SOME BONUSES ARE BIGGER THAN OTHERS?

BENCHMARK-BEATING PRESSURE AND THE GENDER PAY GAP

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Abstract

This paper presents evidence of the gendered effect of firm financial pressures on compensation. For identification, I examine the relation between the gender pay gap and managers' pressure to meet earnings expectations (i.e., benchmark-beating pressure). Using UK subsidiary-level data for the 2017–2021 period, I find that the gender difference in bonuses increases by 4.23 percentage points in firms that meet or just beat analyst forecasts, compared to firms that miss or comfortably beat analyst expectations, even after controlling for job roles. This suggests that benchmark-beating pressure exacerbates the gender pay gap, consistent with research indicating that women are less likely to resist bonus reductions. Cross-sectional tests further show that this phenomenon only manifests in companies that have limited workplace flexibility, low environmental, social, and governance (ESG) scores, and a board with fewer than three female directors.

Keywords: Gender Pay Gap, Earnings Management, Financial Pressure, Corporate Culture, ESG

JEL Classification: J16, J31, J81, M14, M41

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1. Introduction

This study examines whether financial pressure has a gender-specific effect on compensation. Specifically, with empirical evidence from the UK, I show that benchmark-beating pressure, the financial pressure on managers to meet or just beat analyst expectations, exacerbates differences in the bonuses that men and women receive.

This study is motivated by a host of ongoing academic investigations into the unexplained gender pay gap. In 2022, a woman in the United States earned on average 82% of what a man earned, and the pay gap has been hovering around that level for the past two decades (Aragão, 2023). The conventional approach to understanding this gap relies on human capital theory (Becker, 1962), attributing pay differences to such factors as education, skills, and experience (Mincer & Polacheck, 1977). Subsequent research attempts to control for all observable factors, including education, race, occupation, industry, hours worked, age, and marital status, but approximately one-third of this 20% difference, amounting to a 6%–9% pay differential between men and women, remains unaccounted for (e.g., Blau & Kahn, 2017). The residual of the pay gap, also known as the unexplained pay gap, has prompted further scholarship and policy debates (e.g., Goldin, 2014; Card et al., 2015; Goldsmith-Pinkham & Shue, 2023).

Building on this discourse, this paper is the first, to my knowledge,[1] to examine the unexplained pay gap among *rank-and-file* employees from the perspective of financial pressures. My approach differs from the literature's traditional focus on employee attributes and frictions and addresses two notable gaps in the literature. The first gap pertains to the composition of employee earnings,[2] which include both salaries and bonuses; salaries have been the focus of much of the previous discussion. Bonuses, on the other hand, remain underexplored and yet crucially help explain the unexplained pay gap, especially in countries and industries where bonuses account for a substantial portion of compensation. Limited work, mostly using proprietary or survey data, documents a gender gap[3] in bonuses (e.g., Reuben et al., 2023). Unlike salaries, bonuses are subject to greater managerial discretion (e.g., Ittner et al., 2003; Bailey et al., 2011; Bol, 2011) but are less monitored by unions and less protected under labor regulations (Grund & Hofmann, 2018). In addition, bonuses are determined on a quarterly or yearly basis. Hence, I predict that gender differentials in bonuses are more likely to be affected by firm-specific financial pressures.

As for the second gap in the literature, this paper diverges from the prior emphasis on employee attributes and examines instead firm financial pressures, which are external to human capital and other employee attributes. In particular, I study the managerial pressure to meet analyst expectations. This

[1] Prior finance and accounting research mainly examines the gap in executive pay (e.g., Bugeja et al., 2012; Carter et al., 2017), as opposed to *rank-and-file* salaries, or shows the gap among accountants (e.g., Hardies et al., 2021) and analysts (Fang & Huang, 2017).
[2] Following Byars & Rue (2004), I define "compensation" as "all the extrinsic rewards employees receive in exchange for their work," including salary, bonuses, and any benefits. "Pay" and "earnings" refer to only the actual money employees receive, including both salary and bonuses. "(Base) salary" and "wage" refer to the hourly or monthly pay employees receive.
[3] With proprietary or survey data, research has documented a gender gap in bonuses: up to 35% in Australia between women and men receiving identical performance ratings (Workplace Gender Equality Agency, 2018); 31% in the United States (ADA Research, 2019); 52% in Germany based on administrative data (Hirsch & Lentge, 2022); and 55% among US business school graduates seven years post-graduation (Reuben et al., 2023).

methodological choice is motivated by prior empirical (e.g., Roychowdhury, 2006) and survey (e.g., Graham et al., 2005) findings that managers tend to adjust discretionary spending to meet analyst forecasts and by the consideration that bonuses are a discretionary component of compensation. My inquiry has two unique strengths. First, it exploits cross-sectional variation in firm-specific financial pressures, rather than market-wide declines, which have been studied extensively (e.g., Goldin, 2022; Blanton et al., 2019). Unlike recessions or industry downturns that depress the performance of peer firms at the same time, benchmark-beating pressure can also apply to successful firms seeking an additional boost to meet analyst forecasts. Second, each employee's human capital is likely to be stable across a firm's benchmark-beating and non-benchmark-beating years. The study thus can hold the female workforce relatively constant[4] throughout its analysis, directly addressing the unexplained portion of the pay gap.

Taken together, the two gaps in the literature lead to my research question: does benchmark-beating pressure increase gender differentials in bonuses? I set my investigation in the United Kingdom, which offers several advantages. First, under a 2017 mandate by the UK government (the mandate), both listed and unlisted companies in Great Britain[5] with over 250 employees must annually report their gender pay gaps across basic salary and bonuses for their *rank-and-file* employees. Globally, this act is the most comprehensive gender pay gap disclosure mandate to date (Bailey et al., 2022).

Second, organizations in the United Kingdom have a tradition of rewarding bonuses to employees around December, colloquially known as the "Christmas bonus." This practice is often associated with Boxing Day, believed to have emerged in the Victorian Era or possibly as early as the 16th century (Blakemore, 2020). On the day immediately following Christmas, employers gave tradespeople and servants "Christmas boxes," which contained gifts, bonuses, and food, in recognition of their year-long service. After working on Christmas, workers would then take these boxes with them when visiting their families (Bates, 2013). This tradition has been woven into the fabric of British customs and remains prominent in contemporary Britain. For instance, the UK government has annually allocated Christmas bonuses to pensioners since the 1970s (Hayward, 2019; Sheldon, 2019). In the private sector, year-end bonuses continue to constitute a notable component of employee compensation in the United Kingdom: according to data from 2017, bonuses account for 7.4% of the total remuneration. Furthermore, the majority of bonuses are paid during the bonus season, which spans December to March each year: 52.8% (£24.5 billion) of all bonuses across the entire economy are awarded then (Office of National Statistics, 2017).

The UK Christmas bonus tradition provides a rich context for examining whether managers reduce bonuses to meet earnings targets. Cohen et al. (2010) find that managers tend to manage earnings through real activities around the fiscal year-end, especially for activities requiring shorter execution time, because there is more clarity regarding the difference between current performance and desired earnings

[4] Untabulated tests also show that workforce size, especially the size of the female workforce, remains relatively stable in my sample throughout the sample period of 2017–2021.
[5] The three countries on Great Britain: Wales, England, and Scotland.

benchmarks. Given that the bonus season coincides with the end of a fiscal year for firms that close their accounts around December through March and considering the relatively swift adjustments possible with bonuses, the UK setting is particularly fitting for my investigation.

Using subsidiary-level gender pay gap data from the UK Government Equalities Office (GEO) for the 2017–2021 period, I thus examine whether subsidiaries exhibit larger gender differences in bonuses when their parent companies are suspected of managing earnings to meet analyst expectations. Following both prior US and UK research (e.g., Caskey & Ozel, 2017; Athanasakou et al., 2011), I define suspect subsidiary-years as those during which parent companies meet or just beat analyst expectations. I then perform analyses using parent-level control variables based on prior work on wage theft (Raghunandan, 2021). I include industry-by-year fixed effects to control for any industry-wide trends and subsidiary fixed effects to account for any unobservable time-invariant subsidiary characteristics. Intuitively, this specification enables me to conduct a within-subsidiary analysis, where I compare each subsidiary's benchmark-beating years against non-benchmark-beating years, after controlling for parent-level and industry-level attributes that potentially affect gender pay gaps.

I find that bonus differentials (the bonus pay gap) rise by 4.23 percentage points (an 11% increase relative to the sample mean) in subsidiaries whose parent companies meet or just beat analyst expectations, with no statistically significant changes in years when companies miss or comfortably beat analyst forecasts. I also do not find a significant relation between benchmark-beating pressure and differences in base salaries (the basic pay gap), consistent with my prediction that salaries and bonuses are influenced by different factors. Managers appear to mainly adjust bonuses, as opposed to contractual salaries, to meet earnings targets, because they have more latitude over bonuses. Further probing the rise in the bonus pay gap, I show that a similar number of employees continue to receive bonuses (i.e., the extensive margin remains stable), while the size of those bonuses shrinks (i.e., the intensive margin decreases) when companies attempt to meet analyst expectations.

Economics and psychology studies suggest that the pressure-induced increase in the bonus pay gap may stem from women's lesser inclination to oppose reductions in compensation. Women are less likely to resist bonus cutbacks in at least two non-mutually exclusive ways, and managers may exploit these tendencies, intentionally or inadvertently. First, there exists a gender "ask" gap (e.g., Babcock & Laschever, 2003) in which women feel less entitled to higher compensation and are more reluctant to negotiate or bargain (Biasi & Sarson, 2020; Card et al., 2015). Knowledge of these tendencies could lead managers to disproportionately reduce women's bonuses. Second, women are more likely to display attachment (Benson et al., 2022) or develop loyalty to the company (Giele, 1998), a trait that could also be exploited by managers. For instance, Stanely et al. (2023) find that loyal employees are selectively targeted by supervisors for exploitative practices.

To disentangle the interplay between women's tendencies and managerial opportunism, I investigate whether the pressure-induced pay gap is associated with a certain management style or corporate culture

(e.g., Graham et al., 2022; Gorton et al., 2022). I conduct cross-sectional tests of the relation between benchmark-beating and bonus pay gaps. In particular, I consider three factors that reflect management's treatment of employees and engagement with workplace frictions: workplace flexibility; companies' environmental, social, and governance ("ESG") ratings; and gender inclusivity.

