THE DIVERSITY PARADOX: THE UNINTENDED CONSEQUENCES OF GENDER DIVERSITY ON GENDER PAY EQUITY

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Abstract

We examine how gender diversity and employees' internal pay position interact to explain gender differences in pay raises. Integrating equity theory and institutional theory, we argue that pay raises are guided by equity-based reward allocation policies. Further, we expect a decoupling between these policies and their implementation if other gender diversity goals, such as a balanced ratio of female and male employees at the work-unit level, are achieved. Specifically, gender diversity at the work-unit level provides legitimacy that corporate diversity goals are being pursued. This makes the implementation of reward allocation policies aimed at increasing gender pay equity less salient in work units with high levels of gender diversity. We test our hypotheses using a multilevel moderated mediation model on a longitudinal sample of 9,246 observations from 4,003 employees in a large German company. Our results show an indirect effect of gender on pay increases over three years via compa ratio (i.e., the relative pay position for a given job grade). In support of equity theory, the results show that women receive higher pay increases than men over time to compensate for a lower compa ratio. Moreover, in work units with high gender diversity the indirect effect of gender on pay raise is weaker, suggesting a decoupling between equity-based reward allocation policies and their implementation. Our results offer valuable insights into the interaction of equity and institutional theory-based explanations of reaching corporate diversity goals.

Keywords: compensation and benefits, decoupling, diversity, equity, gender diversity, reward systems

Decades of empirical evidence consistently demonstrate that women receive a lower salary than men (Bishu & Alkadry, 2016; F. D. Blau & Kahn, 2017; Joshi et al., 2014). The gender pay gap persists even after controlling for job performance and human capital variables such as experience and education (Castilla, 2012; Kronberg, 2020). Despite the advances in the gender pay gap literature, we have a very limited understanding about what drives organizational reward allocation practices to address gender pay equity. In fact, the literature examining the relationship between gender and salary increases reveals mixed findings. Some studies report that women receive lower pay raises compared with men (Castilla, 2012), others do not find a gender-to-pay raise effect (Artz & Taengnoi, 2019; F. D. Blau & Devaro, 2007; Castilla, 2015; Elvira & Graham, 2002), and yet others show that women receive higher raises compared with men to compensate for a lower pay base (Harris et al., 2002).

Many companies aim to address the gender pay gap through diversity initiatives (Castilla, 2015). Recent research suggests that higher gender diversity in managerial positions (Cook et al., 2019; Hill et al., 2015) or diversity goals (Leslie et al., 2017) can reduce the gender pay gap in some circumstances although the evidence is not conclusive (Cai et al., 2024). In this paper, we theorize and empirically demonstrate that gender diversity at the work-unit level can have unexpected and undesired implications for gender pay equity. To address the conflicting findings in the literature, our study examines an underlying meditator and a moderator that can explain why and when women receive higher pay raises than men. Based on equity theory (Adams, 1963) we expect gender to predict pay raises via employees' relative pay positioning in the form of comparative ratio or compa ratio (i.e., the relative pay position within a certain job grade). Because women have, on average, a lower comparative ratio than men, and the comparative ratio serves as a means for making pay raises, women will receive higher pay raises over time.

Further, drawing on institutional theory and the concept of decoupling (Bromley & Powell, 2012; Thornton et al., 2012) we theorize that organizations—in response to stakeholder pressures—may experience a decoupling between their reward allocation policies and practices for achieving gender pay equity. Decoupling between an organization's policies and practices occurs when the organization gains symbolic legitimacy in the eyes of its stakeholders, which reduces the pressure to implement specific stated policies (Bromley & Powell, 2012; Graafland & Smid, 2016). Symbolic legitimacy can be achieved by reaching alternative goals of gender diversity (Byron & Post, 2016; Hillman et al., 2007). We argue that a balanced ratio of female and male employees at the work-unit level is a particularly visible reflection of corporate diversity goals, which reduces the pressure to implement reward allocation policies at the work-unit level with the aim of redressing specific instances of gender pay inequity.

To test our hypotheses, we examine the conditional indirect effect of gender on pay raises via comparative ratio, moderated by work-unit gender diversity in the form of Blau's diversity index over a three-year period (see Figure 1). Our results suggest that at low levels of gender work-unit diversity (i.e., unequal composition of men and women in a work unit) (Bartels et al., 2013; P. M. Blau, 1977) reward allocation practices are more likely to follow the equity principle (Adams, 1963) and adopt the compa ratio as a basis for improving gender pay equity. As expected, this relationship is weaker at high levels of gender diversity at the work-unit level.

With our findings, we contribute to the literature in several ways. First, we extend the previous literature on gender pay raise to explain why women are more likely to receive higher pay raises compared with men in some organizational contexts. In this sense, we contribute to a contextualized understanding of the gender pay gap by discussing when reward allocation practices are more likely to be used to reduce the gender pay gap over time

(Blevins et al., 2019; Hill et al., 2015; Leslie et al., 2017). Second, we make a theoretical contribution by integrating equity theory with the institutional literature on policy-practice decoupling. Specifically, we show that achieving alternative goals of gender diversity in terms of equal representation may lead to the decoupling between reward allocation policies and practices to address pay equity, thereby hindering the reduction of gender pay gaps. In addition, we contribute to multilevel research on institutional theory (Crilly et al., 2012) by studying in which organizational contexts decoupling from equity principles may be more likely to occur. Our results suggest that because a balanced ratio of female and male employees at the level of the work unit is a noticeable diversity indicator, it reduces the implementation of equity-based corporate reward allocation practices, reflecting a policy-practice decoupling for achieving gender pay equity at the work-unit level.

Third, our study of the underlying factors driving gender pay differentials advances the compensation literature – one of the most under-researched areas of HRM (Gupta & Shaw, 2014). By theorizing and empirically testing both comparative ratio and work-unit gender diversity as variables that shape the gender-to-salary increase relationship, we contribute to the scarce understanding of pay dispersion (Conroy et al., 2015; Gupta et al., 2012) and organizational reward allocations (Amis et al., 2020; Fişek & Wagner, 2003). We further expand the compensation literature by showing that within-job pay differences are contingent on their specific organizational context. Fourth, we provide practical recommendations for companies using measures of diversity to drive their gender equity goals. Our findings suggest that aiming for balanced gender representation without implementing gender pay equity policies is insufficient and could even backfire.

