 2014: p. 716) (restricted) and the ones providing a "more enduring benefit to a broader range of stakeholders" (Miller and Le Breton-Miller, 2014: p. 716) (extended). Restricted SEW priorities are those that set the family in the center of activities and satisfy their SEW endowment in the short run, often harming other stakeholders or firm performance in the long run (Miller and Le Breton-Miller, 2014). Theoretical discussions associated with it are often agency-conflict related and concern family altruism or behavioral agency theory (Lubatkin et al., 2005; Schulze et al., 2003; Schulze et al., 2001;

Wiseman and Gomez-Mejia, 1998). Extended SEW priorities are less family oriented, address the needs of outside stakeholders as well, and are thought to have a more long-term orientation (Miller and Le Breton-Miller, 2014). Supporting theoretical discussions refer to stewardship theory, stakeholder and sustainability approaches regarding family firm literature (Arregle et al., 2007; Miller, Le Breton-Miller, and Scholnick, 2008).

To sum up, according to Berrone et al. (2012) "SEW is the single most important feature of a family firm’s essence that separates it from other organizational forms" (Berrone et al., 2012: p. 260) and "together, all these benefits position the SEW approach as a potential dominant paradigm in the field" (Berrone et al., 2012: p. 262).

2.1.3. The FIBER Approach

The FIBER model was introduced by Berrone et al. (2012) dividing the preeminent goal of family firms to preserve their Socioemotional Wealth endowment into five specific dimensions in order to add detail and structure to the ongoing SEW discussion as well as to address SEW multidimensionality. These five dimensions are described in detail in the next paragraphs and stand for F – family control, I – Identification of family members with the firm, B – binding social ties, E – emotional attachment of family members and R – renewal of family bonds to the firm through dynastic succession (Berrone et al., 2012). The authors of the model proposed the identified dimensions based on prior research regarding SEW priorities and connected social science disciplines.

The model is the overarching theoretical basis for this dissertation which is firmly seated in The Socioemotional Wealth concept. As I have already discussed in earlier chapters, SEW has not yet been measured directly. However, Berrone et al. (2012) have presented a set of items related to each FIBER dimension. Throughout this dissertation I will measure the three normative dimensions I, B and E (see reasoning in later chapters) and contribute significantly to SEW and FIBER research.

Family control

The first dimension, family control, is connected to the desire of each owning family to execute, maintain and if possible foster control over their firm as it represents a significant aspect of their socioemotional wealth legacy. Control and influence over the firm's strategic path (Chua et al., 1999; Schulze et al., 2003) and operational management aspects may be the most obvious and easiest to understand, and for owner families may be one of the most important and desired aspects (Zellweger et al., 2012) of all FIBER items and is often operationalized through ownership, management, board or control involvement (Berrone et al., 2012). Control can be exercised directly by becoming a shareholder or manager but also indirectly by appointing managers or even just by status, aura or personality. The individuals exercising control may change over time in quality and quantity. Throughout the lifecycle of family firms, control may be transferred from a lone founder to multiple family members or even multiple families within the first or subsequent generations (Berrone et al., 2012). Often, multiple aspects or roles of indirect / direct, also called "informal" / "formal" control are claimed by individual family members (Mustakallio, Autio, and Zahra, 2002). An example of this control demand in terms of SEW endowment may be a founder who transfers his CEO position to his son regardless of negative performance effects on the management of the firm in order to maintain family influence on day-to-day decision making.

Identification of family members with the firm

In existing literature, the notion that family and firm together create an exclusive and distinctive identity representing values, traditions, norms and social habits has already been researched (Berrone et al., 2010; Dyer, Jr. and Whetten, 2006; Kepner, 1983). This connection of originally independent systems can have many sources but is often directly linked to the name of the family that is often also the name of the company. Berrone et al. (2012) state that "this causes the firm to be seen both by internal and external stakeholders as an extension of the family itself" (Berrone et al., 2012: p. 262). On the one hand, internal stakeholders may refer to employees that can influence firm processes, quality, services and/or products (Carrigan and Buckley, 2008; Teal, Upton, and Seaman, 2003), whereas external stakeholders may be related to suppliers, communities, customers, etc. (Micelotta and Raynard, 2011). Both internal and external stakeholders may significantly influence family firm strategies and decision making as internal efficiency, standards and values as well as external image and perception are crucial to the family's SEW endowment. These adaptions may require family firms to provide high-quality, non-hazardous products, to upgrade CSR activities (Berrone et al., 2010), to become better community citizens (Berrone et al., 2012; Craig and Dibrell, 2006; Dyer, Jr. and Whetten, 2006), or to maintain an affirmative "image and reputation" (Berrone et al., 2012; Sharma and Manikutty, 2005; Westhead, Cowling, and Howorth, 2001). Westhead et al. (2001) even underlined that if there is non-compliance with these demands, the strong identification of family members with the firm could eventually have significant negative emotional effects on the same, as exit options such as departing the business or changing the business's name to counter negative family-firm-associations are often not an option (Zellweger and Astrachan, 2008). However, in the same way, positive consequences may be achieved through this identification as well (Gómez-Mejía et al., 2007).

Binding social ties

The third dimension, binding social ties, deals with the social relationships within the firm's family and environment and the resulting social impact (Berrone et al., 2012). It represents a central means of conducting business successfully within its environment (Ensley et al., 2007). These social ties comprise relationships with a full set of potential external and internal stakeholder such as employees, community, customers, suppliers, etc. (Miller et al., 2009) based on certain levels of trust and blurring the line between family, firm and environment (Miller et al., 2011). This blurring can take place such that a long-time trusted supplier may essentially become part of the family network (Uhlaner, 2006) or employees begin sharing the same form of family identity (Miller and Breton-Miller, 2005). Furthermore, (extended) owner families are often strongly integrated into their original founding location's community, supporting it in terms of sponsorship and donations in order to enhance their community image (Berrone et al., 2010). According to Schulze et al. (2003), reasons for such behavior may be altruistic or instrumental in nature, or both. This closeness provides advantages to the firm in the form of Socioemotional Wealth like social capital, trust or solidarity as can normally only be found in different types of closed networks (Coleman, 1990; Cruz, Justo, and De Castro, Julio O., 2012; Uzzi, 1997). A citation in Berrone et al. (2012) sums things up nicely: [...] given these reciprocal bonds in family businesses, one would expect these firms to pursue the welfare of those who surround them, even if there were no obvious transactional economic gains in doing so" (Berrone et al., 2012: p. 263; Brickson, 2005; Brickson, 2007).

Emotional attachment of family members

The emotional attachment of family members to each other and to the firm is a major SEW dimension, of special importance as a differentiator from non-family firms (Ashforth and Mael, 1989; Berrone et al., 2012; Kellermanns and Eddleston, 2007; Tagiuri and Davis, 1996) and may be one of the least and only indirectly researched FIBER dimensions (Berrone et al., 2012; Labaki, Michael-Tsabari, and Zachary, 2013). A regular organization where people work together on problems or challenges and simply interact is full of day-to-day emotions (Ashforth and Humphrey, 1995). However, where the family is concerned this connection is even stronger as positive and negative emotions permeate daily life and tend not to be separable from the family's business ventures and business decisions (Baron, 2008). These emotions may have a long history or be recent developments; still, they affect current or future family activities (Berrone et al., 2012). In any event, families tend to show a strong emotional affection towards their firm due to shared experiences and wealth (Sharma and Manikutty, 2005) and find the family firm a place where feelings and " the need to belong, affection, and intimacy are satisfied" (Berrone et al., 2012; Kepner, 1983) and where they may find an emotional identity (Berrone et al., 2012). It is important to acknowledge that the described emotions, especially between family members, can have positive and negative impacts on the business and in the latter case, due to the nature of families, relationships cannot be terminated (Berrone et al., 2012) giving conflicts a cutting edge. As all dimensions are in a certain way connected to each other and especially so the Identification and emotional ones, the major differentiator may be found mostly in the "I", as it describes how the family perceives itself in combination with the firm and what it means to it while "E" deals more with how family members feel and are attached to each other and what role emotions play in their corporate decision making (Allen and Meyer, 1990; Carlock and Ward, 2001; Eddleston and Kellermanns, 2007; O'Reilly and Chatman, 1986). Further constructs relating to emotions identified by Labaki et al. (2013) and integrated by Berrone et al. (2012) are emotional return and costs (Astrachan and Jaskiewicz, 2008), emotional capital (Sharma, 2004) and emotional value (Zellweger and Astrachan, 2008).

Renewal of family bonds to the firm through dynastic succession

Renewal of family bonds to the firm through dynastic succession can be described briefly as transferring family control to forthcoming generations (Berrone et al., 2012). Succession in general is one of the prevailing topics in family firm research (Chua et al., 1999; Kets de Vries, 1993) and a Socioemotional Wealth (Zellweger and Astrachan, 2008; Zellweger et al., 2012). As dynastic succession is generally an important goal for owning families and takes generations to evolve, respective firms and their strategies tend to be subject to different long-term time horizons (Miller et al., 2008; Sirmon and Hitt, 2003) compared to non-family firms (Berrone et al., 2012; Berrone et al., 2010). A sale of the family firm is generally not an option owning families consider as control, identification, tradition, heritage and emotions are so strongly related to the firm and represent an important SEW legacy (Tagiuri and Davis, 1992). Again, positive SEW effects may be achieved through consistent and long-term oriented business strategies representing "patient capital" (Sirmon and Hitt, 2003) and negative SEW effects may be related to entrenchment or succession conflicts, etc. (Berrone et al., 2012).

2.1.4. Proactive Stakeholder Engagement in family firms

Introduction

The Proactive Stakeholder Engagement (PSE) approach discusses how family firms deal with stakeholders and why it is in their best interest to do so in order to maximize their SEW endowment (Cennamo et al., 2012). Basic questions address whether a family firm's relationship with stakeholders is special and what special motivations might exist in the relationship. The approach proposed by Cennamo et al. (2012) is based on two fields currently heavily in focus for researchers and practitioners alike, namely Stakeholder Management (SM) (Laplume, Sonpar, and Litz, 2008; Westley and Vredenburg, 1997) and SEW concept (Berrone et al., 2012; Gómez-Mejía et al., 2007).

Stakeholder Management and Stakeholder Theory claim that firms, in order to be successful, must acknowledge and address (non-financial) dimensions that influence the firm within its environment (Donaldson and Preston, 1995; Freeman, 2010). These influencing dimensions can be of an internal and external nature and interests are due to their opposing nature not necessarily aligned. Examples can be employees, suppliers, community, shareholders and many more (Cennamo et al., 2012). These relationships between stakeholders (Aguilera and Jackson, 2003) and the firm are an inherent trait of every organization and can affect or be affected by the firm (Freeman, 2010). As a consequence, a firm should be intrinsically motivated to consider the needs of its stakeholders and include these considerations in its corporate strategy and operative decision making (Donaldson and Preston, 1995).

Major discussions

Two discussions need to be addressed when talking about stakeholder management and theory: the instrumental and normative and the reactive and proactive viewpoint on SM activities (Cennamo et al., 2012).