First, I consider workplace flexibility a proxy for management's commitment to the workplace environment and employee satisfaction (Bloom et al., 2011; Edman, 2011; Li & Nagar, 2013). I find that the pressure-induced bonus pay gap only manifests in companies that offer limited workplace flexibility, consistent with this phenomenon being more likely to occur in companies less engaged in addressing workplace frictions and improving the workplace environment. Second, I use companies' ESG ratings as a proxy for corporate sustainability (Starks et al. 2023; Eccles et al. 2014). I find that the positive relation between benchmark-beating and bonus differentials is only significant in companies with low overall ESG scores (in particular social scores), consistent with the view that such opportunism is more likely to materialize in companies with poor track records on working conditions, inclusivity, and employee satisfaction (Refinitiv, 2022). Third, following Billings et al. (2002), I use the number of female board directors to measure whether the corporate culture is inclusive towards women. The findings suggest that the significant relation is only found in companies with fewer than three female directors on the board, consistent with the notion that the gendered effect of benchmark-beating pressure is more likely to occur in less gender-inclusive companies. My findings also resonate with empirical studies that apply the Critical Mass Theory (Kanter, 1977) in measuring board gender diversity (e.g., Konrad, et al, 2008; Torchia et al., 2011).

Overall, my cross-sectional results suggest that the pressure-induced pay gap is associated with a specific management style that puts less emphasis on working conditions, employee satisfaction, and diversity and inclusion. These patterns are more consistent with the conjecture that managers, whether consciously or not, may exploit women's tendencies to cooperate when cutting bonuses in response to financial pressure.

I perform several additional analyses. As a falsification test, I repeat my main analysis by shifting the treatment variable, suspicion of earnings management, by one year, both lagging and leading, and observe no significant associations. My results are also robust to alternative intervals of forecast error for defining suspect subsidiary-years. Last, I explore two other earnings benchmarks also investigated by the literature (e.g., Degeorge et al., 1999; Dechow et al., 2003): meeting prior year's earnings (the zero-earnings-change benchmark) and avoiding losses (the zero-earnings benchmark). I do not find evidence of statistically significant changes in the bonus pay gap with these benchmarks, consistent with research indicating that both benchmarks have gradually lost their salience (Dechow et al., 2003; Gilliam et al., 2015).

My paper does come with a few caveats due to data limitations. First, the pay gap provided in the GEO dataset is the percentage difference between men and women's average bonus divided by men's average bonus. It is therefore not necessarily a measure of the difference in pay between men and women for

performing similar tasks. However, this concern is largely assuaged by subsidiary fixed effects. To sharpen my inquiry, I further consider the possibility that task assignment changes in suspect firm-years by controlling for gender wage distribution as a proxy for job roles. My evidence suggests that gender differences in positions affect the basic pay gap but not the pressure-induced bonus pay gap.

The GEO dataset is also insufficiently granular for me to assess the exact monetary amount of the bonus reduction for women due to benchmark-beating pressure. To investigate this limitation, I evaluate the economic significance of this increase in the bonus pay gap in two ways. First, the 4.23 percentage point increase is approximately an 11% increase vis-à-vis the sample mean of 37.95%. Second, to further contextualize this figure, I examine how British companies in general adjust employee compensation in response to benchmark-beating pressure. On average, companies in suspect years reduce overall employee compensation by £1.205 million to boost their earnings per share (EPS) by 0.354 pence. Accordingly, depending on the extent to which bonus adjustments account for the £1.205 million savings, the documented 4.23 percentage point increase equates to a rise, ranging from £78.81 to £122.91,[6] in the bonus pay gap, and a boost, ranging from 0.115 to 0.354 pence, in the company's EPS. For instance, if approximately 50% of the overall reduction stems from bonus adjustments, this 4.23 percentage point increase translates into a £110.22 rise in the bonus pay gap and a boost of 0.184 pence in the EPS. The increase in the bonus pay gap is roughly the difference in weekly pay between full-time female and male employees in the UK in 2017 as well as 17% of women's weekly pay.[7] Moreover, to highlight the disproportionate nature of the bonus cutbacks, I consider a hypothetical situation where companies reduce both women's and men's bonuses by the same proportion. Compared to the observed average cutbacks of 7.91% for women and 1% for men, a uniform 2.55% reduction in bonuses across the board would generate the same amount of savings and maintain, as opposed to widen, the initial bonus gap.

This study contributes to several literatures, and I highlight the key ones here. First, it offers a new perspective on the gender pay gap by addressing two notable gaps in research. The paper moves from the well-trodden area of differentials in base salaries to the underexplored aspect of employee bonuses. My findings also underscore how the gender pay gap can be shaped by firm financial pressures, departing from the literature's emphasis on employee attributes and frictions (Mincer & Polacheck, 1977). Second, to the earnings management literature, this paper shows new research pathways by investigating whether firms' pressure-induced opportunism could disproportionately affect certain social groups or minority communities. Third, a series of recent studies also leverage the same UK pay transparency mandate. My paper differs in that it uses this mandate as a setting to examine the impact of benchmark-beating pressure on gender pay differences, as opposed to evaluating the effect of the mandate (e.g., Raghunandan &

[6] I retrieve information on the average bonus pay for women and men in the United Kingdom from *People Management*, a British human resources publication. See Section 4.4 for details.
[7] In 2017, the average weekly pay for full-time employees in the UK is £661.1: men earn £715.9, and women earn £577.7.

Rajgopal, 2021; Duchini et al., 2020; Huang & Lu, 2021) or the quality of the resulting data (Bailey et al., 2022).

The remainder of this paper proceeds as follows. Section 2 reviews the literature. Section 3 describes the data and introduces the institutional details. Section 4 presents the main results. Section 5 performs cross-sectional tests to explore the underlying variation in settings related to corporate culture and offers robustness tests. Section 6 concludes.

2. Prior Literature

2.1 The Unexplained Gender Pay Gap

This study contributes to the academic inquiry into the drivers of gender differences in labor market outcomes. Traditionally, the focus of the literature has been on the gender differences in human capital (Becker 1985) and work experience (Polacheck, 1981), occupational segregation (England, 2010), and discrimination (Goldin & Rouse, 2000).

This literature has argued that, due to time commitments associated with childbearing and traditional societal roles, women tend to have less continuous work experience (Mincer & Polacheck, 1974) and human capital investment (Becker, 1985), which contributes to the observed pay gap. Work on gender occupation segregation posits that men and women cluster in different professions, with female-dominated fields often paying less (England, 2010). The theory of gender discrimination suggests that employers may undervalue work done by women or harbor biased beliefs about their productivity (Phelps, 1972).

Nevertheless, a new wave of studies has attempted to rule out these traditional explanations (e.g., Hyde 2005; Ceci et al. 2014; Card and Payne 2021). In fact, researchers have documented an unexplained gender pay gap of 6%–8% after controlling for these conventional explanations (Jagsi et al., 2012; Corbett & Hill, 2012; Blau & Kahn, 2017). The focus of this literature has since gradually shifted to other alternative mechanisms that could account for this unexplained portion of the pay gap (Tungodden & Willén, 2023). While still focusing on the attributes and frictions faced by women, emerging studies highlight the role of motherhood and child penalties (Albanesi & Olivetti 2009; Kleven et al. 2019), willingness to compete (Niederle & Vesterlund 2007), bargaining ability (Babcock & Laschever, 2003), and different preferences for employment conditions (Wiswall & Zafar, 2018) in explaining the persistence of gender wage differentials.

My work contributes to this literature in three ways. First, while the prevailing focus of the discourse has been on base salaries, the other primary component of employee earnings, bonuses, remains largely unexplored. Delving into bonuses is pivotal for a more holistic comprehension of the unexplained pay gap, particularly in countries (e.g., the UK) or industries (e.g., the financial sector) where bonuses account for much of employee earnings. Several papers (Grund, 2015; Grund & Hofmann, 2018; Hirsch & Lentge, 2022) document a gender gap in bonuses. Building on these inquiries, this study shows that bonus differentials, compared to salaries, respond to different influences.

Second, as discussed above, the literature has primarily linked determinants of the gender pay gap to employee characteristics. In a departure, this study is the first to spotlight a determinant external to employee frictions: a firm's pressure to meet analyst expectations.

Third, extensive research has reported how financial crises or recessions could harm women more, such as via lower educational attainment (Blanton et al., 2019) or greater psychological stress (Kalil, 2013; Adams-Prassl et al., 2022). However, these studies mainly examine the impact of market-wide or global economic downturns, a pervasive type of financial pressure. The literature has not yet paid much attention to financial pressures more closely related to individual company cultures, leadership tactics, and internal performance metrics. Therefore, this paper focuses on benchmark-beating pressure, a company-specific pressure that stems from the interplay between management strategies and the opinions of securities analysts.

2.2 Real Earnings Management

An expansive body of scholarship has recognized the considerable influence of securities analysts' earnings forecasts on managers (e.g., Bergstresser & Philippon, 2006; Dechow et al., 2010) and probed the consequences of managers' failure to meet analysts' expectations, including drastic tumbles in stock prices (Skinner & Sloan, 2002), negative impressions on key stakeholders (Graham et al., 2005), setbacks in the CEO hiring market (Farrell & Whidbee, 2003), or pay cuts for CEOs (Matsunaga & Park, 2001). Driven by the fear of missing analyst forecasts, managers resort to real economic actions (Bhojraj et al., 2009; Cohen & Zarowin, 2010), such as overproducing (Roychowdhury, 2006), cutting research and development (R&D) expenses (Bushee 1998), and reducing selling, general and administrative (SG&A) expenses (Roychowdhury, 2006). This phenomenon is further borne out by survey evidence by Graham et al. (2005), who demonstrate that managers prefer real economic actions over maneuvers compliant with accounting rules.

This paper yields several insights into the real earnings management literature. First, this paper documents an underexplored yet socially and economically significant outcome of real earnings management: an expansion in the gender pay gap. This finding resonates with recent research highlighting the unintended yet negative ESG-related consequences of real earnings management, such as increased pollution (Liu et al., 2021; Thomas et al., 2022), higher workspace injury rates (Caskey & Ozel, 2017), and more instances of wage theft (Raghunandan, 2021).[8] More notably, this study expands upon the findings of Raghunandan (2021). While Raghunandan (2021) relies on an indicator variable for quantifying wage theft, my paper directly estimates the magnitude of reductions in employee compensation driven by benchmark-beating pressure. The paper also illuminates the gender-specific aspect of such reductions, paving the way for future inquiries into whether real earnings management disproportionately affects specific social groups.

[8] Raghunandan (2021) defines wage theft as the actions, mostly violations of labor law, that companies take to deny employees their rightful pay and benefits, including not paying employees overtime or forcing them underreport their work hours.

Second, because many of the filers in the sample report their gender pay gap information at the subsidiary level, this paper also highlights the role of private subsidiaries in assisting their parent companies meeting or beating earnings benchmarks, as recently documented by Bonacchi et al. (2018).

Finally, building upon the work of Lyu et al. (2018) that uses the discontinuity methodology (e.g., Burgstahler & Dichev, 1997) to examine whether Chinese local governments manage their regional GDP numbers, this study also leverages the analytical tools developed in the earnings management literature to explore the unexplained gender pay gap, another key socioeconomic topic. This not only underscores the versatility of accounting tools but also encourages future interdisciplinary work.

