

Owner Culture and Pay Inequality within Firms

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Super interesting paper and great data!

Firms with owners who immigrated to Canada from countries with low individualism preferences have lower within-firm inequality.

My discussion will focus on what else the authors can do...

What Drives Inequality



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How should we think about this result?

Within-firm inequality is a product of the owner's preferences... but also workers' choices

- Employ workers with greater variation in skill
- Pay workers who would receive low wages on the market relatively more
- Pay workers who would receive high wages on the market relatively less

Skill compression



Wage compression





To test wage compression, the authors run the following test:

$$y_t^{i,j} = High_ability_t^{i,j} \cdot \alpha_1 + High_ability_t^{i,j} \cdot IDV^j \cdot \alpha_2 + Ability_{pre}^{i,j} \cdot \alpha_3 + X_t^j \cdot \alpha_4 + Industry\ FE + Province\ FE + Year\ FE + \epsilon_t^{i,j}. \quad (3)$$

High IDV owners pay high skill workers relatively more.

Instead, I would identify workers who change jobs between firms in your sample.

- Starting with low-wage workers, do these worker realize relatively greater wage gains when moving from a high-IDV to low-IDV firm?
- And do high-wage workers increase wages more when moving from a low-IDV to a high IDV-firm?



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Low IDV owners pay high skill workers relatively less.

Instead, I would identify workers who change jobs between firms in your sample.

- Starting with low-wage workers, do these worker realize relatively greater wage gains when moving from a high-IDV to low-IDV firm?
- And do high-wage workers increase wages more when moving from a low-IDV to a high IDV-firm?

Regional Variation



Country	Indiv.
Pakistan	14
Taiwan	17
Lebanon	18
China	20
Vietnam	20
Hong Kong	25
Portugal	27
Romania	30
Iraq	31
Philippines	32
Sri Lanka	35
Egypt	37
Iran	41
Korea	43
India	48
Poland	60
South Africa	65
Germany	67
France	71
UK	89
US	91

Low individualism scores are concentrated in Asia

Could language play a role? If we assume that owners hire from their own ethnicity and employees without strong English may face a more limited job market.

- Forth, Theodoropoulos and Bryson (2021)

Do you have any direct information about the demographics of the employees?

- Do workers tend to work only at firms with owners from the same country? Is there evidence of a segmented labor market?
- Run a test looking only at industries where all employees likely to be customer-facing (retail versus restaurants).



To test skill dispersion, the authors run

$$\text{Var}(Ability_{pre}^{i,j}) = IDV^j \cdot \gamma_1 + X_t^j \cdot \gamma_2 + \text{Industry FE} + \text{Province FE} + \text{Year FE} + \xi_j^t. \quad (4)$$

High IDV owners hire workers with greater variation in wages ex-ante.

High variation in wages is likely driven by presence of high-wage workers.

This could be a preference for low inequality it could also be an **aversion to high wages**.



To test skill dispersion, the authors run

$$\text{Var}(Ability_{pre}^{i,j}) = IDV^j \cdot \gamma_1 + X_t^j \cdot \gamma_2 + \text{Industry FE} + \text{Province FE} + \text{Year FE} + \xi_j^t. \quad (4)$$

Owners from low IDV countries are less likely to hire high skill workers.

High variation in wages is likely driven by presence of high-wage workers.

This could be a preference for low inequality it could also be an **aversion to high wages**.

Control for Mean Wages



	(1)	(2)	(3)	(4)
	Within-firm pay inequality			
Individualism	0.0824*** (0.0050)	0.0722*** (0.0049)	0.0608*** (0.0050)	0.0595*** (0.0050)
Log (# employees)		0.0318*** (0.0011)	0.0146*** (0.0017)	0.0147*** (0.0017)
Log (Capital-labor ratio)		0.0166*** (0.0008)	0.0099*** (0.0009)	0.0097*** (0.0009)
Log (Revenue)			0.0200*** (0.0013)	0.0200*** (0.0013)
Log (Firm age)			0.0037 (0.0050)	0.0036 (0.0050)
Log (Firm age) ²			-0.0007 (0.0014)	-0.0005 (0.0014)
Has multiple owners			-0.0309*** (0.0017)	-0.0318*** (0.0017)
Average owner skill				-0.0016*** (0.0005)
Average owner education				0.0041*** (0.0005)
Industry FEs	Yes	Yes	Yes	Yes
Province FEs	Yes	Yes	Yes	Yes
Year FEs	Yes	Yes	Yes	Yes
Observations	318,700	317,700	314,000	313,100
Adj. R-sq	0.034	0.041	0.045	0.046

Add a control for mean wages
(and probably non-linear
terms)

Paper looks at within-firm
inequality but between-firm
inequality is a bigger driver of
recent increases in inequality.

By looking at mean wages,
authors would also be able to
comment on drivers of
between-firm inequality.

What Does this Mean for Firm Profits?



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Do firms with high (low) inequality out-perform?

- If high inequality may reflect greater labor skill (Mueller et al 2017), or if high managerial compensation motivates lower-level employee effort (Cullen et al 2022), then these firms may outperform.
- If high inequality impacts morale (Breza et al 2018) or increases turnover (Dube 2019), then these firms may underperform.
- Or it may not matter...

I would find such correlations very interesting.



Great and interesting paper.

Such incredible data. Employee-employer data which is matched to ownership data which is matched to data on the immigration status of these owners.

There is clearly a relation in the data. I encourage the authors to dig more into what is driving this pattern.



- How are partial years handled? Could it be that firms with high inequality just have high turnover?
- Include non-linear terms for the controls (ie firm size)
- I would like to see the same specifications in Table 4, Panel B as in Panel A. I find the firm-level results more convincing because you can add more controls.
- Provide summary statistics of wages