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Antecedents and outcomes of bifurcated compensation in family firms: A multilevel view

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ABSTRACT

Through a multilevel view, this article challenges the dominant assumption in the literature suggesting that family employees will receive more compensation than their non-family peers, which will violate the latter group justice perceptions and will lead them to lower their inputs to retrieve equity. We start by discussing how competing socioemotional priorities combine with the degree of collectivism at the societal level to affect which group will bifurcated compensation favor. We suggest that embeddedness in a collectivist culture will generate a strong desire and a moral obligation to cater to the financial well-being of family members, hence leading to bifurcated compensation favoring family employees. In individualist cultures, however, the family will accord high importance to achieving family prominence, which leads to bifurcated compensation favoring non-family employees. Moving forward, we discuss how nepotism types shape the effect of bifurcated compensation on the under-privileged group work inputs and how this relationship is moderated by the extent of power distance embedded in society. Theoretical and empirical implications are discussed at the end of the paper.

1. Introduction

Bifurcated human resources (HR) practices in family firms are defined as the asymmetric treatment of employees in the firm, favoring family employees over their non-family peers (Jennings, Dempsey, & James, 2018; Verbeke & Kano, 2010, 2012). Of the many ways in which HR practices might be bifurcated in family firms, one of the most theoretically interesting and practically relevant forms of potential discrimination is monetary compensation (Samara & Arenas, 2017; Tabor, Chrisman, Madison, & Vardaman, 2018; Verbeke & Kano, 2012), a phenomenon we term “bifurcated compensation”. Recent reviews reveal that meeting compensation expectations of employees is the most important element in HR management for improving employee work inputs, for effective implementation of strategy, and for achieving desired firm performance (e.g. Gupta & Shaw, 2014; Lozano-Reina & Sánchez-Marín, 2019).

Thus far, it has been assumed that high levels of family altruism (Chua, Chrisman, & Bergiel, 2009; Schulze, Lubatkin, Dino, & Buchholtz, 2001) and the pursuit of socioemotional wealth (Gomez-Mejia et al., 2007; Gomez-Mejia, Cruz, Berrone, & De Castro, 2011) will lead family firms to compensate family employees more than their non-family peers, creating bifurcated compensation in family firms (Barnett & Kellermanns, 2006; Verbeke & Kano, 2010, 2012). Such a practice has been argued to lead family employees to hold a sense of entitlement to privileged treatment (Chua et al., 2009) and to violate non-family employees compensation

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expectations, leading them to lower their work inputs in order to restore a sense of equity (e.g. Chrisman, Memili, & Misra, 2014; Chua et al., 2009; Verbeke & Kano, 2012). Such an assumption may at first glance seem unproblematic, yet the pursuit of multiple and sometimes conflicting socioemotional goals in family firms (Chrisman & Patel, 2012; Debicki, Kellermanns, Chrisman, Pearson, & Spencer, 2016), the variegated inputs that family employees can bring to the workplace (Jaskiewicz, Uhlenbruck, Balkin, & Reay, 2013; Samara & Arenas, 2017), and the culturally preconditioned compensation expectations of employees (Lubatkin, Lane, Collin, & Very, 2007) combine to make this assumption fluid and subject to multiple macro and micro forces affecting its premise. Indeed, empirical research does not always confirm the theorized direction that bifurcated compensation bias is argued to take. For example, literature on CEO compensation indicates that family CEOs often receive, and are willing to accept, less pay than non-family CEOs due to the emotional and reputational benefits that they gain from leading their family company (Gomez-Mejia, Larraza-Kintana, & Makri, 2003; McConaughy, 2000), to the high dividends and other monetary benefits that the they may derive from their position (Jaskiewicz, Block, Miller, & Combs, 2017), and because of the social control that other family members may exert (Combs, Penney, Crook, & Short, 2010).

Just as it is possible for family firms to compensate non-family CEOs more than their family counterparts, it is also possible for family firms that are concerned with family prominence, leveraging business competitiveness and a long-term family legacy (Block, Millán, Román, & Zhou, 2015; Debicki et al., 2016), to compensate qualified non-family employees more than their family peers. Indeed, family businesses are a group of heterogeneous companies (Samara, Jamali, Sierra, & Parada, 2018) that differ in the degree to which they prioritize different socioemotional goals (Chrisman & Patel, 2012; Debicki et al., 2016; Vazquez & Rocha, 2018). For example, family firms that desire to build a long-term family dynasty and to promote a good family reputation must sacrifice some levels of influence and control (Chrisman & Patel, 2012) and must attract qualified non-family personnel to work in the firm (Chrisman et al., 2014), which compels them to provide attractive compensation packages to non-family employees that can exceed those offered to family employees. Accordingly, *our first research question:* When will bifurcated compensation favor family versus non-family employees?

