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Looking for respect? How prior TMT social comparisons affect executives' new TMT engagements

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Abstract

Research summary: We extend social comparison theory and research in top management teams by showing that negative social comparisons in TMTs have implications for subsequent employment decisions after executive turnover. In a sample of 1,001 executive employment moves to new TMTs, our results show that executives with lower relative pay in the firms they exit join firms that improve their social comparison situation within the new TMT when compared to their previous experience—while not necessarily providing larger improvements in pay. These findings complement social comparison views on executive turnover by showing that executives' new employment decisions are guided by the correction of negative social comparisons in their new firms.

Managerial summary: We show that executives who experience negative social comparisons in pay in a TMT because of their lower relative rank in its pay structure select new employment in firms with more narrow pay differences within their TMT. In addition, we show that such executives improve their relative pay in comparison to others in the TMT in their new TMTs without necessarily experiencing abnormal improvements in pay. These findings show that social comparisons in pay between TMT members may not only drive executive turnover, as previously shown in the literature, but also directs executive decisions about

new TMT engagements. Together, our findings imply that social comparisons are an important factor in executive employment decisions.

KEYWORDS

executive compensation, pay disparity, pay dispersion, social comparison, turnover

1 | INTRODUCTION

Wealth, according to H. L. Mencken, is any income that is at least one hundred dollars more a year than the income of one's wife's sister's husband. Consistent with this quote, there is ample evidence that people in general, and executives in particular, care especially about the incomes of others with whom they frequently come in direct contact (Adams, 1965; Cowherd & Levine, 1992; Festinger, 1954; Henderson & Fredrickson, 2001; Ridge, Aime, & White, 2015; Siegel & Hambrick, 2005). For instance, top management team (TMT) researchers have found that pay differences between executives lead to lower levels of job satisfaction (Baron & Pfeffer, 1994), collaboration (Pfeffer & Langton, 1993) and behavioral integration (Fredrickson, Davis-Blake, & Sanders, 2010; Hambrick, 1995) that, ultimately, can hinder firm performance (Hill, Aime, & Ridge, 2017; Siegel & Hambrick, 2005). Yet, almost no attention has been devoted to one of the most prominent aspects of Festinger's (1954) original social comparison theory: its focus on individuals' selecting positive social comparison environments by drifting into groups that satisfy their needs for self-evaluation.

While evidence suggests that pay differences in TMTs lead to turnover (Bloom & Michel, 2002; Pfeffer & Davis-Blake, 1992; Ridge, Hill, & Aime, 2017), particularly for executives receiving lower portions of the TMT pay (Messersmith, Guthrie, Ji, & Lee, 2011), we do not have evidence as to whether the employment moves of executives in these negative social comparison environments improve their social comparison environments as expected by social comparison theorizing. Understanding that the actual motivations for leaving firms are also the motivations for choosing where to continue their careers is important for at least two reasons. First, it helps explain which executives might choose to join firms that either have more condensed pay structures or that help executives improve their social comparison situation regardless of any actual pay improvements. Additionally, it helps distinguish social comparison theorizing from contrasting theories like tournament theory—specifically, by pointing out how negative social comparisons may motivate executives to repair their negative social comparison situation rather than aim to compete for higher pay (Messersmith et al., 2011; Ridge et al., 2017). Therefore, this study provides additional support for arguments about social comparisons in TMTs. This finding is important because it has implications for both the literature on executive turnover and the literature on executive pay. By showing that executives may move to new positions that alleviate previous negative social comparisons, this study further supports social comparison as a mechanism in the turnover of executives in negative social comparison situations and suggests an alternative motive beyond the need for ever larger rewards (Main, O'Reilly, & Wade, 1993) for attracting and retaining executive talent.

Social comparison is primarily local in nature, because information that is more available or more "proximate in a sensory, temporal, or special way" (Nisbett & Ross, 1980: 45) weighs

expressly on people's judgments and comparisons (Tversky & Kahneman, 1973). Therefore, comparisons to other executives within the TMT will be relevant to the behaviors of executives, much like the brother-in-law was the proximal relevant comparison in the Mencken quote at the opening of this paper. Similarly, one's neighbors are the relevant comparison in Marx's (1847: 33) depiction of social comparisons when he states, "let there arise next to the little house a palace, and the little house shrinks to a hut." It is because of this local nature of the construct that Festinger's (1954) social comparison theory places a great deal of emphasis the ability of individuals to change their social comparison environment when exposed to negative social comparisons. While Festinger acknowledges that such change may sometimes be difficult (as in the need to get a divorce or move to a new neighborhood in our Mencken and Marx examples), changes in social groups or work teams in general can correct negative social comparison because individuals move to positive social comparison environments (Festinger, 1954) (e.g., a neighborhood with smaller houses; a TMT where the moving executive's pay will compare better to that of others in the team).