(insert Figure 1 about here)

Theoretical Background

Equity theory (Adams, 1963) is the most pervasive lens for understanding state-of-the-art reward practices in organizations (Adamovic, 2023; Hewett & Leroy, 2019; Kim et al., 1990; Kollmann et al., 2020; Morand et al., 2020) and has been related to pay satisfaction, turnover intention, and job satisfaction (Perry, 1993; Summers & Hendrix, 1991). The equity principle is reflected in establishing pay ranges for job grades, and in the practice of the compa ratio, which expresses employees' relative pay position for a given job grade (Noe et al., 2013; Rombaut & Guerry, 2020). In most companies, the compensation for a certain job, e.g., a data scientist or a marketing manager, is based on a range. Employees whose pay is on the lower end of the range are typically new to the role, have lower skills, and less experience. On the contrary, employees with a compensation at the higher end of the range are typically very experienced and skilled on the job and tend to be high performing. In terms of equity theory (Adams, 1963), they contribute "high inputs" to the job and thus receive higher pay ("high outputs") for the same job. The compa ratio represents this internal pay positioning per grade. It is calculated by dividing employees' pay with the median pay per job grade. In line with equity theory, the compa ratio is used to ensure fair reward allocation when employees have similar job performance and seniority. Those who have a lower compa ratio will receive a relatively higher raise when performance and tenure are similar.

Although the equity principle guides organizational reward allocation, the inconsistent findings of the gender-to-pay raise relationship in extant research suggest that the relative importance of equity-based explanations varies (F. D. Blau & Devaro, 2007; Castilla, 2012; Harris et al., 2002). Institutional theory provides a useful framework for understanding how organizations respond to internal and external stakeholder demands (Lewis et al., 2019), both in the case of HR in general (Paauwe & Boselie, 2003), and gender pay gaps in particular (Blevins et al., 2019). Institutional theorists argue that because organizations encounter increasingly complex stakeholder demands, they experience pressures to adapt their policies,

practices, and goals (Raynard, 2016; Smets et al., 2015; Thornton et al., 2012). Companies that conform to these pressures gain public appreciation, legitimacy, and reputation in the eyes of their stakeholders (Meyer & Rowan, 1977; Roberson, 2019; Yang & Konrad, 2011). When organizations need to balance multiple demands, they tend to prioritize those demands that provide the biggest benefits for them (Greve & Man Zhang, 2016), are more applicable and appropriate for the context (Smets et al., 2015; Thornton et al., 2012), and demonstrate the highest degree of stakeholder conformity (D'Aunno et al., 1991).

At the same time, due to the need to attend to multiple stakeholder demands, organizations may—intentionally or unintentionally—experience a decoupling between their policies and practices. Institutional theory suggests two forms of decoupling (Bromley & Powell, 2012; Graafland & Smid, 2016). Whereas policy-practice decoupling concerns organizations' failure to implement formal rules, means-ends decoupling reflects cases where formal practices are thoroughly implemented but only have a weak link to their intended corporate goals. While policy-practice decoupling reflects symbolic legitimacy of a policy, means-ends decoupling concerns symbolic implementation of a practice (Wijen, 2014).

Organizations may experience policy-practice decoupling, for example, when they exercise significant flexibility in hiring decisions, obviating policies of affirmative actions to attend to diverging concerns (Edelman et al., 1992). Policy-practice decoupling allows organizations to implement multiple and potentially conflicting policies while safeguarding organizational efficiency (Jabbouri et al., 2022). Previous research shows that decoupling is more likely when organizations have already acquired external trust ("logic of good faith"), do not believe in a policy's effectiveness, when they experience coercive pressure to implement a policy, or when the accompanying discourse is well established such that the decoupled practice can go unnoticed (Boxenbaum & Arora-Jonsson, 2017; Gondo & Amis,

2013). Also, decoupling is more likely to occur, if behavior in accordance with a practice is not monitored (Marquis et al., 2007).

We argue that institutional theory, particularly the concept of policy-practice decoupling (Bromley & Powell, 2012) can be integrated with equity theory (Adams, 1963) to explain when organizational reward allocation at the work-unit level is more likely to implement the policy of compa ratio for achieving pay equity. Specifically, based on institutional theory, organizations experience pressures to achieve corporate diversity goals (DiMaggio & Powell, 1983; Meyer & Rowan, 1977). Organizations can achieve legitimacy in relation to their corporate diversity goals in different ways because gender diversity is a multi-dimensional concept that includes equality of representation and opportunity, inclusion and pay equity (Hellerstedt et al., 2023). For example, an organization may aim to improve gender pay equity (Koskinen Sandberg, 2017) and it may also strive for an equal ratio of men and women in their workforce. Because reaching a balanced ratio of female and male employees at the work-unit level is a noticeable diversity indicator (Hirsh & Kornrich, 2008), we argue that it makes the implementation of equity-based reward allocation policies at the work-unit level less salient. In other words, achieving gender diversity at the work-unit level provides symbolic legitimacy and external trust, which should reduce pressures from stakeholders and thus the degree to which equity-based reward allocation practices are implemented. In this sense, institutional theory and the concept of decoupling can explain when the equity principle is more or less salient in guiding reward practices aligned to corporate diversity goals. Specifically, the equity principle is more likely used when work units have not reached legitimacy by achieving goals of gender representation.

Hypothesis Development

We expect that organizational reward allocation will generally draw on the equity principle for achieving greater gender pay equity. First, extensive research consistently shows that women receive a lower base salary compared to men even when jobs are similar (F. D. Blau & Kahn, 2017; Castilla, 2012; Joshi et al., 2014). The gender pay gap can be attributed to various factors, among others gender differences in working hours, number of career interruptions, accumulated experience, individual differences, and divisions of labor (F. D. Blau & Kahn, 2017; Canon et al., 2021).

As long as women receive a lower pay than men, organizational reward allocation will follow the equity principle to grant higher raises to women to redress this issue (Anderson et al., 2019). One practice of measuring pay equity across similar jobs is the compa ratio (Bereman & Scott, 1991). The compa ratio reflects the position in a salary range for a job grade. The compa ratio is a useful measure for evaluating within-job disparities (Trevor & Wazeter, 2006). Typical salary ranges per job grade have a minimum, midpoint, and maximum salary. The midpoint refers to a compa ratio of 100%. A compa ratio of 80% would mean that this person is paid 20% less than the midpoint of the respective salary range. By comparison, an employee with a compa ratio of 120% is paid 20% above the midpoint (Noe et al., 2013). Consistent with previous gender pay gap studies, we expect that women have a lower comparative ratio compared with men when controlling for tenure and performance, meaning that they receive a lower salary in the same job grade compared with men.