Furthermore, the assumption that bifurcated compensation favoring family employees will inevitablyviolate equity perceptions of non-family employees and will result in various negative ramifications on workforce productivity must be met with some skepticism. Family employees' attitudes at work are diverse (Eddleston, Kellermanns, & Kidwell, 2018; Samara & Arenas, 2017), ranging from exerting extra effort and time in the firm, actively participating in at-the-dinner table business conversations (Denison, Lief, & Ward, 2004), and putting their "heart" into the business (Dawson, 2012, p.5); to evading their duties, free riding, and displaying unproductive behaviors (Barnett & Kellermanns, 2006; Chua et al., 2009; Kidwell, Eddleston, Cater III, & Kellermanns, 2013). Hence, bifurcated compensation favoring family employees is sometimes warranted, reflecting meritocracy, and will not necessarily violate equity perceptions of non-family employees. Concomitantly, failing to meet qualified family employees compensation expectations might lead them to lower their inputs in their attempt to retrieve equity. Hence, *our second research question*: how will bifurcated compensation (either favoring family or non-family employees) affect the work outcomes of the under-privileged group?

To make theoretical progress, we first draw on recent work discussing the interplay between different socioemotional wealth priorities in family firms (Debicki et al., 2016; Vazquez & Rocha, 2018), to theorize on the dual direction that bifurcated compensation can take. Second, we integrate national culture dimensions (Hofstede, 1984) and equity theory (Adams, 1965) into the discussion of bifurcated compensation in family firms. National culture allows discussing the meanings and consequences of family adherence across cultures and their concomitant impact on the pursuit of different socioemotional priorities and on compensation expectations of employees. Furthermore, equity theory allows us to account for different levels of inputs that family employees can bring to the workplace and to advocate that merit, rather than equality (Kim, Wang, Chen, Zhu, & Sun, 2019), will be the key factor that shapes the consequences of bifurcated compensation in relation to the work inputs of employees.

We make three contributions to the family business and human resources domains. First, we step away from the dominant monolithic understanding of bifurcated compensation in family firms by moving toward a nuanced multilevel view that accounts for how competing socioemotional priorities (Debicki et al., 2016; Vazquez & Rocha, 2018) combine with culturally ingrained expected roles of families (Samara & Berbegal-Mirabent, 2018; Sharma & Manikutty, 2005) to affect the direction that bifurcated compensation can take. Second, we question the assumption that bifurcated compensation will necessarily reflect a dark side of HR practices in family firms. We offer arguments suggesting that under circumstances of meritocratic bifurcated compensation and when cultural preconditioned compensation expectations are met, bifurcated compensation in family firms will not necessarily affect the work inputs of the under-privileged group; however when bifurcated compensation is not meritocratic and when culturally compensation expectations are violated the negative effects of inequity on employees work inputs are amplified. Third, since providing adequate compensation that fits family and non-family employees' contributions is an ongoing managerial concern (Lansberg, 1989; Samara & Arenas, 2017), this study provides managerial contributions by outlining the benefits of equitable compensation that meets employees' culturally preconditioned expectations while pointing to the threats associated with compensating unqualified family members more than their non-family peers across cultures.

2. Literature review

2.1. Bifurcated compensation in family firms

Bifurcated compensation has been recurrently discussed in the family business literature, although from different theoretical lens (Barnett & Kellermanns, 2006; Chua et al., 2009; Jaskiewicz et al., 2017). Whether it is driven by socioemotional desires to sustain family influence and control through providing financial incentives for family members to join the business (Jaskiewicz et al., 2017),

by high levels of family altruism leading to a desire for family enrichment (Barnett & Kellermanns, 2006; Chua et al., 2009; Debicki et al., 2016; Schulze et al., 2001), or by an affect heuristic that leads family members to inherently discriminate against non-family employees (Verbeke & Kano, 2012), the presence of bifurcated compensation is empirically documented (Cai, Li, Park, & Zhou, 2013; Madison, Daspit, Turner, & Kellermanns, 2018) and has been argued to lead to negative ramifications on family (Chua et al., 2009) and non-family employees work outcomes (Barnett & Kellermanns, 2006; Kidwell et al., 2013; Verbeke & Kano, 2012). Family employees are argued to form a sense of entitlement and to opportunistically take advantage from the unqualified compensation they receive (Chua et al., 2009; Verbeke & Kano, 2012) and non-family employees are argued to perceive injustice and thus decrease their inputs in order to restore a sense of equity (Barnett & Kellermanns, 2006; Madison et al., 2018).