People change social groups and executives shift work environments not only in response to social comparison needs (i.e., improve relative positions in their local environment), but also as the result of needs to "reduce discrepancy" (Festinger, 1954: 124). A main expectation of social comparison theory for executive movements is that executives who experienced higher negative relative pay in their prior TMT will likely take jobs in TMTs where the executive improves his or her relative pay and where the overall pay dispersion in the team is smaller. That is, executives who are more likely to seek alleviation of negative social comparisons (Bloom & Michel, 2002; Pfeffer & Davis-Blake, 1992) in subsequent employment will be more likely to seek improvements in their social comparison position within the TMT—conceivably, such actions stem from people being "willing to give up some material payoff to move in the direction of more equitable outcomes" (Fehr & Schmidt, 1999: 819). Therefore, social comparison within the TMT may be particularly relevant for the executives who have experienced negative social comparisons in their prior TMT engagements (cf. Akerlof & Yellen, 1990; Schmitt & Marwell, 1972).

Expanding on this idea, we conducted an empirical study of 1,001 TMT members who moved from one firm to another between 1994 and 2010. We find that, consistent with our theorizing, executives with worse relative pay in their prior top management engagements are more likely to join TMTs which: (a) have less disperse compensation distributions in general; and (b) that result in improvements in their relative compensation and pay disparity within the group. These findings contribute to our understanding of social comparison theorizing and speak to the importance of compensation comparisons in executive employment decisions.

2 | THEORY AND HYPOTHESES

Research on TMTs has shown that, consistent with findings that disperse pay structures increase turnover (especially for individuals who are lower in the pay structure; Pfeffer & Davis-Blake, 1992), firms with greater pay dispersion have managers with lower tenure and higher turnover (e.g., Bloom & Michel, 2002; Messersmith et al., 2011). The hypothesized social comparison theory mechanism is that pay "is first and foremost a measure of comparative success" (Fredrickson et al., 2010: 1033); as such, turnover helps executives who experience relative deprivation due to lower relative pay to reduce negative social comparisons by changing their reference groups (Cowherd & Levine, 1992; Ridge et al., 2015; Siegel & Hambrick, 2005). To

reduce feelings of deprivation through turnover, however, subsequent employment should reduce social comparison differences for the executive. To test social comparison theory in executive turnover, we therefore argue and test that executives seek alleviation of negative social comparisons (Bloom & Michel, 2002; Pfeffer & Davis-Blake, 1992) in subsequent employment.

According to social comparison theorizing (Festinger, 1954), alleviating negative social comparisons is achieved in two primary ways: (a) joining less dispersed structures; and/or (b) improving one's relative position within the new structure so that they are better off relative to others than they were previously. As such, we first argue executives who experienced larger disparity in relative pay in a prior TMT will seek to join TMTs where other team members' pays "are near their own" (Festinger, 1954: 136); more specifically, these executives will move to TMTs with less disperse pay structures. For executives, Barnard (1938: 145) notes "the real values of money rewards lies in the recognition or distinction assumed to be conferred thereby," suggesting pay comparisons serve as a measure of relative standing or comparative success (e.g., Fredrickson et al., 2010; Main et al., 1993). Less dispersed pay structures, then, implicitly create perceptions that executives are joining groups whose abilities are, in fact, more similar to their own. To test the consistency of social comparison theory in explanations of executive turnover, we first test the hypothesis that executives who experienced larger relative pay disparity in their prior TMT will join TMTs with less dispersed pay structures than their prior TMT.

Hypothesis (H1) *The difference in pay dispersion between executives' new TMT and their prior TMT has a negative association with the executives' relative pay in their prior TMT.*

A second way to reduce negative social comparison, and therefore relative deprivation, is for executives to move to TMTs in which their relative position is better than it was in the prior TMT. In other words, executives can experience more positive social comparison situations by moving to positions with better relative pay within a new TMT. Festinger's (1954) social comparison theory was not primarily a social-level theory; rather, it was an individual-level theory that focused on the psychological process of self-evaluation as a driver of social behaviors (Križan & Gibbons, 2014). As such, the theory focuses on comparison dynamics that advance the perceptual goals of the individual for well-being. This logic aligns with the expressions of executives and recruiters we interviewed to better understand the implications of the theory in the executive context. One TMT executive at a Fortune 1,000 firm in the banking industry, for example, explained that "*This is my third position (in the TMT) and I'm not making much more than my first VP job and I've moved twice. But what I've been able to do is move upward in the pecking order.*" Similarly, a CFO at a publicly-traded firm, expressed:

"*You aren't an executive [at this level] without being pretty competitive, and with that comes an ego. It's really pretty simple. Look at how many executives move around. Pay is relatively flat ... So what are they getting? They're getting to look better to their peers.*"

Similarly, a private firm CEO confirmed the logic, noting the same process at work in hiring:

"*We're a middle market firm, so we don't always offer more money. But, we are able to hire people away from larger firms and even more money with the opportunity to take what is perceived as a better position - they can say they moved up the ladder and have more responsibility... You also have to consider the egos at play. People want to be able to say they're number 2 or number 3, even if their jobs are worse or they actually have less influence. It's sort of crazy when you think about it.*"

When we asked this CEO if he thought it was intentional, he replied:

"*You think someone is going to move jobs and potentially uproot their family unintentionally? … You have to be kidding me. Of course it's intentional. Come on.*"

Partners at a search firm for college administrators we interviewed agreed:

"*Sometimes, people just want to be one step closer to the Chancellor. It's amazing (partners name), it really is. Think about … their ego. What do you think (to his partner)?*

I totally agree. We have to vet people, and part of what we try to do is find a match and sell them on moving. It's easy when we can tell them they're moving up the ladder and will report to the Chancellor directly or will have more prestige in the administration."

These views are consistent with the social comparison logic that reducing negative comparisons by moving to more positive social comparison situations further the well-being of individuals. Therefore, we expect executives with stronger recent experience of relative deprivation to join TMTs which improve their relative pay within the team or that imply a reduction in direct social comparison for the executive when compared to their prior TMT.

Hypothesis (H2) *The difference in relative pay between executives' new TMT and their prior TMT positively relates to executives' relative pay in their prior TMT.*

3 | METHODS

3.1 | Sample

The sample includes executives listed in the ExecuComp database between 1994 and 2010. The Securities and Exchange Commission (SEC) requires publicly traded companies to provide pay data for at least the top five highest paid executives, including the CEO. As such, we follow prior research and define the TMT as these five executives (e.g., Bloom & Michel, 2002; Fredrickson et al., 2010; Ridge et al., 2017), a criterion that provides integrity to our data by making sure reporting is consistent across data for the full TMT in executives' prior firm. We first identify all TMT executives that exited their prior firm and for which we could identify the subsequent firm in which they were employed in the following two-year period. This specification allows for collection of pay- and firm-level data at both the prior firm and the new firm that the executive joins. We include only executives who could be clearly identified to have exited a single TMT and entered a single TMT, allowing a sample of 1,001 executives with complete data. Study variables were collected from ExecuComp and CompuStat databases.

3.2 | Dependent variables

To test our hypotheses, we need to measure the difference (i.e., change score) in both pay disparity and pay dispersion between the executives' new TMT and prior TMT. As Bergh and Fairbank (2002: 361) note, change scores (C_x) from two observations of the same entity (X_1 and

X_2) may result in regression to the mean both because the relationship between C_x and X_1 is usually quite high and "because those with large positive change scores are more likely to have low scores at X_1, whereas subjects with high scores at X_1 tend to have low scores at X_2"; thus, it is possible for "researchers to make false conclusions about their data; they could easily attribute a finding to some hypothesized effect when it is actually due to regression effects caused by the correlation between C_x and X_1". Bergh and Fairbank also note the issue is subject to debate, as some suggest the effects may not be problematic (cf. Allison, 1990; Rogosa, 1988). For example, Rogosa, Brandt, and Zimowski (1982) note such effects do not threaten empirical results and Rogosa and Willett (1985) showing relationships may be negatively biased (i.e., underscore true relationship) rather than positively biased. Nonetheless, we follow the advice of Bergh and Fairbank to use multiple approaches that fit the structure of our data and hypotheses to offer evidence that our results are not biased by regression to the mean. Specifically, Bergh and Fairbank propose three testing options that fit both our theoretical question and the cross-sectional nature of our data: (a) true values; (b) simple difference; and (c) residuals. We develop our main dependent variables to fit these three alternatives to testing our hypotheses while constraining concerns about regression to the mean.

To capture differences in pay dispersion between executives' new TMT and prior TMT, we first calculate pay dispersion in both the new and prior firm TMT as the coefficient of variation in pay (Allison, 1990; Pfeffer & Davis-Blake, 1992). Executives' pay includes short- and long-term pay, calculated using the Black-Scholes present value method as listed in ExecuComp (cf., Fredrickson et al., 2010; Ridge et al., 2017; Siegel & Hambrick, 2005), as excluding either part may underestimate pay provided (Lambert, Larcker, & Weigelt, 1993). We then create three measures of the dependent variable (DV) following Bergh and Fairbank (2002).

