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More Monitoring, Less Pay: Active Ownership and Employee Compensation

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Abstract. The rise of active owners—hedge funds and private equity firms—has raised questions about the influence of corporate owners on employee compensation. Prior research documents that active owners reduce overall compensation through workforce restructuring and slower wage growth. What remains unexplored is whether active owners also pay less for comparable work: whether they compensate the same jobs differently than other owners. Using detailed compensation from more than 20 million employee records across 896 U.S. firms, we compare pay within narrowly defined labor markets that hold constant year, region, occupation, and skill level. We find that firms with active owners pay 2%–4% less for comparable work than other firms. These differentials manifest as both lower base salary and flatter incentive pay and appear to reflect, at least in part, an owner treatment effect. Notably, the effects are concentrated in more monitorable contexts, including routine jobs, jobs with quantifiable outputs, and those in less knowledge-intensive industries. These patterns are consistent with active owners substituting compensation-based incentives with managerial oversight, particularly in quantifiable and routine settings. This suggests that, as work becomes more measurable, firm ownership may play a greater role in shaping employee outcomes.

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1. Introduction

The nature of corporate ownership is changing. As private sources of capital have boomed, private equity firms and hedge funds have gained prominence, controlling multiple trillions of dollars of firms and assets across industries (Klinsky 2022). Unlike passive institutional investors, these owners actively intervene in the strategic and operational decisions of the firms they own with their influence extending to decisions that affect the workforce (e.g., Useem 1996; David et al. 2001; Connelly et al. 2010a, b; DesJardine et al. 2023).

This influence extends to employee compensation. Prior research documents that active owners reduce overall wages, primarily through workforce restructuring, such as layoffs and compositional shifts as well as slower overall wage growth (Davis et al. 2014, Brav et al. 2015, Antoni et al. 2019, Chen et al. 2021). What remains unresolved, however, is whether firms under active owners also pay less for comparable work, that is, whether they compensate their employees differently

than others for equivalent work, holding constant occupation, skill level, and labor market conditions.

This distinction matters as it indicates a mechanism of owner influence that has not been examined in earlier research. Reducing labor costs through workforce changes reflects strategic decisions about what work gets done and who does it. Paying less for comparable work, by contrast, suggests that owners reshape how workers are monitored and incentivized for a given set of tasks (e.g., Milgrom and Roberts 1992, Tosi et al. 1997, Bidwell et al. 2013). Active owners are intensive monitors, and their enhanced monitoring practices can substitute for efficiency wages and performance-contingent pay to reward employees. If firms under active owners pay less for comparable work, it demonstrates that ownership competencies (Foss et al. 2021) can shape the terms of the employment relationship, affecting how value is distributed through governance and organizational design. Yet this question has remained unresolved, likely because of data limitations. Large-sample administrative data sets

generally do not provide sufficient information about skill level and jobs to separate pay differentials for like work from differences in task and responsibilities. Exploring this question is the aim of our study.

We surmount these data limitations by obtaining proprietary data from a compensation consultancy that permits pay level and pay structure comparisons across comparable work. Because the consultancy assembled the data for benchmarking purposes for its own clients, it contains precise skill level and occupation information for each employee that, by construction, enables like-for-like comparisons within and across firms. In particular, the skill level measure is key to testing our mechanism as it allows us to separate pay differentials for comparable work from worker composition. The data set is extensive, containing more than 20 million employee records across 896 U.S. firms. The publicly traded companies in our sample account for 21.6% of the total market capitalization of public companies in the United States and 9.6% of total assets. To compare across owners, we classify owners by the extent to which they actively intervene in the firms they own, categorizing two classes of investors as active: private equity firms and hedge funds.

The ideal experiment to identify whether active owners pay less for comparable work or place workers into lower skilled positions would be to trace trajectories in compensation, skill level, and occupation for an individual worker at a firm under active owner compared with the counterfactual of that same worker at a firm without an active owner. Our study differs from this ideal experiment in two ways. First, we do not have individual identifiers to trace employees over time. Second, this stylized counterfactual is, by definition, unobservable. We instead adopt the following approach: we define a large set of microlabor markets as the intersection of year, region (e.g., Texas Houston metro area), detailed occupation (e.g., vessel crew), and skill level (e.g., 7 of 27 levels), creating a total of 101,734 such year–region–occupation–skill level markets. We then measure differences in the pay level and structure within each market across owners. The critical assumption underlying this approach is that these narrowly defined markets are sufficiently precise such that measured differences across owners reflect pay differentials for comparable work.

Three primary findings emerge. First, firms with active owners do, in fact, pay less for comparable work. Private equity–owned firms compensate 4.5% (\$3,841) less cash compensation (base salary plus bonuses) relative to other private firms. Among public firms, a standard deviation higher level of logged hedge fund ownership is associated with 2.1% (\$1,725) lower cash compensation. We disaggregate pay into its constituent components—base salary, cash bonus, and long-term incentive compensation (LTI)—and find that our results are driven by both lower pay level (e.g., base salary) and flatter incentives (e.g., ratio of bonus and LTI to base).

Second, these differences appear to be at least partly driven by an active owner treatment effect beyond active owners selecting into underpaying firms. Absent an instrument for ownership, we instead adopt a preponderance-of-evidence approach to separate treatment from selection. We employ a battery of tests, including a private equity buyout analysis, a hedge fund ownership shift analysis, and matched comparisons. These tests together suggest an owner effect rather than selection alone.

Third, we explore whether increased monitoring by active owners can account for these pay differentials. We find that negative pay differentials are concentrated in settings that lend themselves to monitoring, including routine jobs (designed as those primarily consisting of rule-based and automatable tasks, e.g., Acemoglu and Autor 2011), jobs with more quantitative outputs, and those in less knowledge-intensive settings. For example, employees in routine jobs at private equity–owned firms receive 5.4% lower cash compensation relative to comparable workers at private firms, whereas we find no difference among employees performing nonroutine work. For routine jobs in public firms, a standard deviation increase in logged hedge fund ownership is associated with 2.4% lower cash compensation, nearly twice as large as that for nonroutine jobs (1.3%).

This study makes contributions to three areas of research. First, we contribute to a recent effort to understand how corporate owners affect organization and human capital (Foss et al. 2021, DesJardine et al. 2023, Gartenberg and Zenger 2023). Foss et al. (2021) propose the idea of ownership competence, in which owners differ in what firms to own as well as when and how to own them. We build on this insight by identifying intensive monitoring as an important means by which active owners distinguish themselves from others. Our results show that this competence manifests in the terms under which work is compensated with important implications for how firms allocate rents between capital and labor. This work complements existing work on how private equity firms differ from other owners in driving automation and offshoring (Olsson and Tåg 2017) and upskilling workers (Agrawal and Tambe 2016). Similarly, it complements work on how hedge funds influence worker composition and outcomes (DesJardine and Durand 2020, Chen et al. 2021). Our work shows that active owners also shape pay level and structure for equivalent work.

Second, we contribute to growing research on shareholder–stakeholder relations. In their review and road map for future research, DesJardine et al. (2023, p. 401) raise the following canonical question: “How does the influence of different shareholders affect how companies attend to the interests of their stakeholders?” Recent work finds that interventions by active owners incur costs for nonshareholding stakeholder groups

(DesJardine and Durand 2020), particularly for employees (Chen et al. 2021, Shi et al. 2022, Agrawal and Lim 2022). We respond to this call by showing the implications of specific ownership competencies for employees, a key stakeholder group: enhanced monitoring capabilities allow active owners to pay them less, particularly in contexts in which monitoring is most feasible. This reveals a mechanism through which ownership shapes the distribution of value between shareholders and employees.

Third, we contribute to another growing body of research that studies rent allocation between labor and capital (e.g., Bidwell et al. 2013, Molloy and Barney 2015, Sevchenko et al. 2022). This research identifies a secular decline in labor's share of rent with causes such as automation (Acemoglu and Restrepo 2019), firm size (Autor et al. 2020), declining unionization (Farber et al. 2021), and changing managerial norms (Acemoglu et al. 2022). This paper suggests an additional possible source of this secular decline: the growing share of active owners in the markets for corporate control and the corresponding compression of wages within firms, particularly for employees in more monitorable settings.

2. Active Ownership and Employee Compensation

Active owners are those that exert greater voice over their firms than other corporate owners (Edmans and Holderness 2017). Two types of owners can be considered active: hedge funds and private equity firms. Hedge funds are professional investment firms that tend to invest in blocks of publicly traded firms. Private equity firms purchase companies outright, manage them over the course of approximately five years, and then exit their holding via either third party acquisition or public share offering. While passive investors also sometimes engage with management, active owners do so with greater depth and frequency. Several institutional factors lead to greater use of voice by active owners, including their fee structure, capital base, and portfolio composition, and this is less conflicted and more concentrated than those of other institutional investors (Kaplan and Stromberg 2009).

Active owners tend to exercise their voice using hands-on, behind-the-scenes engagement with their firms (Becht et al. 2009, McCahery et al. 2016). Funds devote hundreds of person-hours of monitoring to each company annually (Bebchuk et al. 2017). Private equity firms control their companies' boards upon acquisition, and hedge funds often gain board representation. This representation increases their access to management, manifesting as numerous conversations with management and board members, monitoring and motivating managers, and providing strategic advice (David et al. 2010, McCahery et al. 2016, Connelly

et al. 2017). Edmans and Holderness (2017) estimate that this engagement has increased over the past decades and will continue to do so going forward.

The capabilities that result from how active owners are organized and engage with firms represent what Foss et al. (2021) refer to as "ownership competencies." These are specialized knowledge, accumulated experience, and infrastructure for overseeing performance and management that other ownership types cannot easily replicate. These competencies have implications that extend beyond firm performance to the distribution of value among stakeholders. How active owners exercise this capacity and with what consequences for employees remains an ongoing empirical question that we explore through the lens of employee compensation.

2.1. Employee Compensation Under Active Owners

A large body of evidence shows that firms with active owners pay lower wages than otherwise comparable firms (Sorensen and Yasuda 2023). Davis et al. (2014) find that establishment-level earnings per worker decline after private equity buyouts in the United States, and Amess and Wright (2007) find similar declines in the United Kingdom. Brav et al. (2015) find a negative wage effect under hedge funds: targeted firms experience subsequent growth in productivity but not in wages.