At the same time, after an exhaustive literature review of the HR literature in family firms, Jennings et al. (2018) conclude that, while bifurcated HR practices can highly favor family employees, there are instances where bifurcation bias can favor non-family employees. Jennings et al. (2018, p.70) find that: "although the presumed preferential treatment of family members is primarily supported in the case of personnel selection and retention, and to a lesser degree for training and development, the findings for compensation and performance appraisal are more ambiguous." Although this ambiguity is documented when discussing compensation at the CEO level only, the possibility that family firms can compensate non-family employees more than their family peers should not be automatically discounted. Indeed, in their aim to attract a qualified non-family workforce to work in the business, family firms can become compelled to compensate non-family employees more than their family peers as the former group is considered as a necessary resource that allows the family to realize some socioemotional goals, such as remaining competitive across generations, preserving a good family reputation, and maintaining social ties with internal stakeholders (Chrisman et al., 2014; Debicki et al., 2016)

2.2. Socioemotional wealth importance and the direction of bifurcation bias

Socioemotional wealth is defined as the sum of non-financial value that the family gains and accumulates through its involvement in the business (Gómez-Mejía, Haynes, Núñez-Nickel, Jacobson, & Moyano-Fuentes, 2007). From a socioemotional wealth lens, family firms may forego opportunities to create financial value and may even sacrifice financial gains in order to protect and increase the affective endowments that they receive from the business (Gómez-Mejía et al., 2007). It has been suggested that family firms will compensate family members more than their non-family peers in order to attract the former group to work in the business, therefore fulfilling socioemotional desires of preserving family influence and control (Berrone, Cruz, & Gomez-Mejia, 2012) and meeting altruistic desires to enrich family members (Chua et al., 2009; Debicki et al., 2016; Jaskiewicz et al., 2017).

While the former perspective resonates well with the direction that bifurcation compensation takes as conceptualized by Verbeke and Kano (2012), there is a growing parallel debate discussing the interplay between different socioemotional priorities in family firms (Debicki et al., 2016). Indeed, different families have distinctive socioemotional goals, some taking priority over others. Family firms are a group of heterogeneous companies (Samara et al., 2018; Samara & Berbegal-Mirabent, 2018) and while some attribute high importance to achieve the financial well-being and happiness of family members through enrichment (Debicki et al., 2016), others can be more concerned with family prominence achieved through accumulating reputational gains, forging strong social capital with internal stakeholders, and maintaining the long-term viability and competitiveness of the business (Berrone et al., 2012;Chrisman & Patel, 2012 ; Debicki et al., 2016). For example, achieving socioemotional goals of preserving family influence and control and enriching family members can come into conflict with other goals such as building a long-term family dynasty (Chrisman & Patel, 2012; Debicki et al., 2016), increasing the family business competitiveness in a dynamic market (Chrisman & Patel, 2012), preserving a good family reputation (Samara & Arenas, 2017) and maintaining social ties with internal stakeholders (Vardaman & Gondo, 2014). To achieve the latter goals, family firms need to attract a qualified non-family workforce pool, and feel compelled to compensate non-family employees more than their family peers, as the former group can associate more employment risk, may attribute less emotional value to the work, and may perceive limited growth opportunities when working in a family business (Chrisman et al., 2014; Ciravegna, Kano, Rattalino, & Verbeke, 2019). This further lends support to the possibility that family firms can sometimes compensate non-family employees more than their family peers.

In what follows, we discuss how culturally ingrained expectations of the role of the family can influence the interplay between different socioemotional wealth priorities, hence shaping the direction that bifurcated compensation takes.

3. Conceptual foundations

3.1. National culture

National culture is defined as "the collective programming of the mind distinguishing the members of one group or category of people from others" (Hofstede, 1984 p.21). National culture determines the specific and enduring values that individuals develop prior to joining the organization (Ailon, 2008; Rokeach, 1973). Through continuous enculturation, the old generation transmits to the new generation a set of cultural values and norms through formal and informal channels such as child rearing and school education (Ailon, 2008; Berry, Poortinga, Segall, & Dasen, 1994; Chen, Choi, & Chi, 2002). A nation's culture therefore becomes intrinsically embedded in the values and beliefs of a country's inhabitants, prescribing individual and group behavior and determining the expected behaviors of others.

While various conceptualizations and dimensions of national culture exist, in this article we draw on two cultural dimensions that particularly fit the purposes of this study: individualism/collectivism (henceforth collectivism) and power distance (Hofstede, 1984),

which constitute the two most studied dimensions in cultural research (Erez, 2011). Despite criticisms of Hofstede's cultural dimensions, recent research shows that these dimensions have withstood several tests of validity and reliability over time and across studies (Beugelsdijk, Maseland, & Van Hoorn, 2015; Deephouse, Newburry, & Soleimani, 2016). While we acknowledge the importance of other cultural dimensions for a broader understanding of the antecedents and consequences of bifurcated compensation in family firms, we focus on individualism and power distance for two essential reasons. First, the degree of collectivism in a culture is intricately linked with the consequences of integration of individuals in their family groups (Chen, Choi, & Chi, 2002; Hofstede, 1984; Samara & Berbegal-Mirabent, 2018; Sharma & Manikutty, 2005) and, as we will argue below, can be a strong predictor of the importance that the family will hold to achieve diverse socioemotional goals. In addition, power distance shapes the meanings that people attribute to status differences (Daniels & Greguras, 2014), therefore making it an important contextual contingency that determines whether non-family employees will compare their own compensation to that of their more powerful family peers.