2.3 Corporate Culture and Management Style

The term "corporate culture" encompasses a wide range of factors, including the norms, values, customs, and knowledge that have organizational significance within a company (Gorton et al., 2021). There is an expanding literature documenting how corporate culture affects firm decisions, including mergers and acquisitions (M&A) (Ahern et al., 2015; Tremblay, 2020; Alexandridis, et al. 2022), risk-taking (García et al., 2022; Pan et al. 2019), ethical choices (Biggerstaff et al., 2015; Davidson et al., 2015), and employee treatment (Li & Nagar, 2013; Liu et al., 2022).

My work contributes to the literature by studying how corporate culture influences employment treatment when the company faces benchmark-beating pressure. I operationalize the concept of corporate culture through three metrics: workplace flexibility, ESG profiles, and female board presence. This study yields two important insights. First, the findings illustrate how firms with certain cultural attributes may adapt their compensation strategies under the influence of benchmark-beating pressure. Second, such adjustments, driven by benchmark-beating pressure, could manifest in a gender-specific manner in some firms.

2.4 The UK Reporting Mandate

This paper also closely relates to other studies that exploit the same UK mandate on gender pay gap transparency. Raghunandan & Rajgopal (2021), Blundell (2021), Duchini et al. (2020), and Jone et al. (2022) attempt to evaluate the effectiveness of the mandate or pay transparency itself on closing the gender pay gap. Huang & Lu (2021) study firms' voluntary ESG disclosure, and Bailey et al. (2022) examine the potential for misreporting in the absence of auditing. My paper differs in two ways. First, rather than the basic pay gap, I focus on the bonus pay gap, which managers have more control over (Raghunandan & Rajgopal, 2021). Second, I use the UK mandate as an opportunity to examine the dynamics between gender pay differences and benchmark-beating pressure, as opposed to assessing the impact of the transparency mandate (e.g., Raghunandan & Rajgopal, 2021) or the quality of the data (Bailey et al., 2022).

2.5 Why Are Women Less Likely to Resist Bonus Cuts?

Research provides at least two non-mutually exclusive[9] ways in which women are more likely to capitulate to lower compensation than are men, and managers may also exploit these tendencies.

2.5.1. Personality Traits

A host of studies has shown that women are less likely to self-promote, network, bargain, or negotiate (e.g., Fang & Huang, 2017; Biasi & Sarsons, 2020; Small et al., 2007). With experimental data, Bursztyn et al. (2017) find that single women avoid career-enhancing actions as they view ambition as an undesirable trait in the marriage market. Research also documents a gender "ask gap," in which women feel less entitled to higher pay and thus do not seek higher salaries (Babcock & Laschever, 2009; Roussille, 2022). Another reason for women's reluctance to ask is the systematic bias against women displaying ambition or engaging in career-enhancing activities (Rudman, 1998). This bias is empirically illustrated by Bowles et al. (2007), whose experiments demonstrate that women who initiate negotiations for higher compensation are systematically punished in their evaluations while their male counterparts are not.

Meanwhile, when deciding the target for bonus cutbacks, managers could also exploit women's reluctance to oppose. Psychology and organization research finds that perpetrators of workplace aggression[10] often select individuals who are less able to assertively defend themselves (Matthiesen & Einarsen, 2001) or challenge those who try to exploit them (Aquino & Thau, 2009). Similarly, Coyne et al. (2000) also observe that employee victims of workplace aggression tend to score lower on personality measures of assertiveness and competitiveness. Although the intent and motivation may differ, the decision to dock an employee's bonus pay is analogous to workplace aggression, as both inflict potentially adverse, harmful effects on the target. Consequently, when instructed to dock bonuses, managers might follow similar cognitive patterns and target those who will be less able to assertively oppose them.

2.5.2. Attachment and Loyalty

Women, compared to men, have been found to exhibit greater commitment to their companies (Marsden et al., 1993), and a vast body of work outlines several explanations for this. The first strand of research posits that women have more extensive social and affiliative interests than men do (e.g., Giele, 1988), which contribute to their stronger loyalty to the firm. Studying the role of non-cognitive traits in explaining the gender pay gap, Fortin (2008) also finds that men are more likely to focus on compensation and professional triumphs whereas women are more likely to prioritize societal contribution and personal relationships.

Another line of research attributes women's higher commitment levels to selectivity. Conventional social norms do not expect women to work and become the primary breadwinners in their households

[9] Although listed separately for ease of discussion, these two considerations could both inform women's decisions to not resist bonus reductions.

[10] For ease of interpretation, I use workplace aggression as the umbrella term to describe the many kinds of aggressive, victimizing behavior occurring in a workplace (Aquino & Thau 2009), including harassment (Bowling & Beehr 2006), abusive supervision (Tepper, 2000), incivility (Cortina et al., 2001), social undermining (Duffy et al. 2002). Despite obvious differences, these terms are all used to describe behaviors that can harm the intended target, so I cautiously circumscribe them within the broader construct space of "workplace aggression," as defined by Aquino & Thau (2009).

(Marsden et al., 1993). Therefore, the decisions by women to seek employment may reflect a stronger predisposition towards commitment to their positions and employers (Hakim, 1991).

Third, the prevailing perspective on this topic focuses on the limited choices women face within the labor market. Challenges such as difficulty entering male-dominated fields (Bertrand et al., 2010) or geographical considerations in job searches due to familial obligations (Le Barbanchon et al., 2020) contribute to the comparative scarcity of job choices for women. This limitation, through a dissonance-reduction process,[11] causes women to value the positions they hold more (Marsden et al., 1993) but emphasize less unattainable rewards (Kalleberg & Griffin, 1978; de Vaus & McAllister, 1991), compared to men in similar positions. In a similar vein, Hodson (1989) examines why women, despite often facing less favorable working conditions and pay, tend to report greater job satisfaction than men do. He argues that this discrepancy stems from the different criteria men and women use when evaluating their jobs. In the context of bonus reductions, this theory implies that women might be more likely to prioritize job stability and thus accept a disparity in bonus pay.

Finally, research suggests gender differences in preferences for employment conditions could also contribute to women's greater attachment to the company. Focusing on the trade-off between compensation and nonpecuniary benefits (Rosen, 1986), recent work demonstrates that women are willing to accept lower remuneration in exchange for workplace flexibility, better work-life balance, job amenities (e.g., childcare facilities), job stability, and shorter commutes (Wiswall & Zafar, 2017; Golden & Wiens-Tuers, 2008; Mas & Pallais, 2017; Le Barbanchon et al., 2021; Kossek et al., 2006).

On how management views this gender difference in attachment, Benson et al. (2022) observe that managers do not interpret men's higher risk of attrition negatively. In fact, they reward men for showing less attachment to the firm, thereby contributing to the gender pay gap. Recent research also shows that managers selectively target loyal employees for exploitative practices, such as unpaid work or additional tasks, due to the assumption that loyal employees are more willing to make sacrifices (Stanley et al., 2023).

3. Data and Institutional Details

3.1 The Gender Pay Gap Data

In the United Kingdom, there has been a growing interest in gender equality within the labor market, and initiatives with a view to promoting gender equality, such as the 30% club or the Davies Review, have proliferated (Cowper-Coles et al., 2021). On the back of these initiatives, the UK government passed a gender pay gap disclosure mandate, Equality Act 2010 (Gender Pay Gap) Regulations 2017, on April 6, 2017.

[11] The term "dissonance-reduction process" refers to the psychological mechanism that people use to reduce mental discomfort or tension (i.e., cognitive dissonance) when they simultaneously hold two or more contradictory beliefs, values, or attitudes (Festinger 1957). The process often involves changing one of the conflicting beliefs or minimizing the importance of the conflict.

Similar legislative efforts have emerged in other countries. Denmark (Bennedsen et al., 2022), France, Germany, Iceland (Beegle, 2020), and, more recently, Japan and Australia (Tamura & Hsu, 2022; Buchanan, 2023) have implemented similar mandates. In the United States, as of March 2023, eight states have enacted (with at least 15 states considering) salary range transparency laws as part of their efforts to close the gender pay gap (Damante et al., 2023). However, among these initiatives, the UK mandate is the most comprehensive to date (Bailey et al., 2022), and the UK data is widely accessible to academics, journalists, and the public through the Gender Pay Gap Service website.

The UK mandate requires all companies with more than 250 employees registered in England, Wales, and Scotland as of April 5, 2017, to report their gender pay gap statistics by April 5, 2018, and by the same date each year after that. All the figures are calculated based on a snapshot date, which is April 5 each year for organizations in the private sector, and the deadline for reporting is set a year ahead of the snapshot date. As illustrated by the example above, companies calculate their gender pay gap related figures based on April 5, 2017, and must submit these figures by April 5, 2018, which is the next snapshot date. As I collect the data from the Gender Pay Gap Service website on November 5, 2022, the initial sample includes five years of data, corresponding to snapshot dates of April 2017, April 2018, April 2019, April 2020, and April 2021. For brevity, I refer to the years in this paper with their snapshot dates. For instance, Snapyear 2017 is the year with the snapshot date of April 2017.

Firms must disclose the following metrics regarding their pay gaps and wage distribution by gender: (a) the mean and median basic pay gap, (b) the mean and median bonus pay gap, (c) the proportion of male and female employees receiving a bonus payment, and (d) the proportion of men and women in each pay quartile.

More significantly, the mean pay gap, for bonuses and basic pay, is defined as the difference between men's average compensation and women's average compensation, divided by men's average compensation. For example, the reported mean bonus pay gap can be expressed as follows: [12]

$$\frac{Men's\ Mean\ Bonus - Women's\ Mean\ Bonus}{Men's\ Mean\ Bonus} * 100\ (\%).$$

Therefore, a positive bonus pay gap, expressed as a percentage, indicates that men on average receive larger bonuses than women, and a negative bonus pay gap suggests that women's average bonus pay exceeds men's in that given year. Note that I exclusively use *mean* gender pay gap metrics, rather than the *median* values, in every analysis for two reasons.

First, several studies have raised concerns about the median numbers reported by the filers (e.g., Blundell, 2021; Jones et al., 2022; Bailey et al., 2022), citing measurement errors. The likely reasons for these errors could be the ambiguity and misleading nature of governance guidance on how to compute the *median* numbers (Marriot, 2019), coupled with the potential lack of administrative capabilities among employers to

[12] Consult the website for more details: https://www.legislation.gov.uk/uksi/2017/172/pdfs/uksiem_20170172_en.pdf

calculate the *median* numbers correctly (Blundell, 2021). In fact, Marriot (2018) has estimated that about 10% to 15% of employers erred in their reports, likely in the *median* numbers. Second, because the *median* numbers are more widely referenced and citied by politicians (Raghunandan & Rajgopal, 2021) and the press (e.g., Topping et al., 2019; Wisniewska, et al., 2020), mangers are more motivated to manipulate or misreport them. In fact, Blundell (2021) shows unreasonable spikes at 0 in firms' *median* pay gap numbers, whereas *mean* pay gap numbers display no obvious signs of manipulation.