First, we use true values, *New Pay Dispersion*, as a dependent variable while controlling for *Prior Pay Dispersion*. Larger values of this variable indicate higher levels of pay dispersion and modeling X_1 (or *Prior Pay Dispersion*) as the independent variable (IV) and X_2 (or *New Pay Dispersion*) as the DV rather than change score C_x (i.e., $X_2 - X_1$) avoids problems with correlation between X_1 and C_x that can give rise to regression to the mean (Bergh & Fairbank, 2002). Second, *Pay Dispersion Difference* is the simple difference of pay dispersion from the prior to the new firm (i.e., C_x), which captures the actual amount of dispersion increase or decrease upon moving firms. Following recommendations in the literature, we include the simple difference approach because: (a) it is the simplest and conceptually intuitive measure; (b) it can be utilized for our data because both the correlation between the variables is low ($r = 0.06$) and variances between the variables are unequal (Bergh & Fairbank, 2002; Rogosa, 1988); and (c) it provides an additional test for consistency of results between approaches to further alleviate concerns about regression to the mean. Finally, *Pay Dispersion Residual* is constructed by regressing the simple difference between the new and prior firms onto the pay dispersion of the prior firm and saving the residuals as the variable of interest. Residual-based measures of change can help alleviate concerns with regression to the mean as the residual accounts for correlation between C_x and X_1, and thus, "does not give an advantage to" observations with higher or lower values of X_1 that is central to concerns over regression to the mean (Linn & Slinde, 1977: 125).

The DV for Hypothesis asks for adjustment in relative pay between executives' new TMT and their prior TMT. We first calculated pay disparity as the difference between the average total pay of the TMT and the total pay of the focal executive (Henderson & Fredrickson, 2001; Ridge et al., 2017). As with other DVs, each executives' pay is the sum of short-term and long-term pay calculated using the Black-Scholes present value method in ExecuComp (cf., Fredrickson et al., 2010; Siegel & Hambrick, 2005) such that smaller values indicate an

executive was paid more relatively (Messersmith et al., 2011) in the prior and new firm, respectively. We then follow the three recommendations of Bergh and Fairbank (2002) as above. First, we use the true value in the new firm, *New Pay Disparity*, as a DV while controlling for the true value in the prior firm, *Prior Pay Disparity*. Larger values of this DV indicate lower levels of pay disparity, while modeling X_1 (or *Prior Pay Disparity)* as the IV and X_2 (or *New Pay Disparity*) as the DV rather than change score C_x (i.e., $X_2 - X_1$) avoids issues with the simple difference approach associated with the correlation between X_1 and C_x that can give rise to regression to the mean (Bergh & Fairbank, 2002). Second, *Pay Disparity Difference* is the simple difference of pay disparity from the prior to the new firm (i.e., C_x), which captures the actual amount of disparity increase or decrease when moving firms. Like for our other DV, this simple difference can be used for our data due to both low correlation among the variables ($r = 0.15$) and variances between variables being unequal (Bergh & Fairbank, 2002; Rogosa, 1988. As the variable has positive and negative values as well as a significant skew, we take the inverse hyperbolic sinh (Nyberg, Fulmer, Gerhart, & Carpenter, 2010). Finally, *Pay Disparity Residual* is constructed by regressing the simple difference between the new and prior firms onto the pay disparity of the prior firm and saving the residuals as the variable of interest. Residual-based measures of change can help alleviate concerns with regression to the mean by accounting for C_x and X_1 correlation (Bergh & Fairbank, 2002; Linn & Slinde, 1977). Finally, we created: (a) *Relative Pay Advance Dummy* (a binary variable equal to "1" if relative pay decreased from the prior firm to the new firm; "0" if not) as an alternative test of executives improving relative pay when moving to the new firm; and (b) a residualized version of this variable, *Relative Pay Advance Dummy Residual*, created by using a probit model to regress this variable onto pay disparity in the prior firm and saving the residuals as the variable of interest.

3.3 | Independent and control variables

We measured *Prior Relative Pay* as the ratio of the mean of TMT pay to the focal executive's pay (Pfeffer & Davis-Blake, 1992) where each executives' pay is the sum of short-term and long-term pay calculated using the Black-Scholes present value method in ExecuComp (cf., Fredrickson et al., 2010; Siegel & Hambrick, 2005), so smaller values indicate an executive earns relatively more (Messersmith et al., 2011). We also include several controls in each model. To control for individual executive differences that might affect treatment in the labor market, we include *Executive Age* and *Executive Gender* (Hill, Upadhyay, & Beekun, 2015). Executive age was measured in years while gender was measured as a binary variable equal to 1 if the executive is male and a 0 otherwise. Additionally, to account for positional factors that might influence the movement of executives, the variables *Prior Director* and *Prior CEO* are binary variables coded as a 1 if the executive was on the board of directors or held the CEO position, respectively, in the prior firm. *New Director* and *New CEO* are the same measure constructed in the new firm.[1] *Prior Pay Dispersion* was measured as the coefficient of variation of pay in the source firm TMT and is used as a control for TMT-level pay inequality. To account for results being an artifact of executives seeking better paying positions because of their low pay (Messersmith et al., 2011; Ridge et al., 2017), we control for an executive's *Pay Improvement*, measured by dividing the executive's pay in their new firm by their pay in the prior firm so that higher positive values

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[1]In robustness testing, we remove 153 executives who were CEOs in their prior firm and find results consistent with those we present here.