Based on equity theory, we expect that organizational reward allocation will strive to reduce this gap by adjusting pay raises according to gender pay equity considerations. The compa ratio standardizes the "output" (i.e., pay) that employees receive and makes pay dispersions for similar jobs transparent. Previous research reports that employees' compa ratio is considered when proposing pay raises (Noe et al., 2013). The concept of compa ratio

creates transparency by showing pay differences in similar job levels and can thus help organizations promote pay equity. For example, during the employees' annual pay review, if the organizational work unit has two employees working in the same job grade with a similar work experience and performance but one employee has a compa ratio of 100 and the other one of 80, the higher raise will be given to the employee with a lower compa ratio to promote pay equity. In other words, the organization will fulfill the equity norm and give a higher raise to a person who is currently receiving lower pay for contributing with similar inputs compared to better-paid employees. The few studies in the compensation literature on this topic indeed indicate that employees with a lower compa ratio tend to receive higher salary increases (Harris et al., 2002; Heneman & Cohen, 1988).

Consistent with the above, we argue that the effect of gender on pay raises is indirect. Because women tend to have, on average, a lower base salary than men (F. D. Blau & Kahn, 2017) as measured by compa ratio, they will more likely receive higher salary increases to redress pay inequity. This argument is in line with empirical evidence showing that women receive higher pay raises to compensate for lower base salary (Harris et al., 2002). Therefore:

Hypothesis 1: There is an indirect positive effect from gender to pay increase through compa ratio, such that women indirectly receive a higher pay increase because they have lower compa ratios.

Gender Diversity as a Moderator

We expect that gender diversity at the work-unit level will determine the relative salience of equity-based explanations of salary increases, potentially leading to a decoupling between reward allocation policies and practices in addressing pay equity in general and gender pay equity in specific. Work units will typically strive to implement the organizational policy of using the compa ratio as a basis for allocating salary increases to achieve pay

equity, in line with our Hypothesis 1. However, when a work unit is meeting corporate diversity goals through alternative means such as equal gender representation, we theorize that policy-practice decoupling is more likely to occur and the work unit is less likely to implement the formal policy of allocating rewards using the compa ratio.

High levels of gender diversity at the work-unit level are a particularly evident sign of achieving corporate diversity goals, providing the work unit with legitimacy in the eyes of its stakeholders (Byron & Post, 2016; Hillman et al., 2007). Importantly, a balanced ratio of female and male employees at the work-unit level is more noticeable than the underlying level of gender pay equity. This allows the work unit to maintain symbolic legitimacy towards its stakeholders without redressing specific instances of gender pay inequity. In other words, at high levels of gender diversity a work unit will sustain external trust in terms of gender diversity and face less monitoring of its gender pay equity-based reward allocation, such that it faces less pressure to adhere to equity-based reward practices. This argument is in line with studies on the contingencies of the equity principle (Freedman & Montanari, 1980), showing that when there is pay transparency or when pay decisions are scrutinized, reward allocation is more likely to follow the equity principle. We propose:

Hypothesis 2. Gender work-unit diversity (in the form of Blau's diversity index) moderates the direct effect of compa ratio to pay raise, such that the direct effect of compa ratio on pay raise is stronger in work units with less gender diversity.

By extension, we also expect that gender diversity at the work-unit level moderates the indirect effect of gender to pay raises via compa ratio. Specifically, in work units with low gender diversity, the indirect effect of gender to pay raises via compa ratio should be stronger, compared with work units high on gender diversity. This is because, in line with equity theory (Adams, 1963), reward allocation in work units with low gender diversity is

more likely to be driven by rational and objective criteria of determining salary increases, which is mainly reflected by employees' compa ratio. Similarly, in work units with low gender diversity it is more difficult to gain legitimacy towards stakeholders (Byron & Post, 2016; Hillman et al., 2007) because the imbalanced share of female and male employees is a visible reminder that corporate diversity goals are not yet achieved. As such, we expect relatively less scope for policy-practice decoupling in organizational reward allocation in work units with low gender diversity (Bromley & Powell, 2012). As a result, in these work units reward allocation will most likely aim to correct the gender pay gap. As women have, on average, lower compa ratio, they indirectly benefit from a higher pay raise in these work units. By contrast, in work units with high levels of gender diversity, there is less pressure to adhere to the compa ratio for redressing gender pay inequity because the balanced ratio of female and male employees allows the work unit to maintain legitimacy towards stakeholders. Because women have, on average, lower compa ratio, they are less likely to indirectly benefit from a higher pay raise in these work units, which compounds efforts for improving gender pay equity. Thus:

Hypothesis 3. Gender work-unit diversity (in the form of Blau's diversity index) moderates the indirect effect of gender pay raise via compa ratio. Specifically, women are more likely to receive higher pay raises in work units with low gender diversity.

Methods

Sample and Research Design

We chose a large company facing institutional pressures for meeting diversity goals from a range of political and organizational stakeholders. Specifically, we sampled employees from a large multinational company located in Germany. The organization has explicit diversity goals in terms of female share targets for managerial positions and has won

national diversity awards recognizing the organizational practices it has implemented (e.g., employee networks, mentoring programs, diversity workshops, gender pay equity analyses). The organization faced formal pressures resulting from a pay transparency law, introduced in 2017 in Germany, as well as informal pressures resulting from a diversity culture within the company. The purpose of the German pay transparency law (Federal Ministry of Justice, 2024) is to enforce equal pay for women and men for work of equal value. Employees of companies with at least 200 employees have the right to obtain information on pay criteria, specifically the median pay of the opposite sex for jobs of equal value (i.e., women can ask for the median pay of men holding jobs of equal value). The law also enforces employers with more than 500 employees to report on the status of equal pay if the company is subject to management reporting requirements.

We adopted a longitudinal design over a time span of three years (2017-2019) using repeated measures of our study variables. Specifically, we collected data for all the years in which employees participated in the annual pay review. Every year, line managers make performance and talent assessments of their employees. Several months later, the annual pay review takes place. In this process, line managers have free discretion to give salary increases up to a certain percentage increase, if employees' compensation is within the pay range and budget guidelines are met. In total, our dataset includes 9,246 observations of 4,003 employees, who were nested in 316 work units with an average size of 31 employees. Women made up around 40% of the workforce and held 25% of the managerial positions. The data is unbalanced, meaning that some employees participated in all three annual pay reviews, whereas others only participated once. On average, employees in our records participated in two annual pay reviews in our time period (2017-2019).