Accordingly, for clarity, I refer to the *mean* difference between women and men across basic wage as "the basic pay gap" and the *mean* difference across bonus payments received by women and men as "the bonus pay gap" throughout this paper.[13] Additionally, according to the GEO guidance,[14] the basic pay gap is calculated based on all relevant employees, whereas the bonus pay gap is calculated based on employees who receive bonuses. This distinction limits the comparison between men and women regarding bonus payments to those who actually receive bonuses. This institutional feature is fundamental in my later analysis on whether the changes to the bonus pay gap is caused by changes in the extensive margin (i.e., how many people receive a bonus) or the intensive margin (i.e., the size of bonus being awarded).

This GEO data has several limitations. First, the pay gap is expressed as a percentage, with no raw pay numbers disclosed. Second, the reported pay gap is the difference between the average female and male employee within the firm, so it does not necessarily represent the pay differences between men and women in similar job roles or positions. Subsidiary fixed effects have largely addressed this concern, and I further consider the possibility that job roles change during suspect subsidiary-years by using the gender wage distribution as a proxy for gender differences in positions. Third, as this comparison is essentially between the average female and male employees, respectively, I cannot rule out the possibility that changes in the pay gap could be driven by other factors, such as large layoffs. To address this challenge, I control for workforce size and abnormal change rates thereof in my analysis.

Fourth, the quality of the data has been described as "patchy" (Topping et al., 2019). Penalties are not always enforced when companies fail to report their gender pay gaps. The enforcement agency, the Equality and Human Rights Commission (EHRC), has been criticized for its lack of monitoring (Barr & Perraudin, 2019). Accordingly, since the figures submitted are not rigorously audited and checked by professionals, these numbers may not be accurate and could be manipulated by filers. To address this challenge, I follow Bailey et al. (2022) and exclude mathematically impossible figures and voluntary filers' submissions.

Finally, in a similar vein, there is no time limit or penalty for restatements. Although mostly clustering around the next Snapdate, companies are free to resubmit their gender pay gap metrics at any time, and the previously reported number will be updated and not be available to the public anymore. For instance, as I download the gender pay gap data on November 5, 2022, companies identified in my final

[13] I also conduct analyses using median gender pay gap metrics. The results are discussed in Section 5.4.5.
[14] https://www.gov.uk/guidance/making-your-gender-pay-gap-calculations

sample are allowed to submit a different number after this date, creating discrepancies between datasets downloaded at different times. To mitigate this concern, I remove filers that resubmitted considerably later than the original deadline.

In summary, while this dataset is the most comprehensive gender pay gag disclosure in the world, its reliability and accuracy are hampered by a lack of enforcement (Bailey et al., 2022). However, this concern is largely allayed by the fact that these errors only bias against finding significant results. Filers would only manipulate or misreport their figures for better outcomes (Bailey et al., 2022; Blundell, 2021) due to social desirability concerns (Paulhus, 1984). Consequently, the pay gap documented here is likely to be underestimated.

3.2 Impossible Numbers and the Final Sample

I downloaded the gender pay gap data available on the Gender Pay Gap Service website on November 5, 2022, with an initial sample of 48,646 entity-years and 12,740 unique entities (including government organizations and companies). The observations in the initial sample are categorized by Company Number, a unique identifier issued by Companies House, the UK registrar of organizations, to all entities registered in the United Kingdom. I then use Company Number to match these observations against Orbis/FAME to obtain other unique identifiers, such as ISIN, for linking purposes and to gather information on these entities. The initial sample shrinks significantly during this process as much of the initial sample is government entities. Moreover, the initial linking primarily identifies parent companies in the dataset. For the subsidiaries, I use the ownership information data on ORBIS/FAME to match each subsidiary with its parent.

I then link my sample with I/B/E/S data to obtain my empirical proxy for earnings management, forecast error (e.g., Degorge et al., 1999). The requirement of availability on I/B/E/S further reduces my sample to 540 unique parent companies. Furthermore, to avoid potential measurement errors, I limit my sample to companies that have analyst forecasts issued in British pence. For companies traded on multiple stock exchanges, I only include those with a major presence in the United Kingdom, i.e., members of the FTSE 100 or 250 indexes.[15]

Following Bailey et al. (2022), I discard mathematically impossible or unreasonable observations: in particular, a negative or positive pay gap when such number cannot be possible based on the gender wage distribution also reported by the filer.[16] Voluntary disclosures are also excluded, such as Northern Irish companies, observations from Snapyear 2019 (reporting was voluntary due to the COVID-19 pandemic), and companies with fewer than 250 employees.

[15] I therefore include Irish or other EU companies that are traded on the London Stock Exchange, have their analyst forecasts issued in British pence, and operate in the United Kingdom.

[16] For example, based on the gender wage distribution provided by the GEO dataset, it can be inferred which pay quartile the median employee is located in. By comparing the median male and female employee, it is then possible to conclude whether a negative/positive pay gap is mathematically possible. Consult Bailey et al. (2022) for more details.

Finally, I restrict my sample to companies that have their fiscal year-end or announce their annual earnings within two months of the Snapdate April 5 each year for two reasons. First, these firms close their financial accounts around the same time as the Christmas bonus season. Therefore, the bonus pay gap calculated in the GOE dataset is more likely to be based on bonuses awarded during the bonus season. Second, this requirement ensures that the pay gap reported by the company is more likely to be based on the same information the company uses to announce its earnings.

My final sample is comprised of 2,248 subsidiary-years. There are 705 unique subsidiaries and 291 unique parent companies in the sample. I winsorize all non-indicator variables at the first and 99th percentiles over the full sample.

3.3 Meeting or Just Beating in the United Kingdom

Survey evidence indicates that meeting analyst forecasts is a fundamental earnings threshold in both the United States (Graham et al., 2005) and the United Kingdom (Choi et al., 2006). Empirically, Degeorge et al. (1999) document a pileup in the frequency of forecast error right above zero in the United States, a pattern suggesting that managers self-select to this specific location in the distribution (Trilnick, 2016). Gore et al. (2007) and Athanasakou et al. (2009) also find a similar discontinuity at zero in the UK distribution of forecast error, indicating that UK companies also attempt to meet analyst expectations.

This body of work has led to a well-established method of identifying potential earnings management. Empirical work from the United States (e.g., Caskey & Ozel, 2017) and the United Kingdom (e.g., Athanasakou et al., 2011) employs the definition of "meeting or just beating analyst expectations" as the indicator for suspicion of earnings management. Following this approach, I specifically seek cases where firms beat the latest analyst forecast by 0 to 1 British pence[17] as likely instances of earnings management. The latest consensus forecast is calculated as the consensus of all analysts' most recent forecasts issued within the [-180, -4] day window relative to the earnings announcement date (Caskey & Ozel, 2017).

The main aim of this study is to investigate whether benchmark-beating pressure increases the gender difference in bonus payments. However, the GEO dataset does not provide the raw information on employee compensation but only the percentage difference between the average man and woman within the organization. Therefore, to indirectly establish that any increase in the gender pay gap is indeed driven by reductions in compensation, I first aim to show that companies scale down employee compensation in response to benchmark-beating pressure.

Methodologically, I test whether my proxy for meet-or-beat behavior is significantly associated with reductions in employee compensation. As gender pay gap information is not necessary for this investigation, I can extend my sample period to 1995,[18] where the concern for inconsistency between actual

[17] My findings are robust to the interval of (0, 2 pence) used in other American and British work. See Table 11 and Section 5.4.2.
[18] The results remain qualitatively similar if I limit my sample period to 2017–2021, where the gender pay gap data are available.

and forecasted EPS in I/B/E/S has been largely allayed (Clement & Tse, 2003; Cohen et al., 2007; Kirk et al., 2014). I then limit my sample to observations without missing values on *Staff Costs*, the key variable provided by Worldscope for data on employee compensation. *Staff Costs* include all wages and benefits paid to employees of the company (Refinitiv, 2020)

As a complementary test, I also examine the pattern of companies' SG&A expenses when there is pressure to meet or just beat analyst expectations. Research has shown that companies reduce SG&A expenses as an earnings management strategy (Roychowdury, 2006), and SG&A expenses encompass payments closely related to employees, such as payroll taxes (Refinitiv, 2020) or personnel training (Cohn & Wardlaw, 2016). Hence, if companies indeed reduce spending on employees in response to benchmark-beating pressure, I should observe similar responses across both employee compensation and SG&A expenses.

I begin my empirical analysis with the following estimation:

$$\log(Expenses) = \beta_0 + \beta_1 Suspect_{i,t} + Controls + Ind_{YearFE} + FirmFE + \varepsilon. \quad (1)$$

The main treatment variable is *Suspect*, an indicator variable equal to 1 when company-year meets or just beats the consensus analyst forecast by between 0 and 1 British pence per share.

Roychowdury (2006) characterizes abnormal spending as the deviations from the yearly industry norm and operationalizes it as the residual from the corresponding industry-year regression. I adopt a different approach, more in line with recent research, such as Thomas et al. (2022). This is to directly calculate how much companies, under benchmark-beating pressure, reduce employee compensation compared to their non-benchmark-beating years.

To this end, I use spending during years in which the company is not suspected of earnings management as the baseline, as opposed to using the industry-year norm (Roychowdury, 2006). I include two sets of fixed effects to sharpen my investigation: industry-by-year fixed effects to control for any industry-wide trends and firm fixed effects to control for any time-invariant firm characteristics, thereby detecting any nuanced maneuvering driven by benchmark-beating pressure. I also use the natural logarithm of the total amount of employee compensation (denoted as *Log(EmpComp)*) and SG&A expenses (denoted as *Log(SG&A)*) as the dependent variables.

As for firm-specific controls, I consult Raghunandan's (2022) work on wage theft due to its similar focus on pressure-induced compensation adjustments. The controls include sales-per-employee ratio (a proxy for the company's labor-intensity), leverage, return on assets (ROA), change in ROA, sales growth rate, and abnormal changes in the number of employees (*Abnormal Change in Employees*).

I report the results of estimating Equation 1 in Table 2. The coefficient on *Suspect* is both negatively significant (t=-4.143; t=-2.801) in Columns (1) and (2), where the dependent variables are *Log(EmpComp)* and *Log(SG&A)*, respectively. These results shows that British companies indeed reduce their spending on

employee compensation and SG&A expenses to meet analyst expectations. The finding in Column (2) of Table 2 on SG&A expenses is consistent with research from the United States (Roychowdury, 2006) and highlights the similarity between American and British firms when facing benchmark-beating pressure.

My focus is naturally on the coefficient on *Suspect* in Column (1). Given that the sample average of *Log(EmpComp)* is 17.344, the coefficient of -0.036 (t=-4.143) on *Suspect* implies that companies would only spend £32.861 million ($e^{17.344-0.036}$) on employee compensation when they attempt to meet or beat analyst forecasts, as opposed to £34.066 million ($e^{17.344}$) in non-benchmark-beating years; this is a reduction of £1.205 million. Considering the average number of common shares (ITEM5191 on Worldscope) is 340 million in this sample, a £1.205-million savings would boost the company's EPS by roughly 0.354 pence.