indicate a larger improvement in pay. S*ame Industry*, coded as a 1 if the prior and new firms were in the same two-digit SIC code and a 0 otherwise, was included to control for across industry pay differentials (cf. Aggarwal & Samwick, 1998). We also controlled for *Firm Performance* (return on assets) and *Firm Size* (the logarithm of firm assets) for both the prior firm and new firm, since these variables may influence executive pay. The number of *Executives Listed* in the new firm's proxy statement was added to account for any effects from a firm's choice to list fewer or more executives.[2] Additionally, we include dummy variables for year in all models. Finally, Models 1 and 2 include a control for *Prior Pay Dispersion* in order to address the lack of scaling for the lag value of the DV implied by Hypothesis in this particular model and modeled as a residual in Model 3 for this same Hypothesis, although results are robust to excluding *Prior Pay Dispersion* as well.

3.4 | Selection corrections

We can only observe the DVs for our study for executives who leave a TMT and join a publicly listed TMT, so we addressed potential concerns for selection bias (Heckman, 1979). Specifically, we include two selection corrections in our models. First, to address possible biases from our inability to track some executives who left their prior TMT, we employ a two-stage analysis in which we first run a probit model on a sample of all identified executive exits from included firms. The DV in this model is dichotomous: a 1 for an executive's new employment could be identified and 0 otherwise. The probit model includes the prior firm's size, return on assets, debt-to-equity ratio, executive gender, and a binary variable for whether the executive held the prior firm's CEO position. We then calculate the hazard rate of inclusion in the sample and add this variable (labeled *Tracked Selection*) to all models. Second, to account for biases from sampling only executives that exit their TMTs, we also include a selection correction for a TMT member's likely exit. Here, we conduct a probit analysis of whether an executive exited a firm utilizing pay dispersion, return on sales, and the log of sales to predict exit. We then calculate Exit *Selection* as the inverse Mills ratio of the first model and add the variable to all models.

4 | ANALYSES AND RESULTS

Table 1 displays the means, *SD*, and correlations of all variables. Table 2 shows the results of our Hypotheses tests. Results for OLS regressions with robust *SE* presented in Models 1, 2, and 3 of Table 2 support Hypothesis , indicating that executive relative pay in a prior TMT is negatively related to the pay dispersion in the new TMT (Model 1: $b = -0.03$; $p = .02$), the difference in pay dispersion (Model 2: $b = -0.03$; $p = .02$), and the residual of the difference in pay dispersion (Model 3: $b = -0.03$; $p = .01$). These results suggest executives that experienced more negative social comparison due to their relative pay in the TMT of the firm they exited will move to firms with TMTs having less dispersed pay structures than did the pay structures of TMTs of their prior firms. In practical terms, these findings reveal that when we factor in the change in TMT pay dispersion in the new team that results from a one *SD* decrease in prior firm relative pay for an executive, the resulting level of pay dispersion in the new TMT in which they take

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[2]The removal of 94 executives we could track across firms, but who were listed outside the top five in their new firm, does not change the results, offering an additional robustness to our analyses.