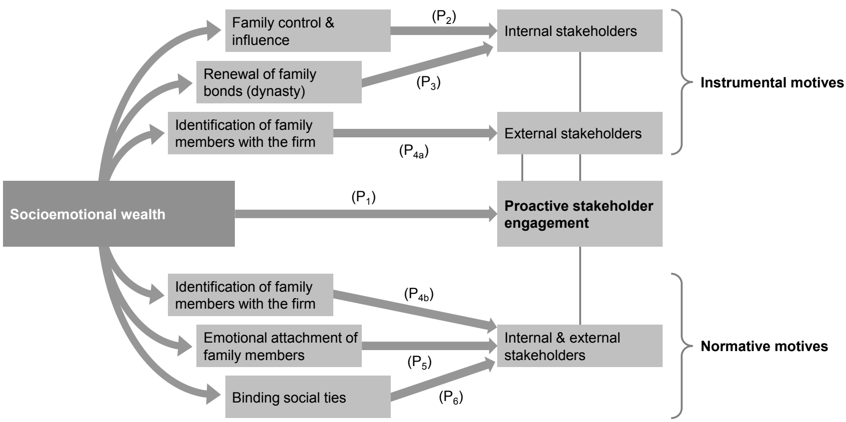
In discussing instrumental versus normative, we have to differentiate between the underlying motivations and attitudes towards SM (Cennamo et al., 2012). On the one hand, the normative perspective, also called normative stakeholder approach (Phillips, 1997; Wicks, Gilbert, Jr, Daniel R., and Freeman, 1994), is often focused on internal stakeholders and implies that firm activities and behavior need to follow ethical guidelines because such a course of action is the right thing to do (Harrison, Bosse, and Phillips, 2010); potentially negative economic implications to the firm must be ignored (Donaldson and Preston, 1995). The reasoning is that there may be “indirect” or “intrinsic” benefits to the firm and its stakeholders by doing the right thing (Cameron, Dutton, and Quinn, 2003).

On the other hand, the instrumental perspective or instrumental stakeholder approach (Jones, 1995; Jones and Wicks, 1999) claims that addressing stakeholder demands can pursue explicit goals to improve economic performance (Hillman and Keim, 2001; Surroca, Tribó, and Waddock, 2010), to enhance intangible aspects such as reputation (Aragón-Correa, J. Alberto and Sharma, 2003; Sharma and Vredenburg, 1998), or improve stakeholder relationships (Cennamo, Berrone, and Gomez-Mejia, 2009; Laplume et al., 2008). Nonetheless, it does not imply that the effects will be tangible, immediate or definite (Harrison et al., 2010) and even though it is safe to claim that different firms take SM more seriously than others the question why has not yet been fully addressed (Cennamo et al., 2009).

In discussing reactive versus proactive SM, the key question is whether firms see SM as something that may be avoided and may react only symbolically to stakeholder demands as they arise, or whether firms include SM in their corporate strategy process and operative decision making to ensure that stakeholder demands are always on the agenda and as well-served and anticipated as possible (Cennamo et al., 2012; Hillman and Keim, 2001; Laplume et al., 2008). The differentiation also considers whether SM is part of the firm’s strategic goal set or not. Nonetheless, the distinction between more passive and proactive SM, also called proactive stakeholder engagement (PSE), is not an either / or case for firms but revolves around a continuous scale (Sharma and Sharma, 2011). Reactive SM focuses on "meeting social and legal minimum requirements, and often is cosmetic rather than substantive" (Cennamo et al., 2012: p. 1156; Russo and Fouts, 1997). PSE, on the other hand, "refers to all stakeholder-oriented practices implemented by the firm to uncover issues of importance to key stakeholders, and enhance their welfare through the consolidation of practices and/or firm operations that would improve firm–stakeholder relationships" (Cennamo et al., 2012: p. 1157). Still the answer to the question of whether SM has a direct impact (Roome and Wijen, 2006) or not (Orlitzky, Schmidt, and Rynes, 2003) on firm performance remains elusive. Similar to the instrumental versus normative discussion, economic advantages to the firm are difficult to grasp and analyze (Cennamo et al., 2012) and are, therefore, hard for managers to rationally defend to their owners or performance-oriented stakeholders (Harrison et al., 2010).

Finally, the question remains of who or what source would support the implementation of PSE activities. Cennamo et al. (2012) state: "Surprisingly, neither the normative nor the instrumental approach discussed previously has systematically considered the role of owners. Central to my model is the notion that PSE is ultimately a function of who controls the organization and the extent to which this controlling party values the (nonmonetary) benefits derived from PSE." (Cennamo et al., 2012: p. 1157). Taking into account this statement it becomes obvious where the PSE approach fits into the previously discussed SEW concept and FIBER model. As the core notion of SEW lies in the fact that family owners value and even prefer “nonmonetary benefits” as part of their socioemotional wealth endowment, it is probable that family owners would pursue PSE activities (Berrone et al., 2010; Cennamo et al., 2012; Chrisman, Chua, Pearson, and Barnett, 2012; Gomez-Mejia et al., 2010). This combination of theoretical approaches helps understand why family firms have a special preference for PSE and why they focus not only on internal processes but also on external stakeholder demands to improve these relationships (Cennamo et al., 2012). Furthermore, the PSE approach includes FIBER model aspects as Cennamo et al. (2012) cluster the FIBER reference points as instrumental and / or normative and indicate their direction towards external and internal stakeholders. For a conceptual visualization see Cennamo et al. (2012)’s SEW-PSE Model in Figure 2-1.

Figure 2-1: The SEW-PSE Model by Cennamo et al. 2012



New approaches

Kellermanns et al. (2012b) introduce in their paper “Extending the Socioemotional Wealth Perspective: A Look at the Dark Side” the notion that SEW is not necessarily positively related to PSE but can have negative valence in its FIBER dimensions drawing from infusion theory (Forgas, 1995). Since the positive connotation has already been discussed at length already, the negative valence needs to be discussed as well. For example, it could lead to harmful behavior towards non-family stakeholders by focusing only on special family benefiting firm strategies. As a consequence, at first sight, a strong SEW focus may result in negative or even hurtful effects on other stakeholders as existing research suggests (Gordon and Nicholson, 2008; La Porta, Lopez-de-Silanes, Shleifer, and Vishny, 2002). These negative aspects range from expropriation of minority shareholders to employee exploitation, succession struggles, unjustified firm sales price to non-family members and community conflict (Gordon and Nicholson, 2008; Kidwell, Kellermanns, and Eddleston, 2012; La Porta et al., 2002; Zellweger et al., 2012), opposing other stakeholders (Gordon and Nicholson, 2008), despite strong FIBER implementation. This may even lead to family members engaging in fraudulent behavior or against generally accepted correct behavior in society in order to comply with family-specific organizational behavior (Eddleston and Kidwell, 2012; Warren, 2003), which is often strongly developed and dominant (Tagiuri and Davis, 1996), thus causing social scandals (Eddleston and Kidwell, 2012). As a result, SEW influences PSE positively as long as it goes along with “universal norms” but this is not the case if the preservation of SEW stands in opposition to these norms (Kellermanns et al., 2012b).

Current literature in the PSE context

In recent years, researchers around the globe have applied the PSE approach in different settings and to different research questions. However, the pure PSE concept by Cennamo et al. (2012) is rarely applied in its full complexity and results are not always fully in line with Cennamo et al.’s predicted relationships even though the general trend remains as predicted in a family firm environment. Additionally, some of the provided literature supports the “dark side” of SEW in the PSE discussion as raised by Kellermanns et al. (2012b). In the following paragraphs I will briefly introduce some of the most promising research.

In their article on the “Heterogeneity of Family Firms” Chua et al. (2012) have already summarized how strategic aspects of family firms such as the vision and goals as well as family control and influence, among which we can also find proactive stakeholder engagement, affect key business processes of an organization. The authors provide an overview and place PSE activities on the same level as innovation, internationalization, succession and professionalization. Further, Chua et al. also support the notion that PSE, among other aspects, serves to differentiate between family firms, which is also very helpful in the context of this thesis.

Following the publication of the PSE approaches in 2012, related research began in 2013. One example of this related research can be found in the paper on stakeholder benevolence perception by Hauswald and Hack (2013), which describes how family control and influence on organizational activities may positively affect individual stakeholders' perception of firm benevolence, as well as pointing out that this relationship can be negatively influenced if important SEW characteristics such as control or succession are endangered. Thus, the authors focus more on the instrumental dimensions (I and R) of the PSE concept also showing how risk to SEW may raise the negative valence towards this SEW-PSE relationship.

Tang, Tang, and Katz (2014) then used a sample of 144 Chinese SME's, focusing on firm interaction with external stakeholders, and analyzed how proactiveness can influence organizational performance. Tang et al. thus measured the relative power of a firm in relation to external stakeholders such as governments or media, calling it "power-difference" and analyzing how proactiveness influences this relationship and how this power difference affects such product characteristics as safety and quality. The authors found evidence supporting a leveling of differences in power if proactive activities are applied and that smaller government to firm power-differences increase product concerns while smaller media-firm power difference reduces them.

Moreover, in 2014 the Family Business Review published a special edition on family firms and social issues starting with an editorial by van Gils, Dibrell, Neubaum, and Craig (2014) providing an excellent overview (35 articles) of research on family firms regarding ethical topics, CSR and philanthropic activities. Even though this overview is not explicitly connected to the PSE approach, it still plays a major role due to the nature of the topics presented. Furthermore, the authors summarized their findings by stating that they found substantial evidence that family firms care more about social issues than non-family firms and that non-financial topics like reputation, stewardship and SEW are of utmost importance.

In this special edition, four published papers provide further recent insight for my discussion of PSE literature. First, Dou, Zhang, and Su (2014) analyzed how family involvement in the firm affects charitable donations, which can be seen as a PSE activity, in a Chinese private firm environment. The results show that ownership and duration of such control mechanisms increase the readiness for donations while the involvement of another generation that does not want to take over the firm negatively moderates this positive relationship. The authors argue that here the “dark side” of SEW and PSE comes into play as family involvement can negatively affect PSE activities.

Delmas and Gergaud (2014) also differentiate between family firms and address next generation topics by researching the influence of the next generation on strategic decision making regarding CSR activities such as implementing sustainable eco-certification practices. The authors conclude that they were unable to identify differences among family firms in general regarding the implementation of these practices; however, if they planned to hand over the firm to the next generation they were more probable to implement them and to focus on long-term product quality. Thus, they address the succession dimension of the FIBER-PSE model.

In a sample of 12 Spanish family firms, Marques, Presas, and Simon (2014) show how large the differences between family firms can be when it comes to the degree of implementing CSR activities. They focus especially on workplace, marketplace, environmental and community practices showing that the greater the involvement and intensity (ownership) of the family the higher the CSR activities and the more important the activities focusing on individuals (e.g. workplace).

Finally, Campopiano, Massis, and Chirico (2014)use a sample of 130 Italian family firms to discuss the impact of family involvement on altruistic, unselfish behavior (defined as wealth transfer). Results indicate that family ownership affects such philanthropic behavior, being significantly influenced by family participation in management. Thus, if both are high, a negative effect is observable; however, if involvement decreases, the effect is positive underlining that different kinds of family characteristics may influence PSE activities.