3.2. Collectivism, socioemotional goals and the direction of bifurcated compensation

Collectivism shapes the culturally conditioned views of self-identity (Markus & Kitayama, 1991) and the predisposition of individuals to categorize themselves as independent or as part of a larger group whose interests must primarily be served (Hofstede, 2001). In collectivist cultures, people are primarily concerned with achieving the well-being of their extended family insofar that they are ready to sacrifice their own self or business interests to serve their family's interests (Chen, Peng, & Saparito, 2002; Hofstede, 2001; Markus & Kitayama, 1991). Collectivists are also more embedded in their families than individualists and are more likely to assign prototypical characteristics for individuals based on their family membership (Chen, Peng, & Saparito, 2002). Such a self and other categorization triggers an inherent desire to cater to the well-being of family members while forming greater prejudice and bias when dealing with non-family members (Sharma & Manikutty, 2005). For example, Samara and Berbegal-Mirabent (2018) show that, in collectivist cultures, family members are more likely to share tacit business knowledge with other family members while forming greater prejudice and being reluctant to share tacit knowledge with non-family internal stakeholders.

Furthermore, in collectivist cultures, there is a strong moral obligation to serve family needs (Chen, Peng, & Saparito, 2002). Moral obligation refers to the extent to which people feel obligated to cater to the interests and well-being of others (Etzioni, 1988). Collectivist families feel duty bound to cater to the financial well-being of their members, as refraining from doing so will imply a moral burden. Indeed, research shows that in collectivist cultures norms of family altruism and continuous family support dominate (Samara, Jamali, & Lapeira, 2019; Lubatkin, Lane, et al., 2007; Sharma, 2004; Sharma & Manikutty, 2005), business interest is subordinate to the family's interest (Handley & Angst, 2015), and the pre-disposition of the family to discriminate against non-family members is higher than in individualist cultures (Handley & Angst, 2015; Samara & Berbegal-Mirabent, 2018). Fahed-Sreih and Djoundourian (2006) show that in Lebanon, a country that ranks high on collectivism, the initial reasons for entrepreneurs to start a business is to provide secured employment opportunities to family members and to continuously cater to their financial well-being.

Based on the latter, we suggest the following:

Proposition 1. In collectivist cultures, family firms will attach high importance to achieve goals of sustaining influence and control and enriching family members, leading to bifurcated compensation that favors family employees.

In individualist cultures, however, the importance that the family grants to achieving goals of family enrichment and preserving influence and control will be lower, due to a lower propensity to prioritize family members' financial well-being over other individual and business goals (Sharma & Manikutty, 2005). In addition, the moral obligation to serve family needs is weaker, due to a greater focus on self-interest (Chen, Peng, & Saparito, 2002). Research also shows that while individualists have in-groups and out-groups, they do not see as sharp a contrast between them and do not behave as differently toward in-group and out-group members as collectivists do (Bullough, Renko, & Abdelzaher, 2017).

Under such circumstances, controlling owners can be more swayed to achieve family prominence through building and maintaining a good family reputation, forging strong partnerships with internal stakeholders and striving for long-term competitiveness. Achieving family prominence will positively reflect on the self-image, esteem, and reputation of family business leaders derived from leading a successful, professionalized, and well-reputed family firm. Under such circumstances, family firms will have incentives to offer higher compensation to non-family employees to attract them to work in the business given that they usually perceive higher risk and less growth opportunities when working in a family firm (Chrisman et al., 2014). Hence:

Proposition 2. In individualist cultures, family firms will attach less importance to achieving socioemotional wealth goals of family enrichment and influence and control and more importance to family prominence; leading to bifurcated compensation that favors non-family employees.

Having discussed how collectivism shapes the dual direction that bifurcated compensation can take, we draw on equity theory to discuss the ramifications of bifurcated compensation on employee work outcomes. Equity theory helps to delineate how merit, rather than equality, will affect the reactions of employees to bifurcated compensation (Kim et al., 2019). Furthermore, through the notion of referent or comparison other, equity theory allows integrating power distance into the discussion of bifurcated compensation in family firms, determining whether non-family employees will regard their more powerful family peers as the relevant comparison other.

4. Equity theory

According to equity theory (Adams, 1965), the consequences of compensating one category of employees more than the other depends on both groups' contributions and expectations. Individuals evaluate their ratio of inputs, defined as experience, commitment, time and effort spent at work; to outcomes, defined as the compensation that individuals receive from an organization compared to that of a peer, labeled as the "comparison other". In a situation where employees feel that they are less rewarded relative to a peer, they are likely to form unfairness perceptions, be dissatisfied, and to eventually reduce their work inputs in an attempt to retrieve equity (Adams, 1965; Colquitt, Conlon, Wesson, Porter, & Ng, 2001). As such, equity theory becomes a powerful theoretical lens that allows for an in-depth discussion of the effects of bifurcated compensation on family and non-family employees work inputs.