Measures

Within-individual level. To operationalize the compa ratio index and employees' salary increases, we drew on company archival data. To calculate the *compa ratio*, the individual's current total target cash based on a full-time equivalent (i.e. base pay plus target bonus) is divided by the midpoint of the relevant pay job grade range. Hence, an employee whose total target cash is right on the midpoint of their pay grade range would have a compa ratio of 100%. A compa ratio below 100% indicates that individuals are paid below the midpoint of the pay grade. By contrast, a compa ratio above 100% indicates that employees' pay is above the midpoint of the relevant pay range. We collected information on compa ratios for all three waves.

Salary increases between 0% and 8% could be granted for all employees whose compa ratio did not exceed the pay range. The compa ratio is explicitly shown in the annual pay review and it is technically not possible to grant a pay increase if employees' compa ratio exceeds the pay range. Our dependent variable thus had a range from 0-8. Our data set includes information on salary increases for all three annual pay reviews (2017-2019).

Between-individual level. Gender was coded as 0 (male employees) and 1 (female employees).

Work-unit level. We used the Blau Index to measure *gender diversity* for each time wave per work unit. We used the R diverse package to calculate the Blau index with scores ranging from 0 to 0.5. A score of 0.5 means there are 50% women and 50% men, whereas a score of 0 represents a work unit made up entirely of male or female employees. The Blau

(1977) index is $BLAU = 1 - \sum_{i=1}^{n} P_i^2,$, where P_i refers to the percentage of female employees in a work unit. Across work units, the average Blau index is .38 (SD = .12) (P. M. Blau, 1977). The index remained stable at the aggregate company level across years (.37 for

2017 and 2019, and .38 for 2018).

Control Variables. We gathered variables that may affect salary increase, namely weekly work hours (Masuda et al., 2023), organizational tenure (in years), age (in years), managerial position (yes/no), and pay level measured as total target cash. Additionally, we included line managers' annual ratings of employees' talent and performance, which take place two to three months before the annual pay reviews. Potential ratings are a cornerstone of talent management (Dries, 2013) and capture evaluations of whether an employee has the abilities needed to reach a high-level position. Performance evaluations refer to the results the employees achieved in the last business year. Performance and talent evaluations are binary (1 = top performer; 0 = non-top performers). Likewise, employees are either rated as top talents (coded as 1) or non-top talents (coded as 0). As with the previous variables, our data include repeated measures of talent and performance ratings. We also controlled for study wave, work-unit size, female share of work unit, and gender of work unit manager.

Analyses

Because the data in this study have a nested structure, we used cross-classified random effect modeling to test our hypotheses. This means that the repeated measures that we used in this design (e.g., salary increase and compa ratio) are nested in two overlapping high-level clusters: employees and work units. As shown in Figure 1, we have repeated measures for each employee at the within-individual level (salary increase and compa ratio), and the between-individual variables (gender) in addition to work-unit level variables (Blau index). The model design is cross-classified because each individual can belong to more than one work unit over the three-year period. For salary increase, the intraclass correlation for the within-individual level is 71.9%, for the between-individual level is 27.6%, and for the work-unit level is .5%. The intraclass correlation at the work-unit level is low because the salary

budget is equal for all work units. For salary increase, most variance resides in the within-individual level and to a smaller degree in the between-individual level. For compa ratio, the intraclass correlation for the within-individual level is 11.8%, for the between-individual level 83.6%, and for the work unit-level 4.5%. This means that the compa ratio for the employees does not substantially change in the three-year period for most employees, and that the average compa ratio is very similar across work units.

We standardized all continuous variables except for the Blau index (which ranges from 0 to 0.5) to facilitate the analysis and interpretation of our results. Model estimation was conducted using the Mplus software (Muthén & Muthén, 2017) using the Bayes estimator. To test the hypotheses, we first estimated a variance component model and then fitted a model including only control variables, followed by a model that included our independent variable (gender) and the mediator (compa ratio). Finally, we fitted our multilevel model that included our study variables (compa ratio and salary increase at the within-individual level, gender at the between-individual level, and Blau index at the work-unit level). We controlled for tenure, age, line manager (yes/no), working hours, top talent rating (yes/no), top performance rating (yes/no), pay level, and study wave for all within-individual endogenous variables. At the work-unit level, we controlled for work-unit size, female share of the work unit as well as gender of the work-unit manager.

Results

Means, standard deviations, reliabilities and correlations of the study variables are presented in Table 1.

(insert Table 1 about here)

Table 2 shows the results of the model including control variables only and the model that adds the mediator. Table 2 shows the results of the final model. The results of the cross-

classified regression analyses demonstrate that female employees have, on average, lower compa ratios than men (B= -.21, p < .0001, see final model). A lower compa ratio is associated with higher salary increases (B= -.83, p < .0001), such that employees with a lower compa ratio received higher salary increases. As proposed in Hypothesis 1, the indirect effect of gender on salary increase via compa ratio is significant (B= .07, p < .0001). At the within-individual level the predictor variables explain 13% in the variation of salary increase, at the between-individual level 67%.

Tests of cross-level moderation effects. The effect of compa ratio on salary increase differs across work units, as the significant random slope indicates (B= .08, p < .0001). To test the hypothesized cross-level moderation effects (i.e., Hypotheses 2 and 3), we added the cross-level moderation effect of the Blau index on the random slope for compa ratio predicting salary. As expected, the Blau index moderates the relationship between compa ratio and salary increase (B= .64, p < .0001). The Blau index accounted for 8% of the variance in the random slope (residual variance of .074), suggesting that the gender diversity explains a sizable portion of variance in this relationship. Following Cohen, Cohen, West and Aiken's (2003) recommendations, we plotted the interaction at conditional values of the Blau index (1 standard deviation above and below the mean). As shown in Figure 2, compa ratio is a stronger predictor of salary increase in work units with low diversity (i.e., low Blau diversity index) (B= -.83; p< .0001) compared to work units with high diversity (B=-.51, p < .0001). Specifically, employees with a lower compa ratio receive a higher salary increase in work units with low gender diversity compared to work units with high gender diversity. For employees with a high compa ratio, the salary increase was comparatively low – both in work units with low and high gender diversity.

To test Hypothesis 3, we estimated the indirect relationship of gender on salary increase via compa ratio at higher (+1 standard deviation of the Blau index) and lower levels

(-1 standard deviation of the Blau index). The results of the conditional indirect effects show that the effect is stronger in work units low on gender diversity (B= .11, $p < .0001$) and weaker in work units with high gender diversity (B= .04, $p < .0001$). This means that women benefited most in terms of higher salary increases in work units with a lower gender diversity.