Prefacing my main findings presented in Section 4, this reduction of £1.205 million in employee compensation is likely to encompass incidents of wage theft (Raghunandan, 2022) and other compensation-related adjustments, such as bonus allocations.

4. Main Results

4.1 Benchmark-beating Pressure and the Pay Gap

Having shown that British companies adjust compensation in response to benchmark-beating pressure, I investigate whether these adjustments have a gender-specific effect. I begin my main empirical analysis by revisiting Equation 1, using subsidiary-year data retrieved from the GEO dataset. I replace the dependent variable with the pay gap metrics: the gender pay gap in basic pay (*BasicGap*) and in bonus pay (*BonusGap*):

$$Gender\ Pay\ Gap\ (\%) = \beta_0 + \beta_1 Suspect_{i,t} + Controls + Ind_{YearFE} + SubsidiaryFE + \varepsilon. \quad (2)$$

To further illustrate, *BasicGap* and *BonusGap*, directly provided in the GEO dataset, are the basic pay gap and bonus pay gap, respectively, expressed as percentages (%). The main treatment variable is still *Suspect*. In terms of control variables, I include the same set of controls from Equation (1) but add one more: *Log Employee*, the natural logarithm of the number of employees.[19] Alongside *Abnormal Change in Employees*, this further sharpens my investigation by controlling for any drastic structural changes to the workforce size. Similarly, I again include industry-year fixed effects to control for any industry-wide trends and subsidiary-fixed effects to perform an intra-subsidiary comparison. Essentially, this is to compare a subsidiary's *Suspect* years against non-*Suspect* years to pinpoint any subtle adjustments due to benchmark-beating pressure.

[19] *Log(Employee)* is not included in Equation (1) because it has a mechanical relationship with the dependent variable, *Log (EmpComp)*.

I predict that benchmark-beating pressure affects only *BonusGap*, because managers could not promptly alter basic salaries, usually stipulated in an official employment contract, in response to temporary events, such as the pressure to meet analyst expectations (Bailey et al., 2011).

The findings are presented in Table 3. Consistent with my prediction, the coefficient on *Suspect* in Column (1) is insignificant, reflecting the limited adjustments managers could make to the gender gap across basic pay when they attempt to meet analyst expectations. By contrast, I find a positively significant relation between benchmark-beating pressure and *BonusGap*, as observed in the coefficient on *Suspect* in Column (2) of Table 3 (4.228%, t=2.670). In other words, *Suspect* subsidiary-years exhibit 4.228 percentage point larger bonus pay gaps relative to non-*Suspect* subsidiary-years. In terms of economic significance, this increase is roughly 11% relative to the sample mean of 37.95%. Women's bonuses decrease from 62.05 pence to 57.82 pence for every £1 men are paid in bonuses when companies attempt to meet or beat their analyst expectations. To further contextualize this difference, I discuss these metrics using real-world survey data in Section 4.4.

4.2 Bonus Pay Gaps and Different Levels of Forecast Error

In this section, I explore how the bonus pay gap varies across different bands of forecast error. The aim is to address the potential concern that the documented increase in the bonus pay gap might not be uniquely triggered by benchmark-beating pressure. To clarify, if the decision to reduce women's bonuses is solely influenced by efforts to meet or beat earnings expectations, then I would expect to observe an increase in the bonus pay gap only in subsidiary-years that experience benchmark-beating pressure (i.e., the band of forecast error that is (0, 1 pence)). On the other hand, if bonus reductions for employees are not strictly tied to benchmark-beating pressure, the other forecast error bands might also show significantly larger bonus pay gaps. Alternatively, there could be a linear relationship between forecast error and the bonus pay gap, with firms cutting more bonuses as they generate more favorable unexpected earnings.

Methodologically, I follow Caskey et al. (2017) and Thomas et al. (2022) and construct three additional indicator variables based on the range of forecast error in the same fashion as *Suspect*: *LargeMiss* is equal to 1 if the forecast error is more than -3 pence; *Beat 1-5* is equal to 1 if the forecast error is 1 to 5 pence, and *LargeBeat* is equal to 1 if the forecast error is more than 5 pence. Note that the benchmark here in the analysis is *SmallMiss*, where the range of forecast error is (- 3 Pence, 0].

I re-estimate Equation 2 but add these four indicator variables to the regression, and the results are reported in Column (3) of Table 3 and depicted in Figure 1. As shown in Column (3), only the coefficient on *Suspect* is positively significant, while the coefficients on *Large Miss*, *Beat 1-5*, and *Large Beat* are insignificant. These findings confirm my prediction that the reduction in women's bonuses is motivated by firms' attempts to meet or just beat earnings expectations, and there is no linear relationship between the level of forecast error and the gender gap in bonus pay. In short, I do not find evidence suggesting that firms dock more bonuses to generally render more favorable unexpected earnings.

4.3 Extensive and Intensive Margins

In this section, I examine the increase in the bonus pay gap in the context of extensive and intensive margins. The aim is to investigate whether the increase is caused by changes in the number of employees awarded a bonus or reductions in the size of bonuses.

To analyze the extensive margin, I use the final piece of information on bonus pay provided in the GEO dataset: the proportion of employees receiving a bonus payment. To recall, the bonus pay gap is calculated as the percentage difference between female and male employees *awarded a bonus*, rather than a comparison between the overall female and male workforce. Arguably, the increase in *BonusGap* may be driven by a decrease in the extensive margin, as the reference point for calculation would be then shifted. For instance, if a company decides not to award any bonuses to men in the lower ranks, it will inflate the average for men and ostensibly create a larger bonus pay gap, but such increase does not necessarily represent a disproportionate shortfall for women.

To explore this possibility, I investigate whether the proportion of male, female, and overall employees receiving a bonus change when companies try to meet or beat analyst expectations. To this end, I modify Equation (2) by replacing the dependent variable with the percentage metrics found in the GEO dataset. The dataset provides the percentage of female and male employees (e.g., 33 out of every 100 women) awarded a bonus each year (denoted as *FemaleWithBonus%* and *MaleWithBonus%*, respectively). For a more comprehensive view, I further adjust these percentages by each subsidiary's gender ratio to calculate the overall percentage of employees receiving a bonus (i.e., the extensive margin, denoted as *AllWithBonus%*). Although the GEO dataset does not directly provide the gender ratio, it does detail the gender distribution for each pay quartile (e.g., in the lowest-paid quartile, 33% are women and 67% are men); therefore, I obtain the overall gender ratio by compiling the gender breakdown from each pay quartile. Similarly, I include *Log Employee* and *Abnormal Employee Size Growth* to control for any drastic structural changes to the workforce. A significantly negative coefficient on *Suspect* would indicate that companies decrease the extensive margin on bonus allocation in response to benchmark-beating pressure.

The empirical results are reported in Table 4. The coefficient on *Suspect* across all columns (male, female, and overall) is insignificant, suggesting that the bonus extensive margin in the overall, female, and male workforce remains relatively stable when companies attempt to meet analyst forecasts. Conversely, findings in Table 2 show that companies indeed reduce the overall amount of employee compensation in response to benchmark-beating pressure, suggesting a decrease in the intensive margin.

Taken together, the evidence suggests that it is unlikely that the observed increase in the bonus pay gap is due to changes in the composition of employees receiving a bonus. Instead, the increase is more likely to be driven by a reduction in the actual monetary amounts awarded as bonuses to the employees.

4.4 Interpreting the Numbers with Survey Data

To further motivate my main findings, I contextualize the results shown in Table 3 with survey data. The survey data comes from a study on employees' bonus compensation by *People Management*, one of the UK's largest human resources publications. This survey investigates 403 British companies from June 2021 to June 2022 and finds that men receive an average bonus of £2,907 while women receive an average bonus of £1,761, suggesting a 39.42% pay gap in bonuses (Cholteeva, 2022). This gap resembles the sample mean of 37.95% found in this paper, affirming the representativeness of the sample used here and suggesting that the survey data can be used in interpreting my findings.

With the information on the actual average pecuniary amount of bonus pay received by women and men, I can calculate how much companies on average save by widening the bonus pay gap:

$$Bonus\ Savings = Avgerage\ Bonus\ Cuts\ for\ Men * Number\ of\ Men\ with\ Bonuses + Average\ Bonus\ Cuts\ for\ Women * Number\ of\ Women\ with\ Bonuses. \quad (3)$$

The results of my calculations are summarized in Table 5. To describe the computation, I first focus on the right-hand side of Equation (3). To obtain the average number of men and women awarded a bonus, I multiply the following sample mean figures: (a) number of employees, (b) male ratio and female ratio, and (c) percentage of female and male employees awarded a bonus. On average, 6,274 men and 3,176 women in my sample receive a bonus. Given that Table 4 suggests that the extensive margin for bonus allocations remains stable during benchmark-beating years, I assume the number of men and women paid a bonus remains constant throughout my sample years. Given that the bonus pay gap increases by 4.23 percentage points when companies attempt to meet analyst expectations (Column (3) of Table 3), the survey gap of 39.42% (i.e., between £2,907 and £1,761) thus increases to 43.65% during benchmark-beating years. This puts women's average bonus at roughly 53.65% of men's average bonus, and this relation is useful for computing the average bonus cuts for men and women.

I next turn my attention to the left-hand side of Equation (3). Column (1) of Table 2 indicates that British companies on average reduce their overall employee compensation by £1.205 million to boost their EPS by 0.354 pence during benchmark-beating years. This provides two important insights. First, it is therefore unlikely that the observed increase of 4.23 percentage points is caused by managers awarding relatively larger bonuses to men during benchmark-beating years. Rather, the increase is more likely to be driven by bonus cutbacks that disproportionately affect women. Second, the amount of £1.205 million is the upper bound of the savings bonus reductions can achieve, a situation where companies reduce staffing costs exclusively through cutting bonuses. In this case, as demonstrated in Row 5 of Panel B in Table 5, the average bonus pay for men shrinks from £2,907 to £2,805.98 (i.e., a relative decrease of 3.48%), and the average bonus for women shrinks from £1,761 to £1,581.17 (i.e., a relative decrease of 10.21%), as the bonus pay gap during benchmark-beating years is shown to be 43.65%. The bonus pay gap therefore rises from £1,146 to £1,224.81. However, I consider this situation to be unlikely because the overall reduction in employee compensation during benchmark-beating years could also indicate companies engaging in in

wage theft (Raghunandan, 2021) or adjusting other aspects of staffing costs apart from bonus payments, such as paid sick leave or health insurance (Williams & Gault, 2014; Gould et al., 2016).