All in all, considering the SEW concept, the FIBER model and the complementary PSE debate, we can learn quite substantially for the definition of hypothesis in this dissertation being discussed in more detail in chapter 3.

2.2. Research on pay variation – Definition and theories

Subchapter 2.2., similar to subchapter 2.1., serves two major goals. First, it provides the reader with a basic understanding of the term pay variation (2.2.1.) in order to understand the development of this research area and the consistency and definition problematic of this research field. Second, two of the leading theories explaining pay variation in organizations are presented in the subchapters 2.2.2. and 2.2.3., allowing the reader to follow the applied research set-up in later chapters and to understand why they form the theoretical foundation of this thesis.

2.2.1. Basic definition of pay variation

Introduction

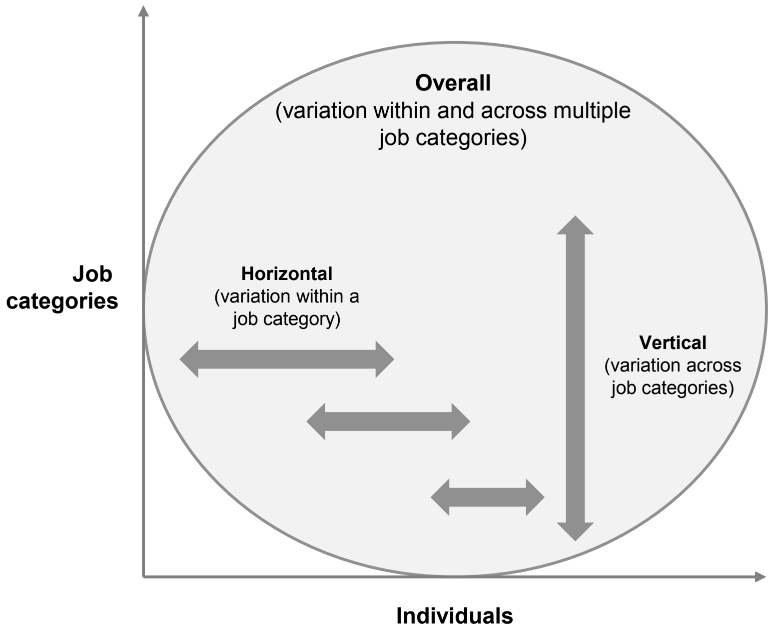
"The study of pay variations is no longer nascent. It is time to study it in a cautious, detailed, nuanced manner." (Gupta et al., 2012: p. 113) As Gupta et al. 2012 indicate with their statement, research regarding pay variations still has some way to go, and the authors present a very detailed overview in their paper. Further research, such as that by Downes and Choi, 2014, presents a review of existing research and an overview of employee reactions on pay variation. However, it is important to first understand pay variation better. Pay variation exists between individuals and on an organizational level and is analyzed in existing literature from several research perspectives like psychology, sociology and economics (Downes and Choi, 2014). Generally, pay variation is defined as the degree to which pay varies within a collective, which could stand for any kind of categorization criteria such as a job, a team, a production site or the entire firm (Gupta et al., 2012). Pay variation can generally be divided into three separate types, horizontal (within a job category), vertical (variation across job categories) and overall (variation within and across job categories) pay variation, which is shown in Figure 2-2 and described in more detail in the following paragraphs (Gupta et al., 2012; Kepes, Delery, and Gupta, 2009; Shaw, Jason D. Gupta, Nina, 2007; Siegel and Hambrick, 2005). A job is commonly defined as "a specific set of activities an individual performs for an organization" (Gupta et al., 2012: p. 105; Nelson and Quick, 2007). This definition does not necessarily have to be congruent with the job title definition of companies.

First, horizontal pay variation represents the pay discrepancy among people holding the same job (Kepes et al., 2009; Siegel and Hambrick, 2005), meaning that people actually perform similar or the same activities for an organization. Historically, horizontal pay variation has been the pay variation which was researched most (Gupta et al., 2012). Since the definition of horizontal pay variation already implies that employees perform the same tasks, the sources of pay variation must originate in individual differences. These may be based on employee job performance, seniority, skills or networking (Gupta et al., 2012). An example for horizontal pay variation could be factory workers at the same workstation or even TMT members such as the CEO and the CFO.

Second, as vertical pay variation is defined as pay variation between people across different jobs, levels or categories (Siegel and Hambrick, 2005), it is clear that people perform different activities with different responsibilities connected to their job also requiring different capabilities, skills, involvement and effort. The latter aspects represent the internal value a job might have, but such jobs also have an external, market value, which dictates what must be paid to employ skilled employees or managers. Vertical pay variation is a relatively rarely researched component of pay variation (Gupta et al., 2012).

Third, overall pay variation describes pay structures over the entire organization starting from the top earning manager to the lowest earning employee (Siegel and Hambrick, 2005). It combines the essence of both vertical and horizontal pay variation by measuring pay variation among people holding the same job, such as two factory workers working at the same or similar workstations and among people across different jobs such as between the CEO and the factory worker (Gupta et al., 2012). Statistically speaking, overall pay variation measures the overall variance in an organization. Sources for overall pay variation are manifold and often connected to external stakeholders influencing an organization (general economic trends, legislation, values, beliefs, culture, customs), organizational strategy (HR strategy, policies, work designs, internal labor markets) and employees (acceptance, efficiency) (Milkovich, Newman, and Gerhart, 2014). However, as it is clear that

Figure 2-2: Types of pay variation by Gupta et al., 2012



vertical and horizontal pay variation trigger different dynamics and consequences, the value added of overall pay variation is often questioned. Still, as it is heavily researched (Bloom and Michel, 2002; Conyon, Peck, and Sadler, 2001; Fredrickson, Davis-Blake, and Sanders, 2010; Grund and Westergaard-Nielsen, 2008; Heyman, 2005; Lee, Lev, and Yeo, 2008; Main, Brian G. M., O'Reilly III, Charks A., and Wade, 1993; Pfeffer and Davis-Blake, 1992) and research on the other dimensions is still not yet fully developed, it adds to the understanding of the matter in addition to its statistical interest by measuring overall variance (Gupta et al., 2012).

Existing literature on pay variation

As already explained, the existing literature on pay variation deals nearly exclusively with consequences of pay variation in an organizational or individual context. Two recent papers in the Human Resource Management Review Journal by Downes and Choi (2014) and Gupta et al. (2012) provide an interesting overview and literature review of existing research regarding this matter. Whereas Downes and Choi (2014) take a closer look at the "employee reaction perspective", Gupta et al. (2012) apply a more general approach. To show how inconsistent the results are and what was researched a brief overview is provided by structuring existing research into positive, negative and non-significant consequences.

Positive implications can largely be found in research concerning overall corporate performance-related subjects. Kepes et al. (2009) measured the impact of horizontal pay range on a sample of truck drivers finding a positive impact on firm performance (return on equity) and operational service readiness. Becker and Huselid (1992) showed in a sample of Nascar drivers that higher horizontal prize money ranges between final race positions positively influence driver performance. Likewise, evidence of a positive impact on performance was provided by Heyman (2005) using a sample of Swedish managers, showing that overall pay dispersion positively influences firm profit. Lee et al. (2008) demonstrated the same result on a sample of US executives on firm performance; and, Main, Brian G. M. et al. (1993) also showed similar results on US executives on ROA. Further, Brown, Sturman, and Simmering (2003) showed a minimally positive impact of vertical pay dispersion between hospital employees on financial performance and patients' time in hospital. Ding, Akhtar, and Ge (2009) provided evidence based on a group of Chinese firms regarding vertical pay dispersion and its positive impact on sales growth and product or service quality; however, horizontal intra manager or worker pay dispersion did not support previous findings. Mondello and Maxcy (2009) showed the positive effect on team revenues of horizontal pay dispersion between National Football League players. Summing things up regarding positive effects, we can state that they are often connected to overall corporate performance or KPI if they consistently exist.

Regarding negative implications, we find a completely different picture. Here, impact is mostly connected to individual or team level performance and thus much more likely to impact employee behavior, even though it is also often inconsistent and findings often complex. One of the earliest findings is provided by Pfeffer and Langton (1993) on a sample of college and university faculty. Here, horizontal pay dispersion shows a negative impact on individual performance KPI, such as productivity, collaboration and satisfaction, even though this effect is weakened if compensation is based on seniority or performance. Likewise, Grund and Westergaard-Nielsen (2008) showed on a sample of Danish employees that overall pay dispersion had negative effects on employee value-added. These results were supported in research by Bloom and Michel (2002) analyzing overall pay dispersion and its negative effect on tenure and turnover and by Bloom (1999) as well as Depken II (2000) researching the negative effect of horizontal pay dispersion between Major League Baseball players on their individual (only Bloom) and team performance (both authors). However, effects on highly paid players, in the case of Bloom, were still positive, whereas they were negative for lower paid players. Similarly, Trevor and Wazeter (2006) provided research on the negative effect of (horizontal) intra teacher annual pay dispersion on pay equity perceptions, showing a similarly varied effect depending on how well paid employees were. Mondello and Maxcy (2009) showed the negative effect on the winning team percentage regarding horizontal pay dispersion between National Football League players. Further research was done on employee turnover and quit rates. Here, Messersmith, Guthrie, Yong-Yeon Ji, and Jeong-Yeon Lee (2011) analyzed the positive impact of horizontal pay dispersion on executive turnover on a sample of publicly traded firms. Along the same line, Shaw, Jason D. Gupta, Nina (2007) showed higher quitting rates for poor to top performing truck drivers in the case of horizontal pay dispersion and Pfeffer and Davis-Blake (1992) showed higher turnover for college administrative staff when overall pay dispersion is the antecedent. However, all of the latter three papers highlighted that turnover was not as high or correlation was even negative, if transparent, performance-based pay systems were applied. Nevertheless, there are also findings that are inconsistent with our findings on positive implications on firm performance as previously described or within this paragraph. Shaw et al. (2002), showed a negative effect of horizontal pay dispersion on performance depending on work interdependence and incentives regarding a sample of truck drivers. A similar negative effect on company performance was shown by Fredrickson et al. (2010) regarding overall pay dispersion and Siegel and Hambrick (2005) on performance of high technologically intensive firms. DeVaro (2006) showed positive effects on worker performance regarding the vertical pay range on a sample of US employees.

However, there are also many papers where findings were not significant: Siegel and Hambrick (2005) could not find any effect on less technologically intensive firms. Further, Berri and Jewell, R. Todd (2004) could not identify a significant effect of horizontal pay dispersion on a sample of National Basketball League players on winning percentage. Similarly, Leonard (1990) was not able to show a significant effect of vertical pay dispersion among US executives and managers on ROE; Conyon et al. (2001) were not able to find a significant effect of overall pay dispersion among US executives on firm performance.

Challenges

Downes and Choi (2014) stated: "...pay dispersion does, in fact, have important outcomes for firms. Clearly, this pay structure characteristic can motivate, de-motivate, attract, retain, and encourage turnover among employees." (Downes and Choi, 2014: p. 63). Thus, understanding pay variation is important as literature already recognizes that it strongly impacts not only employee and organizational efficiency and effectiveness, but also managers and employees around the world. Pay variation is significantly connected to performance (Bloom, 1999; Kepes et al., 2009), satisfaction (Pfeffer and Langton, 1993), and employee retention (Bloom and Michel, 2002; Shaw, Jason D. Gupta, Nina, 2007). Even though these relationships have been analyzed, it is still not perfectly clear how and in what strength they interact. Moreover, this lack of insight is due to several challenges, among which we can find definitions and conceptual understanding, operationalization, lack of research and finally environmental / external influences on pay variation according to Gupta et al. (2012).