TABLE 1 Means, SD, and correlations of study variables

Variable	Mean	SD	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25
1. New pay dispersion	0.72	0.34																									
2. Pay dispersion difference	0.06	0.43	.75																								
3. Pay dispersion residual	0.01	0.34	.99	.80																							
4. Relative pay advance dummy	0.63	0.48	.12	.04	.12																						
5. Relative pay advance dummy residual	0.00	0.45	.14	.08	.13	.92																					
6. New pay disparity	−1.37	7.80	−.18	−.12	−.18	−.52	−.62																				
7. Pay disparity difference	−3.76	9.67	−.14	−.02	−.13	−.70	−.50	.70																			
8. Pay disparity residual	0.00	7.72	−.18	−.10	−.18	−.58	−.63	.99	.80																		
9. Tracked selection	2.09	0.12	.00	.05	.01	−.13	−.12	.14	.15	.15																	
10. Exit selection	1.38	0.05	−.08	.26	−.04	−.20	−.15	.16	.24	.18	.78																
11. Same industry	0.05	0.21	.08	.08	.08	.02	.00	.01	−.02	.00	.00	.00															
12. Prior firm size	8.22	1.77	−.01	−.05	−.01	.13	.12	−.14	−.15	−.15	−.99	−.78	.00														
13. New firm size	8.20	1.92	−.16	−.17	−.17	−.14	−.09	.07	.16	.09	−.60	−.42	−.05	.61													
14. Prior firm performance	0.02	0.15	.02	.02	.02	.05	.06	−.07	−.05	−.07	−.11	−.11	.04	.11	.07												
15. New firm performance	−0.03	0.37	−.09	−.05	−.09	−.04	−.05	.07	.03	.06	−.05	−.03	−.07	−.05	.08	.03											
16. Prior director	0.28	0.45	−.01	−.01	−.01	−.01	.00	−.16	.22	−.09	.04	.10	−.03	−.04	.17	.02	.00										
17. New director	0.44	0.50	.20	.14	.20	.22	.31	−.48	−.26	−.46	−.19	−.18	−.05	.19	−.05	.01	−.01	.30									
18. Prior CEO	0.15	0.36	−.01	−.01	−.01	−.22	−.05	−.13	.21	−.07	.05	.12	−.06	−.05	.18	.01	−.02	.57	.21								
19. New CEO	0.21	0.41	.19	.12	.19	.23	.27	−.34	−.25	−.34	−.10	−.16	.00	.10	−.09	.07	.03	.07	.48	.07							
20. Executive gender	0.94	0.24	−.01	.00	−.01	−.02	.00	−.08	−.02	−.07	−.04	.00	.02	.04	−.01	−.01	−.04	.12	.10	.10	.01						
21. Executive age	49.52	6.02	−.05	−.08	−.05	−.03	.03	−.11	.02	−.09	−.18	−.15	−.06	.18	.20	.03	.03	.08	.30	.23	.24	.10	.08				
22. Pay improvement	3.01	6.40	.24	.18	.24	.19	.17	−.23	−.23	−.24	.09	.06	−.03	−.08	.04	.03	−.22	.08	.07	.07	.04	.06	.00	−.04			
23. Executives listed	6.60	1.53	.01	−.01	.01	−.05	−.04	.02	.04	.03	−.03	−.04	−.05	.03	.06	.04	−.11	.09	.09	.09	.06	.06	−.04	−.01	.06		
24. Prior pay dispersion	0.66	0.28	.06	−.62	−.02	.09	.04	−.04	−.13	−.06	−.07	−.48	−.03	.07	.06	.00	−.04	.01	.03	.00	.05	.00	−.01	.07	.01	.03	
25. Prior pay disparity	2.38	6.96	−.01	−.10	−.02	.39	.00	.15	−.60	−.05	−.05	−.15	.04	.05	−.14	−.01	.03	−.49	−.17	−.45	−.04	−.05	−.16	−.07	−.03	.14	
26. Prior relative pay	1.43	1.03	−.01	−.26	−.04	.30	.08	.14	−.30	.06	.02	−.17	.00	−.02	−.09	.00	.01	−.28	−.10	−.27	−.03	−.03	−.09	.13	.02	.38	.57

Note: n = 1,001.

employment will be about 5% lower than that of their prior firm TMT showing the practical significance of our results for Hypothesis .

Results of tests of Hypothesis appear in Models 4 through 8 of Table 2. The coefficient for prior relative pay is positive and significantly (*p* values < .03 in all cases) related to all five indicators of adjustment in relative pay between executives' new TMT and their prior TMT, supporting Hypothesis . These findings suggest that as an executive has greater negative social comparison because of an executive's pay in the TMT of the firm they exited, the greater the improvement in relative pay when the executive accepts a position at a new firm. In essence, those with higher negative comparisons improve their relative pay in the TMT when compared with their prior TMT. Specifically, the results from Model 4 indicate that executives with a one *SD* lower relative pay (i.e., with more negative social comparison) in their prior TMT experience a two-thirds improvement in relative pay in their new TMT while results from Model 7 suggest these same executives are about 14% more likely to improve their relative pay.

Although we control for pay improvement in an effort to rule out the possibility that our results may reflect executives seeking better paying positions because of their lower pay, in post-hoc analysis we used our models to test the relationship between executives' relative pay in their prior TMT and their actual pay in their new TMT. We found the relationship is negative but not statistically significant; testing simple differences or residuals also results in similar, statistically not significant findings. This post-hoc test suggests our results are not necessarily driven by lower paid executives seeking better pay and provide additional support to our findings.[3]

5 | DISCUSSION

Our main aim was to determine whether the movements of executives who experienced negative social comparisons in a TMT improve their social comparison environments in subsequent employment decisions (as expected by social comparison theorizing). The results of our study suggest this is indeed the case; thus, our findings provide support for a fundamental aspect of Festinger's (1954) social comparison theory that was previously untested in executive settings: the prediction that individuals will select positive social comparison environments by drifting into groups that satisfy their needs for self-evaluation. We evaluated this question by showing that the lower the executive's relative pay in the TMT the executive left: (a) the bigger the reduction in TMT pay dispersion of their new TMT relative to their prior TMT, which we argued would reduce experiences of relative deprivation by joining teams in which the compensations of other team members "are near their own" (Festinger, 1954: 136); and (b) the larger the improvement in their relative pay within the new TMT vis-à-vis their prior TMT, which we argued improves the well-being of executives by directly affecting the psychological process of self-evaluation with more positive direct relative comparisons to others in the TMT (Križan &

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[3]We also find consistent results when adjusting initial values (i.e., X_1) to account for possible regression to the mean effects (Roberts, 1980; Rocconi & Ethington, 2009). Specifically, we adjust initial values by accounting for the correlation between the prior (X_1) and new (X_2) values for both affected variables and use adjusted values (e.g., X_1') in lieu of X_1 using the following equation: X_1' equals X_1 plus the product of 1 minus the correlation of X_1 and X_2 and the mean of X_1 for the sample minus observed X_1. Adjustments to initial scores "not only help control for the regression [to the mean] phenomenon but help protect internal validity" (Rocconi & Ethington, 2009: 372). While the adjustment cannot entirely attenuate regression to the mean, the robustness of results across approaches offers additional evidence our results are not driven by regression to the mean.