(insert Tables 2 and 3 about here)

Control variables. The coefficients of the control variables furthermore indicate that employees receive higher salary increases when they were rated as a top talent or top performer and if they were a line manager. The time wave is positively associated with salary increase, such that, on average, individuals received higher increases over time. Working hours, tenure and age were not significant predictors of salary increase. Our results also did not show a significant direct relationship between gender and salary increase. Employees in smaller work units also received larger increases in comparison to employees in bigger work units. A high female share had a negative direct effect on salary increase, whereas the gender of the work-unit manager did not have a significant effect.

Robustness Analyses

Considering the changes in regulations on pay transparency in Germany, we tested whether the organization became more sensitive to gender pay gaps over time due to institutional pressures. Specifically, we tested whether women received higher pay raises over the three years. The effect from gender to changes in pay increases was significant, showing that women received higher pay increases over time (B= .06, p=.05), which suggests that the topic of gender pay equity became more relevant over time in the organizational context we studied. We also tested whether compa ratio was a more important predictor of pay raise allocations over time. Post-hoc analyses did not show a significant relationship

between compa ratio and changes in pay increases compa ratio ($B= -.05$, $p=.06$). We also tested whether the female share of a work unit, in addition to Blau's diversity index, moderates the relationship between compa ratio and salary increase. The cross-level interaction between female share of the work unit and compa ratio, however, did not significantly predict salary increase ($B= .16$, $p=.11$). This indicates that gender diversity moderates the salience of compa ratio in explaining salary increases, whereas the female share of a work unit does not change the relevance of compa ratio. As a further robustness check, we also tested a three-way interaction between gender, compa ratio and Blau's diversity index, which could provide a more nuanced understanding. However, the three-way interaction term was not significant ($B= .40$, $p=.16$), indicating that work-unit diversity moderates the relationship between the compa ratio and pay increases similarly for both men and women. This result suggests that there is no "positive" discrimination in favor of women, meaning that the same compa ratio did not lead to higher salary increases for women, compared to men, across different levels of work-unit diversity. The results of the moderated mediation analysis show that women only receive higher salary increases because they have, on average, a lower compa ratio and that the equity pressures were most pronounced in work units with a low diversity index.

Discussion

By integrating equity and institutional theory our study makes a number of important theoretical contributions. Specifically, we developed a multilevel framework to better understand when equity-based reward allocation policies are adopted to redress the gender pay gap. Our study is one of the first to model an integrated view of the individual- and work unit-level influences of pay raises. We found that the internal pay positioning was a more important factor for explaining pay raises in less diverse work units, such that the annual pay review had the biggest impact on reducing the gender pay gap in work units with lower

gender diversity. We advance research on gender pay equity, institutional theory, and compensation.

First, our study contributes to our understanding of the contextual nature of gender pay gaps. Over the last years, research has increasingly focused on situations that might reduce the gender pay gap, establishing that the gender pay gap is lower in secular states (Sitzmann & Campbell, 2020), in the public sector as compared to the private sector (Stritch & Villadsen, 2018), in consumer industries in comparison to manufacturing industries (Leslie et al., 2017), and in male dominated occupations (Joshi et al., 2014; Schneider et al., 2022). The mechanisms of the gender pay gap also depend on countries' gender inequality (Masuda et al., 2023). Some research also proposes that the gender pay gap is lower in companies with higher female representation in management positions (Joshi et al., 2006; Stojmenovska, 2018), although others did not find a significant effect of gender representation on lower compensation gaps in top executive work units (Cook et al., 2019).

We expand a very scarce literature on how the work-unit context might mitigate the gender pay gap. Joshi, Liao and Jackson (2006) analyzed if gender work-unit representation has a direct effect on the gender pay gap but did not find such an effect. In comparison, our results show that gender work-unit diversity (i.e. degree of equal representation of men and women) – and not female share as operationalized by Joshi and colleagues – moderates the indirect effect of gender on pay raises. Specifically, a work unit was most likely to redress the gender pay gap by giving higher pay raises to women, when the work unit's gender diversity was imbalanced, meaning that the work unit consisted either predominantly of men or women. It was in these cases that the compa ratio was a more decisive factor for explaining reward allocation. When it comes to pay raises, the results of our moderated mediation analysis suggest that, paradoxically, women will be less likely to receive higher pay raises compared to men if they work in diverse environments. This means that we should be aware

that gender diversity in terms of equal gender representation is not a panacea to address all gender inequities as it may interfere with the use of equity practices such as compa ratio. Diversity might even backfire because it provides a sense of symbolic legitimacy and external trust signaling that diversity objectives have already been achieved. This provides work-unit level evidence for Leslie's (2019) conjecture that corporate diversity initiatives may influence the desired outcome—in our case, equitable reward allocation—but do so in undesirable ways. By contrast, work units with low gender diversity experience more pressure to base reward allocation on objective criteria, such as the compa ratio. Our results are in line with Castilla's (2015) research which shows that institutional pressure in the form of accountancy and transparency policies can reduce the gender gap in pay decisions. They also echo Elvira and Graham's (2002) finding that the gender pay gap is higher for less-formalized pay types, which lack transparency regarding potential gender pay differences.

Second, we also contribute to research on institutional theory, further advancing the understanding of institutional theory in human resource management (Lewis et al., 2019). Stakeholder diversity demands are complex and include the notion of equality of opportunity and removal of barriers for protected employee groups in companies. They also involve demands of gender equity, supported by legal frames such as pay transparency laws in Europe (Anderson-Gough et al., 2022). Such institutional pressures of diversity have many implications in organizations ranging from a focus on diversity in recruiting and promotion practices, sensitivity towards diversity training, flexible work arrangements to equal pay practices. Our results indicate that organizations are less likely to allocate rewards based on the equity principle in units that have achieved the alternative objective of equal gender representation.

Work units with high gender diversity relied least on the internal pay positioning for pay raises. High gender work-unit diversity was thus a situational cue that made the equity

principle of reward allocation less salient (Glaser et al., 2016), thereby leading to a decoupling of reward allocation policies and practices to address pay equity. In this sense, work-unit contexts of high gender diversity were indeed harmful for correcting the gender pay gap. As recently suggested by Hellerstedt et al. (2023), we found that different diversity goals (i.e., gender representation in the work unit and gender pay equity) were not mutually reinforcing. Instead, achieving equal gender representation may in fact undermine gender pay equity.