The first challenge is connected to inconsistencies regarding definitions and conceptual understanding of pay and pay variation. As pay is a sensitive matter and data availability as well as compensation practices vary, pay is not equally defined across studies, making comparison of results difficult as different pay definitions may trigger different results (Downes and Choi, 2014; Gupta et al., 2012). Many researchers have applied specific approaches. For example, annual pay was applied by Berri and Jewell, R. Todd (2004), whereas prize money was used by Becker and Huselid (1992), annual pay and overtime by Shaw et al. (2002), direct cash by Leonard (1990) and direct cash plus long-term incentives by Siegel and Hambrick (2005). Furthermore, Gupta et al. (2012) stress that in existing research horizontal and vertical pay variation have often been mixed and treated as a “single, unitary construct” (p. 104), each study used to rationalize the other. However, it has become quite clear that both pay variations are quite different and need a different conceptual founding.

The second challenge lies in the operationalization of pay variation and the application of its measures. The variety of measures and levels of outcomes make it difficult to find a common basis (Gupta et al., 2012). Among the measures most often applied we find pay range (Becker and Huselid, 1992), gini coefficient (Brown et al., 2003) and coefficient of variation (Mondello and Maxcy, 2009; Pfeffer and Langton, 1993). These measurement approaches are accompanied by inconsistencies across the entire research field, with terms such as pay dispersion, pay variation, pay spread and pay range used synonymously, but actually meaning different things. In particular, the term pay dispersion is largely used in literature for all kinds of pay variation measures; however, dispersion is a statistical concept that should be applied only if the statistical method selected is also a dispersion measure. Still, this is not often the case (Gupta et al., 2012). Further, when measuring pay variation, levels of outcomes need to be clearly defined and made transparent as they influence interpretation of the results significantly. Existing literature mostly identifies levels of outcome on the individual level: employee perception (Trevor and Wazeter, 2006); on the team level, workforce performance (Shaw et al., 2002); and on the organizational level, financial performance (Conyon et al., 2001; Leonard, 1990).

Third, there is still significant room for improvement in the general understanding of the pay variation topic as moderating effects are not yet fully understood and researched in pay variation research. Shaw et al. (2002) showed in their study that there are moderating interaction effects on pay variation that could significantly improve the current understanding of the matter. To follow this road further could resolve certain inconsistencies and improve the statistical power of pay variation research models (Gupta et al., 2012).

Finally, the fourth challenge to be addressed is a difficult but important factor that does not lend itself to a generalization of results and immediate insights. Pay and compensation are strongly affected by internal as well as environmental and external influences on the organization. Internal aspects may be related to employee performance or organizational strategy and/or structure influencing pay decisions, whereas, external aspects can be influenced by environmental developments, market fluctuations, external labor markets valuing jobs differently at different points of time, or general economic fluctuations (Gupta et al., 2012).

Bringing clarity to pay variation typology and methodology

Attempts to address these challenges have been made by creating a clear typology, defining optimal methodology and measurement approaches for each type of pay variation, describing sources of pay variation and presenting underlying theories. Regarding theories, more details are provided in the following subchapters 2.2.2. and 2.2.3. Typology-wise Gupta et al. (2012) have provided a well-founded summary and clearly distinct definitions of overall, vertical and horizontal pay variation as already described in the above paragraphs.

Regarding typology, two primary approaches are largely used throughout literature: pay range and pay dispersion. "Pay range is the difference between the highest and lowest pay level for individuals in a job (in the case of horizontal variation), across jobs (in the case of vertical variation) or across jobs and employees (in the case of overall variation)." (Gupta et al., 2012: p. 111). An example of horizontal pay range application is provided in existing literature by Kepes et al. (2009) and for vertical pay range by Connelly et al. (2013). In contrast, pay dispersion considers all employee pay between the top and the bottom and accounts for their variations The applied measurements are mostly the gini coefficient and the coefficient of variation (Berri and Jewell, R. Todd, 2004; Bloom, 1999; Bloom and Michel, 2002; Brown et al., 2003; Conyon et al., 2001; Depken II, 2000; Eriksson, 1999; Heyman, 2005; Lee et al., 2008; Main, Brian G. M. et al., 1993; Mondello and Maxcy, 2009; Pfeffer and Davis-Blake, 1992; Pfeffer and Langton, 1993; Shaw, Jason D. Gupta, Nina, 2007; Siegel and Hambrick, 2005; Trevor and Wazeter, 2006). Even though dispersion measures are far more common than range measures, it the research goals dictate the selection of the optimal choice (Gupta et al., 2012).

Regarding horizontal pay variation, Kepes et al. (2009) prefer range over dispersion operationalization when employee interaction is the focus. This seems to hold especially true when employee behaviors and attitudes are researched (Gupta et al., 2012). Gupta et al. (2012) summarize: "Employees are much more likely to be aware of the pay caps and floors for their jobs than the distribution of pay for all employees holding the job. Thus, it is the pay range, rather than all the nuances within the pay range (i.e., dispersion) that is likely to drive their actions and reactions. People are likely to have a few pieces of pay information—they would not know, nor would they be able to process—the entire payroll roster." (Gupta et al., 2012: p. 112) This information is especially interesting for this research project as employee attitudes play a key role in the public perception of pay range and the respective entrepreneurial perspective on compensation strategy and implementation of pay structures in family firms.

The methodological operationalization with respect to vertical pay range is far less researched, and it is therefore rather difficult to present suggestions (Gupta et al., 2012). However, Gupta et al. (2012) states again that range measures are the measure of choice if employee reactions are the focus: "Similar to the arguments for horizontal pay variation, we suggest that if interest concerns the effects of vertical variation on employee attitudes and behaviors, range measures are likely to be appropriate operationalizations of the critical aspects of pay variations across jobs. Employees are much more likely to be aware of broad pay differences between their own job and the broad pay levels of other jobs in the organization. They are less likely to be aware of a complex dispersion calculation." (Gupta et al., 2012: p. 112) Still, it is also stated that if effects on overall compensation costs are the research target the all-encompassing dispersion approach might be more suitable (Gupta et al., 2012).

The preferred method for researching overall pay variation is pay dispersion as it enables an analysis of the full range of pay within a firm and its impact on finance and strategy. This holds true even though calculating pay dispersion is difficult, as complete transparency over pay levels and number of employees per level are required but often not available (Gupta et al., 2012). Shaw et al. (2002) state that calculation may even be possible without full availability of data.

Sources

As already indicated in the above paragraphs, pay variation has several sources. Two views are therefore to be considered. The first view considers the impact of external and internal organizational aspects on pay levels and their differentiation and organizational application. External factors are connected to general economic developments, political environment and social as well as cultural specifics of an organizational environment, triggered by external stakeholders. Internal organizational factors are connected to the overall firm strategy and the implications for compensation, pay and HR practices, as well as cost implications or employee reactions (Milkovich et al., 2014).

The second view concerns job-based (Mahoney, 1991) and person-based pay structures (Gupta and Shaw, 2001). Job-based pay structures explain mostly

Figure 2-3: Reasons for pay variation by Gupta et al., 2012

		Differences in pay based on the job's characteristics
Job	**Market**	Differences in pay based on market rates for a job
	Job evaluation	Differences in pay based on the company's evaluation of the job in comparison to other jobs in the organisation
		Differences in pay based on the individual characteristics
Individual	**Performance**	Differences in pay based on performance; individuals with higher performance will have higher pay relative to average or low performers (Kepes et al., 2009)
	Skill	Differences in pay based on skills development; as individuals accumulate skills, they receive higher pay
	Competency	Differences in pay based on competency attainment; as individuals gain competencies, they receive higher pay
	Knowledge	Differences in pay based on critical knowledge; to the extent an individual has knowledge critical to the company, the individual receives higher pay (Lepak & Snell, 2002)
	Seniority	Differences in pay based on tenure with the company; individuals with more years of service to the employer will have higher pay relative to more recently hired individuals
	Political	Differences in pay based on political behaviours; individuals better at political "games" will have higher pay relative to less political individuals (Kepes et al., 2009)

vertical pay variations in organizations as specific jobs contain specific requirements in terms of tasks, duties and responsibilities (Mahoney, 1991) and represent the "strategic value to the organization" (Gupta et al., 2012: p. 106). The evaluation of the respective job is based on the internal value a job represents for the organization and the external value this job has in the market or in competitive organizations (Barcellos, 2005; Milkovich et al., 2014). These specific job requirements ensure pay differentials according to specific jobs, as a factory worker clearly has different internal and external value to the firm than the CEO overseeing the whole organization. Person-based or individual structures generally explain horizontal pay ranges, representing "organizational choices about the individual characteristics that should be valued and rewarded" (Gupta et al., 2012: p. 106). These "individual characteristics" are connected to knowledge, skills and abilities (KSA) of employees and their potential for the organization (Gupta and Shaw, 2001). It is quite obvious that even though employees work at the same job they may be paid different wages as their performance, skills and education differs. Overall, in both structures, pay differentials are possible for the same job (Milkovich et al., 2014). An overview of the second view is presented in Figure 2-3, summarized by Gupta et al. (2012).

Theories and their explanatory potential for pay variation

To generate a proper understanding of pay variation in research, it is of primary importance to understand not only the sources of pay variations but also the reasons behind them (Gerhart and Rynes, 2003; Gupta et al., 2012; Kepes et al., 2009). For this reason, there is a need to understand the theories used to explain the different types of pay variation and general compensation structures. (Conyon et al., 2001; Eriksson, 1999; Heyman, 2005; Lee et al., 2008; Main, Brian G. M. et al., 1993; Pfeffer and Davis-Blake, 1992). Equity and Tournament Theory are two theoretical pillars frequently stressed in literature (Connelly et al., 2013; Downes and Choi, 2014; Gupta et al., 2012) and used to explain a large part of the pay variations discussed in this dissertation; they will be presented in detail in the following subchapters. However, many more theories, such as Expectancy, Resource Dependence, Winner-takes-all, Work-Life-Incentives, Transaction Cost Economics and Internal Labor Market Theories need to be acknowledged. Table 2-1, presents a short overview of the above-mentioned theories in order to provide a holistic picture of underlying pay variation theories. Those theories are often related to later theories such as the Winner-takes-all approach to TT (an extreme version of TT) and Expectancy Theory to ET (Gerhart and Rynes, 2003). The remaining theories represent early versions of general compensation structures and dynamics such as Resource-Dependence or Internal Labor Market and Transaction Cost Economics and do not offer as much explanation potential for the high and low pay variations as the most often applied theories for this question, TT (mostly vertical) and ET (mostly horizontal pay variation) (Connelly et al., 2013; Gupta et al., 2012; Kepes et al., 2009; Lee et al., 2008) or related theories such as social comparison theory (to ET) and pay-per-performance (to TT) applied by Jaskiewicz et al. (2014). . ET and TT have been selected for this dissertation, in contrast to the other theories, which will be explained in more depth in chapter 3, due to the dynamics and degrees of pay variation that serve the research foundations of this paper perfectly and provide explanations for both pay variation scenarios.