When discussing family employees work inputs, research has thus far suggested two opposing views that either emphasize family employees' opportunistic attitudes in the firm or their long-term commitment to business success (Madison, Holt, Kellermanns, & Ranft, 2016). To accommodate these competing views under one umbrella, Jaskiewicz et al. (2013) draw on social exchange theory to distinguish between two types of nepotism in family firms: entitlement nepotism and reciprocal nepotism. Since both scenarios are possible (Samara & Arenas, 2017), the two nepotism types need to be accounted for to better understand the consequences of bifurcated compensation in family firms.

4.1. Nepotism types and the effect of bifurcated compensation

Nepotism is broadly defined as an owner's or a manager's predisposition for hiring family members in the business (Bellow, 2003). Nepotistic practices are prevalent in family firms insofar that a core element of a family business definition includes the active presence of family employees in the business (Chua, Chrisman, & Sharma, 1999).

At first, it has been suggested that nepotism in family firms will lead to a "Fredo effect" (Kidwell et al., 2013). Fredo Coreleone, from the Godfather books and movies, is an unqualified middle brother whose incompetence led to the demise of the family organization. Studies have extensively discussed the predisposition of parents to employ family members in the business even when they act incompetently, display unproductive behaviors, or evade their duties (Carney, 2005; Eddleston & Kidwell, 2012; Lubatkin, Schulze, Ling, & Dino, 2005; Neckebrouck, Schulze, & Zellweger, 2018). For example, due to their family status, Fredos may feel automatically entitled to be employed in the business and may have few incentives to display productive behaviors (Bloom, Bond, & Van Reenen, 2007). Under these circumstances, non-family employees will offer higher inputs than family employees and will become the cornerstone upon which business viability and competiveness rests.

Recent advances in the literature, however, offer a more flexible conceptualization of nepotism in family firms that does not exclusively rest on the assumption that all family employees will act as Fredos (e.g. Jaskiewicz et al., 2013; Samara & Arenas, 2017; Samara & Paul, 2019). While the probability of nepotism being purely reflective of family biases is not discounted, advances in the literature acknowledge the possibility that, when employed in their family's business, family employees can feel obligated to give back to the business (Dawson, 2012; Jaskiewicz et al., 2013; Samara & Arenas, 2017). This is categorized as reciprocal nepotism (Jaskiewicz et al., 2013). Indeed, because of their emotional and social attachment to the business (Berrone et al., 2012; Charbel, Elie, & Georges, 2013), family employees are willing to put their "heart" (Dawson, 2012, p.5) into work, which translates into their disposition to display productive work behaviors that are superior to those of their non-family peers. For example, research shows that family employees have a lower rate of absenteeism than non-family employees (Block et al., 2015), are willing to put extra effort and time in the business (Danes, Stafford, Haynes, & Amarapurkar, 2009), and have a stronger alignment of interest with the organization than non-family employees (Sharma & Irving, 2005). When reciprocal nepotism dominates, family employees will likely offer higher inputs than non-family employees as they are in a privileged position that allows them to contribute to the business in and outside the workplace, through at the dinner table business conversations or through representing the business in social events and other relevant business activities in and outside the workplace (Denison et al., 2004; Samara & Paul, 2019).

It follows that, when reciprocal nepotism dominates, bifurcated compensation favoring family employees reflects the higher inputs they bring to the business and becomes meritocratic. Failing to meet qualified family employees higher inputs with commensurable compensation will lead them to form unfairness perceptions and hence lower their inputs. However, when entitlement nepotism dominates, Fredos will take full advantage of their unqualified privileged position and will act in a very opportunistic way by displaying unproductive behaviors and by shirking and free riding (Chua et al., 2009; Verbeke & Kano, 2012), emphasizing an evident need to compensate non-family employees more than family employees to promote a meritocratic environment in the business. Hence, meritocracy becomes the principle foundation upon which family and non-family employees will frame their reactions to bifurcated compensation (Kim et al., 2019). It follows that:

Proposition 3. When entitlement nepotism dominates, bifurcated compensation that favors family employees will reduce non-family employees' inputs.

Proposition 4. When reciprocal nepotism dominates, bifurcated compensation that favors non-family employees will reduce qualified family employees' inputs.

Employee reactions to bifurcated compensation do not occur in isolation of the cultural setting in which they are embedded. Indeed, the level of power distance embedded in a society can affect the extent to which non-family employees will consider family membership as an additional and a legitimate input that automatically provides entitlement to privileged compensation.

5. The moderating role of power distance

After individualism/collectivism, power distance is the most studied dimension in cultural research (Erez, 2011). Power distance reflects the degree to which inequality is accepted and expected by the less powerful members of an organization and society (Hofstede, 1984). Differences in power distance shape views on how individuals with differing levels of power should be treated, such as in high power distance cultures individuals with high power are perceived as superior, automatically entitled to privileged treatment, and inaccessible (Daniels & Greguras, 2014; Hofstede, 2001). Through continuous enculturation, the expectations and behaviors of individuals acquired by child rearing and schooling become stable and inherent to their human identity (Rokeach, 1973) and are therefore carried on to the workplace. Hofstede (1984, p. 90) argues that in low power distance cultures "power and wealth need not coincide." However, in high power distance cultures, the less and the more powerful both expect and accept that difference in [family] status will be translated into differences in wealth.