Our study further contributes to multilevel research on institutional theory by discussing when decoupling is most likely to occur regarding reward allocation. One reason for decoupling is that policies are usually designed by HR professionals, but their practices are often implemented by line managers who usually have little time and skills to understand how to achieve gender equality (Williamson et al., 2020). Similarly, managers may take shortcuts towards achieving external legitimacy that corporate diversity goals are being pursued. For example, research suggests that managers strategically allocate salary increases to a few employees to reduce the gender pay gap in the aggregate, while maintaining the gender pay gap for most employees (Anderson, Bjarnadóttir, Dezső, & Ross, 2019). We theorize and empirically demonstrate that decoupling practices from equity-based policies also occurs at the work-unit level when alternative forms of gender equality, specifically equal gender representations in work units, is achieved. The decoupling at the work-unit level was partial rather than complete, such that pay increases were based on equity-based reward policies across all work units, but less decisive when the work unit was already diverse. This finding is in line with prior institutional research which suggests that decoupling is more likely when organizations have already gained external legitimacy (Boxenbaum & Arora-Jonsson, 2017). Existing evidence also shows that decoupling behaviors from their underlying policies is more likely to occur to reconcile multiple, and potentially conflicting,

external pressures in a generally well-intentioned "muddling through" process (Crilly et al., 2012, p. 1443). Our study expands this line of work by suggesting that the existence of multiple paths through which progress on corporate diversity goals can be achieved may provide legitimate opportunities at lower organizational levels to circumvent progress on less visible diversity indicators—including gender pay equity—when more noticeable diversity indicators have been reached.

Third, we also contribute to the compensation literature. Our research follows previous calls for more contextualized and multilevel research in the compensation field (Conroy et al., 2015; Fulmer & Li, 2022; Gupta & Shaw, 2014). We advance knowledge on how pay increases are managed within a company, a topic that requires more attention from both academics and practitioners (Xavier, 2014). Specifically, we contributed to the compensation literature by studying antecedents and situational contingencies of pay dispersion, which is the degree of wage inequality across employees within similar jobs (Bloom, 1999). We found that employees received a higher increase, if they were rated as top performer and top talent and if they held a managerial position. On the contrary, employees' demographics (age, tenure, and gender) and working hours did not significantly relate with pay increases. Finally, employees received a higher pay increase, if their internal pay positioning was lower, holding all other variables constant. The impact of compa ratio was, however, context-dependent and more pronounced in work units with lower gender diversity. The finding that equity-based reward decisions are dependent on the work-unit context is important for advancing our understanding of the distributive justice of reward allocations (Fişek & Wagner, 2003). It signals that the equity principle (Adams, 1963) differs in importance such that employees with the same "inputs" (i.e., performance, talent and experience) likely receive different "outputs" (i.e., pay raises) depending on the organizational context. In other words, it does not only matter who you are, but also where

you work in the organization. This finding adds to recent research suggesting that reward allocation preferences depend on other contextual contingencies such as cultural values (Adamovic, 2023).

Practical Implications

Our findings inform HR managers and practitioners responsible for Diversity, Equity and Inclusion practices in four important ways. First, HR managers should recognize that diversity and equity are distinct but interrelated concepts (Deloitte, 2022), and that addressing gender pay gaps requires a more nuanced approach that integrates both aspects. While diversity initiatives aimed at increasing female share in work units are essential, they should be accompanied by specific gender pay equity policies. HR managers may go beyond mere quotas and goals of female share and complement these with tangible equity-focused measures. Rather than merely emphasizing gender representation, companies can prioritize creating a supportive work environment that encourages equitable pay practices. This integration can help mitigate the risk of "diversity blinding equity", ensuring that gender pay gaps are genuinely addressed rather than inadvertently perpetuated.

Second, our research indicates that in diverse environments, reward allocation might be less likely to follow equity pressures, resulting in comparatively lower pay raises for women. To avoid this decoupling of equity-based reward policies from their implementation, HR managers could introduce measures to actively monitor and address not only gender pay disparities at an aggregate level but also scrutinize the use of reward allocation practices such as compa ratio in their work units. Companies may conduct regular pay equity audits to identify and rectify any gender-based pay disparities in their use of reward allocation practices. HR managers can use the findings from these audits to develop targeted interventions and policies to close any existing gender pay gaps. Our findings can also help

HR managers recognize that addressing the gender pay gap is not a one-size-fits-all approach. Instead, they may focus on understanding the contextual factors influencing reward allocation, including the level of gender diversity at the work-unit level.

Similarly, practitioners could also calculate the relevance of the compa ratio—compared to other demographic or performance-related variables—to understand salary increases. For example, HR professionals could use some machine learning techniques such as decision trees or Shapley additive explanations (SHAP values) (Lundberg & Lee, 2017) to identify, calculate, and rank the relative importance of the compa ratio and other predictors in a salary increase prediction model (e.g., Zheng, 2023; Zien et al., 2009). This approach has the advantage that it can also identify whether the impact of the compa ratio is consistent across groups.

Third, HR managers may also invest in training programs to sensitize line managers and employees about the nuances of gender pay equity, the potential pitfalls of assuming that diversity will automatically lead to equity, and the risk of policy-practice decoupling in the case of alternative ways to achieve corporate diversity goals. HR managers may foster a culture that values both diversity and equity to promote organizational fairness, inclusivity, and equal opportunities for all employees. They can also encourage open conversations about pay equity and the challenges of managing diverse work units. By promoting a culture of transparency and accountability, HR managers can help mitigate potential negative effects of diversity without equity. Educating the workforce about the importance of both diversity and equity can foster a more inclusive and supportive organizational culture.

Finally, to encourage line managers to actively address gender pay gaps, companies can recognize and reward those who consistently exhibit equitable reward allocation

behaviors. By promoting and celebrating these behaviors, HR managers reinforce a culture where gender pay equity is valued and prioritized.

Limitations and Future Research

Like any study, ours has limitations that need to be addressed. First, despite using longitudinal data to test our hypotheses we cannot infer causation, in particular related to the effects of diversity on the relationship between gender and pay raise. We thus encourage scholars to adopt other methodologies such as lab experiments to explore the role of workplace diversity measured in the form of gender composition in teams on reward allocations. By doing so, we are better able to grasp the causality and mechanisms that explain this effect.

Second, we analyzed pay raises in the context of an annual pay review. For achieving gender pay equity, it is necessary that we understand the different moments in employees' lifecycles (i.e., on- and off-cycle increases) in which reward allocation can affect gender pay equity. In this paper, we investigated on-cycle increases given as part of the annual pay review. Other studies that focus on pay adjustments for job changes, starting salary, or retention cases are needed to obtain a more comprehensive picture on gender pay equity (see also Fulmer & Li, 2022).