Table 2-1: Brief overview of pay variation theories not detailed throughout dissertation.

Theory	**Content**
Expectancy Theory (ExT) (Lawler, 1973; Vroom, 1964)	▪ Three factors determine employee motivation: valence, (attractiveness of outcomes), effort-to-performance expectancy (probability that effort leads to performance) and performance-to-outcome expectancy (probability that performance will lead to specific outcomes) ▪ Perceptual theory based on the thought that performance-outcome connection is stronger if pay variation is higher (Mitra, Gupta, and Jenkins Jr, G. Douglas, 1997) – and as a consequence the respective valence for employees is higher ▪ Employees will show the respective behavior that leads to their desired outcome ▪ Core argument that performance-contingent pay variation drives performance and not pay variation alone

	▪ More applicable to horizontal pay variation as performance-outcome probability is higher for people holding the same job than for people performing different jobs ▪ Other behaviors than performance can be explained as a desired outcome could also be e.g. a promotion (Ostroff and Clark, 2001) – as a result vertical aspects may also be explained as along with promotion go higher pay variations and again valence is increased ▪ Direct impact on motivation if higher horizontal pay variation is present and indirect impact on motivation through vertical pay variation in terms of promotion
Resource Dependence (RDT) (Carpenter and Wade, 2002; Gerhart and Rynes, 2003; Pfeffer and Davis-Blake, 1987)	▪ One of the earliest links between organizational strategy and internal job value ▪ Resource dependence describes that certain organizations strive in the same market for resources with a specific focus as respective importance of a resource is relatively more important to the one than for the other ▪ As a consequence pay is allocated according to relative importance of specific jobs achieving specific goals that are important for the organization's success or ensure its survival and is therefore dependent on the organizations strategic focus ▪ An example could be that the CFO might be paid better compared to his/her colleagues in a company that is highly capital intensive and diversified whereas in a heavily marketing oriented consumer good company the Chief Marketing Officer might be paid better
Winner-Takes-All Theory (WTA) (Frank and Cook, 1995; Frank and Cook, 1996; Gerhart and Rynes, 2003)	▪ Core rational is that relative performance of employees determines pay and even slightest differences decide upon promotion an pay rise, claiming that employees are actual worth what they are paid ▪ Implies that today's highly competitive market, supported by technological improvements allowing for transparency even regarding small performance differences, values even the slightest difference in performance as they may have huge impact on firm success or survival ▪ Risk of inefficient labor allocation as too many strive for large prizes leading to oversupply and inappropriate talent allocation ▪ Similarities to Tournament Theory exist, however, the latter reflects a decision by the firm to consciously structure its compensation in that manner, whereas the winner-take-all model is a natural feature of the competitive environment ▪ An example can be: "Olympic gold medalists go on to receive millions in endorsements while the runners-up are quickly forgotten – even when the performance gap is almost too small to measure" (Frank and Cook, 1995)
Work-Life-Incentives (WLI)	▪ Concept recognizes key importance of lifetime earnings on employee orientation

(Gerhart and Rynes, 2003; Lazear, 1979; Lazear, 1995; Salop and Salop, 1976)	▪ Core rational implies that employees are better incentivized by lower, maybe even below their actual worth, wages in their early career phases and higher, maybe even over their actual value to the firm, wages later in their careers ▪ Theory states that ceteris paribus employees should not prefer any other pay allocation over the latter if the present value of both alternatives is the same ▪ Still, as employees are motivated to stay longer with the company they are less likely to perform malfeasant behaviors and as a result lifetime wealth of employees is probably higher ▪ Also for employers beneficial as higher engagement creates higher output as long as overpayment phases are not over proportionally long
Internal Labor Market (ILM) (Althauser and Kalleberg, 1981; Gerhart and Rynes, 2003; Piore and Doeringer, 1971)	▪ Internal Labor Market Theory provides a systematic explanation for the delta between internal pay structure and external market structure ▪ Reasons for existence are connected to organizational efficiency and institutional forces as allocation of pay and labor is administered by rules and procedures ▪ Once employees enter the organization, internal mechanisms determine pay, promotion and pay development. The entry value is defined by the external market and internal pay structures according to a supply and demand mechanism ▪ Relies on the notion that specific skills, experience and on the job trainings moti-vate to receive steeper pay, however, stability of employment is the basis ▪ In an ILM hierarchy levels, progression speed, promotion criteria are pre-defined
Transaction Cost Economics (TCE) Gerhart and Rynes, 2003; McKenzie and Lee, 1998; Williamson, 1975	▪ Theory is based entirely on efficiency or economic justifications toward internal labor markets and long-term employee relationships ▪ Key challenge firms face is job idiosyncrasy resulting in a small-numbers bargaining problem as employees need to receive training on-the-job (four sources of training that cannot be provided in the classroom: equipment, processes, communications and informal team accommodations) ▪ As in internal labor markets, TCE relies on the notion that specific skills and on the job trainings motivate to receive steeper pay, however, these aspects are only limited available to firms in the TCE world ▪ Risk that skilled employees refuse to transfer knowledge as they seek personal advantage. Especially transaction costs arise as employees need to continually adapt to uncertain and complex environments ▪ As a consequence employers strive to establish long-term work relationships (bounded rationality) to counter these risks, agreeing to promote from within, using seniority for job and pay allocation, enabling long-term careers and protecting employees from arbitrary discipline, however, expecting worker cooperation in response (Simon, 1957)

	▪ Functioning TCEs increase probability that senior workers share knowledge as they are safe and better paid (Thurow, 1975) ▪ Gerhart and Rynes, 2003, p. 93 state: “The contract, implicit or explicit, between workers and organizations varies across and within organizations according to its length, amount of investment made in human capital, and whether it is an employment relationship of some alternative arrangement”. (Cappelli, 1999; Rousseau and Ho, 2000)

New approaches regarding pay variation

Even though Gupta et al. (2012) provided pay variation literature with an important overview regarding typology, existing research, methodology and a theoretical basis, the most recent further enhancement of pay variation / pay dispersion literature was made by Downes and Choi (2014). The latter built on typology and insights provided by Gupta et al. to create a new framework and typology for employee reactions to pay dispersion placing existing research (which is largely focused on outcomes of pay variation) into their framework and presenting new avenues for further research on pay variation.

Downes et al. built a two-dimensional framework based on the pay variation type (vertical vs. horizontal) and the question of whether the pay dispersion is performance or non-performance-based using definitions provided in the overview of Gupta et al. (2012). The resulting four “strategic level” pay dispersion types are sought to explain differences in pay variation and apply theoretical assumptions to understand potential employee reactions on pay dispersion. The theoretical assumptions applied by Downes and Choi (2014) are based on existing pay variation research validating tournament, equity and expectancy theoretical outcomes of pay variation (see Figure 2-4). The framework posits that, on the one hand, positive firm outcomes of pay dispersion are largely connected to performance-based pay dispersion, regardless of whether they are horizontal or vertical. Downes et al. argue that vertical performance-based pay dispersion is best explained and researched via a tournament and an equity theory rationale, while horizontal performance-based pay dispersion would be best explained by expectancy and equity theory.

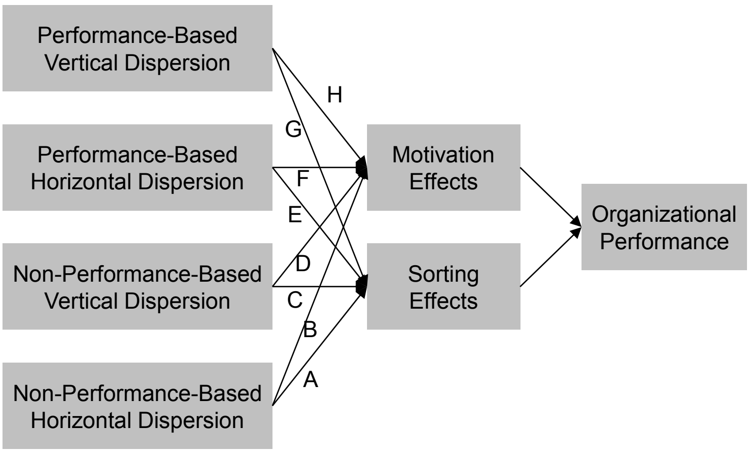
Figure 2-4: A typology of pay dispersion by Downes et. al. 2014 (p. 57)

Vertical	**A: Positive Firm Outcomes** (tournament & equity theories)	**C: Positive OR Negative Firm Outcomes** (equity theory)
Horizontal	**B: Positive Firm Outcomes** (expectancy & equity theories)	**D: Positive OR Negative Firm Outcomes** (equity theory)
	Performance-Based	**Non-Performance-Based**

On the other hand, positive or negative firm outcomes, regardless of whether they are in a horizontal or vertical pay variation environment, would be related to an equity theory rationale and be non-performance based. The difference between performance and non-performance based pay dispersion is seen in the application (performance-based) or non-application (non-performance based) of individual performance differences (Downes and Choi, 2014; Gupta et al., 2012). The rationale behind this is that according to tournament and expectancy theory, motivation is triggered by the expectation that (relative) performance is transparently rewarded (Gupta et al., 2012) and is thus understood and accepted by employees. Whereas, in the case of non-performance based pay dispersion, the application of political or non-transparent mechanisms to award compensation is more complex as an equity theoretical approach would claim that ultimately, employees will counter this perceived inequity through potential dysfunctional behavior, eventually harming the firm. These findings are largely in line with existing research (see paragraphs on existing research on pay variation within this subchapter) stating that rationality and legitimacy of perception of pay variation can be key moderators for employee reactions and organizational outcomes (Shaw, Jason D. Gupta, Nina, 2007; Trevor and Wazeter, 2006).

In addition to preparing the framework, Downes et al. provided a model (see Figure 2-5), showing how each field of the framework may influence employees in terms of motivation and sorting, ultimately affecting organizational performance. However, not all theory perspectives would correlate over each path (described by letters in Figure 2-5). The equity theory perspective would claim potential positive effects on paths E, F, G, H as well as positive and negative effects on the paths A, B, C, D and ultimately positive effects on organizational performance. The expectancy perspective would only support positive effects on paths E and F, positively influencing organizational performance. The last, tournament theory perspective, provides explanatory potential regarding paths G and H positively influencing performance. All paths are based on existing theory and partly on existing research and Downes et al. differentiate between a strategic level (as in Figure 2-4) based on theory and a functional level based on team or individual employee reactions.

Figure 2-5: A theoretical model of four types of pay dispersion and organizational performance by Downes et al. 2014



Finally, the authors identify white spots where existing research per path is already available and where further research could enhance knowledge in pay variation literature, differentiating between research on a functional and strategic level. A summary may be found in Table 2-2. Thus, we can conclude that Downes et al. enhanced Gupta et al.'s overview providing a comprehensive framework substantially based on theory and existing research. Further, the authors help us to better understand and group the ways pay variation dynamics and outcomes affect employee and organizations.