Recent research makes important progress in understanding why these firm-wide wage effects occur. The evidence points to two primary mechanisms, both involving worker movement rather than wage changes for workers who remain at these firms. First, workforce compositional changes play a major role. Davis et al. (2014) find that, following buyouts, net employment and average worker earnings decline, driven by increases in both hiring and departures. This turnover is consistent with increased productivity coupled with changing skill demand: layoffs concentrate among workers in routine or offshorable jobs (Olsson and Tåg 2017), whereas firms increase information technology hiring postbuyout (Agrawal and Tambe 2016, Antoni et al. 2019). In hedge fund contexts, targeted firms experience higher departures of valuable employees, resulting in a less skilled, lower paid workforce (DesJardine and Durand 2020, Chen et al. 2021).

Second, within-worker wage trajectories decline after active owners take control. The within-worker wage effects documented in the literature (e.g., Sorensen and Yasuda 2023) predominantly reflect deteriorating career prospects and wage trajectories for workers who depart whether through layoffs or voluntary exits (Antoni et al. 2019, Fang et al. 2022, Herkenhoff et al. 2025).

In other words, existing research establishes two related but distinct findings: active owners reduce the total wage bill through compositional changes (changing

who works at the firm), and they negatively affect career trajectories for workers who leave.

2.2. Pay Differentials for Comparable Work Under Active Owners

The compositional story, although important, leaves a critical question unresolved: do active owners also pay less for comparable work? That is, do firms under active ownership compensate workers differently than other firms for performing equivalent tasks (i.e., holding occupation, skill level, region, and other job characteristics constant)? Identifying such pay differentials represents an important new mechanism through which ownership affects compensation by influencing how firms manage and reward their employees to elicit effort.

In this section, we discuss how these pay differentials may arise. We argue that active owners possess a distinctive capacity for intensive monitoring and that this capacity has direct implications for both compensation levels and structures. We develop this argument in two steps: first establishing active owners as intensive monitors and then exploring how enhanced monitoring shapes pay.

2.2.1. Active Owners as Intensive Monitors. Standard labor market models generally assume wages are determined by worker productivity and market conditions (Card et al. 2018). Yet wage setting involves substantial discretion by firms beyond what market clearing alone predicts (Song et al. 2019). Firms make strategic choices about how to structure pay, allocate rents, and organize employees (e.g., Milgrom and Roberts 1992). Corporate owners can influence these choices through their governance and control rights (Edmans and Holderness 2017), including decisions about how to elicit effort from employees and allocate rents between capital and labor (Coff 1997, Campbell et al. 2012).

Active owners develop monitoring capabilities because their own business models demand rapid value creation within finite time horizons. Active owners build specialized teams of advisors who develop deep expertise in performance management and oversight and who rotate across portfolio companies, carrying this expertise with them (Hoskisson et al. 2013, Gompers et al. 2016). Private equity firms, for instance, hire managers from their owners' other portfolio companies following buyouts with these hires concentrated in monitoring-intensive functions such as finance and operations (Pak 2026). Through these accumulated networks and active board involvement, these owners implement management practices that make employee effort more transparent and shirking more readily detected (Bloom et al. 2015).

As a result, active owners are characteristically intensive monitors. They accumulate oversight capabilities

that allow them to implement performance-based systems and closely monitor worker outputs (Bloom et al. 2015, Castellaneta and Zollo 2015, Castellaneta and Gottschalg 2016). This monitoring capacity represents a key ownership competence (Foss et al. 2021): the ability to design and implement organizational systems that increase firm-wide monitoring intensity. Because this competence emerges as a function of active owners' business model and governance structure, it does not readily diffuse to passive owners, whose own holdings, horizons, and accountability structures push them to a broader systems-wide focus (Fisch et al. 2019).

How might this intensive monitoring affect compensation for comparable work? We turn to this question next.

2.2.2. Compensation Implications of Enhanced Monitoring. The logic of intensive monitoring has implications for both employee pay levels and pay structure. Regarding pay levels, when firms cannot directly observe employee effort, they pay efficiency wage, a premium above market-clearing wages, to deter shirking (Shapiro and Stiglitz 1984, Akerlof and Yellen 1990). Enhanced monitoring relaxes this incentive constraint. When active owners install complementary monitoring practices, such as clear target setting, frequent performance reviews, and data-driven decision making, shirking is easier to detect and correct in real time (Bloom et al. 2015). When underperforming workers are more likely to be identified, the same level of effort can be obtained for lower wages (Rebitzer 1995, Cai et al. 2025). Therefore, enhanced monitoring predicts that pay levels for comparable work are lower under active ownership.

Regarding pay structures, a similar logic applies. When firms cannot easily verify employee efforts, they rely on steeper performance-contingent pay to motivate effort (Alchian and Demsetz 1972, Holmström 1979, Prendergast 2002). Enhanced monitoring serves as an *ex ante* mechanism that can substitute for *ex post*, performance-contingent rewards: by effectively observing work processes and outputs, firms can govern effort through oversight rather than through incentive pay. Intensive monitoring under active owners allows firms to rely less on incentive pay, leading to flatter pay structures in the form of lower ratios of incentive to base compensation. Enhanced monitoring, thus, predicts both lower pay levels and flatter incentive structures.

We acknowledge that other mechanisms may also contribute to pay differentials under active ownership, including owner bargaining power (Kaul et al. 2018, Nary and Kaul 2023) and employee-side factors such as information frictions in the labor market (Jäger et al. 2024) or compensating differentials. We focus on monitoring because it is central to active

ownership as a distinctive competence though we return to these alternatives in the discussion.

We, therefore, pose the following research questions:

Research question 1: Do firms with active owners pay less and structure pay differently for comparable work?

Research question 2: Can we attribute differences in pay, at least in part, to an owner treatment effect?

Research question 3: Can enhanced monitoring by these owners partly explain these differences?

3. Research Design

3.1. Structure of Analysis

We implement a three-part empirical strategy that corresponds to the three research questions above. First, per research question 1, we document differences in pay level and structure for comparable work under active owners. To do so, we estimate pay differentials within our microlabor markets of employees performing comparable work, holding industry, firm, and job characteristics constant.

Second, per research question 2, we explore whether this relationship reflects an owner treatment effect. Pay differentials under different owner types can reflect both active owner treatment effect, in which active owners influence pay practices, and selection effect, in which active owners target firms that already pay differently. Absent a credible instrument for ownership (e.g., Edmans and Holderness 2017), we cannot fully disentangle treatment from selection. Instead, we perform a series of tests with the aim of proving a pattern of evidence that we can assess as consistent or inconsistent with a treatment effect. These tests include a private equity buyout analysis, a hedge fund ownership shift analysis, and a matched comparison between firms with high and low hedge fund ownership. While none of these tests on its own is definitive, taken together, they provide suggestive evidence that active owners contribute to lower pay beyond what is expected from selection alone.

Third, per research question 3, we explore monitoring as a candidate explanation for negative pay differentials under active ownership. Because we cannot observe monitoring directly, we instead approach this part of our analysis by testing whether pay differentials are concentrated in more monitorable settings, jobs and industries that lend themselves to greater oversight. We implement a set of subsample comparisons that contrast more versus less monitorable roles along several dimensions: (i) task structure (routine versus nonroutine jobs), (ii) output measurability (jobs with more versus less easily quantifiable outputs), and (iii) industry knowledge intensity (jobs in low- versus high-knowledge industries). We also explore the intersections of these categories. If monitoring is driving observed patterns, we

expect larger pay differentials in the more monitorable subsamples. We describe this analysis in more detail prior to presenting our results in Section 4.3.

3.2. Data

The primary data are employee compensation data provided by a leading compensation consultancy. It contains detailed compensation from 20,391,540 employee records at 896 U.S.-headquartered firms between 2008 and 2018, which comprises all U.S.-based employees' data by the consultancy during that period. We merge this data set with Compustat (for public firms), Preqin (for private equity-owned firms), and FactSet Ownership (for hedge fund ownership) to construct firm-level ownership measures. We further verify the owner type by searching news articles, company websites, and company reports as well as other databases such as PitchBook and Crunchbase.

The compensation data were originally developed to benchmark pay for the consultancy's clients and contain detailed measures that enable within- and across-firm comparisons of jobs. The consultancy categorizes firms into 18 industries and eight firm size bands (from fewer than 250 to more than 25,000 employees). Each employee record includes geographic region (61 metro or nonmetro areas), detailed occupation code (290 occupations such as "vessel crew," "cybersecurity," "health insurance utilization review"), and a cardinal measure of skill level to each employee record (27 levels). These measures enable us to construct microlabor markets of comparable employees performing similar work, within which we compare compensation.

Despite its advantages, the sample may not be fully representative of all firms. We discuss this limitation and other methodological considerations in the discussion.

3.2.1. Skill Level Measure. A key feature of our data is the cardinal skill level, which plays a central role in our labor market comparisons. This measure is constructed through a labor-intensive job evaluation process, a well-established methodology used to assess the relative value of a job within and across organizations (Elrod 1954, Bayer and Kuhn 2023). The consultancy developed this process and applied it to thousands of global clients for more than 60 years, and it forms a core part of its pay benchmarking services. Skill levels are derived from detailed information about job requirements and content, collected through internal surveys and interviews with client firms. Based on these requirements, jobs are evaluated along three core dimensions of (i) knowledge, (ii) problem-solving capabilities, and (iii) accountability and organizational impact with further subcomponents within each. For example, the knowledge dimension includes technical, managerial, and communication-related components. Scores are aggregated into a final skill level, which is

reviewed for consistency within and across firms. Because the consultancy conducts these job evaluations as part of its ongoing client engagements, skill levels are reassessed contemporaneously with the compensation data rather than carried forward from prior evaluations. This ensures that measured skill levels reflect current job requirements, mitigating the concern that changes in role content over time could be misattributed to pay differentials across ownership types. Its stated use of this measure is twofold: first, to enable ranking of jobs such that pay is compensated according to the commensurate demands of the job and, second, to ensure that pay is comparable across functions such that there is like pay for like work. As such, the consultancy refers to this measure as a reference level, reflecting its function as a benchmark for comparing the relative worth of jobs across occupations, industries, regions, and firms. We use the more general term “skill level” in this paper.