TABLE 2 Effect of prior relative pay on new TMT pay dispersion and relative pay

	New pay dispersion		Pay dispersion difference		Pay dispersion residual		New pay disparity		Pay disparity difference		Pay disparity residual		Relative pay advance dummy		Relative pay advance dummy residual	
	(1)		**(2)**		**(3)**		**(4)**		**(5)**		**(6)**		**(7)**		**(8)**	
Constant	8.05	[0.01]	8.05	[0.01]	6.57	[0.03]	-64.27	[0.37]	-64.27	[0.37]	-62.55	[0.39]	25.92	[0.12]	7.48	[0.08]
Tracked selection	-2.02	[0.06]	-2.02	[0.06]	-1.97	[0.07]	15.40	[0.56]	15.40	[0.56]	15.20	[0.56]	-7.94	[0.19]	-2.30	[0.14]
Exit selection	-1.13	[0.01]	-1.13	[0.01]	-0.68	[0.04]	15.08	[0.13]	15.08	[0.13]	15.46	[0.12]	-3.15	[0.19]	-0.84	[0.18]
Same industry	0.11	[0.06]	0.11	[0.06]	0.11	[0.05]	-0.32	[0.74]	-0.32	[0.74]	-0.37	[0.70]	-0.00	[0.99]	-0.01	[0.91]
Prior firm size	-0.14	[0.08]	-0.14	[0.08]	-0.13	[0.11]	0.44	[0.81]	0.44	[0.81]	0.39	[0.83]	-0.34	[0.43]	-0.13	[0.25]
New firm size	-0.04	[0.00]	-0.04	[0.00]	-0.04	[0.00]	0.77	[0.00]	0.77	[0.00]	0.80	[0.00]	-0.21	[0.00]	-0.04	[0.00]
Prior firm Perf.	-0.01	[0.90]	-0.01	[0.90]	-0.00	[0.96]	-0.36	[0.82]	-0.36	[0.82]	-0.32	[0.84]	0.10	[0.80]	0.03	[0.82]
New firm Perf.	-0.00	[0.95]	-0.00	[0.95]	0.00	[0.99]	0.01	[0.99]	0.01	[0.99]	-0.04	[0.93]	0.26	[0.34]	-0.03	[0.41]
Prior director	-0.05	[0.07]	-0.05	[0.07]	-0.06	[0.05]	0.61	[0.31]	0.61	[0.31]	0.91	[0.12]	-0.11	[0.46]	-0.01	[0.75]
New director	0.07	[0.01]	0.07	[0.01]	0.07	[0.01]	-4.77	[0.00]	-4.77	[0.00]	-4.71	[0.00]	0.56	[0.00]	0.18	[0.00]
Prior CEO	0.02	[0.53]	0.02	[0.53]	0.02	[0.63]	-0.98	[0.20]	-0.98	[0.20]	-0.77	[0.31]	-0.39	[0.02]	-0.04	[0.41]
New CEO	0.07	[0.01]	0.07	[0.01]	0.07	[0.01]	-2.49	[0.00]	-2.49	[0.00]	-2.48	[0.00]	0.77	[0.00]	0.14	[0.00]
Executive gender	-0.05	[0.15]	-0.05	[0.15]	-0.06	[0.14]	-0.65	[0.46]	-0.65	[0.46]	-0.65	[0.46]	-0.19	[0.31]	-0.06	[0.33]
Executive age	-0.00	[0.31]	-0.00	[0.31]	-0.00	[0.28]	-0.02	[0.61]	-0.02	[0.61]	-0.02	[0.60]	-0.00	[0.82]	-0.00	[0.92]
Pay improvement	0.01	[0.00]	0.01	[0.00]	0.01	[0.00]	-0.29	[0.00]	-0.29	[0.00]	-0.29	[0.00]	0.21	[0.00]	0.01	[0.00]
Executives listed	-0.01	[0.34]	-0.01	[0.34]	-0.01	[0.36]	0.47	[0.00]	0.47	[0.00]	0.47	[0.00]	-0.11	[0.00]	-0.03	[0.00]
Prior pay dispersion	0.02	[0.61]	-0.98	[0.00]			-1.02	[0.34]	-1.02	[0.34]	-0.96	[0.37]	-0.15	[0.59]	-0.05	[0.44]
Prior pay disparity	-0.00	[0.23]	-0.00	[0.23]	-0.00	[0.25]	0.09	[0.03]	-0.91	[0.00]			0.05	[0.00]		
Prior relative pay	-0.03	[0.02]	-0.03	[0.02]	-0.03	[0.01]	0.90	[0.00]	0.90	[0.00]	0.67	[0.00]	0.35	[0.02]	0.03	[0.02]
R^2	0.20		0.50		0.19		0.37		0.59		0.35					
F	6.13	[0.00]	27.12	[0.00]	5.91	[0.00]	23.64	[0.00]	40.79	[0.00]	22.37	[0.00]				
Change in F	5.36	[0.02]	5.36	[0.02]	7.59	[0.01]	11.90	[0.00]	11.90	[0.00]	8.87	[0.00]				