Table 2-2: Overview on research on framework of Downes et al. 2014

Path	*Research on strategic level*	*Research on functional level*	*Research examples*
A	Well documented	Unresearched	Messersmith et al. (2011); Pfeffer and Davis-Blake (1992); Shaw, Jason D. Gupta, Nina (2007)
B	Well documented	Unresearched	Bloom (1999);Kepes et al. (2009); Pfeffer and Langton (1993); Shaw et al. (2002; Trevor and Wazeter)
C	Unresearched	Unresearched	Only indirectly via justice paradigm (Colquitt, Wesson, Porter, Christopher O. L. H., Conlon, and K. Yee Ng, 2001) or by indirectly applying results of other paths
D	Unresearched	Unresearched	No research presented
E	Unresearched	Few examples	Shaw, Jason D. Gupta, Nina (2007); Trevor, Reilly, and Gerhart (2012)
F	Unresearched	One example	Becker and Huselid (1992)
G	Unresearched	Unresearched	No research presented
H	Examples available	Unresearched	Brown et al. (2003); Ding et al. (2009)

Applied definition

For the purposes of this dissertation, definitions are done as follows (more detail in chapter 4.3. on measures): In this dissertation three vertical (always between TMT members and non-TMT employees) and one horizontal (among TMT members) pay variation representing a range measure are measured. Furthermore, the “pay range” measurement approach, representing a ratio variable always between the top and the bottom earner of each measured pay variation, is measured. Accordingly, pay variation and pay range will now be synonymous. Last, but not least, pay is clearly defined and also referred to as compensation in this dissertation, as the annual monetary compensation of each individual. Thus, following the recommendation of Gupta et al. (2012) to "(a) describe precisely the measure(s) of pay being used and (b) explain the rationale behind the choice of a particular operationalization" (Gupta et al., 2012: p. 113) the ability to generalize the findings can be promoted.

2.2.2. Equity Theory

Equity Theory (ET) goes back to the work of Adams (1963) and is based on the notion that employees evaluate their own performance and compensation (input-output ratio) based on a social peer assessment, putting the input-output-ratio of the “referent other” in relation to their own, resulting in “feelings of fairness and unfairness”, injustice, inequity and / or jealousy (Downes and Choi, 2014; Finkelstein, Hambrick, and Cannella, 2009; Gupta et al., 2012). The theory states that employees react according to their social comparison result, implying potential supportive or harmful behavior towards the firm but also toward referent others or themselves. Gupta et al. (2012) state: "These actions can include changing inputs and outcomes for themselves or for referent others in actuality or perceptually, changing referent others, or leaving the field". (Adams, 1963; Gupta et al., 2012: p. 107). The decision to implement equity theory oriented pay structures is heavily dependent on the strategic organizational set-up, values and compensation philosophy of founders and organizations (Gerhart and Rynes, 2003).

It is important to acknowledge that Equity Theory is based on a subjective evaluation of performance and compensation perceived by an individual employee, making it a perceptional theory (Gupta et al., 2012). Accordingly, it lies in the nature of an individual that an objective comparison is not possible and subjectivity is imperative for people’s actions; however, subjectivity also implies that reality can significantly deviate from perception (Kruger and Dunning, 1999). Still, due to its perceptional nature, another factor determining ET is equivalence of inputs. Even though this may be a theoretical condition required to apply ET, it is countered by factual differences among employees and their awareness (Gerhart and Rynes, 2003; Gupta et al., 2012).

As a result, ET helps us to understand how employees react to pay variation due to their individual perception of their input and output in comparison to others. Generally speaking: "The argument posits that differences in pay represent differences in outcomes when perceived inputs are equivalent, thereby leading to feelings of inequity" (Gupta et al., 2012: p. 107; Pfeffer and Davis-Blake, 1992; Pfeffer and Langton, 1993; Siegel and Hambrick, 2005). According to this, there are good reasons for keeping differentials in pay as reasonable as possible, especially if workers can influence peer output, as competition between workers may not only foster productivity but may harm cooperativeness, motivation, effort and overall productivity (Cowherd and Levine, 1992; Lazear, 1989). This may even be true for lower paid employees comparing positions with which they may not even be in direct competition (Martin, 1981; Martin, 1982), as for example between a department leader and a production worker, showing close ties to sister theories such as relative deprivation and fairness perspectives. Further examples of negative implications involve risk-taking impacting safety (Becker and Huselid, 1992), excessive employee turnover (Bloom and Michel, 2002) and further performance measures (Bloom, 1999; Fredrickson et al., 2010; Grund and Westergaard-Nielsen, 2008; Hambrick and Siegel, 1997; Siegel and Hambrick, 2005).

This enables the application of ET both on vertical and horizontal pay variation measured in this thesis. As inputs, performance and value to firm differ for people doing jobs across organizational levels; a comparison may not be adequate; however, social comparisons also take place in vertical pay variations. This upward and downward assessment affects employee behavior regarding commitment, competition for promotion or current compensation approval (Gupta et al., 2012; Sweeney and McFarlin, 2005).

Reactions to horizontal pay variation may be explained by employees performing the same job within a firm tending to compare their compensation and performance with their peer group. Within one peer group inputs and performance vary according to individual people's knowledge, skills and abilities (KSA), whereas, compensation may or may not be directly associated with it, triggering feelings of unfairness (Gupta et al., 2012). Existing research suggests that horizontal comparisons as well as motivation and performance (Kepes et al., 2009) may be more important and more common for individual perceptions regarding employee satisfaction (Festinger, 1954; Major and Forcey, 1985; Tremblay, St-Onge, and Toulouse, 1997) since relevance (Major and Forcey, 1985; Tremblay et al., 1997), and comparability between “similar and dissimilar others” is higher (Gupta et al., 2012). Further, existing research has indicated that people use "downward comparisons for self-enhancement, upward comparisons for self-improvement, and lateral comparisons for self-evaluation" (Buunk and Gibbons, 2007; Gupta et al., 2012: p. 108).

2.2.3. Tournament Theory

Tournament Theory (TT) is a completely different approach to explaining pay variation and may be one of the most important theories on this issue (Henderson and Fredrickson, 2001; Lazear and Rosen, 1981). Several important theoretical dimensions are based on the assumption that moving up the hierarchical ladder is a major incentive for employees. It is often applied in situations where the effort or cost of monitoring individuals is high, individual performance is critical, and more intrinsic motivation aspects are needed to ensure the right performance and direction of action. Thus, tournaments help organizations balance job opportunities and employee ambition as compensation structures in organizations are often zero-sum games with restricted resources (Bloom, 1999; Gerhart and Rynes, 2003; Lazear, 1995; Lazear, 1999; Lazear and Rosen, 1981). As ET focuses less on pay per performance Frank and Cook (1995) have acknowledged certain disadvantages compared to the immediate motivational effects of Tournament Theory. Firm performance research does provide some evidence that tournament structures in corporations promote constructive competition and efficiency on an individual level (Baker, Jensen, and Murphy, 1988; DeVaro, 2006), but also on corporate performance levels (Heyman, 2005; Main, Brian G. M. et al., 1993).

The theoretical basis comprises the notion that compensation development of employees over their lifecycle is not a linear or smooth progression (Lazear, 1999). Instead an increment in pay is highly dependent on job hierarchy. Since “size of the prize” tends to be largest on top of the pyramid, compensation rises with hierarchy, as the number of positions become fewer and thus promotions less probable, helping to explain disproportionately high executive compensation (Lazear and Rosen, 1981). The motivation and ambition to enhance one’s position is directly incentivized by the compensation differentials for the available positions (Lee et al., 2008) and is not restricted to the CEO position (Henderson and Fredrickson, 2001) but is also valid for the upper echelon (DeVaro, 2006; Lambert, Larcker, and Weigelt, 1993). A key assumption is that motivation and effort are directly related to the size of the respective opportunity (Lazear and Rosen, 1981). Further, TT, in contrast to WTA models previously described, does not require employees or managers to be actually worth what they are paid since efficiency of the system is ensured through the incentive effects of tournament prizes on lower levels. In contrast, marginal productivity theory would require exactly that compensation and marginal product of a person be the same at any point on the timeline (Gerhart and Rynes, 2003; Kanter, 1977; Rosenbaum, 1984).

As a loss of a job opportunity in a tournament round implies less competitiveness in later rounds, tournament systems have long-term effects on employee careers (Kanter, 1977; Rosenbaum, 1984). Decisions about success per tournament round are based on relative performance, inferring that even marginal differences in results cause large steps on the career ladder resulting in highly competitive behavior (Lee et al., 2008). Absolute performance of employees plays a negligible role and thus is also a driver of efficiency in organizations since relative performance evaluations are less time consuming and employee monitoring less preeminent as performance is intrinsically motivated (Lazear and Rosen, 1981; Lee et al., 2008). However, since relative performance evaluations are prone to bias, size of the prize needs to be even larger in order to reimburse for this risk (Gerhart and Rynes, 2003).

Tournament Theory similar to ET can be applied both on vertical and horizontal pay variation. Horizontally and vertically, variations may be explained especially on executive or top management levels predicting both positive and negative implications (Lazear and Rosen, 1981; Siegel and Hambrick, 2005). Negative implications may be related to excessive ambition and risk-taking as well as extremely competitive, egocentric and / or aggressive behavior (Becker and Huselid, 1992; Lee et al., 2008; Siegel and Hambrick, 2005). However, due to the nature of tournaments, TT is often applied on vertical pay variations, as upward comparisons trigger motivation to achieve status and pay whereas non-performers or only slightly less competently performing employees may be left behind (Lambert et al., 1993; Lazear and Rosen, 1981). Still, even though less likely, tournaments for bonuses, compensation or perks may also take place between employees holding the same job (Gerhart and Rynes, 2003). Especially if the tournament is a zero-sum game, requiring relative performance evaluation, horizontal motivation implications may take place (Gupta et al., 2012).

The ambition for promotion is one key explanatory factor of employee behavior within TT (Gupta et al., 2012; Wade, O'Reilly, III, Charles A., and Pollock, 2006). Still, not every person may see every job opportunity as part of his / her individual tournament since individual KSA may not be appropriate for the respective opportunities. Thus, job perspectives in tournament systems need to be reasonably achievable. As a result, a simple production site worker may not be incentivized by the tournament for the CEO position – however, social comparisons may take place according to ET affecting satisfaction, but will definitely be incentivized by the team leader position (Gupta et al., 2012; Lazear, 1999).

2.3. Research on pay variation and compensation in family firms

The following subchapters serve to provide an initial overview of the literature regarding pay variation and compensation in general when family firms come into play. The overview claims is not intended to be exhaustive, but rather is intended primarily to understand inconsistencies and knowledge regarding current research.

2.3.1. Compensation in family firms

Introduction

Some research on general compensation in family firms has been done, even though substantial room for further research and statistical approaches exists. First steps in family firm compensation matters were taken by Lansberg (1983) presenting his thoughts on efficient HR practices in family firms and taking into consideration special family related challenges caused by the "institutional overlap" of family and firm (p. 44; figure 1). The author discusses theoretically how family and business norms may clash by comparing the appropriate behavior of parents with CEOs. He makes clear that different motivations and behaviors are applied and are needed to succeed in the respective environment regarding aspects such as selection, compensation, appraisal and training. For example, according to Lansberg "parents should provide opportunities to relatives in need (particularly if they are his or her children)" (p. 44; figure 1), whereas, "chief executive officers should hire only those who are most competent" (p. 44; figure 1); illustrating the potential clash. However, no further significant research was done in this area until the 2000's.

