Evolutionary perspectives on salary dispersion within firms

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Abstract  In contrast with neoclassical economic models that assume that individuals hold preferences independently of others, there exist growing bodies of research demonstrating that preferences are often interdependent and based upon relative comparisons. This paper reviews research concerning salary dispersion within firms through the framework of four hypotheses that are generated by evolutionary perspectives. Contrary to some characterizations of evolutionary social science, this review presumes that there exist multiple evolutionary perspectives that have applicability to matters of practical importance. Basic findings include recognition of a strong evolutionarily-sensible preference for relatively high salary standings that is independent of absolute salary amounts. Synthetic findings include identification of research problems that future, directed studies can profitably address. For practical application, my review finds that evolved preferences appear more aligned with salary structures that are dispersed relatively evenly among co-workers when compared with tournament-style compensation patterns.

Keywords  Behavioral economics · Relative fitness · Egalitarianism · Evolutionary psychology · Anthropology · Trans disciplinary · Compensation · Sex differences · Age · Labor unions

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1 Introduction

Cross-cultural, empirical studies that are designed to test hypotheses drawn from evolutionary perspectives have contributed significantly to our understanding of economic behavior (e.g., Henrich et al. 2001). The value provided by evolutionary explanations for economic analyses is sensible since there is no reason to expect economic behavior to be exempt from the kinds of evolutionary processes that influence other kinds of behavior. The basic contributions made by evolutionary hypotheses have included challenges to neoclassical economics and its assumption of ‘atomistic individuals unconnected to others by ties of kinship, ethnic or social ties’ (Landa and Wang 2001, p. 217). In contrast to such models of a selfish, rational *Homo economicus*, evolutionists assume on the basis of robust empirical evidence that social ties are central to human economic behavior.

The subject of within-group ‘positional concerns’ illustrates a phenomenon that evolutionary models would assume and neoclassical economics would not predict. As Niman (2006) reviews, the importance of relative standing among peers for any endeavor is central to evolutionary processes based on selection. Evidence of this observation is found in studies of contemporary industrial populations as well as non-literate hunter-gatherer communities. In both sets of environments, evolutionists typically focus their attention on the impact of economic behavior on reproductive success although the currencies that are important within any specific group vary significantly. For example, while income derived from work has importance in contemporary industrial societies, it is commonly found that meat derived from large-game hunting is prized among hunter-gatherers.

In recent years, researchers from within—and outside of—economics have considered the impact of ‘positional concerns’ in their analyses of international data concerning income, happiness, work-leisure balances, and stress (e.g., Marmot 2004; Bowles and Park 2005; Layard 2005), often integrating their results with evolutionary perspectives (e.g., Wilkinson 2000). Less commonly, the same set of questions about the impact of positional concerns has been applied to intra-national data that control for neighborhood-level effects (e.g., Luttmer 2005). Most generally, these researchers tend to find evidence across scales of organization that: (1) people do tend to aspire to the consumption-levels demonstrated by their reference groups; and (2) there are costs to such aspiration that include negative stress at both the personal, biological (e.g., Dressler and Bindon 1997; James and Brown 1997) and social, family levels (e.g., Luttmer 2005).

In this paper, I apply multiple evolutionary perspectives to consider the subject of salary dispersion within contemporary firms. My analysis is rooted in anthropological research that suggests a deep ambivalence to inequality within groups (e.g., Boehm’s 2004) and builds on earlier work (e.g., Frank 1984a,b; Frank and McKenzie 2006; Niman 2006) to review the importance of within-firm salary dispersion. Unlike earlier studies that focus on singular evolutionary perspectives such as the importance of sex-based differences or the importance of social environment (e.g., Frank 1984a,b), this paper considers a broad array of evolutionary perspectives on salary dispersion within firms and finds reasons to identify a specific model of within-firm compensation as relatively aligned with evolved preferences. To structure a review of relevant...