Third, although we used a large sample spanning over three years, the generalizability of this study needs to be treated with caution because reward allocations can differ across organizational and cultural contexts (Fischer & Smith, 2003). In this study, we focused on an organization that experienced pressure to reach diversity goals. Future research is required to better understand how other organizational and cultural contexts might influence reward allocation to redress the gender pay gap. In our study we saw that female share of the work unit was negatively associated with salary increase. Future studies might also investigate, if

female share of the work unit has a negative impact on employee compensation in other contexts.

Fourth, although our cross-classified model uses repeated measures at the individual level, it does not track how work-unit gender diversity itself fluctuates across the three-year period. This presents a limitation, as we cannot infer how variations in work-unit gender diversity impact reward allocation practices. Without capturing the temporal stability or fluctuations in gender diversity at the work-unit level, our findings may have limited generalizability to organizational contexts where diversity levels are more dynamic. For example, work units that experience frequent changes in gender composition through hiring or attrition may show inconsistent applications of reward policies as managers navigate changing diversity dynamics. Future research could address the dynamic nature of work-unit gender diversity by integrating turnover and hiring data into their empirical models. Likewise, simulation-based studies could also allow researchers to model hypothetical scenarios in controlled settings in which gender diversity fluctuates over time. This may be especially useful when longitudinal data are unavailable or incomplete.

Fifth, our study examines how legitimacy attained at the work-unit level can drive policy-practice decoupling in the context of applying the compa ratio. However, work units are nested within broader structures such as regions and countries, where symbolic legitimacy may also be achieved. For instance, certain regions – with their own contextually-based institutional pressures – may gain legitimacy by meeting other diversity, equity and inclusion (DEI) objectives, such as offering DEI training, appointing diversity champions, obtaining regional DEI certifications, or setting representation targets—even if those targets remain unmet. Legitimacy achieved at higher organizational levels can, in turn, compensate for a lack of legitimacy at the work-unit level. We encourage further research to investigate how achieving various KPIs across domains such as equity, diversity, and inclusion at different

organizational levels influences policy-practice decoupling in the compa ratio context.

Last, we did not measure how line managers experience institutional pressures to meet diversity goals or to what extent they perceived to be monitored in their reward decisions. These factors could provide a better understanding of how meso or macro variables, such as institutional pressures of diversity and gender pay equity, can influence individual reward allocation decisions. Additionally, studies could include other principles that line managers follow when making reward allocations, namely equality, need, and skills (Fischer & Smith, 2003). In this way, we could gain a more complete understanding of how institutional pressures can make one principle more salient relative to another.

Conclusion

Achieving gender pay equity requires an understanding of how reward allocation mitigates potential disparities. Our results show that situations of high gender diversity, i.e. an employee composition equally balanced between men and women, led to a decoupling of reward practices from equity-based reward policies. In these contexts, internal pay positioning was less relevant for determining pay raises. However, in work units with gender-skewed compositions, more corrective measures were taken to achieve gender pay equity. In light of these findings, we urge organizations to prioritize a multi-faceted approach to diversity and equity as a central component of their strategy. Specifically, we emphasize the significance of incorporating multiple KPIs to proactively address potential backlashes and ensure a comprehensive understanding of workplace diversity.

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Figure 1

Conceptual model
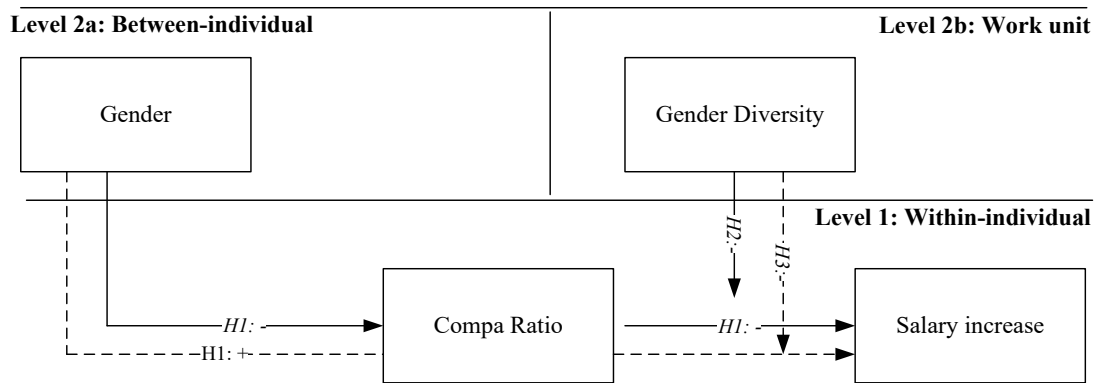
Note. Dotted lines represent mediation effect (H1) and conditional indirect effect (H3).

Figure 2

Cross-Level Interaction of Compa Ratio and Blau Index on Salary Increase
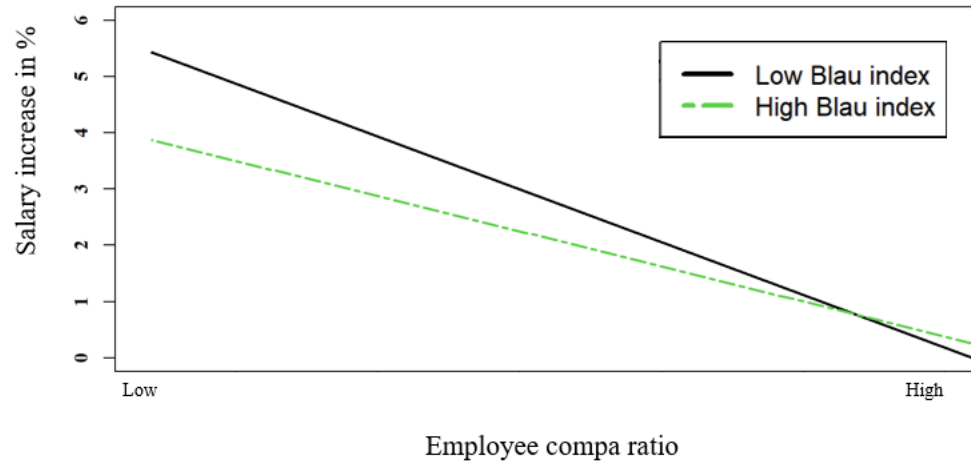
Table 1