TABLE 2 (Continued)

	New pay dispersion	Pay dispersion difference	Pay dispersion residual	New pay disparity	Pay disparity difference	Pay disparity residual	Relative pay advance dummy	Relative pay advance dummy residual
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Pseudo R^2							0.36	
Chi-square							295.86 [0.00]	
Change in Chi-square							5.25 [0.02]	

Notes: $n = 1,001$. All models employ OLS regression except Model 7 that employs Probit. Exact *p*-values to the right of estimated coefficients between square brackets. Year dummies included in analyses but omitted from table. Control models omitted for parsimony; critical value for change in *F* and change in Chi-square represents adding Prior Relative Pay to a model without this variable.

Gibbons, 2014). Also, post-hoc analyses suggest our results are not driven by lower paid executives seeking better pay, helping to rule out that alternative explanation for our findings.

Our findings offer a number of contributions to existing theory and practice. First, they contribute to the literature on executive turnover. Specifically, the results of our study complement previous evidence of pay differences in TMTs leading to turnover, showing that executives receiving lower portions of the TMT pay (Messersmith et al., 2011) drifted into TMTs that satisfied their needs for self-evaluation. Thus, our findings provide additional support for the assumption of social comparison concerns as an important mechanism in executive turnover (e.g., Bloom & Michel, 2002; Pfeffer & Davis-Blake, 1992; Ridge et al., 2017). Second, our results also contribute to the literature on executive pay. Contrary to expectations of both the theory of wage dynamics (which predicts higher salaries to drive executive attraction and retention; Harris & Holmstrom, 1982; Lazear, 1986) and tournament theory (which points to advantages of high pay dispersion and large rewards (Main et al., 1993), we show that less dispersed pay structures may help attract executives seeking to restore their social comparison situation. This finding is especially relevant for the highly interdependent and collaborative structures, which are seen as benefiting from such narrowly dispersed pay structures (Aime, Humphrey, DeRue, & Paul, 2014; Aime, Meyer, & Humphrey, 2010; Siegel & Hambrick, 2005). Qualitative interviews of executives also offer support for our underlying mechanisms, speaking to the importance of social comparison in practice.

Our study complements previous social comparison research in the context of TMTs and contributes to theory and practice as well as offering a very promising line of inquiry. However, our study also has limitations that suggest future research directions and refinements. First, we argued that receiving lower relative pay affects executives' later employment choices. The underlying mechanisms by which this is thought to occur originates in traditional social comparison theorizing; yet, we do not measure executive evaluations and motivations for joining new TMTs. Our interviews of executives offered support for our contentions, but additional field research can further examine the effects of executive relative pay on their motivations and decision processes when joining new organizations. Second, we studied the effects of relative pay disparity without identifying the situational factors, criteria, or evolution that may have created those pay structures. For instance, we did not have any information about individual performance criteria that may support pay criteria (cf. Hill et al., 2017). Access to such information is not available and even if it were, there are limitations emerging from the collaborative nature of performance in TMTs. At the same time, we also controlled for the gender, age, and prior firm performance as well as pay dispersion in the prior TMT, each of which may proxy executive quality and reduce our concerns about not being able to measure direct executive contribution. Nonetheless, future research could delve into executive quality. Here again, field research should be conducted to clearly show how TMT pay structures emerge and evolve over time (Humphrey & Aime, 2014).

One additional research direction seems relevant to note. We do not examine the social and strategic contexts that may affect the perceptions and outcomes of social comparison for TMT members. For example, social comparison concerns may be less impactful for executives in TMTs that, because of industry or strategic decisions, may need less collaboration and have more measurable independent outcomes for individual TMT members. Also, comparisons may have different meaning in cultures were organizations have traditionally emphasized strong norms in executive pay (e.g., larger differences or higher equality). Likewise, pay differentials may be justified by identifiably different contributions (Hill et al., 2017). Future research can

advance upon this line of inquiry by better understanding how contextual factors may enhance or constrain social comparison effects.

In conclusion, our study extends our understanding of the effects of executive relative pay on executive employment and provides complementary theory and findings that speaks to the importance of social comparison arguments in attracting and maintaining executive talent.

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