It is worth noting that, although the skill level generally increases with a job’s position in the organizational hierarchy, it is not equivalent to hierarchy. Jobs at the same organizational level or occupation may differ in skill level depending on the complexity of tasks, expertise, and responsibility. By capturing the value of work rather than the position of the worker, the skill level

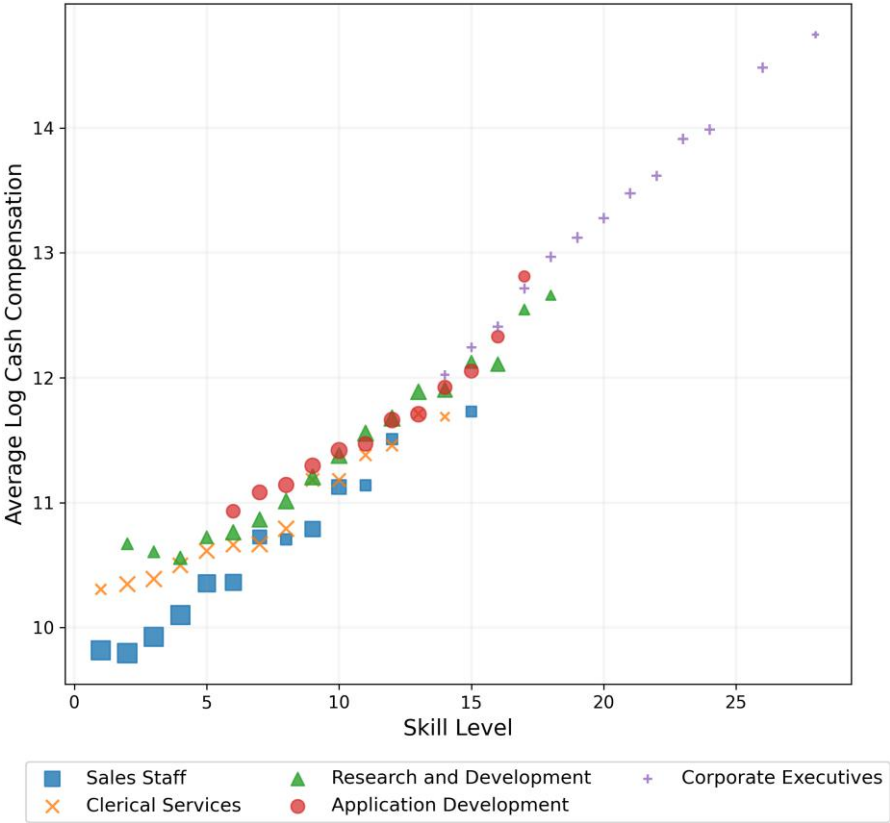
enables comparisons of compensation for equivalent work under different ownership structures.

Figure 1 illustrates this point using the application development occupation. Whereas average cash compensation is \$94,466, pay ranges from \$55,882 at skill level 6 to \$366,224 at skill level 17. Incorporating skill level, thus, allows us to account for substantial within-occupation variation in pay that is otherwise obscured.

3.2.2. Compensation Measures. Each employee record also includes detailed breakdowns of base salary, bonus, and LTI. Bonuses reflect performance-contingent cash compensation within a year. LTI includes restricted stock and options valued at the time of grant. We focus on an employee’s annual cash compensation (base plus bonus) because of the complexity of LTI valuation at private firms. In Online Tables A.1 and A.2, we replicate our analyses using total compensation (cash compensation plus LTI) and find consistent results.

3.2.3. Active Owner Measures. We construct active owner measures as follows. First, *Private equity* indicates whether the firm each year is owned by a private equity firm. Second, *Hedge fund* is a continuous measure of hedge fund ownership in a public firm each year. To calculate this measure, we first obtain the

Figure 1. (Color online) Within-Occupation Variation in Skill Level and Cash Compensation (Log)



percentage of a hedge fund's shares out of all shares outstanding. Next, we log transform this variable to normalize the distribution and then z-score it for interpretability.¹

In addition to these two active owner measures, we construct two more ownership measures for comparison. *Private* indicates whether a firm is private (but not owned by a private equity firm). *Public* is a binary variable indicating publicly traded firms.

Table 1 reports descriptive statistics by ownership category. Almost half of the firms in our sample are privately held (*Private* and *Private equity* categories). More than 80% of employees, however, work at public firms, reflecting their larger average size. We account for the size differences in our analysis in how we construct our panel and weight observations in regressions, which we discuss in the next section.

3.3. Method

3.3.1. Panel Construction. We construct our panel by aggregating individual employees to firm-year-region-occupation-skill level units. For example, employees working at firm A in year 2018 in region Texas Houston metro area in occupation cybersecurity and skill level 10 form one unit. Employees working at the same company in the same year, occupation, and region but at skill level 11 form another unit. This process yields 564,643 such units, representing 20,391,540 employee records. For each unit, we calculate average compensation variables.

We define microlabor markets as the intersection of year, region, occupation, and skill level, representing contexts in which employees perform comparable work under similar labor market conditions. Our panel yields 101,734 such year-region-occupation-skill level markets. Within each microlabor market, we observe multiple firms, allowing us to compare differences in pay levels and structures across ownership types.

3.3.2. Dependent Variable. Our main dependent variable is *Cash compensation (log)*, the log of the average

cash compensation (sum of base and bonus) for employees in the firm-year-region-occupation-skill level unit. In related analyses, we also use other pay variables, such as *Base salary (log)*, *Base-to-bonus ratio*, and *LTI-to-bonus ratio*, as the dependent variable.

3.3.3. Model. Using our panel, we estimate the following cross-sectional regression model:

$$Pay_{itros} = \alpha + \beta_1 PE_{it} + \beta_2 (Public_{it} \times HF_{it}) + \beta_3 Public_{it} + \eta_{itros} + v_i + \epsilon_{itros}. \quad (1)$$

In Equation (1), i denotes a firm, t denotes a year, r denotes a region, o denotes an occupation, and s denotes a skill level. *Pay* represents the dependent variable, which is *Cash compensation (log)* in the main analysis. We also use other pay variables in other parts of the analysis.

The two key independent variables capture active ownership. First, among private firms, private equity ownership (versus non-private equity ownership) indicates active ownership. Second, among public firms, the degree of hedge fund ownership measures active ownership intensity. To obtain estimates on these active owner variables, we treat privately held, non-private equity owned companies as our omitted category. We then create *PE* as an indicator for private equity ownership. *Public* is an indicator of whether a firm is publicly traded, and *Public* $\times$ *HF* measures the share of hedge fund ownership among public firms. As such, β_1 represents the pay differential between private equity owned and other private firms, β_3 represents the pay differential between public and private firms, and β_2 captures the additional differential associated with higher hedge fund ownership among public firms.

The variable η represents year-region-occupation-skill level high-dimensional fixed effects, capturing our microlabor markets as described above. These fixed effects are defined as the intersection of year, region, occupation, and skill level rather than using separate fixed effects for each dimension. All employees with the same value of η simultaneously fall within the same

Table 1. Data Distribution by Corporate Owner Types

Variable	Owner type				
	All	Private ^b	Private equity	Public	Public (high hedge) ^c
Firm ^a	896	461	106	405	272
Employee record	20,391,540	2,265,790	919,449	17,206,301	5,333,631
Year-region-occupation-skill level	110,212	72,476	30,666	97,372	68,844
Firm-year-region-occupation-skill level	564,643	144,990	44,326	375,327	175,421

^aThe number of firms across owner types do not add up to 896 because some firms switch owner type during the sample period.

^bPrivate is privately held firms that are not owned by private equity firms.

^cPublic (high hedge) is a subset of public firms with hedge-fund ownership above median each year. The number of firms is larger than half of public firms because firms switch from low hedge to high hedge and vice versa over time. For this reason, the number of public (low hedge) firms is 250 and also higher than half of public firms.

region, occupation, and skill level within a given year. Our regression, therefore, measures differences in pay within each η group across ownership types. Stated differently, these fixed effects ensure that we compare compensation for equivalent work across ownership types under similar labor market conditions. The term ν includes firm-level industry and firm size fixed effects, which account for pay differences across industries and firm sizes. Together, these fixed effects absorb a range of market- and firm-level factors that could otherwise confound pay comparisons across owners.

Because our model uses the panel with firm–year–region–occupation–skill level units, a standard regression model overweights small firms that collectively account for a small proportion in our sample. To address this, we weight regressions by the log of the number of employees in each unit. This aggregation approach ensures that both small and large firms contribute to the estimation, avoiding overrepresentation of groups with a very large number of employees. Because ownership varies at the firm level, we cluster standard errors by firm, following guidance from Abadie et al. (2023).

It is important to note that our model, as represented in Equation (1), is a cross-sectional regression that compares pay levels across different ownership types within narrowly defined labor markets. As such, our estimates are correlational, indicating pay differentials associated with ownership type after controlling for detailed market and firm characteristics. Given the rarity of ownership changes in our data set, we cannot estimate treatment effects through difference-in-differences

(DiD) or other quasi-experimental methods. One challenge, therefore, in interpreting these estimates is selection: pay differentials may reflect active owners targeting firms that already pay lower wages (selection) instead of their influence on pay practices (treatment). To address this, after presenting our main results, we do examine the few ownership switches as a complementary analysis, detailed in Section 4.2.

3.3.4. Descriptive Statistics. Table 2 presents summary statistics of the main variables by ownership type. This table shows that, across all compensation components, firms under active owners tend to pay less than other firms.

Figure 2 reveals that active owners select into firms with specific industry and size characteristics. Panel (a) reveals that active owners are more prevalent in industries such as restaurants, retailers, and transportation, industries that tend to pursue scale- and efficiency-based strategies. Panel (b) illustrates that the active owners also select into larger firms. As a result, direct comparisons of compensation without adjustment conflates these compositional differences with differences in pay for comparable work.