In the family business context, non-family employees face a particular situation since they form part of the business but not the family (Mitchell, Morse, & Sharma, 2003). Consequently, the altruistic nature of controlling owners toward their kin (e.g. Schulze et al., 2001), the ability of family employees to carry conflict from the business to the family, and the desire for inter-generation succession and sustained family influence and control (e.g. Berrone et al., 2012; Chrisman, Chua, & Sharma, 2005) all serve to decrease the power of non-family employees and to increase that of their family counterparts. It follows that the predisposition of family and non-family employees to consider family membership as a legitimate input that will be translated into differences in compensation will be affected by the extent of power distance present in society.

In high power distance cultures, non-family employees are likely to consider family membership as a legitimate input and will be less likely to regard their more powerful family peer as the relevant "comparison other". Hence, the impact of bifurcated compensation that favors family employees on justice perceptions of their non-family peers will be lower in high power distance cultures, even when Fredos are employed in the business. In low power distance cultures, however, non-family employees will not accept family membership as a justification for being compensated less than family employees. On the contrary, in low power distance cultures, individuals will expect to be treated with ethical consistency, irrespective of differences in power (Hofstede, 1984). As a result, when they compare their own compensation to that of Fredos, non-family employees will perceive injustice and will therefore have strong incentives to lower their inputs to restore the perceived inequity.

Empirical research supports these claims. Research shows that the importance and expectation of non-meritocratic compensation and its effect on the less powerful party's behaviors is more important in low power distance cultures than in high power distance cultures (e.g. Farh, Earley, & Lin, 1997; Fischer & Smith, 2006; Morris & Leung, 2000). Therefore:

Proposition 5. Power distance moderates the negative relationship between bifurcated compensation practices favoring Fredos and non-family employees work inputs, such that this relationship will be stronger in low power distance cultures.

When qualified family members are putting in more inputs than non-family employees, bifurcated compensation favoring non-family employees will violate the compensation expectations and equity perceptions of qualified family employees (proposition 4), especially in high power distance cultures where family membership is considered as a legitimate input. In high power distance cultures, meeting more powerful employees' compensation expectations will reflect practices that are consistent with societal values and hence convey cultural sensitivity, which decrease employees' discomfort and allow employees to behave and be rewarded consistently with their behavioral preferences and norms (Schuler & Rogovsky, 1998). Violating such expectations, however, might strengthen inequity perceptions of qualified family employees as they will be in conflict with both their equity ratio of inputs/outputs and their pre-conditioned cultural expectations. Hence, we suggest:

Proposition 6. Power distance moderates the negative relationship between bifurcated compensation favoring non-family employees and qualified family employees work outcomes, such that this relationship will be stronger in high power distance cultures.

6. Conceptual model

The proposed conceptual model, which consolidates the different propositions and relationships presented above is summarized in Fig. 1. Fig. 1 captures the complexity of bifurcated compensation in family firms and highlights the important contingencies that need to be accounted for, for a more nuanced understanding of the sources, direction, and consequences of bifurcated compensation in family firms. This model emphasizes how bifurcated compensation may have different implications for work outcomes of employees, depending on how these contingencies actually cohere and play out in a particular place and time.

7. Discussion

When will bifurcated compensation favor family or non-family employees? And how will bifurcated compensation affect underprivileged employee work inputs? Drawing on recent literature discussing the interplay between different socioemotional goals in family firms (Chrisman & Patel, 2012;Debicki et al., 2016 ; Vazquez & Rocha, 2018) and on cultural research (Hofstede, 1984), we advance a multilevel theoretical model that explains why some family firms will compensate family employees more than their non-family peers, while others might do the opposite. On the basis of this distinction, we discuss how merit, rather than equality, combines with power distance to affect the reactions of the less privileged group to bifurcated compensation. Our analysis points toward a rather complex application of equity theory in family firms, where compensation of family and non-family employees needs

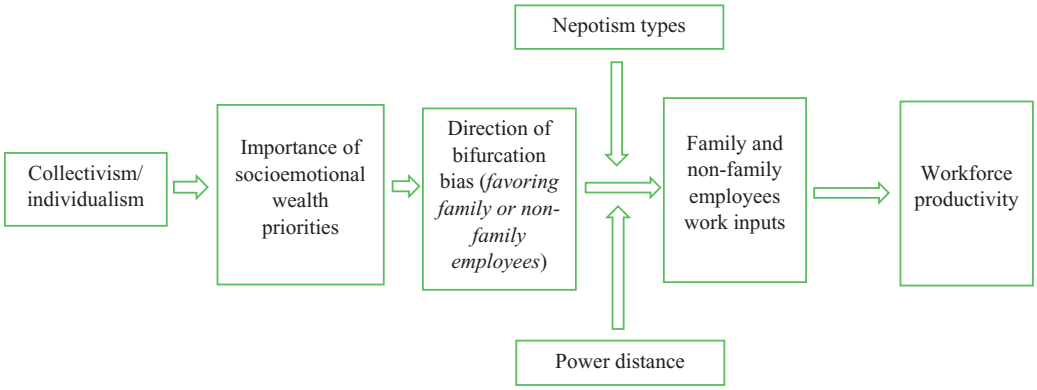

Fig. 1. Antecedents and outcomes of bifurcated compensation.