Correlations

		Mean	SD	1	2	3	4	5	6	7	8	9	10	11	12	13	14
1	Time Wave	2.06	.82	1													
2	Working hours	39.28	2.98	-.00	1												
3	Age	46.1	7.79	.03**	.04**	1											
4	Tenure	13.92	8.45	.01	-.01	.59**	1										
5	Talent	.15	.35	-.12**	.04**	-.22**	-.11**	1									
6	Performance	.13	.34	-.03**	.05**	-.12**	-.04**	.19**	1								
7	Line Manager	.27	.44	-.02	.09**	-.07**	.04**	.16**	.09**	1							
8	TTC	95862	26485	.03**	.07**	.18**	.08**	.11**	.04**	.42**	1						
9	Work-unit size	31	31	.25**	.04**	.03**	.07**	-.05**	-.04**	.17**	-.03**	1					
10	Female share	.22	.16	.04**	-.13**	-.25**	-.18**	.05**	.02*	.07**	.01	.04**	1				
11	Manag. gender	.16	.37	.18**	-.04**	-.05**	-.04**	.01	-.01	-.03*	.06**	-.08**	.19**	1			
12	Gender	.22	.42	.01	-.36**	-.21**	-.12**	.01	-.01	-.01	-.11**	.01	.39**	.07**	1		
13	Compa ratio	107.4	12.22	.04**	.01	.41**	.21**	-.03**	.01	-.00	.40**	-.08**	-.16**	-.03**	-.18**	1	

| 14 | Gender diversity | .38 | .12 | .03** | -.09** | -.25** | -.23** | .05** | -.02* | .09** | .07** | -.01 | .54** | .12** | .20** | -.09** | 1 |
| 15 | Salary increase | 2.05 | 1.35 | .02 | .01 | -.21** | -.08** | .14** | .18** | .15** | -.10** | .00 | .00 | -.01 | .03* | -.29** | -.03* |

Note. N= 9246. Correlations do not take into account the multilevel nature of the data and should be interpreted with caution.
*p <.05; ** p <.001

Table 2

Model results

	Model with control variables only			Model with Mediator					
	Salary Increase			Compa Ratio			Salary Increase		
	B	SE	CI	B	SE	CI	B	SE	CI
Level 1: Intra-individual									
Wave	**.08**	**.02**	**[.04;.12]**	.02	.01	[-.01;.04]	**.10**	**.02**	**[.06;.14]**
Working hours	-.01	.02	[-.03;.03]	**-.03**	**.01**	**[-.05;-.01]**	**-.03**	**.02**	**[-.06;.00]**
Line Manager (yes/no) [1]	**.63**	**.04**	**[.55;.70]**	**-.29**	**.02**	**[-.34;-.24]**	**.41**	**.04**	**[.33;.49]**
Age	**-.23**	**.02**	**[-.27;-.19]**	**.32**	**.02**	**[.29;.35]**	-.01	.02	[-.05;.04]
Tenure	.04	.02	[-.001;.07]	-.04	.02	[-.07;.01]	.01	.02	[-.03;.05]
Talent Rating	**.25**	**.04**	**[.17;.33]**	**.09**	**.02**	**[.06;.13]**	**.32**	**.04**	**[.24;.39]**
Performance Rating	**.49**	**.04**	**[.41;.57]**	**.04**	**.02**	**[.002;.07]**	**.52**	**.04**	**[.44;.59]**
TTC	**-.24**	**.02**	**[-.27; -.21]**	**.40**	**.01**	**[.38; .43]**	.05	.03	[-.002; -.09]
Compa Ratio							**-.72**	**.04**	**[-.79;.63]**
Level 2: interindividual									
Gender [2]				**-.20**	**.03**	**[-.27;-.14]**	-.06	.04	[-.14;.01]
Level 2: Work unit									
Work unit size	**-.05**	**.02**	**[-.08;-.01]**				**-.06**	**.02**	**[-.09;-.02]**
Line Manager Gender	.01	.05	[-.09;.10]				-.02	.05	[-.11;.07]
Work unit Female Share	**-.42**	**.12**	**[-.66;-.18]**				**-.49**	**.11**	**[-.67;-.25]**
Variance (within-indiv.)	1.30	.025	[1.25;1.34]	.13	.003	[1.22;1.33]	1.24	.02	[1.12;.1.28]
Variance (between-indiv.)	.31	.02	[.27;.35]	.61	.02	[.58;.64]	.27	.02	[.22;.31]
Variance (work unit level)	.013	.004	[.01;.02]	.04	.01	[.03;.05]	.02	.006	[.01;.03]
R^2			11.5%			30.1%			17.1%

Note. N = 9,246 data points nested in 4,003 individuals and 316 work units. Significant coefficients are marked in bold.
[1]: 0 = No line manager, 1 = Line manager.
[2]: 0 = Male, 1 = Female.

Table 3

Model results of final model

| | Final Model (with mediator and moderator) | | | | | |
| | Compa Ratio | | | Salary Increase | | |
	B	SE	CI	B	SE	CI
Level 1: Intra-individual						
Wave	.02	.01	[-.01;.05]	**.09**	**.02**	**[.05;.13]**
Working hours	**-.03**	**.01**	**[-.05;.01]**	-.03	.02	[-.05;.01]
Line Manager (yes/no) [1]	**-.29**	**.02**	**[-.35;-.25]**	**.43**	**.04**	**[.35;.50]**
Age	**.43**	**.02**	**[.39;.47]**	-.02	.03	[-.07;.03]
Tenure	**-.04**	**.02**	**[-.07;-.01]**	.02	.02	[-.02;.05]
Talent Rating	**.09**	**.02**	**[.07;.12]**	**.35**	**.04**	**[.28;.43]**
Performance Rating	**.04**	**.02**	**[.004;.07]**	**.53**	**.04**	**[.46;.61]**
TTC				-.03	.03	[.-.08;.03]
Compa Ratio				**-.83**	**.10**	**[-1.03;-.63]**
Level 2: interindividual						
Gender [2]	**-.21**	**.03**	**[-.27;-.14]**	-.07	.04	[-.15;.01]
Level 2: Work unit						
Work unit size				**-.08**	**.02**	**[-.11;-.04]**
Line Manager Gender				-.05	.04	[-.13;.04]
Work unit Female Share				**-.28**	**.11**	**[-.49;-.03]**
Blau index				**-.65**	**.16**	**[-.97;-.34]**
Cross-level interaction: Blau index * Compa Ratio				**.64**	**.22**	**[.21; 1.06]**
Variance (within-indiv.)	.13	.002	[.12;.13]	1.15	.02	[1.11;.1.20]
Variance (between-indiv.)	.61	.02	[.58;.64]	.17	.02	[.14;.21]
Variance (work unit level)	.03	.005	[.02;.04]	.02	.005	[.001;.03]
R^2			30.2%			27.3%

Note. N = 9,246 data points nested in 4,003 individuals and 316 work units. Significant coefficients are marked in bold.

[1]: 0 = No line manager, 1 = Line manager.

[2]: 0 = Male, 1 = Female.