Over the last fifteen years, however, interest in this topic has significantly increased again, and it is being researched and published across the world. Just to name a few examples: research has been done in the US (Michiels, Voordeckers, Lybaert, and Steijvers, 2013; Smirnova and Lange, 2010; Tang, 2014), Canada (Chourou, 2010; Klein, Shapiro, and Young, 2005), North America (Berrone, Makri, and Gomez-Mejia, 2008), France (Bassanini, Breda, Caroli, and Rebérioux, 2013), Italy (Barontini and Bozzi, 2011) and continental Europe (Croci, Gonenc, and Ozkan, 2012). Not only the western world has contributed, but significant research has also been done in emerging markets (Gallego and Larrain, 2012) and Asia. Examples of such research on Asia can be found on China (Hongbin Cai, Hongbin Li, Park, and

Li-An Zhou, 2013), Thailand (Theeravanich, 2013), Japan (Nakazato, Ramseyer, J. Mark, and Rasmusen, 2011), Taiwan (Young and Tsai, 2008), and Hong Kong (Cheng, Su, and Zhu, 2012; Cheung, Stouraitis, and Wong, Anita W. S., 2005; Jaggi and Leung, 2007; Suwina Cheng and Firth, 2006).

This multitude of research studies across cultures has also addressed quite a variety of corporate levels and positions. However, quantitative research has focused especially on upper corporate levels like CEO (Berrone et al., 2008; Combs, Penney, Crook, and Short, 2010; Croci et al., 2012; Gallego and Larrain, 2012; Gomez-Mejia et al., 2003; Michiels et al., 2013; Nakazato et al., 2011; Sharma and Huang, 2014; Tang, 2014; Young and Tsai, 2008), board (Barontini and Bozzi, 2011; Wu, 2013), directors (Muñoz-Bullón and Sánchez-Bueno, 2014; Theeravanich, 2013), or TMT (Chen, Hsu, and Chen, 2014; Sharma and Huang, 2014; Suwina Cheng and Firth, 2006) respectively manager (Block, 2011; Cheng et al., 2012; Chourou, 2010; Chrisman, Chua, Kellermanns, and Chang, Erick P. C., 2007; Chrisman, Memili, and Misra, 2014; Hongbin Cai et al., 2013) or executive (Amoako-Adu, Baulkaran, and Smith, 2011; Bronfman, 2009; Cheung et al., 2005; Smirnova and Lange, 2010) compensation matters. Non-manager employee compensation, on the other hand, has seen relatively little research (Bassanini et al., 2013; Carrasco-Hernandez and Sánchez-Marín, 2007; Speckbacher and Wentges, 2012).

Challenges

Thus, it is obvious that one major challenge of the compensation literature lies in the ability to generalize research results across several dimensions. One dimension is related to the cultural setting of each study, as the significant cultural differences acknowledged make comparison of results difficult. For example, evidence from China shows that family managers may receive higher total and incentive compensation than their non-family counterparts (Hongbin Cai et al., 2013), whereas, research in the western hemisphere indicates that family-member CEO's receive lower total income than outsiders (Gomez-Mejia et al., 2003). A further dimension is related to the problem of the comparability of corporate positions and the multitude of corporate levels addressed in research as indicated in the introduction part of this subchapter further challenging generalizable results.

Additionally, the complexity and heterogeneity of the research field is further complicated by the measurement of manifold distinct compensation types. Examples of compensation ranges from stock option grants (Tang, 2014) to compensation packages (Bassanini et al., 2013), cash and equity compensation (Croci et al., 2012), compensation contracts (Block, 2011) to incentive compensation (Carlson, Upton, and Seaman, 2006; Chrisman et al., 2007; Muñoz-Bullón and Sánchez-Bueno, 2014; Speckbacher and Wentges, 2012), variable to total compensation ratios (Chen et al., 2014) and general compensation (Chrisman et al., 2014; Gomez-Mejia et al., 2003; Nakazato et al., 2011; Sharma and Huang, 2014; Van der Merwe, 2009) measures.

Research and respective results

However, for my research purposes, it is important to understand the results in existing quantitative research regarding compensation in family firms to enhance result interpretation and understanding of family dynamics in later discussion sections. Existing research can be structured according to the specific research focus, even though they may often actually overlap in certain areas. Still, I will differentiate based on research related to the comparison (1) of family and nonfamily members with the same position, (2) family to nonfamily firms, and the effects (3) of family ownership on compensation.

Regarding the comparison of family and nonfamily members holding the same position, McConaughy (2000) and Gomez-Mejia et al. (2003) look at family CEOs and Suwina Cheng and Firth (2006) focus on executive directors earning less than their non-family counterparts in the same firm. While McConaughy argues that this is in line with family managers being incentivized by maximizing firm value and thus needing fewer monetary incentives in founding firms, Gomez-Mejia et al. show that the differentiation between family and non-family CEO's is even greater with increasing family ownership. Later in 2007, Chrisman et al. (2007) showed that family managers are incentivized and monitored similarly to non-family managers and achieve better performance by being subject to such mechanisms, implying agent behavior. One year later, Young and Tsai (2008) showed in the Taiwanese market that for family CEOs the social capital does not influence their pay level, whereas, it is a significant factor for the non-family CEO pay level. Adding more detail to previous research, Combs et al. (2010) found, based on an agency theory rationale, that family CEOs would accept lower compensation only if other family members form part of the TMT, thus also earning less compared to CEOs at non-family firms but substantially more if additional family members were not present. In contrast, Hongbin Cai et al. (2013) show in

China that top managers with family bonds earn a compensation surplus and receive more attractive jobs (rights, positions, responsibilities) in the same firm; however, they receive less incentive-based pay, which is also likely to be less firm performance connected. Finally, Muñoz-Bullón and Sánchez-Bueno (2014) show that family managers receive a lower variable pay ratio and earn less overall than non-family directors. Further, increasing the family ownership and family member board ratio further reduces the likelihood of incentive compensation mechanisms for family members in such positions.

The second group compares family with non-family firms. Also here there are slightly contradicting results as Gallego and Larrain (2012) found that professional managers / CEOs in emerging markets may earn more in family firms, whereas Bassanini et al. (2013) found in France that family firms pay lower wages on average; in addition, they show that the same worker with the same qualifications earns differently in family and non-family firms. However, the lower wages appear to be in exchange for higher job security. Furthermore, family firms appear generally to apply fewer variable pay components whether to employees (Carrasco-Hernandez and Sánchez-Marín, 2007) or top management (Chen et al., 2014).

Additionally, in the third group, some research has been done that addresses the influences of family ownership on compensation. Here, authors target expropriation of minority shareholders by tunneling or rent extraction. Barontini and Bozzi's (2011) analysis showed that board compensation is related to governance aspects and that excess compensation does not positively influence corporate performance. They prove that this is especially true for family firms supporting the applied rent extraction view. Croci et al. (2012) show that family firms restrict CEO compensation in cash and overall and, thus, do not apply expropriation via the CEO. Further, they show that compensation is more strongly influenced by the involvement of institutional investors in family firms than in non-family firms. Cheung et al. (2005) go in a different direction by stating that in Hong Kong managerial ownership concentration is positively related to the executive compensation in SME's below 35% ownership and in larger firms below 10% ownership, suggesting that family managers take advantage of their information advantage as managers. A less significant relation can be found regarding expropriation via dividends. Chourou (2010) added detail on a Canadian sample that expropriation via owner manager compensation may take place but mostly in organizations with weak corporate governance mechanisms. Finally, Amoako-Adu et al. (2011) enhance knowledge in this area by looking at dual and single class voting right firms, showing that in a dual class environment family managers earn more in terms of incentive compensation, which, it is argued, prevents them from extracting money via their superior voting rights.

In summary, despite the significant research and some interesting insights that help to clarify research results discussed in later chapters, there are still some unanswered questions regarding compensation in family firms.

2.3.2. Pay variation in family firms

There is currently very little research available on pay variation in family firms. Two papers that do address this topic, however, are a very recent one on pay dispersion in founder and family owned firms by Jaskiewicz et al. (2014) and another by Ensley et al. (2007) addressing "the negative consequences of pay dispersion in family and non-family top management teams" in a very specific "new venture, high-growth firm" environment. Additionally, there is a recent important paper by Connelly et al. (2013) that does not explicitly discuss family firms, but still provides significant insights into the antecedents of pay variation and addresses the role of dedicated and less dedicated investors, and family firms could definitely by called dedicated investors. In the following paragraphs, we will present in reverse chronological order the most important findings from each paper.

Jaskiewicz et al. (2014): "Founder Versus Family Owners' Impact on Pay Dispersion Among Non-CEO Top Managers: Implications for Firm Performance" (Journal of Management)

Sample: 1,619 observations from 358 firms of S&P 500 composite index from 1994-2002 containing firms with family firm connections

Pay variation type: Horizontal

Pay variation measure: Pay dispersion measure in terms of coefficient of variation of total compensation among the four non-CEO top managers

Compensation definition: Total compensation consisting of base salary, bonus, long-term incentive plans, Black-Scholes stock-option value estimate, value of restricted stock grants, and all other annual compensation

Applied theories: Agency theory, social comparison theory (close to equity theory), pay per performance approach (similar to tournament theory), SEW

Measured construct: (1) Non-CEO TMT pay dispersion (independent variable) on firm performance, ROA (dependent variable); (2) Founder ownership, family ownership, later generation family owners (independent variables) on non-CEO TMT pay dispersion (dependent variable)

Key findings: Key findings of the paper show that the applied intra TMT non-CEO pay dispersion is detrimental to organizational performance. The authors attempt to explain why this still happens under certain family ownership constellations. The authors distinguish between founder firms, family owners (+1 family member involved in management or ownership to founder) and later generation family owners (generation +1 to founder). Results indicate that family owners apply higher pay dispersion than founder owners, however, again declining in later generation family owner firms. This is linked to SEW, the major reference point of family owner decision making, that replaces mainly financial goals, and takes negative firm performance into account from the founder to the later family owner stage, losing importance again in later generations (U-curve of SEW importance: low for founder, high for family owners and lower again for later generations).

The gradual utilization of more pay dispersion by family owner firms is carried out through the goal alignment of managers with the respective family owner and generation in charge. In the founding stage, firm-level performance goals are aligned with individual TMT member goals as the focus is on general growth and survival goals for everybody; thus there is lower pay dispersion and more social comparison based (linked to ET) pay. The authors further argue that in the case of family owners goal alignment is less imminent and thus monitoring efforts of the same higher due to the multitude of strategic SEW and performance goals. Moreover, this lesser goal alignment leads individual TMT members to pursue distinct goals from each other. To account for this TMT member incentives needs to be more individual to account for the existing distinct goals. Thus, relative evaluations favoring individual pay per performance (linked to TT) pay distribution becomes the prevailing pay structure and pay dispersion rises. This focus on SEW again diminishes in later generations and the focus shifts again toward clearly measurable financial goals with pay variation again shrinking and becoming more ET driven.