to be fair rather than equal (Samara & Arenas, 2017) and needs to meet the culturally pre-conditioned compensation expectations of the workforce (Lubatkin, Ling, & Schulze, 2007). In doing so, this study provides theoretical and practical contributions to the human resources literature in family firms.

7.1. Theoretical contributions

Our first theoretical contribution lies in providing a multilevel view that explains the antecedents that affect the direction that bifurcated compensation can take in family firms. We join Jennings et al. (2018) by suggesting that bifurcation bias can favor either family or non-family employees. We extend their analysis by zooming in on compensation and explaining the antecedents affecting the direction that bifurcated compensation can take. We suggest that the direction of bifurcated compensation is affected by the importance that family firms grant to different (Williams Jr, Pieper, Kellermanns, & Astrachan, 2018) and sometimes competing socioemotional wealth priorities (Debicki et al., 2016; Vazquez & Rocha, 2018). Particularly, we propose that goals of family enrichment (Debicki et al., 2016) and preserving family influence and control (Berrone et al., 2012) will be more important in collectivist cultures, leading to bifurcated compensation favoring family employees. In individualist cultures, however, family prominence will be more important (Debicki et al., 2016), leading to bifurcated compensation that favors non-family employees.

Our second theoretical contribution lies in expanding the conversation suggesting that bifurcated compensation will inevitably violate non-family employees work inputs and will lead to negative ramifications on workforce productivity (e.g. Barnett & Kellermanns, 2006; Chua et al., 2009; Verbeke & Kano, 2012). Since in some cases non-family employees can be more compensated than family employees (Proposition 2), we account for the possibility that such a direction of bifurcated compensation can lead *qualified* family employees that are putting additional work inputs (e.g. Dawson, 2012; Samara & Arenas, 2017) to form injustice perceptions and to consider lowering their inputs in order to restore a sense of equity. Specifically we draw on equity theory and different nepotism types (Jaskiewicz et al., 2013) to emphasize that merit, rather than equality (Kim et al., 2019), will be the main factor that affects the reactions of family and non-family employees to bifurcated compensation. Anchored in the work of Jaskiewicz et al. (2013), our analysis points to the importance of stepping away from a one-size-fit-all approach to describing family employees work inputs (Samara & Arenas, 2017) and to the importance of singling out qualified family employees from Fredos when theoretically discussing or empirically investigating the consequences of bifurcated compensation in family firms.

Our third theoretical contribution lies in extending the theoretical boundaries of equity theory through a multilevel view that simultaneously accounts for the combination of macro (i.e. power distance), *meso* (i.e. family business setting), and micro (i.e. variegated family employees inputs) factors affecting its predictions. We show how power distance disrupts the ratio of inputs to outputs that family business employees construct and their perception of comparison other. We suggest that the overlap between the family and business systems (Samara & Paul, 2019) creates two unequally powerful groups, family and non-family employees, and that the ramifications of such inequality on the construction of inputs to outputs ratio will largely depend on the combination of individual contributions and the degree of power distance embedded in a culture. Power distance affects whether family membership will be considered as a legitimate input that either attenuates (Proposition 5) or reinforces (Proposition 6) the reactions of employees to perceived inequity. We argue that the analysis suggesting that bifurcated compensation favoring family employees will lead to a decrease in non-family employees work inputs and will precipitate a significant reduction in workforce productivity is more likely to hold in cases where family employees act as Fredos and in low power distance cultures (Barnett & Kellermanns, 2006; Chua et al., 2009; Lubatkin, Ling, & Schulze, 2007; Verbeke & Kano, 2012). We also suggest that, if family firms automatically consider family employees as less qualified than their non-family peers and fail to account for the additional work inputs that they put in and outside the workplace (Dawson, 2012; Samara & Paul, 2019), qualified family employees can perceive inequity and consider lowering their inputs as a result, especially in high power distance cultures.

7.2. Future research

This article opens up several opportunities for future research. First, this study offers an opportunity to empirically examine the propositions we have advanced and therefore enhance our understanding of the antecedents and diverse potential effects of bifurcated compensation on family and non-family employee inputs across cultures. To study this topic empirically one must acknowledge that the antecedents of compensation decisions and the consequential change in inputs are sensitive topics. Therefore, we suggest that the reactions of family business employees to bifurcated compensation can be empirically explored through a mixed methods approach where perceptions and expectations of employees and family leaders can be first captured via in-depth qualitative interviews and then tested through multivariate techniques (Gelman & Hill, 2006). In this regard, future research can adopt Eisenhardt (1989) approach to case studies, which allows the selection of several heterogeneous cases to deeply understand the antecedents and consequences of bifurcated compensation across cultures. A multi-case design allows cross-case comparison across cultures and across different positions in the family business. Furthermore, multilevel statistical techniques (Gelman & Hill, 2006) allow capturing and integrating individual perceptions and expectations of bifurcated compensation and relevant country-level information about cultural dimensions.