I proceed to calculate the lower bound of the total monetary savings of bonus reductions. Given that the overall staffing costs shrink, and the bonus pay gap increases by 4.23 percentage points during benchmark-beating years, companies achieve the minimum savings[20] when men's average bonus remains unchanged and only women's average bonus is cut. In this case, as shown in Row (1) of Panel B in Table 5, men's average bonus stays at £2,907, while women's average bonus falls from £1,761 to £1,538.09 (i.e., a relative decrease of 6.98%). The total savings amount to £0.391 million, boosting the EPS by 0.115 pence.

Furthermore, in my sample, men account for 65.21%[21] of the workforce and receive bonuses that are, on average, roughly 40% higher than those awarded to women. Based on these figures, one may also consider hypothetical situations where companies implement a uniform reduction in both men's and women's bonuses, thereby maintaining the current bonus pay gap instead of widening it. For instance, if the company attempts to save £1.205 million solely via bonus reductions, a uniform 2.55% reduction in bonuses across all employees would also achieve this target (Row (7) of Panel B in Table 5), as opposed to the observed average reductions of 7.91% for women and 1% for men (Row (1) of Panel B in Table 5). In other words, the bonus pay gap would stay at 39.42% as opposed to rising to 43.65%.

In summary, depending on the extent to which bonus reductions account for the overall reduction in staffing costs, the 4.23 percentage point increase documented in Column (2) of Table 3 equates to a rise, ranging from £78.81 to £122.91, in the bonus pay gap as well as a boost, ranging from 0.115 to 0.354 pence, in the company's EPS. As a benchmark, British full-time employees on average receive £35,398 in annual total compensation and £661.1 in weekly pay. The increase in the bonus pay gap is roughly the gender difference in weekly pay: men earning £715.9 and women earning £577.7 weekly (Office for National Statistics, 2017). Moreover, to highlight the disproportionate nature of the documented bonus cutbacks, I also demonstrate that a uniform reduction (i.e., by the same proportion) across both genders would achieve the same amount of savings without widening the bonus gap.

4.4 Bonus Pay Gap and Underlying Positions

The bonus pay gap is computed using the average bonus for female and male employees among those who receive bonuses. Therefore, the gap in the estimation is not necessarily a comparison between employees with comparable positions and responsibilities. I address this concern by exploring the within-subsidiary variation in the bonus pay gap.

[20] The minimum of savings a company can achieve is £0, where companies increase men's average bonus but reduce women's to keep the overall cost the same. In this case, men's average bonus increases from £2,907 to £2955.40, women's average bonus falls from £1,761 to £1,655.37, and the bonus pay gap is 43.65%. However, given that the overall staffing costs shrink during benchmark-beating years, I consider this situation to be unlikely.

[21] This number resembles to the results from the 2021 UK Annual Population Survey, where men account for 60.3% of the total full-time workforce in the United Kingdom.

Nonetheless, for more robust results, I also consider the possibility that employee assignments change during *Suspect* subsidiary-years and examine whether the bonus pay gap can be explained by changes in job roles. To this end, I use the gender wage distribution provided by the GEO dataset, which divides the total workforce into quartiles based on basic salary and reports each quartile's gender ratio accordingly. For example, among the lowest-paid quartile (Q1) at Burberry in 2018, 77.3% are women and 22.7% are men. Under the assumption that positions with similar salaries should be comparable in terms of responsibilities or seniority, this data on each company's gender wage structure proxies for positions and seniority. To illustrate the intuition behind this, if this bonus pay gap is indeed driven by men's systematic characteristic of holding better positions and higher baseline salaries, then an overrepresentation of men in the upper (lower) echelon of the company should expand (shrink) the bonus pay gap. For operationalization, I characterize overrepresentation as a higher percentage relative to the firm average. Accordingly, I create four additional variables: *OverMaleQ1*, *OverMaleQ2*, *OverMaleQ3*, and *OverMaleQ4*, defined as the male ratio in the first, second, third, and fourth quartile, minus the overall male ratio of the workforce, with the first quartile being the lowest paid and the fourth being the highest paid. For instance, in 2018, the overall male ratio at Burberry is 34.2%, while the best-paid quartile is 42.8% male. Accordingly, the magnitude of male overrepresentation in the fourth quartile at Burberry is 8.6%.

I re-estimate Equation 2 with these four new variables, and the findings are reported in Table 6. As in Table 3, I first examine the basic pay gap (Panel A) and then the bonus pay gap (Panel B). In Panel A, where the dependent variable is *BasicGap*, I find that the four variables proxied for male overrepresentation all have a statistically significant relation with the basic pay gap. Specifically, male overrepresentation in the upper (lower) echelons of the company leads to a statistically significant increase (decrease) in the basic pay gap. The coefficient on *Suspect*, the proxy for earnings management, remains insignificant across Columns (1) through (4).

Conversely, in Panel B, where the dependent variable is *BonusGap*, the bonus pay gap does not respond to any of the overrepresentation variables in a statistically significant manner. The coefficient on *Suspect* remains positively significant across all four columns, suggesting that benchmark-beating pressure leads to an increase in the bonus pay gap, regardless of the underlying gender wage distribution. Therefore, it is likely that the bonus pay gap used in the estimation is a comparison between male and female employees with similar positions and seniority. Collectively, Panels A and B of Table 6 demonstrate that gender differences in positions only influence the basic pay gap but not the bonus pay gap, which appears to be affected by pressure to meet analyst expectations.

5. Cross-sectional Tests on Management Style and Robustness Tests

I here explore cross-sectional variation in the relation between benchmark-beating pressure and the bonus pay gap. Research attributes the increase in the bonus pay gap to a twofold phenomenon: women tend to be less assertive in contesting bonus reductions, and managers may exploit this tendency. Therefore, I examine whether the pressure-induced increase is associated with a certain management style or corporate

culture (Gordon et al., 2022; Graham et al., 2023), aiming to disentangle whether this increase is more likely to be driven by managerial opportunism. I consider three settings reflecting managers' attitudes on workplace issues and inclusion: (1) workplace flexibility, (2) corporate sustainability, and (3) gender inclusivity.

I partition my sample at each industry's median to account for industry norms and rerun Equation 2 for each subsample to obtain the coefficient estimate on *Suspect*. If the bonus pay gap is only associated with certain cultures, then the relation between benchmark-beating pressure and the bonus pay gap should be statistically significant only in one subsample. In addition, I assess whether the difference in the coefficients on *Suspect* across the two subsamples is statistically significant using Fisher's permutation test (e.g., Cleary 1999; Brown et al., 2010).[22]

5.1 Workplace Flexibility

Workplace flexibility refers to policies or practices that allow employees to choose when, where, and how they work, and these policies have often been considered to primarily accommodate women's needs and preferences due to familial obligations (Hill et al., 2008; Galinsky et al., 2013). Inspired by recent work on the role of workplace flexibility in shaping the gender pay gap (Goldin, 2014; Fuller & Hirsh, 2019), I use workplace flexibility as a measure of a company's commitments to improving working conditions and addressing workplace frictions (Bloom et al., 2011; Edman, 2011; Li & Nagar, 2013).

To quantify workplace flexibility, I collect reviews and ratings on job amenities on Glassdoor as of March 16, 2023. I focus on four specific amenities related to work-life balance: (i) flexible work, (ii) work from home, (iii) dependent care, and (iv) family leave for each parent company identified in my sample. I calculate the average score (*FlexScore*) based on these four categories for each parent company and assign the score to each subsidiary within the parent company group.[23]

Certain industries tend to offer greater flexibility in general (Goldin, 2014). To control for industry norms, firms are categorized as high (low) flexibility based on whether they fall within the top 50% (bottom 50%) for flexibility within their respective industries. Notably, much of the sample happens to stand exactly at the industry median. To account for this, the analysis is conducted in two iterations: one includes the median observations in the top 50% (as reported in Table 7), and the other includes them in the bottom 50% (results not tabulated). The outcomes of both analyses are similar and consistent. Specifically, the coefficient for the *Suspect* variable is significantly positive *only* in the bottom 50% group, and the difference in coefficients between the two subsamples is also positively significant.

[22] An alternative approach used in prior research is to run a pooled regression where all variables and fixed effects are interacted with the cross-sectional variable. However, the cross-sectional variables (e.g., workplace flexibility) here are parent-level, time-invariant (during the sample period) characteristics and are thus absorbed by the subsidiary fixed effects.
[23] Depending on the amenity, 6.5% to 17% of the observations are listed and verified but not rated by users. For these observations, I assign a neutral score of 3 (on a 1–5 scale). My results are robust to assigning other values: 1, 2, 4, and 5.

As the pressure-induced pay gap is only found in low flexibility firms, my results echo prior work that emphasizes the effect of workplace flexibility in reducing the gender difference in pay (Goldin, 2014). However, workplace flexibility may proxy for other firm variables. To investigate this possibility, I compare the high and low flexibility groups across several observable dimensions. The results are reported in Panel B of Table 7. Overall, both groups exhibit similar patterns in their meet-or-beat behavior (*Suspect*), profitability (*ROA*), labor intensity (*Log Sales/Employee Ratio*), and risk profile (*leverage*). However, high flexibility firms tend to have significantly more employees, slower sales growth (a proxy for growth opportunities, following Lehn & Poulsen, 1989), higher ESG scores, and more female board members. Taken together, these results depict firms that are less inclined to adjust their bonus pay gaps to meet analyst expectations: these are generally larger, more mature companies that offer more workplace flexibility and have better ESG track records and female board representation.

5.2 Corporate Sustainability

For the second setting, I explore cross-sectional variation in corporate sustainability (Starks et al., 2023; Eccles et al., 2014). I use companies' ESG scores to proxy for records on issues related to working conditions, diversity, and inclusion in the workplace.

I collect ESG scores from Refinitiv over the 2017–2021 period for each parent company identified in my sample, including its overall, social, governance, and environmental performance. My main focus is social scores, which include 29 indicators, out of 63 in total, reflecting the company's performance on workforce issues (Refinitiv, 2022). I compute the average score in each category throughout the sample period and then assign the score to each subsidiary within the same parent company group. In a similar implementation to Section 5.1, I define high/low sustainability firms based on the industry median, rather than the sample median, to account for industry norms. I estimate Equation 2 in each subsample, and the results are shown in Panel A (overall scores) and Panel B (social scores) of Table 8. The results on governance and environment, although not reported here, mirror those of the overall and social scores: the coefficient on *Suspect* is significantly positive only among firms with lower sustainability scores, and the difference between high and low sustainability firms is also statistically significant.

These results suggest that the pressure-induced pay gap is less likely to occur in companies that have better track records on ESG issues and are more engaged in advancing diversity and addressing workplace frictions. My results are also inconsistent with the argument of the greenwashing literature that questions the reliability of ESG ratings and disclosures (Bénabou & Tirole, 2010; Raghunandan & Rajgopal, 2022; Baker et al., 2023).