4. Results

4.1. Pay Differences for Comparable Work Under Active Owners

This section presents the empirical exploration of our first research question: do firms with active owners pay less and structure pay differently for comparable work? We begin by estimating average differences in

Table 2. Descriptive Statistics by Corporate Owner Types

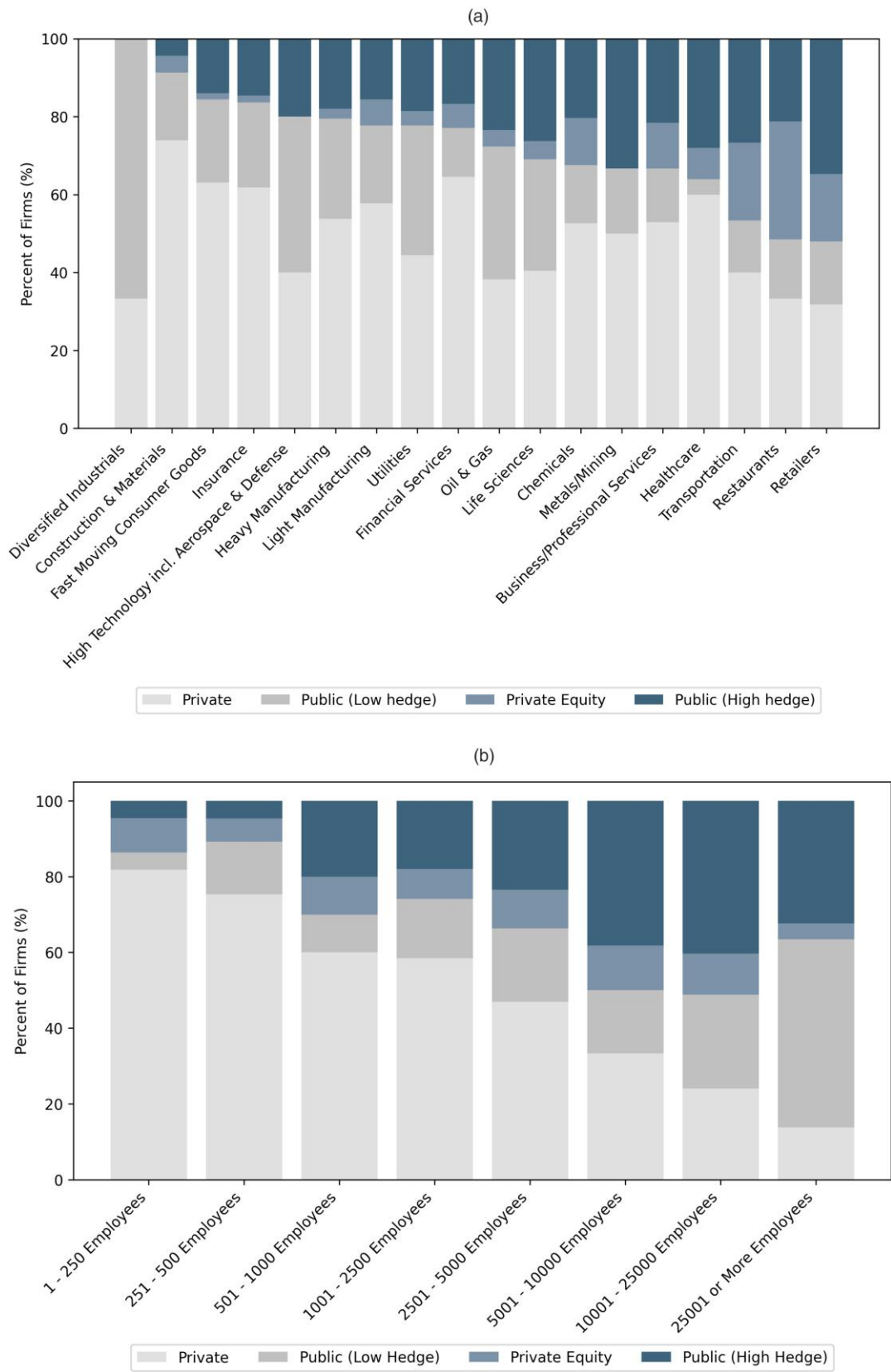
Variable ^a	Owner type							
	Private		Private equity		Public		Public (high hedge)	
	Median	Standard deviation	Median	Standard deviation	Median	Standard deviation	Median	Standard deviation
Skill level	10	3.25	9	3.48	9	3.44	9	3.46
Cash compensation, \$ ^b	73,420	60,657	59,071	56,430	68,616	74,450	62,900	73,408
Base salary, \$	68,852	41,658	56,693	42,272	64,689	47,350	59,902	47,818
Bonus, \$	3,010	25,437	853	19,936	2,077	35,360	1,283	34,151
Bonus-to-base ratio	0.05	0.16	0.02	0.12	0.04	0.15	0.03	0.15
Total compensation, \$ ^c					68,911	150,403	63,008	145,818
LTI, \$					0	93,859	0	90,675
LTI-to-base ratio					0	0.17	0	0.18
ROA					0.09	0.08	0.08	0.08
Tobin's Q					1.49	1.11	1.35	0.95
Sales growth					0.03	0.28	0.02	0.13
Current ratio					1.44	1.02	1.60	1.09
Debt-to-asset ratio					0.24	0.21	0.19	0.25
Cash-to-asset ratio					0.07	0.10	0.07	0.11
R&D intensity					0	0.02	0	0.01

^aUnit is at firm–year–region–occupation–skill level level.

^bCash compensation is a sum of base salary and bonuses.

^cTotal compensation is a sum of base salary, cash bonuses, and LTI. LTI and total compensation are only applicable for public firms.

Figure 2. (Color online) Corporate Owner Type Varies by Industry and Firm Size



Notes. (a) By industry. (b) By firm size.

pay level for comparable work. In Table 3, we regress *Cash compensation (log)* on active owner variables, *Private equity* and *Public × Hedge fund*. From columns (1)–(7), we sequentially introduce controls to account for worker composition.

Column (1) includes only year fixed effects, thereby allowing industry, firm size, and job composition to vary. The coefficients on active owners are statistically and economically significant with private equity firms paying 24.9% less cash compensation than private firms on average and a one standard deviation higher level of logged hedge fund ownership among public firms associated with 8.1% lower pay. Column (2) adds industry fixed effects. The coefficients on both *Private equity* and *Public × Hedge fund* decline substantially, indicating that industry selection explains roughly half of the observed pay differences. This pattern is consistent with Figure 2, panel (a), which shows that active owners select into industries with a higher share of lower wage workers. Columns (3) and (4) include firm size and region fixed effects, respectively. These additions have relatively small effects on active ownership coefficients. Column (5) includes occupation fixed effects. The coefficient on *Private equity* decreases by about 35%, indicating that private equity owned firms in particular employ workers in lower paying occupations. Column (6) further introduces skill level fixed effects, leading to a significant reduction in the coefficients on both *Private equity* and *Public × Hedge fund*. This shows that firms under active owners employ workers not only in lower paid occupations but also in lower skilled jobs within these occupations. It is worth noting that most prior studies of compensation under active owners rely on administrative data sets that can

control for industry, firm size, and region but lack the detailed occupation and skill level information available in our data. Without this information, the estimates in columns (5)–(7) are not feasible. The reduction in coefficients between columns (4) and (7), therefore, reveal how much of the previously reported pay gaps reflect compositional factors masked by coarse occupational categories.

Column (7) presents our fully specified model from Equation (1), and this includes industry, firm size, and four-way interacted year–region–occupation–skill level fixed effects. The estimates on active owners represent pay level differences that persist for employees performing like work between active owners and others, and they are strongly negative and substantial. The estimate on *Private equity* shows that, on average, private equity owned firms pay approximately 4.5% less than private firms. Using the average cash compensation in private firms, this estimate is equivalent to approximately \$3,841.² The estimate on *Public × Hedge fund* reveals that one standard deviation higher log of hedge fund ownership—which is similar to an increase from median to 90th percentile of hedge fund shares in our sample—is associated with 2.1% lower pay among public firms. Using the average compensation in public firms, this is equivalent to about \$1,725.³

We next explore differences in pay structure across active owners, replacing cash compensation with base salary, bonus-to-base ratio, and LTI-to-base ratio for public firms only. We exclude LTI for private firms given the opacity of how it is valued, but we include it for completeness in Online Tables A.1 and A.3. Table 4 presents the results from the fully controlled model using these different pay components as dependent

Table 3. Corporate Owner Type and Cash Compensation

	Dependent variable: <i>Cash compensation (log)</i>						
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
<i>Private equity</i>	−0.287*** (0.053)	−0.141*** (0.043)	−0.137*** (0.043)	−0.129*** (0.038)	−0.084*** (0.028)	−0.049*** (0.017)	−0.046*** (0.016)
<i>Public × Hedge fund</i>	−0.084*** (0.022)	−0.031*** (0.009)	−0.030*** (0.009)	−0.035*** (0.008)	−0.038*** (0.007)	−0.021*** (0.004)	−0.021*** (0.004)
<i>Public</i>	−0.115*** (0.033)	−0.026 (0.025)	−0.027 (0.029)	−0.023 (0.026)	−0.012 (0.019)	−0.007 (0.012)	−0.011 (0.011)
Constant	11.104*** (0.021)	11.029*** (0.020)	11.029*** (0.024)	11.026*** (0.022)	11.016*** (0.016)	11.009*** (0.010)	11.011*** (0.009)
Observations	564,643	564,643	564,643	564,643	564,643	564,643	564,643
R ²	0.094	0.196	0.197	0.244	0.559	0.865	0.905
Year fixed effects	Yes	Yes	Yes	Yes	Yes	Yes	
Industry fixed effects		Yes	Yes	Yes	Yes	Yes	Yes
Firm size fixed effects			Yes	Yes	Yes	Yes	Yes
Region fixed effects				Yes	Yes	Yes	
Occupation fixed effects					Yes	Yes	
Skill level fixed effects						Yes	
Year–region–occupation–skill level fixed effects							Yes

Note. Significant at ***1%, **5%, and *10%.