Furthermore, while our analysis has focused on compensation, the most important element in HR management (Gupta & Shaw, 2014; Lozano-Reina & Sánchez-Marín, 2019), it can also be extended to discuss other important bifurcated HR practices such as, personnel selection, performance appraisal, training and development, opportunities promotion, and retention. Indeed, it is worth exploring the direction that bifurcation bias takes along all these dimensions, simultaneously. For example, results of empirical research show that in areas of performance appraisals and training and development, bifurcation bias always favors family employees (Jennings et al., 2018). This means that it is possible for family firms to provide more compensation to non-family employees to attract them to work in the business (Chrisman et al., 2014), but to later discriminate against them in other important HR decisions such as training and development and opportunities for promotion (Jennings et al., 2018). Hence, future research can benefit from providing a more holistic view of how collectivism, power distance and diverse socioemotional priorities affect the antecedents and consequences of a range of HR decisions in the context of family businesses.

In addition, other dimensions of culture can be used to explore the mechanisms through which bifurcated compensation alters family business employee inputs. For example, uncertainty avoidance can hint at the specific reactions of the less privileged employees to bifurcated compensation. Will they react behaviorally by increasing conflict inside the family or the business sphere? Or psychologically by, for example, forming turnover intentions? Related to this point, long-term versus short-term orientation can be studied as a possible remedy for injustice perceptions of underprivileged groups. For example, will providing equitable compensation that matches the individual short-term vs. long-term orientation act as a remedy for unfair total compensation? Also, the masculinity versus femininity dimension can hint at the obstacles and opportunities that gender creates when discussing bifurcated compensation in family firms. For example, will female family members receive higher compensation than male non-family members? How does gender/gender biases (Samara, Jamali & Lapeira, 2019) affect the ratio of inputs to outputs developed by family and non-family employees and their perception of a relevant comparison other? These important questions need to be addressed to increase our knowledge of diverse antecedents and consequences of bifurcated compensation in family businesses.

Lastly, the effects of bifurcation bias in non-monetary compensation is also worth exploring, especially in the family business context. For example, job autonomy, social status and social embeddedness can also be motivators for family business employees to increase their inputs at work. While job autonomy may be a source of motivation for employees in individualist cultures (Man & Lam, 2003), social status and social embeddedness can be a greater motivator for employees in collectivist cultures. In fact, individualists place higher value on their ability to work alone and to be able to have a voice in decision making, while collectivists place higher value on social status and interpersonal relations and have a stronger desire for belonging to an “in-group” (Man & Lam, 2003; Samara & Berbegal-Mirabent, 2018; Wagner, 1995).

7.3. Managerial implications

Actively managing compensation expectations of family and non-family employees is an ongoing managerial concern and has been described as a messy and complicated endeavor (Lansberg, 1989; Samara & Arenas, 2017; Samara & Paul, 2019; Tabor et al., 2018). The work day of a family employee extends beyond the on-the-job working schedule (Denison et al., 2004), and non-family employees are an idiosyncratic resource for outside talent and an important source of external social capital (Chrisman et al., 2014; Chua et al., 2009). Hence, providing adequate compensation that is both meritocratic (Samara & Arenas, 2017) and that matches family business employees' expectations and contributions is important not only from an ethical standpoint but also from an instrumental perspective. Meeting qualified family employees' compensation expectations is essential to improving their work inputs. Due to their early involvement in the business, family employees are an important source of tacit firm knowledge (Jaskiewicz et al., 2013) and increasing their work inputs is essential for sustaining family business prosperity across generations (Miller & Le Breton-Miller, 2005; Samara & Arenas, 2017). Furthermore, non-family employees come from a larger pool of talent and may have more outside experience and credentials than family employees (Chrisman et al., 2014; Tabor et al., 2018). Hence, managing and meeting compensation expectations of family and non-family employees becomes necessary to continuously improve the work outcomes of a qualified and diverse workforce.

8. Conclusion

The propositions and the conceptual model presented in this paper serve as a starting point that provides a more flexible conceptualization of the antecedents and consequences of bifurcated compensation in family firms and set the theoretical ground for future empirical research on this topic. This is necessary in the family business context where different families accord different levels of importance to distinctive socioemotional priorities (Chrisman & Patel, 2012; Debicki et al., 2016), where family employees' work inputs are diverse (Samara & Arenas, 2017) and where the construction of meanings of family membership is highly contingent upon the cultural setting in which people are embedded (Sharma & Manikutty, 2005).

Declaration of Competing Interest

None.

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