As in the analysis in Section 5.1, I again compare the high and low sustainability firms, and the results are reported in Panel C of Table 8. I find a pattern similar to the profile identified so far: the high sustainability firms tend to be larger, mature firms that offer more workplace flexibility and have more female directors.

5.3 Gender Inclusivity

The final aspect of management style that I explore is whether the corporate culture is inclusive of women. Following Billings et al. (2022), I use the absolute number of female directors on the board as my measure of inclusivity. I collect data on each company's female board members by manually perusing their annual reports, available on their company website or the historical filings sections on Companies House. Because many directors retired and exited the board throughout the sample period, it is difficult to calculate the exact number of female directors effectively serving and influencing corporate policies during each specific year. I therefore calculate the average number of female directors over the sample period to construct a more stable measure of female board presence. To control for the possibility that a larger board would lead to more female directors, I include the total number of directors, *Total Board Size*, into the equation. I then divide the sample based on the absolute number of female directors at the sample median, 2.44.

The findings of the subsample analysis are reported in Table 9. As in Sections 5.1 and 5.2, I find that the pressure-induced pay gap only exists in companies with fewer than three female directors, and the difference between the two subsamples is again statistically significant. My findings are consistent with research that documents the role of board gender diversity in curbing earnings management or misbehavior (Bernile et al., 2018; Barua et al., 2010; Altunbas et all, 2022). They also echo the Critical Mass Theory (Kanter, 1977) and recent empirical research that adopts the same approach: "one woman is a token, two is a presence, and three is a voice" (Kristie, 2011). This literature suggests a threshold effect in the representation of women on corporate boards, whereby the impact of gender diversity only becomes pronounced with a minimum of three female directors (Erkut et al., 2008; Adams & Ferreira, 2009; Billings et al., 2022). As in my previous analyses, I further compare high and low gender inclusivity firms across several observable dimensions. The t-test results are presented in Panel B of Table 9. Overall, the profile of low gender inclusivity firms appears to match my findings so far: smaller workforces, larger sales growth, lower flexibility scores, and lower ESG scores.

In summary, the cross-sectional findings show that the pressure-induced pay gap is associated with smaller, growing firms with a specific type of corporate culture, one that is characterized by less workplace flexibility, limited corporate sustainability, and lower gender inclusivity. These patterns are consistent with a management style that is less engaged in enhancing working conditions, employee satisfaction, and the diversity and inclusivity of the workplace. The findings support the notion that managers potentially exploit women's resistance-avoiding tendencies when reducing bonuses to meet analyst expectations.

5.4 Robustness Tests

5.4.1. Alternative Temporal Settings

As a falsification test, I repeat my main analysis by shifting the treatment variable, suspicion of earnings management, by one year in both directions, lagging and leading. The results are reported in Table 10. Overall, the current year's bonus pay gaps do not respond to benchmark-beating pressure from either

the previous or the following year. This adds to the robustness of my main findings that the rise in the bonus pay gap is triggered by benchmark-beating pressure occurring in the same year.

5.4.2. Alternative Definitions of *Suspect*

The definition for suspicion of earnings management is "beating analyst forecasts by 0 to 1 pence" throughout this paper. I further examine whether my findings are sensitive to other intervals of forecast error. The results are reported in Table 11. Previous American and British studies have also used the interval of (0,2) as the proxy for suspicion of earnings management (e.g., Caskey & Ozel, 2017; Athanasakou et al., 2011) based on empirical findings (Degeorge et al., 1999; Gore et al., 2007; Athanasakou et al., 2009). In Column (1) of Table 11, the coefficient on *Suspect* is positively significant (t=2.602) when I change the definition to (0, 2). Furthermore, the coefficient on *Suspect* remains positively significant and similar in magnitude even when I further narrow the interval to (0, 0.5 pence) and (0, 0.25 pence), as seen in Columns (3) and (4) of Table 11, respectively.

5.4.3. Consolidated Reporting

I control for any non-random patterns in firms' choices to report their gender pay gap information at the parent or subsidiary level, as this is not dictated by the GEO. In my final sample, 77% of the filers report their pay gap metrics at the subsidiary level, whereas the rest consolidate their metrics across subsidiaries to produce a parent-level figure. Empirically, I create an indicator variable, *Consolidated*, that takes the value of 1 when the observation is consolidated at the parent level. The coefficient on *Suspect* remains statistically significant and similar after the inclusion of *Consolidated*. I also rerun the estimation by limiting the sample to observations that are reported by the filers at the subsidiary level. The results are similar and echo the findings of Bonacchi et al. (2017) that parent companies use their unlisted subsidiaries to manage earnings.

5.4.4. Parent-level Consolidation

My primary analysis is conducted at the subsidiary level. Consequently, one may suggest that the observed increase in the gender pay gap is not a consistent trend across all subsidiaries within the parent company group. Instead, it could be caused by a few subsidiaries with overwhelmingly large gender pay gaps. Although this possibility would still point to the gender-specific impact of benchmark-beating pressure, I test this possibility by reconstructing the subsidiary-level dataset. I carry out parent-level analyses by consolidating all subsidiary-level data at the parent level in two ways, as suggested by Raghunandan & Rajgopal (2021): (a) weighting subsidiaries based on their number of employees and (b) assigning equal weight to each subsidiary within the parent group. The results (untabulated) for both (a) and (b) resemble those from the subsidiary-level analysis. This suggests that it is unlikely that this rise in the bonus pay gap results from significant variation across subsidiaries.

5.4.5. Median Gender Pay Gap Metrics

As mentioned in Section 3.1., for my analyses, I exclusively use *mean* gender pay gap metrics (i.e., calculated based on the mean male and female employees) rather than *median* gender pay gap metrics (i.e.,

calculated based on the median male and female employees) due to concerns about measurement errors (e.g., Blundell, 2021; Jones et al., 2022) or potential manipulation (Blundell, 2021). As an additional test, I reexamine my main findings using median metrics and find no significant results. This leads me to consider two potential explanations. First, the increase in the *mean* bonus gap, coupled with a stable *median* bonus gap, suggests that the changes are likely to be occurring at the extremes of the bonus distribution. In other words, high-earning or low-earning women experience larger bonus shortfalls than their male counterparts in the same bracket, causing the overall mean for women's bonuses to decrease while the median remains unchanged. Second, the actual *median* pay gap could indeed increase when companies try to meet or beat analyst forecasts, but the true values may not be reflected in the GEO dataset due to managerial manipulation or misreporting (Marriot, 2019; Blundell, 2021).

5.4.6. Fixed Effect Model Concerns

deHann (2021) warns of the potential problems for using a fixed effect model when there is little variation within each fixed effect group in the treatment variable. In the context of this paper, the treatment variable is *Suspect*, which proxies for the pressure to beat benchmarks. To mitigate this concern, I follow the procedure outlined by deHann (2021) and exclude any observations that either consistently met or beat their benchmark (Suspect=1) or never did (Suspect=0) throughout the sample period. This reduces the sample size to 1,408 subsidiary-years. Despite this reduction, the (untabulated) results remain similar.

5.4.7. Alternative Earnings Benchmarks

My investigation has been focused on analyst forecasts as the earnings benchmark. Early real earnings management research has also explored other thresholds that compel managers to react: (a) beating previous year's earnings and (b) beating zero-earnings. I revisit the relation between benchmark-beating pressure and the bonus pay gap with these two alternative earnings benchmarks. For the prior year's earnings benchmark, I follow Caskey & Ozel (2017) and define suspect subsidiary-years as those in which parent companies' net income beat the previous year's net income by zero to 0.01 when the difference is scaled by beginning-of-the-year market capitalization from the previous year. For the zero-earnings benchmark, I define suspect subsidiary-years as those in which parent companies' current year net income is between zero and 0.01 after being scaled by beginning-of-the-year market capitalization from the current year. In untabulated analyses, I find negative yet statistically insignificant coefficients on *Suspect* for these alternative benchmarks. The results are consistent with prior work that shows that the zero-earnings and previous year's earnings benchmarks have lost their significance in recent years (Dechow et al., 2003; Gilliam et al., 2015). This robustness test highlights the consistent salience that analyst forecasts hold as an earnings benchmark to motivate managers.

6. Conclusion

This study examines the gender-specific effects of financial pressure on compensation, focusing particularly on the gender gap in bonus pay and benchmark-beating pressure. Leveraging a 2017 UK pay transparency mandate, I find evidence supporting my hypothesis that companies that just meet or beat their

analyst forecasts experience a significantly larger gender gap in bonus pay (by 4.23 percentage points), relative to those that either comfortably beat or miss the earnings benchmark.

Research has provided explanations as to why women may be less likely to resist bonus reductions: personality traits and greater attachment and loyalty to the company. A wealth of studies also suggests that managers could exploit these tendencies. My additional analyses indicate that the rise in the bonus pay gap is likely to be driven by a decrease in the intensive margin (i.e., the size of the bonuses), as the extensive margin (i.e., the number of employees who receive a bonus) remains stable even under benchmark-beating pressure. Using a survey from *People Management*, I show that this 4.23 percentage point increase translates to a rise, ranging from £78.81 to £122.91, in the gap in bonuses.

Cross-sectional tests further explore three dimensions of management style and their potential impact on the gender pay gap: (1) workplace flexibility, (2) corporate sustainability, and (3) gender inclusivity. The results suggest that the gendered effect of benchmark-beating pressure only exists in companies with a specific type of management style, that is, those with limited workplace flexibility, lower ESG scores, and fewer than three female directors on the board. My findings are more consistent with the notion that managers might exploit women's resistance-avoiding tendencies to implement disproportionate bonus cutbacks.

Without detailed, granular data on employee payroll information, I cannot draw direct inferences. Nonetheless, additional data sources and guidance from prior research have provided insights to advance my inquiry, my cross-sectional and robustness tests have demonstrated the consistency of my findings. To conclude, this paper illuminates how financial pressure could lead to larger gender pay differences. By uncovering these hidden dynamics, this paper contributes to a more nuanced understanding of the factors contributing to the gender pay gap. It also highlights the pathways for business research to examine the role and relevance of corporate decisions in broader societal discussions.