Table 4. Active Owners, Pay, and Pay Structure

Dependent variable	(1) <i>Base salary (log)</i>	(2) <i>Bonus-to-base ratio</i>	(3) <i>LTI-to-base ratio</i>
<i>Private equity</i>	−0.030** (0.015)	−0.018*** (0.006)	
<i>Public × Hedge fund</i>	−0.016*** (0.003)	−0.007** (0.003)	−0.004*** (0.001)
<i>Public</i>	−0.006 (0.009)	−0.006 (0.006)	
Constant	10.942*** (0.008)	0.078*** (0.005)	0.022*** (0.002)
Observations	564,643	564,643	355,344
R ²	0.914	0.404	0.454
Industry fixed effects	Yes	Yes	Yes
Firm size fixed effects	Yes	Yes	Yes
Year–region–occupation–skill level fixed effects	Yes	Yes	Yes

Note. Significant at ***1%, **5%, and *10%.

variables. Two findings emerge. First, firms under active owners pay lower base salary for comparable work. In column (1), employees at private equity owned firms receive 3.0% lower base salary (\$2,291) than those at private firms. Among public firms, one standard deviation increase in logged hedge fund ownership (equivalent to moving from median to 90th percentile) is associated with a 1.5% (\$1,097) lower base salary. Second, incentive intensity also declines under active ownership as shown in columns (2) and (3). In column (2), the bonus-to-base ratio is 1.8 percentage points lower in private equity owned firms, a 20.7% reduction relative to the private firm average of 8.7%. Among public firms, one standard deviation increase in logged hedge fund ownership is associated with a 0.7 percentage point decrease in bonus-to-base ratio, a 8.5% reduction relative to the public firm average of 8.2%. Column (3) reveals that LTI-to-base ratio also declines. Within public firms, one standard deviation greater logged hedge fund ownership is associated with 0.4% lower LTI ratio, representing a 13.8% decline relative to the average ratio of 2.9%.

Given that incentive pay is not evenly distributed among workers, we also report pay differentials by skill level. Figure 3 presents the coefficient estimates from our fully controlled model across each skill level decile with each panel representing a different pay measure. Three patterns emerge. First, firms with active owners pay less cash compensation (panel (a)) and base salary (panel (b)) to employees at all deciles. Second, these pay differentials are largest at the low and high ends of the skill level distribution. Third, the flatter incentive compensation is driven by high-skilled workers (panels (c) and (d)): the lower bonus-to-base ratio and LTI-to-base ratio emerge around the 60% percentile of employee skill level and remain flatter through the top decile of worker.

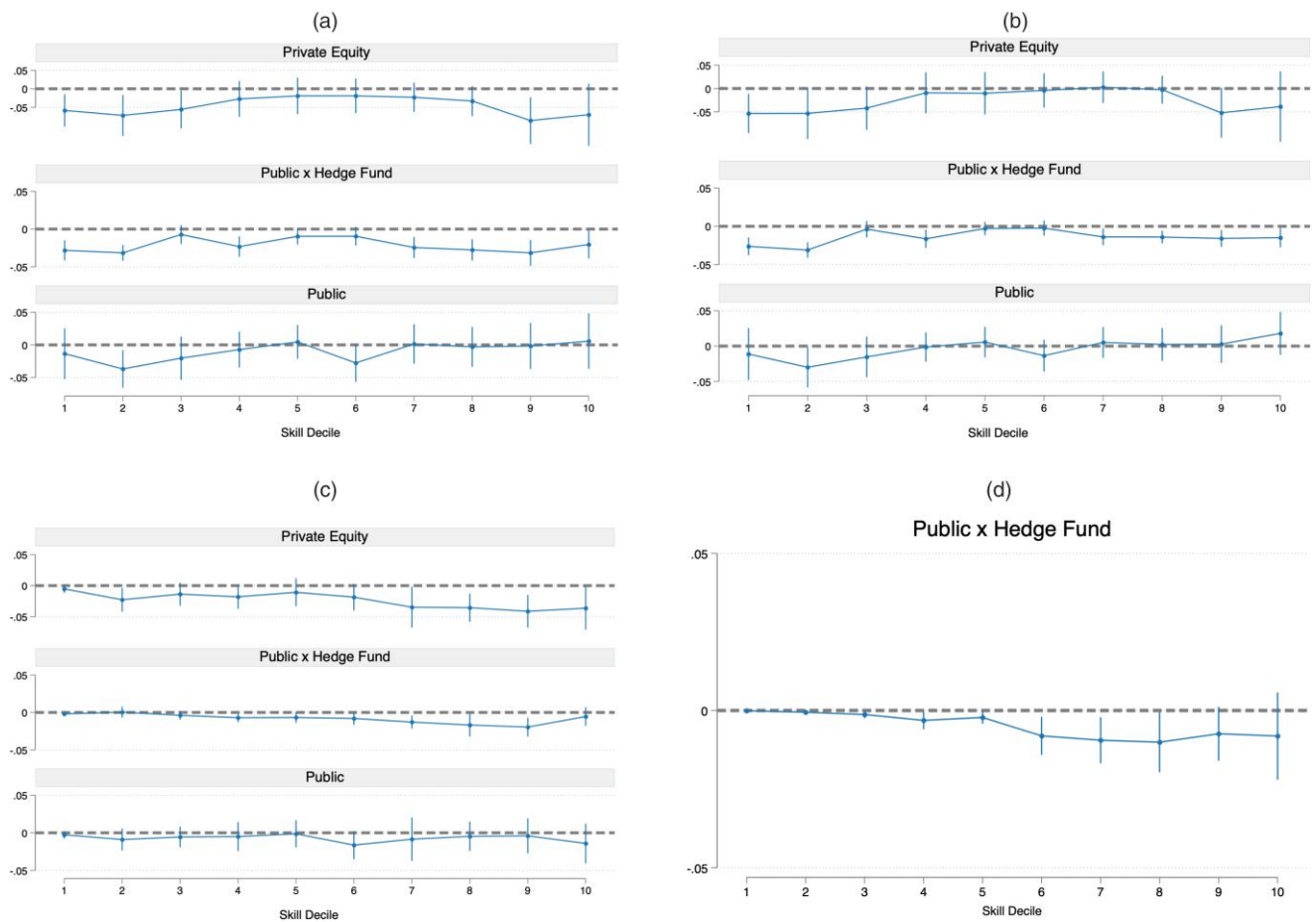
In summary, we find large and significant negative pay differentials for comparable work for firms with

active owners. These patterns are robust across model specifications that use different weighting approaches and combinations of fixed effects (see Online Figure A.1). The lower compensation for comparable work under active ownership reflects both lower pay levels and flatter incentive pay. This pattern implies that these active owners are not risk shifting workers from fixed to variable salary but instead offering lower pay across all three pay components for comparable work. This pattern lends support to our conjecture, explored in more depth in Section 4.3, that active owners substitute both efficiency wages and financial incentives with stronger monitoring.

4.2. Firm–Owner Match vs. Owner Effect on Compensation

This section presents the empirical exploration of our second research question: can we attribute differences in pay, at least in part, to an owner treatment effect? Our analysis thus far indicates that workers receive lower pay for comparable work under active ownership. These findings permit both selection and treatment interpretations: active owners may target firms that pay less, or they may influence firms to lower pay for a given set of work. The absence of a credible instrument for ownership limits our ability to definitively disentangle these explanations. We, therefore, conduct a series of tests to produce a pattern of evidence that can be assessed for consistency with a treatment interpretation. None of these analyses is conclusive on its own, but consistent results across approaches support the view that active owners influence compensation beyond simply selecting into low-paying firms.

4.2.1. Private Equity Buyout Analysis. We begin by leveraging within-firm ownership changes, using private equity buyouts to compare whether pay for comparable work changes before and after the buyout

Figure 3. (Color online) Pay and Pay Structure by Owner Type, Coefficients Estimated at Different Skill Level Decile

Notes. X-axis represents skill level split into deciles (e.g., decile 1 includes employees whose skill level is lower than the 10th percentile of skill level). Y-axis represents the coefficient of the fully specified regression model (Equation (1)) applied to each skill level decile subsample. The dashed line in the *Private equity* and *Public* subplots represents private firms, the baseline comparison group for private equity owned firms and public firms. The dashed line in the *Public × Hedge fund* subplot represents public firms, the baseline comparison group for hedge fund owned firms, and the estimate represents a standard deviation increase in logged hedge fund ownership. (a) *Cash compensation (log)*. (b) *Base salary (log)*. (c) *Bonus-to-base ratio*. (d) *LTI-to-base ratio*.

relative to peer firms. The key identifying assumption is that, absent the buyout, compensation in target and comparison firms would follow similar trends. We identify nine buyouts with sufficient pre-event and postevent data to perform this analysis.

Following prior work, we define control groups using three matching strategies that vary in restrictiveness (e.g., Davis et al. 2014, Antoni et al. 2019). First, we match control firms on industry only. Second, we match on both industry and firm size. Third, for the subset of five public-to-private buyouts with richer pre-buyout financial data, we match on industry, firm size, return on assets (ROA), Tobin's Q, sales growth rate, and debt-to-asset ratio. Because buyouts occur in different years, we employ a stacked DiD framework (Cengiz et al. 2019, Deshpande and Li 2019) to avoid bias associated with staggered treatment timing (Goodman-Bacon 2021). Stacked DiD groups treated units by treatment year into stacks and pairs each with

control firms in the same stack. We include stack-specific firm-region-occupation-skill level and year fixed effects to ensure that treated units are compared only with their respective matched control units within stack.

Table 5 presents the results. Across all three matching specifications, cash compensation declines in target firms relative to comparison firms in the postbuyout period, consistent with the interpretation that active owners influence compensation. The estimate in column (1) indicates a 5.1% (\$3,768 relative to the pretreatment mean) decline of cash compensation, and the estimate in column (2) shows a 5.2% (\$3,715) decline. The estimate in column (3), whose sample only consists of public-to-private buyouts, indicates a 6.6% (\$4,674) decline. These magnitudes are similar to or greater than those reported in our main analysis (Table 3, column (7)).