Connelly et al. (2013): "Minding the Gap: Antecedents and Consequences of Top Management-To-Worker Pay Dispersion" (Journal of Management)

Sample: 1,863-2,410 observations on 445 firms from 1996 to 2006, based on S&P 1500 composite index

Pay variation type: Vertical

Pay variation measure: Ratio variable where numerator stands for average TMT total compensation and the denominator standing for average employee compensation without TMT compensation. Called pay dispersion in the paper, however, is no dispersion measure.

Compensation definition: Total TMT compensation consists of top manager's annual salary, bonus, other annual compensation, value of restricted stock grants, Black-Scholes value of stock option grants, and long-term incentive payouts. Employee compensation consists of total labor expenses for the firm without TMT pay expenses as stated above

Applied theories: Tournament theory, Equity theory

Measured construct: (1) Pay dispersion (independent variable) on short-term and long-term performance based on ROA (dependent variables); (2) Transient and dedicated ownership (independent variables) on pay dispersion (dependent variable)

Key findings: Connelly et al.'s paper seeks to expand general knowledge about vertical pay variation. They show that regarding antecedents of pay variation research is very thin, and they emphasize that even though substantial research on the effects of pay range exists, consistency of the results is still absent. Thus, by measuring a statistical model comprising antecedents based on ownership time horizons of pay variation and then measuring how pay variation influences long- and short-term firm performance, the authors provide substantial insight into vertical pay variation.

The most important results show that pay dispersion has positive effects on short-term firm performance, whereas it has the opposite effect on long-term performance. The argumentation regarding short term performance stems from existing TT literature that shows that employees are motivated by rewards to achieve short-term metrics, KPI or outcomes (Laverty, 1996; Marginson and McAulay, 2008), and promotions are often based on similar financial KPI as well (Siegel and Hambrick, 2005). Thus, to achieve fast self-enhancement motivation requires a focus on decisions with fast payback times. (Meulbroek and Mitchell, 1990). In contrast, long-term performance is argued to depend on different decisions, positioning the firm in a "temporal trap" due to the shift in priorities (Laverty, 2004), i.e. short-term focused actions may hamper long-term success, for example, saving marketing dollars at the expense of maintaining long-term brand awareness. Thus, ET dynamics may cause managers and employees to address existing inequalities in pay structure in the long-run thereby hampering firm effectiveness and efficiency (Shaw, Jason D. Gupta, Nina, 2007; Trevor and Wazeter, 2006). In brief, greater pay variations would be detrimental in the long-run to firm performance.

Furthermore, the authors state that ownership plays a key role in influencing pay dispersion, as "transient institutional investors (who have short time horizons and equity stakes in a wide variety of firms) positively influence pay dispersion whereas dedicated institutional investors (who have longer investment time horizons and equity stakes in fewer firms) negatively influence pay dispersion" (Connelly et al., 2013: p. 1). Generally, the authors argue that research shows that institutional investors are not only short-term oriented but are also and may be even more interested in long-run performance (McConnell and Wahal, 2000) influencing management along their way (Hoskisson, Hitt, Johnson, and Grossman, 2002). As pay dispersion may be called a risky strategy due to potential positive effects like attracting top talent, but also potential negative ones on firm performance, transient investors are more likely to accept this risk of high dispersion because they are often highly diversified and may not hold this investment in the long-run until negative consequences materialize (Bushee, 2004). However, the negative impact of dedicated investors on pay dispersion is due to their ability and willingness to influence organizational pay structures as they fear potential long-term negative reactions of internal stakeholders such as employees. Moreover, they invest substantial personal resources into their venture and are likely to be less broadly invested (Bushee, 1998). Thus, dedicated investors are not likely to accept risky strategies or actions that may hamper long-term success and will often directly influence compensation matters on boards or via policies (Dikolli, Kulp, and Sedatole, 2009).

Ensley et al. (2007): "The negative consequences of pay dispersion in family and non-family top management teams: an exploratory analysis of new venture, high-growth firms" (Journal of Business Research)

Sample: 200 executive teams, 88 non-family and 112 family firms based on Inc. 500 group of privately held firms, from 1996, 1999, 2003

Pay variation type: Horizontal

Pay variation measure: Total annual cash as short-term pay dispersion using coefficient of variation. Long term pay dispersion based on coefficient of variation of options/warrants given to the TMT during 2 years before survey start.

Compensation definition: Total annual cash including base salary, bonus pay consisting of a non-recurring cash payment for short-term performance objectives (one year or less)

Applied theories: Equity theory

Measured construct: Structural equation modeling for family and non-family firms separately – long-term stock options dispersion and short term pay dispersion on potency, cohesion, affective conflict, cognitive conflict on growth index

Key findings: Pay dispersion was found to be higher for non-family firms than for family firms. Ensley et al. hypothesized this effect by arguing that in a horizontal family firm TMT setting, equality is the ideal measure of compensation to achieve fairness (Lansberg, 1983) and that need-based and equity-based justice perceptions result in more equal pay in such an opaque intra-TMT community and may even be referred to as "egalitarian nuclear families" and "community families" (Sharma and Manikutty, 2005). In contrast, non-family firms focus more on pay-for- performance motivations.

Further, results show that long- and short-term dispersion negatively affect behavioral dynamics and especially so in the family firms that were analyzed. The authors base this idea of the relationship on the idea that the compensation process heavily influences how fair pay is perceived and thus influences behaviors. They argue that consistent formal policies generate trust in the system, are more likely to be applied in non-family firms, and thus generate fewer harmful effects in light of higher pay dispersion (Shaw et al., 2002). Whereas, in family firms, the clash of family and firm and related altruistic or subjective motives (Kole, 1997) will lead to less formalized and less transparent compensation awards causing (perceived) ambiguity in the distribution of pay and thus will lead to more harmful consequences. As group dynamics, however, are important for organizational goal and performance achievement (Gladstein, 1984) pay dispersion is argued to hamper team dynamics and thus performance.

More in detail, the authors analyze specific team dynamics and determine that conflict (cognitive and affective measured separately), cohesion and potency are generally negatively influenced by pay dispersion and even more so in family than in non-family firms. This difference between firm types is based on the nature of conflict of family involvement with firms and respective social constructs. Statistically speaking, the author's results show that pay dispersion affects cohesion and potency negatively and conflict, positively.

The negative relation of pay dispersion and conflict have a generally negative effect on cooperativeness and increase dysfunctional behavior, thus worsening, affective and cognitive conflict an effect that is exacerbated in small, tightly-knit groups such as TMTs where job interdependence is necessary for corporate success. According to the authors, this is multiplied by the power differential when TMT members are family members and have no real option to leave the business, in contrast to non-family members, and those in non-family firms who can quit and thus mitigate conflict before it becomes unbearable.

Negative aspects of TMT cohesion are explained by the nature of cohesion, described as a “sense of belonging” and “morale” of the group (Bollen and Hoyle, 1990). If there is no sense of equity feelings of not belonging or a lack of attachment to the group will suffer, especially in family firms where cooperation and interchange are core business principals.

The effect on potency is explained by the group’s belief that the ability to take good decisions is hampered if the differentiation between individual members is high and some people feel unfairly treated. In family firms where this fairness motive may be strongly connected to the families’ social identity this negative effect is argued to be even stronger.

2.4. Thesis contribution on identified research gaps

When analyzing the theoretical framework presented in chapter 2, it becomes evident that further research of each theoretical aspect may be fruitful and could improve the scientific understanding of the respective research streams. However, significant research has also already been done. This subchapter aims to address the place where the research question of this dissertation may fit in and will follow the already applied order.

First, pay variation research is no longer a new research stream; however, due to many inconsistencies in nomenclature, measurement, operationalization and conceptualization, a contribution towards pay variation research in general seems sensible (Gupta et al., 2012). This may be especially true since antecedents of pay variation have largely been neglected in research but are needed to improve the understanding of origins and dynamics influencing preferences for pay structures and underlying theories (Gupta et al., 2012; Jirjahn and Kraft, 2007). Further, vertical pay variation in particular has not been a focus of researchers and thus needs to be addressed (Connelly et al., 2013) along with range measures. Range measures are far less frequently applied than dispersion measures even though they may be the more pragmatic and comprehensible construct if effects on stakeholders or employees are the focus.

Second, the theoretical base for pay variation literature is often provided by equity and tournament theory. However, further areas of application are possible in the case of both theories and can help to shed more light on the validity the two theories in different settings and contexts, such as that of family firms.

Thus third, in family firm literature, the SEW approach is a great achievement as it contributes to the uniqueness of the research field. Still, the validity of this approach has not yet been fully confirmed and further research needs to address research gaps (Berrone et al., 2012; Miller and Le Breton-Miller, 2014). Especially the heterogeneity of family firms makes it difficult to generalize findings. Currently, many findings are only based family firms as a homogeneous group, comparing it to non-family firms. Even though non-SEW family firm literature already acknowledges this heterogeneity it is still not tightly connected to the SEW approach (Berrone et al., 2012). As a consequence, an avenue for future research may be found in analyzing what drives heterogeneity of family firms and if stakeholder influence plays a role in differentiating firms. Further aspects that may be relevant in the context of this dissertation are connected to the fact that not all SEW aspects may be uniquely attributable to family firms (Miller et al., 2011) and establishing those connections or the absence of them would further enhance the SEW approach in general.

Fourth, the FIBER model leaves significant room for further research as SEW has not yet been reliably validated and specifically measured. To date, mostly proxies of family firm governance have been used for the degree of SEW endowment in a family firm (Gomez-Mejia et al., 2011; Miller and Le Breton-Miller, 2014). As a consequence, measuring and validating all or selective FIBER items presented by Berrone et al., 2012 could significantly improve the understanding of SEW and the FIBER approach. Furthermore, it would help to clarify whether the FIBER dimensions as presented actually show measurable effects on statistical models and the proposed items could become a reliable scale for future research in this area.

Fifth, when looking at proactive stakeholder engagement, it could be helpful to bring apply this rationale to further research questions and to include positive and negative valences of SEW endowment and its implications for stakeholder management (Cennamo et al., 2012; Kellermanns et al., 2012b). It is predominately the positive valence of SEW that has been discussed in existing research. Further, it would help to understand how SEW and PSE are connected and if the differentiation in instrumental and normative FIBER items can provide value added in actual research.

Finally, as already stated in subchapter 2.3.2., there is almost no research available combining family firm literature with pay variation literature. Only two papers are available addressing family firms directly and neither paper addresses how socioemotional wealth and/or family firm specific motivations really influence pay variation. Even though the latest paper by Jaskiewicz et al. (2014) does apply the socioemotional wealth approach to their hypothesis derivation, SEW is not measured directly, rather the degree of SEW influence on family firm decision making is mirrored through direct family influence such as owner presence and the evolutionary stage of the firm in generations. Here, the merging of cross-area research streams as demanded by (Zahra and Sharma, 2004), provides a fruitful area for research and would enhance understanding of the field in general, human resource practices (Sharma, 2004) and compensation in family firms.

In a nutshell, generating insights combining research disciplines and bringing together reasoning from different theoretical schools provides a promising area for research. Not only the theoretical dimension but also that of methodology is of importance, especially when discussing the FIBER items and pay variation; significant contributions to the existing literature may be made in both these areas.

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