Figure 4 plots prebuyout and postbuyout trends in compensation to assess whether the parallel trends

Table 5. Private Equity Buyout Analysis

Dependent variable	Cash compensation (log)		
	Matched on industry (1)	Matched on industry and firm size (2)	Public-to-private buyouts, matched on industry, firm size, and other firm variables ^a (3)
Sample type			
Private equity buyout × Post	−0.052*** (0.019)	−0.053*** (0.020)	−0.068*** (0.013)
Constant	10.802*** (0.000)	10.680*** (0.000)	10.672*** (0.001)
Observations	373,907	140,970	43,480
R ²	0.963	0.969	0.975
Stack-year fixed effects	Yes	Yes	Yes
Stack-firm-region-occupation-skill level fixed effects	Yes	Yes	Yes

Notes. Significant at ***1%, **5%, and *10%.
^aOther firm variables are ROA, Tobin's Q, sales growth rate, and debt-to-asset ratio. These variables are available only for firms that were publicly listed prior to buyout.

assumption holds. The figure, while noisy, shows no clear pretrends in compensation differences and confirms that pay progressively declines in target firms following the buyout relative to matched controls. These results suggest that, at least among the nine buyouts in our data, the transition to private equity ownership coincides with a within-firm decline in pay for comparable work. As these findings are based on a small sample of firms, we interpret these results with caution but view them as consistent with an owner effect beyond target selection.

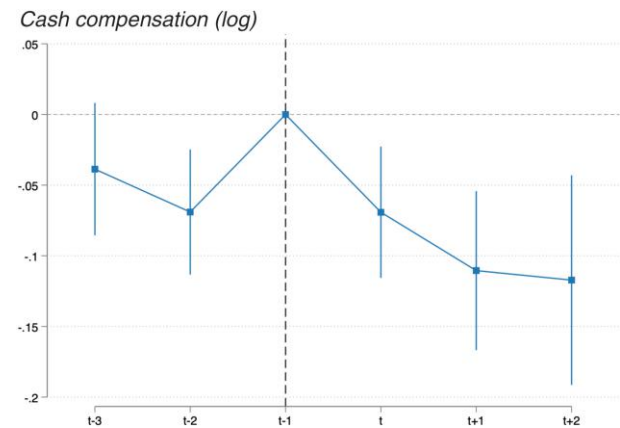
4.2.2. Hedge Fund Ownership Shift Analysis. We next examine whether pay for comparable work changes when firms experience substantial increases in hedge fund ownership. This analysis complements the buyout analysis by providing within-firm evidence in the

public firm context. While less discrete than buyouts, large increases in hedge fund shares often co-occur with hedge funds gaining board representation or negotiating governance agreements that enhance their influence over corporate policy (Brav et al. 2008). We classify public firms into low-hedge firms (hedge fund ownership below the annual median) and high-hedge firms (above the median). We identify 10 firms that transition from the low- to high-hedge category with sufficient pretransition and posttransition data for analysis. We match treated firms with public firms that remain in the same hedge fund ownership category throughout the period, using industry and firm size as matching criteria.⁴ Because these ownership shifts occur in different years, we again use the stacked DiD framework with stack-specific firm-region-occupation-skill level fixed effects and stack-specific year fixed effects.

Table 6, column (1), presents the result. Following substantial increases in hedge fund ownership, treated firms experience a 4.9% decline in cash compensation (\$3,742 relative to the pretreatment mean) relative to comparison firms, a magnitude similar to or larger than that reported in our main analysis (Table 3, column (7)). Figure 5 presents an event study plot showing no clear pretrends, supporting the parallel trends assumption. Following large increases in hedge fund ownership, compensation in treated firms declines steadily relative to control firms, consistent with hedge funds implementing governance and monitoring changes over time as they consolidate influence.

As with the buyout analysis, the small sample limits both statistical power and generalizability, and the reasons for hedge fund ownership increases vary in ways that may reflect some element of selection. Despite these limitations, the within-firm nature of this analysis and the absence of pretrends provide some confidence that the estimated effects capture, at least in part, the influence of increased hedge fund oversight.

Figure 4. (Color online) Event Study Plots for Private Equity Buyout Analysis



Note. Each marker represents a coefficient estimate from the stacked difference-in-differences event study model, indicating the marginal change of Cash Compensation (log) for employees at treated firms in each year relative to the baseline year $t - 1$ (one year before the buyout).

Table 6. Hedge Fund Ownership Analysis

Dependent variable	Cash compensation (log)		
	Hedge fund ownership shift analysis (1)	Matching analysis, match on industry and firm size (2)	Matching analysis, match on industry, firm size, and other firm variables ^a (3)
Sample type			
Low to high hedge × Post	−0.050*** (0.005)		
High hedge		−0.045*** (0.012)	−0.066*** (0.024)
Constant	10.940*** (0.000)	11.100*** (0.007)	11.090*** (0.012)
Observations	58,101	288,471	55,255
R ²	0.959	0.903	0.905
Stack-year fixed effects	Yes		
Stack-firm-region-occupation-skill level fixed effects	Yes		
Industry fixed effects		Yes	Yes
Firm size fixed effects		Yes	Yes
Year-region-occupation-skill level fixed effects		Yes	Yes

Notes. High-hedge firms are public firms with hedge fund ownership above median each year, and low-hedge firms are firms with lower-than-median hedge fund ownership each year. Hedge fund ownership shift analysis compares public firms that changed from low-hedge to high-hedge categories with other public firms that did not change using a staggered difference-in-differences framework. Hedge fund matching analysis matches high-hedge firms to low-hedge firms using observable characteristics and one-to-one CEM matching method. The baseline comparison group is low-hedge firms. Significant at ***1%, **5%, and *10%.

^aOther firm variables are ROA, Tobin's Q, sales growth rate, and debt-to-asset ratio.

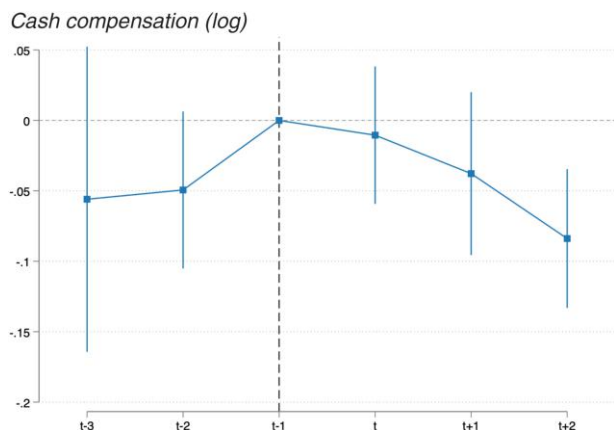
4.2.3. Hedge Fund Matching Analysis. While the within-firm ownership shift analyses provide our strongest evidence for causal effects, their small sample sizes raise questions about generalizability. To assess whether the pay differentials we observe extend to a broader set of firms, we conduct a matched comparison of firms with high versus low hedge fund ownership.

We implement a one-to-one coarsened exact matching (CEM) procedure without replacement to pair each

low-hedge firm (below the annual median) and high-hedge counterpart (above the median) on observable characteristics. We use two matching specifications. The first matches on industry and firm size. The second adds ROA, Tobin's Q, sales growth, and debt-to-assets ratio to more closely balance the covariates. After matching, we reestimate the main model from Equation (1) on the matched sample.

Table 6, columns (2) and (3), presents the results. Firms with high hedge fund ownership pay lower compensation than their matched counterparts. The estimated pay differential is −4.4% in column (2), matching on industry and firm size. The differential becomes more pronounced under stricter matching in column (3), increasing to −6.4%. This pattern is notable as it suggests that controlling for financial performance and capital structure strengthens, rather than attenuates, the relationship between hedge fund ownership and lower pay. If hedge funds simply targeted distressed firms that happened to pay lower wages, the opposite pattern would emerge with pay differentials shrinking as we control for performance metrics. The observed pattern is more consistent with the active owner effect on compensation than with selection on financial characteristics alone. Overall, this matched analysis complements the within-firm ownership shift analyses by providing evidence from a broader cross-section of firms.

We further supplement these analyses with two additional tests reported in the Online Appendix. First, a lead-lag analysis of hedge fund ownership (Online

Figure 5. (Color online) Event Study Plots for Hedge Fund Ownership Shift Analysis

Note. Each marker represents a coefficient estimate from the stacked difference-in-differences event study model, indicating the marginal change of Cash Compensation (log) for employees at treated firms in each year relative to the baseline year $t - 1$ (one year before the shift from low hedge to high hedge).

Table A.7) explores whether lower compensation preceded or followed increases in hedge fund ownership, and we find that both lagged and leading hedge fund ownership measures are associated with lower pay and flatter incentives. Second, we replicate our main specification by adding controls for firm financial characteristics that prior work identifies as predictors of active ownership (Online Table A.8). The coefficients on active ownership remain stable across all specifications, suggesting that selection on observable financial characteristics does not account for the pay differentials we document.

We recognize that none of these tests definitively establishes causality. Nonetheless, the consistency of results across these complementary approaches supports a preponderance-of-evidence interpretation with the totality of evidence suggesting that active owners influence compensation for comparable work, not merely select firms that already pay less.

4.3. Monitoring Mechanism Results

This section presents the empirical exploration of our third research question: can enhanced monitoring by these owners partly explain these differences? Because monitoring is unobservable in our data, we address this question by examining if negative pay differentials tied to active ownership are more pronounced in settings in which oversight is more readily implemented and effective.

Our premise, drawing from efficiency wage theory (Shapiro and Stiglitz 1984), is that, if active owners substitute their superior monitoring for wage premiums, this substitution should be most pronounced for jobs that inherently lend themselves more to oversight. In those settings, active owners can more fully deploy their monitoring capabilities to reduce wages compared with other owners. Conversely, in roles in which effort or contribution is inherently less observable, the ability of even superior monitors to significantly undercut prevailing wage premiums may be limited, resulting in smaller pay differentials across owner types.

Our logic, therefore, is that, if the monitoring mechanism is driving pay differentials under active owners, they should be more pronounced in more monitorable subsamples. This fact pattern, therefore, helps distinguish this mechanism from alternatives such as generalized rent appropriation or compensating differentials, which would not predict similar patterns across job monitorability.

4.3.1. Monitorability Subsamples. To test this, we conduct subsample analyses across several complementary dimensions of work context that proxy for varying degrees of monitorability. We create dichotomous classifications for (i) task structure (routine versus nonroutine jobs), (ii) output measurability (jobs with more

versus less easily quantifiable outputs), and (iii) industry knowledge intensity (jobs in low versus high knowledge industries). We also examine the intersections of these categories.

First, we compare routine and nonroutine occupations, building on the literature that classifies jobs by task content (e.g., Autor et al. 2003, Acemoglu and Autor 2011, Acemoglu and Restrepo 2019). Routine occupations involve rule-based, repetitive tasks that are easier to supervise and automate, such as clerical, administrative, sales, production, and operative roles (Acemoglu and Autor 2011). Examples of routine occupations in our data include administration/support/service and call center. Nonroutine occupations are characterized by judgment, discretion, and tacit knowledge, such as managerial, professional, technical, and service occupations, making performance less observable (Acemoglu and Autor 2011). Accordingly, we classify occupations in our data such as analytics and data science and franchise operations as nonroutine. If active owners deploy monitoring to reduce wages, we predict larger negative pay differentials in routine occupations.

Our second categorization is based on whether output can be formally quantified. Quantifiable output applies to jobs for which performance can be measured using formal metrics (e.g., customer service manager, human resources analyst), whereas nonquantifiable output applies to jobs in which standardized output measures are largely incomplete (e.g., strategy analyst, research and development (R&D) scientist). This distinction is particularly relevant in our context as private equity and hedge fund owners are skilled at intervening in financial and operational functions and enable performance-based oversight. We expect that active owners exert more downward pressure on compensation in quantifiable jobs. We use Gemini 2.5 Pro to estimate quantifiability by mapping detailed job titles to O*NET categories. Please refer to Online Appendix B for the detail on this process.

Third, to complement these role-specific measures, we also consider the broader industrial context by classifying jobs by whether they are in low-knowledge industries (e.g., retailers, transportation, utilities) or in high-knowledge industries (e.g., life sciences, chemicals, high technology).⁵ Low-knowledge industries tend to rely on operational efficiency with tasks that are more standardized and easier to supervise. In contrast, high-knowledge industries often involve complex and interdependent tasks, discretionary effort, and less tangible outputs, making performance harder to evaluate through formal monitoring. We expect that active owners find it easier to reduce compensation via enhanced monitoring in low-knowledge industries.

Finally, we consider the intersections of these classifications (e.g., routine jobs in low-knowledge industries).

Table 7. Summary Statistics of Sample by Monitorability

Monitorability type	Routine task structure		Quantifiable outputs		Knowledge industry	
	Routine	Nonroutine	Quantifiable	Nonquantifiable	Low	High
Number of firm–year–region–occupation–skill level units	408,974	155,669	200,697	184,994	343,985	220,658
Number of employee records	17,218,831	3,172,709	2,840,113	2,220,642	18,047,963	2,343,577
Median cash compensation, \$	63,113	84,272	77,718	82,209	61,175	80,664
Median skill level	9	10	10	10	9	10
Correlation matrix						
		(1)		(2)		(3)
(1) Routine task structure		1				
(2) Quantifiable outputs		0.54		1		
(3) Knowledge industry		−0.04		0.03		1

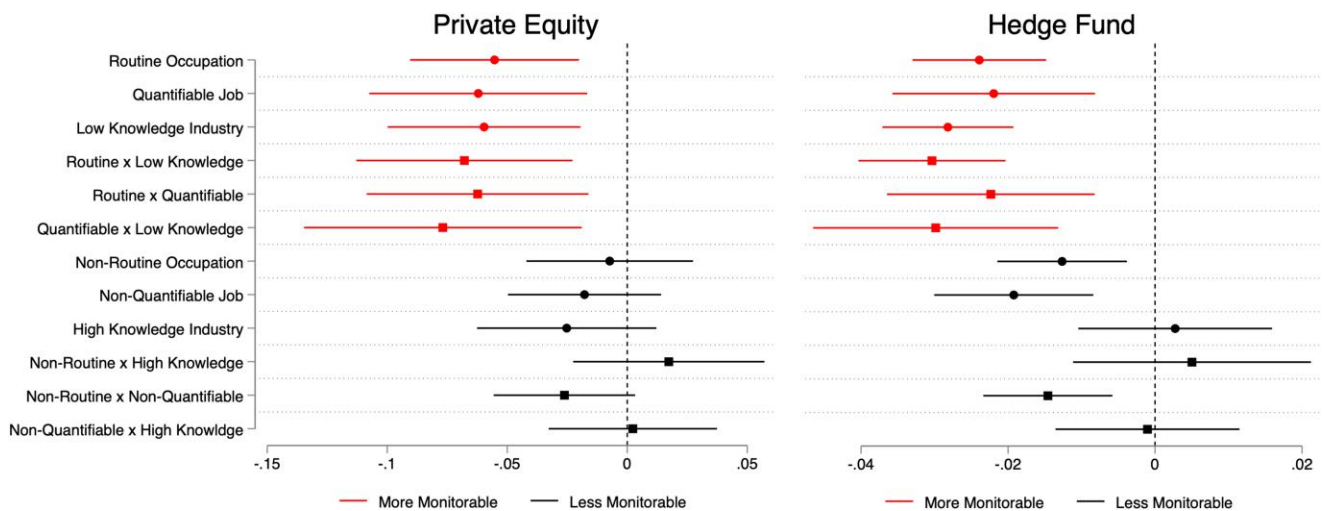
The premise is that, if each characteristic—task routine-ness, output quantifiability, or a low knowledge-intensive setting— independently enables more effective monitoring by active owners, their co-occurrence should be additive. We, therefore, predict that the negative pay differentials linked to active ownership are larger when multiple conditions for high monitorability are present. Such a finding across these combined contexts further supports monitoring as a significant driver of the observed pay differentials for comparable work under active ownership.

Altogether, these comparison tests across industries, occupations, and jobs provide a triangulated test of whether monitorability explains the relationship between active ownership and employee compensation. If active owners rely on close, metric-driven monitoring, we

predict observing larger compensation differences in the more monitorable subsamples.

Table 7 presents the summary statistics of these subsamples. The correlation matrix confirms that the three dimensions are not highly correlated, supporting our use of them as complementary indicators.

4.3.2. Results. We apply the fully controlled model on each subsample. Figure 6 provides the estimates on *Private equity* on the left and the estimates on *Public × Hedge fund* on the right. Red markers represent estimates from more monitorable subsamples (routine, quantifiable, low knowledge, and their intersections), and they are consistently large and negative. Black markers represent estimates from less monitorable counterparts. These estimates are either statistically indistinguishable

Figure 6. (Color online) Cash Compensation Differentials by Monitorability

Notes. Each marker represents a coefficient on the *Private equity* (left) or *Hedge fund* (right) variable using the fully specified regression model in Equation (1) within given subsamples of workers split by monitorability. Lines represent 95% confidence intervals. The top six markers represent more monitorable subsamples, and the bottom six markers represent less monitorable subsamples. Circular markers represent a single dimension (e.g., routine occupation), and square markers represent an interacted dimension (e.g., routine occupation in low-knowledge industries). See text for descriptions of subsamples.

from zero or negative but smaller in magnitude. These patterns indicate that negative pay differentials of active ownership are driven by more monitorable jobs.

We next explore whether negative pay differentials are larger in the intersecting categories. We expect negative pay differentials to be the largest when more monitorable conditions overlap: routine jobs in low-knowledge industries, routine jobs with quantifiable outputs, and quantifiable-output jobs in low-knowledge industries. In Figure 6, these are represented in red square dots. Conversely, we expect negative pay differentials to be the smallest in their counterparts, represented by black square dots in Figure 6: nonroutine jobs in high-knowledge industries, nonroutine jobs with less quantifiable outputs, and less quantifiable jobs in high-knowledge industries. The figure reveals that the intersections of more monitorable conditions generally show the largest negative pay differentials linked to active ownership, whereas the intersections of less monitorable dimensions tend to show smaller or insignificant estimates.⁶

In summary, our findings suggest that active owners pay less not only by altering base salary and incentive structures but also by targeting jobs and settings in which performance is more observable and easier to manage. These results are consistent with a monitoring-based mechanism, suggesting that tighter oversight by active owners substitutes for compensation.

5. Discussion

We find that firms under active ownership pay 2%–4% less for comparable work than other firms. These differentials manifest in lower base salaries and flatter incentive structures and appear to be, at least in part, an owner treatment effect. Our evidence suggests that these patterns are consistent with active owners substituting enhanced monitoring for financial incentives as the pay disparities are most pronounced in more monitorable contexts, such as routine jobs, roles with quantifiable outputs, and positions in less knowledge-intensive industries. These findings show that ownership structure affects how work is priced and governed beyond determining what work is performed.

We begin this discussion by addressing study limitations and then explore the theoretical implications of our findings along with directions for future research. Finally, we conclude with managerial implications for practice.

5.1. Limitations

5.1.1. Sample Considerations. We use data from a compensation consultancy to estimate pay for like work across owner types. Three aspects of this sample warrant discussion. First, the consultancy's clients are larger than the broader population of firms from

Compustat (Online Table A.9). We conduct sensitivity analyses, removing units with highest numbers of observations (99th, 95th, and 75th percentiles) and find that estimates on active owner variables remain consistent (Online Table A.10). Second, a firm's inclusion could be influenced by performance considerations, for instance, strong performance enabling consultancy use or underperformance motivating cost reviews. Third, the consultancy's benchmarking work may itself influence client compensation.

Our research design mitigates these concerns. Because our primary focus is on differences across owner types (rather than absolute pay levels in consultancy-using firms versus all firms), common sample-wide effects are differenced out. Any bias must explain differential patterns across owners and monitorability, including within-firm changes in our ownership shift analyses. Similarly, for the consultancy to create our observed patterns, it would need to provide systematically different benchmarks to active owner clients, particularly in high-monitorability contexts. While no observational study eliminates all selection concerns, any bias here would need to explain distinct patterns of pay differentials, not merely pay levels—a substantially higher hurdle.

5.1.2. Alternative Explanations. Our focus on monitoring does not preclude other mechanisms from contributing to the observed patterns. One such mechanism might be active owners' enhanced bargaining power. Given their ability to gather and process information about their businesses (Kaul et al. 2018, Nary and Kaul 2023), active owners may be more capable of and willing to exercise bargaining power to lower wages (Shleifer and Summers 1988). Moreover, enhanced monitoring and bargaining power may work together: monitoring can provide owners with superior information about employee effort and firm surplus, and this, in turn, strengthens their position in wage negotiations. Fully disentangling the distinct effects of monitoring from its role in bolstering bargaining power is not feasible in the context of this data and study.

Employee-side factors, such as unobserved heterogeneity in worker preference, information frictions in the labor market, and selection into environments with better monitoring and management practices, may also contribute to pay differentials for comparable work. Our view is that, among these, compensating differentials is the least plausible as existing literature suggests that nonpecuniary benefits do not improve and, for some workers, decline under active ownership (Agrawal and Lim 2022, Gartenberg and Serafeim 2023, Gornall et al. 2025). Other factors, such as information frictions that prevent workers from assessing their market value and outside options (Bidwell 2011, Card et al. 2018, Jäger et al. 2024) and worker selection into environments with better monitoring and management

practices (Bender et al. 2018) are likelier to work together with firm-side factors to select and retain employees into these firms.

Thus, while our evidence supports enhanced monitoring as a significant contributor to the observed differences in pay levels and structures under active owners, we do not conclude that monitoring alone explains the entirety of these differentials.

5.2. Theoretical Implications and Future Research

This study offers several broader implications for theory and open avenues for future research.

To begin, our findings have implications for understanding how corporate ownership shapes the internal organization of firms. Foss et al. (2021) propose the idea of ownership competence, that owners differ in what firms to own, when to own them, and how to govern them. Our findings build on their ideas by identifying intensive monitoring as a specific, traceable competence with measurable consequences for how firms compensate comparable work. This monitoring capability is enabled by active board involvement and implementation of structured management practices (Bloom et al. 2015) alongside specialized operating playbooks and redeploying employees within their portfolios (Hoskisson et al. 2013, Pak 2026). As discussed in Section 2, this capability does not readily diffuse to passive owners, whose diversified holdings, longer horizons, and accountability structures orient them toward a systems-wide rather than firm-specific focus (Fisch et al. 2019).

It follows, therefore, that the price of labor is not uniform across owners but, instead, contingent on their monitoring capabilities. Standard labor market theory predicts that wages for equivalent work should converge across firms through competition (Card et al. 2018); however, we find 2%–4% differentials associated with ownership type. This suggests that ownership structure is a source of persistent firm-level variation in compensation. For research on corporate ownership and governance (Hoskisson et al. 2002; Connelly et al. 2010a, b; Boyd and Solarino 2016; Edmans and Holder-ness 2017), this extends the influence of owner competencies from strategic and financial decisions to the employment relationship itself.

Our findings also contribute to a central discussion in strategy research on whether and how owners capture value from stakeholders (Coff 1999, Barney 2018, Amis et al. 2020, Freeman et al. 2021). Owners vary in their commitment to employees (DesJardine et al. 2021), and prior work demonstrates that active owners impose real costs on workers through job loss and restructuring (DesJardine and Durand 2020, Chen et al. 2021, Agrawal and Lim 2022, Shi et al. 2022). Our findings reveal an additional channel: active owners reduce wages for comparable work, particularly in monitorable settings.

This, in turn, raises the following question: does monitoring competence create surplus by reducing inefficiencies or does it enable owners to capture a larger share of existing surplus by giving them better information in wage-setting (Coff 1997)? We leave this question to future work as our data does not permit us to adjudicate between these two interpretations.

Our results also provide insights into how ownership shapes the balance between monitoring and incentives within firms. Economic theory long recognizes that firms can elicit effort through two broad channels: direct oversight of work processes and outcomes or compensation structures that align employee interests with firm objectives (Alchian and Demsetz 1972, Holmström 1979, Milgrom and Roberts 1992). Our findings are consistent with active owners placing relatively more emphasis on monitoring and less on incentive pay as evidenced by both lower base salaries and flatter incentive structures for comparable work. That this effect is concentrated in settings in which monitoring is most feasible—routine jobs, roles with quantifiable outputs, and less knowledge-intensive industries—suggests that these owners deploy monitoring when it is most effective as a governance tool and rely on incentives when it is less so. In this sense, ownership structure shapes the organizational design through which effort is governed.

This shift has implications for the employment relationship. Incentive pay provides discretion to employees: firms set targets and rewards, and employees choose how to allocate their effort. Monitoring centralizes that process with systems and people to directly observe and direct work. These represent different modes of organizing work with consequences for how employees experience their jobs (Bidwell et al. 2013, Cappelli and Keller 2013). Lower pay levels and flatter incentive structures under active ownership may shift the employment relationship toward a more transactional character (e.g., Rousseau 1989), particularly for workers in easily monitored roles. How employees respond to this shift in terms of motivation and how they exert discretion is an important question that we cannot address. Future research using an employee-level survey linked to ownership transitions could explore whether monitoring-intensive governance influences the type of engagement and initiative that incentive-based systems are designed to encourage.

Finally, our study has implications for understanding the division of rents between labor and capital (e.g., Bidwell et al. 2013, Molloy and Barney 2015, Sevcenko et al. 2022). A growing body of research reports a secular decline in labor's share of firm surplus, attributed to factors such as automation (Acemoglu and Restrepo 2019), increasing firm size and concentration (Autor et al. 2020), declining unionization (Farber et al. 2021), and changing managerial norms (Acemoglu et al. 2022).

Our results point to an additional factor: the rise of active owners who systematically pay less for comparable work through tighter monitoring. Because this wage reduction is concentrated in routine, quantifiable roles, active ownership may also contribute to widening pay gaps within firms, reducing pay for monitorable workers and leaving those in knowledge-intensive roles less affected.

Two structural shifts may affect these dynamics in the future. First, active owners are increasingly expanding into knowledge-intensive sectors, in which work is harder to monitor, effort is more discretionary, and cooperation and creativity play a greater role. Our results predict that monitoring-based wage compression should be weaker in these settings, but how active owners adapt their governance approach remains open. Second, technological change may redefine the boundary of what constitutes monitorable work. As AI-based tools make it possible to measure outputs that were previously hard to observe, the range of jobs subject to tighter oversight could extend up the skill distribution. If so, the wage differentials that we document in routine settings today may apply to a broader range of jobs as monitoring technology evolves. These intersections between ownership structure and technological change represent a promising direction for future research.

5.3. Managerial Implications

Our findings also have practical implications for managers operating under active ownership. The concentration of wage reductions in monitorable settings suggests that the decision about when to substitute monitoring for compensation is a deliberate governance choice under these owners. In knowledge-intensive or creative roles, in which performance depends on discretionary effort, cooperation, and judgment, applying the same monitoring-intensive, lower pay approach may prove counterproductive. Compensation strategy under active ownership, in other words, should account for the relative value of discretionary, intangible work that may be hard to monitor but may be nonetheless important to the organization.

Technological changes may complicate these boundaries. As AI-based tools increasingly enable measurement of outputs that were previously hard to observe, from code quality to analytical work, the frontier of monitorable work may be expanding in unpredictable ways. For managers, roles currently governed through incentive pay may increasingly become candidates for monitoring-based approaches. How well AI does at codifying and evaluating previously tacit knowledge—and how well owners understand this process—will shape how companies under different corporate owners navigate this transition.

These findings also have implications for policymakers. Active owners are growing across sectors and

geographies, yet their compensation strategies remain opaque. Our results show that this ownership form has systematic, patterned effects on wages. As active ownership expands into new sectors and monitoring technology makes a wider range of work subject to tighter oversight, these wage effects may spread. Policymakers concerned with labor market transparency and wage equity would benefit from better data on how ownership transitions affect compensation practices across the workforce.

6. Conclusion

We find that firms under active ownership pay 2%–4% less for comparable work than other firms. These differentials manifest in lower base salaries and flatter incentive structures and appear to be at least partly an owner treatment effect. Our evidence supports the interpretation that active owners substitute enhanced monitoring for financial incentives as these pay disparities are most pronounced in more monitorable contexts, such as routine jobs, roles with quantifiable outputs, and positions in less knowledge-intensive industries.

These findings show that ownership structure affects not only what work is performed but how that work is priced and governed. Active owners' monitoring capabilities, a distinctive competence arising from their business models and governance structures, enable them to reshape compensation practices not only at the CEO level, as prior studies find, but also among employees throughout their portfolio firms. This illustrates how active ownership shapes employee outcomes with implications for understanding how different governance models distribute value within firms and society more broadly.

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Endnotes

¹ In unreported results, we use alternative measures of hedge fund ownership, including a binary indicator for firms with above-median hedge fund shares and another binary indicator for firms with top-quartile hedge fund shares. We find similar results.

² All economic magnitudes reported in the paper are calculated using the sample averages of firm–year–region–occupation–skill level units. To calculate the dollar equivalent of estimated differentials, we use the average cash compensation of these units (\$82,063). This is higher than the employee-record level average of \$38,804

because most individual employee records belong to low-skilled, low-paid jobs. Given our research question, we are interested in the average pay difference within microlabor markets regardless of the number of workers per unit.

³ In Online Tables A.1–A.6, we replicate Table 2 with other pay variables: total compensation (cash compensation plus LTI) without and with private firms, LTI-to-base salary ratio without and with private firms, base salary only, and bonus-to-base salary ratio.

⁴ We also implement a stricter matching specification that additionally controls for firms' financial characteristics, (ROA, Tobin's Q, sales growth rate, and debt-to-asset ratio). While this tighter specification improves covariate balance, it reduces the number of treated firms to three. The results remain consistent: following substantial increases in hedge fund ownership, cash compensation declines in firms relative to their matched counterparts.

⁵ We divide the 18 industries in our sample into low-knowledge and high-knowledge categories using the industry average of knowledge capital intensity. Knowledge capital intensity is a ratio of a firm's knowledge capital to total capital for which knowledge capital is calculated by aggregating past spending on R&D based on Peters and Taylor (2017).

⁶ Because routine tasks are often easier to quantify, the task routine-ness and output quantifiability measures may capture related aspects of job structure and monitorability. The two measures are moderately correlated (0.49). We examine whether this overlap drives the observed patterns in Online Figure A.2 by presenting estimates from all four combinations of the two measures.

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