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Appendix A: Variable Definitions

Variable	Definition
BasicGap	The gender gap across basic pay, calculated as the difference between men's average basic pay and women's average basic pay divided by men's average basic pay. Expressed as a percentage (%) and directly provided in the Gender Equalities Office ("GEO") dataset.
BonusGap	The gender gap across bonus pay, calculated as the difference between men's average bonus pay and women's average bonus pay divided by men's average basic pay. This comparison is between those who receive a bonus. Expressed as a percentage (%) and directly provided in the GEO dataset.
FemaleWithBonus%	The proportion of employees in the female workforce that receive a bonus that year. Expressed as a percentage (%) and directly provided in the GEO dataset.
MaleWithBonus%	The proportion of employees in the male workforce that receive a bonus that year. Expressed as a percentage (%) and directly provided in the GEO dataset.
AllWithBonus(%)	The proportion of employees in the overall workforce that receive a bonus that year. Expressed as a percentage (%) and calculated based on the gender breakdown in each pay quartile.
ROA	Ratio of Net Income to Lagged Assets.
Change in ROA	Year-over-year change in ROA
Log Employees	Natural logarithm of the number of employees. The employee count for each parent company is primarily sourced from *Worldscope*. In instances where the data is either missing or reported to be below 250 employees – the GEO reporting threshold – the numbers are subsequently obtained from the company's annual reports. If the number is still unavailable, a sum of the employee size for each available subsidiary, as found in *FAME/ORBIS*, is used.
Sales Growth	Year-over-year change in sales divided by lagged sales
Log Sales/Employee Ratio	Natural logarithm of ratio of sales to number of employees
Abnormal Change in Employees	Year-over-year employee growth rate minus year-over-year total sales growth rate
Leverage	Ratio of long-term debt to total assets
Suspect	An indicator variable equal to one if a firm meets or beats the latest consensus of analysts' annual EPS forecasts by 1 British pence or less, where the latest consensus is calculated as the median of each analyst's latest annual forecast issued within [−180, −4] days relative to the earnings announcement date.
Net Income	Item 1651 from *WorldScope*
Log (EmpComp)	Natural logarithm of total employee compensation, *Staff Cost* from *WorldScope*.
Log (SG&A)	Natural logarithm of Selling, General and Administrative ("SG&A") expenses.
OverMaleQ1	The male ratio in Q1, the worst-paid quartile, minus the overall male ratio of the workforce
OverMaleQ2	The male ratio in Q2, the second worst-paid quartile, minus the overall male ratio of the workforce.
OverMaleQ3	The male ratio in Q3, the second-best paid quartile, minus the overall male ratio of the workforce
OverMaleQ4	The male ratio in Q4, the best-paid quartile, minus the overall male ratio of the workforce
FemaleRatio (MaleRatio)	The overall female (male) ratio of the workforce, computed by aggregating the information on gender pay distribution.

Figure 1: Bonus Pay Gaps Across Different Levels of Forecast Error

This figure visualizes the findings of Column (3) in Table 3. It depicts the relation between gender differences in bonuses and different levels of forecast error. The dependent variable is *BonusGap*, reported as the difference (%) between men's mean bonus and women's mean bonus divided by men's mean bonus. Silos with dotted lines indicate insignificant relations, which are found in *LargeMiss*, *Beat1to5*, and *LargeBeat*, representing missing the forecast consensus by more than 3 British pence, beating the forecast consensus by more than 1 but fewer than 5 British pence, and beating the forecast consensus by more than 5 British pence, respectively. Silos with solid lines indicate statistical significance between the two variables. In this case, the two variables are gender gaps in bonuses and *Suspect*, the proxy for meet-or-beat behavior. This figure demonstrates a non-linear relationship in which companies do not create greater bonus pay gaps for more favorable earnings performance. Conversely, managers would only do so when facing benchmark-beating pressure.

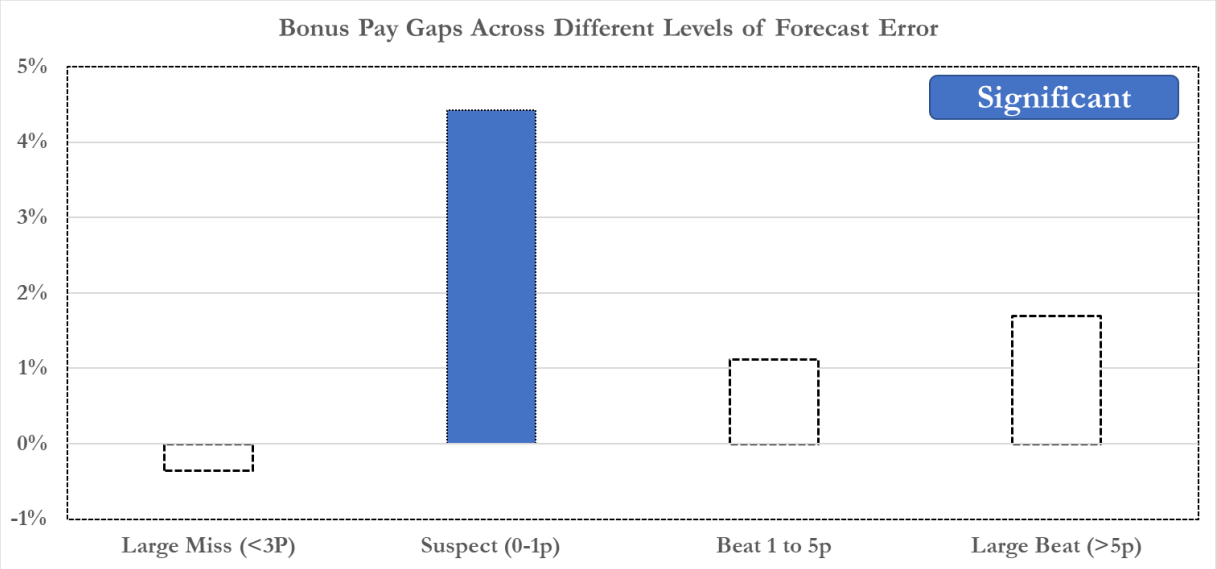

Table 1: Summary Statistics

This table presents summary statistics for my sample. Panel A presents summary statistics for subsidiary-level variables form the GEO dataset. Panel B provides summary statistics for parent-level variables from I/B/E/S and *Worldscope*. Panel C presents industry composition for my sample. All continuous variables are winsorized at 1% and 99% of the pooled distributions. Variable definitions are in Appendix A.

Panel A: Subsidiary-level Variables

Variables	Mean	STD	P25	P50	P75	N
BasicGap (%)	17.19	13.16	7.60	16.10	25.90	2248
BonusGap (%)	37.95	31.90	18.60	41.75	60.85	2248
MaleWithBonus(%)	59.34	33.21	24.95	73.30	88.40	2248
FemaleWithBonus (%)	56.37	33.66	23.25	66.70	87.50	2248
Female Ratio (%)	34.79	17.99	19.70	33.68	48.45	2242
Male Ratio (%)	65.21	17.99	51.55	66.33	80.30	2242

Panel B: Parent-level Variables

Variables	Mean	STD	P25	P50	P75	N
Suspect	0.33	0.47	0	0	1	968
ROA	0.05	0.10	0.01	0.04	0.09	968
Change in ROA	-0.01	0.08	-0.03	0.00	0.02	968
Log(Employee)	8.36	1.56	7.13	8.24	9.30	968
Sales Growth	0.06	0.21	-0.02	0.05	0.13	968
Log Sales/Employee Ratio	12.10	0.86	11.56	12.04	12.55	968
Abnormal Change in Employees	-0.02	0.21	-0.09	-0.02	0.05	968

Panel C: Industry Membership (Based on the Parent Company)

UK Industry Section	Description	# of Obs.	Percentage
C	Manufacturing	322	14.32%
D	Electricity; Gas; Steam	94	4.18%
E	Water; Sewage; Waste Management	43	1.91%
F	Construction	105	4.67%
G	Wholesale and Retail Trade	421	18.73%
H	Transportation and Storage	206	9.16%
I	Accommodation and Food Service	35	1.56%
J	Information and Communication	254	11.3%
K	Financial and Insurance Activities	324	14.41%
L	Real Estate	53	2.36%
M	Professional; Scientific; Technical	186	8.27%
N	Administrative and Support Service	159	7.07%
Q	Human Health and Social Work	4	0.18%
R	Arts; Entertainment; and Recreation	9	0.40%
S	Other Service Activities	33	1.47%
	Total	2248	100%

Table 2: Benchmark-beating and Reductions in Staff Costs

This table documents the negative relation between staffing costs and the pressure to meet or beat. The data is collected from *Worldscope* for firm fundamentals and I/B/E/S for analyst forecasts. The data sample is firms listed on the London Stock Exchange over the period of 1995-2021 with data available in both databases. The dependent variable across Column (1) through Column (2) is the natural logarithm of employee compensation (*Staff Cost* from WorldScope) and SG&A expenses. The independent variable *Suspect* is an indicator variable equal to 1 if a company meets or beats the latest annual consensus analyst EPS forecast by 0 to 1 British pence in that given year. Other control variables are defined in Appendix A: Variable Definitions. The sample prioritizes data availability on Compensation and is therefore limited to observations that have non-missing *Compensation* data. The sample size in Column (2) reduces due to observations with missing SG&A values. T-statistics are presented in parentheses with robust standard errors clustered at the firm level. ***, **, and * indicate significance at the 1%, 5%, and 10% level, respectively.

	(1)	**(2)**
	UK Listed Firms	**UK Listed Firms**
	1995-2021	**1995-2021**
	Log (EmpComp)	*Log (SG&A)*
Suspect	-0.050***	-0.039***
	(-4.361)	(-3.215)
ROA	-0.001	-0.254***
	(-0.0161)	(-3.751)
Change in ROA	-0.001	-0.002
	(-0.759)	(-1.298)
Sales Growth	-0.094***	0.035
	(-2.927)	(1.301)
Log Sales/Employee Ratio	0.007	0.039**
	(0.373)	(2.358)
Abnormal Change in Employee	0.129***	0.121***
	(7.907)	(6.773)
Leverage	0.470***	0.296***
	(4.594)	(2.732)
Firm FE	Yes	Yes
Industry-Year FE	Yes	Yes
Observations	10,699	8,455
Adjusted R-squared	0.940	0.919

Table 3: Benchmark Beating and Pay Gaps in Basic and Bonus Pay

This table explores the relation between the pressure to meet or beat (proxied by *Suspect*) and the gender gap in basic pay (Column (1)) and bonus pay (Columns (2) and (3)). The gender pay gap data is collected from the UK Government Equalities Office ("GEO") for the period of 2017-2021, with voluntary disclosures (e.g., Snapyear of 2019) and mathematically impossible observations (Bailey et al. 2022) being excluded from the final sample. BasicGap is computed as the percentage difference (%) in basic pay between the average man and woman in the total workforce. BonusGap, other the other hand, is calculated as the percentage (%) difference between the average bonus pay for men and women, limited to those who receive a bonus. The independent variable *Suspect* is a proxy for meet-or-beat behavior and takes the value of 1 if a subsidiary's parent company meets or beats the latest annual consensus analyst EPS forecast by 0 to 1 British pence during that year. For Column (3), the three additional indicator variables represent different levels of forecast errors: *LargeMiss* for missing the consensus forecast by more than 3 British pence, *Beat1to5* for beating consensus forecast by more than 1 but less than 5 British pence, and *LargeBeat* for beating the consensus forecast by more than 5 British pence. The benchmark is therefore *SmallMiss* (Missing between -3 to 0 pence). Other control variables are collected at the parent level to maximize data availability and defined in Appendix A: Variable Definitions. T-statistics are presented in parentheses with robust standard errors clustered at the parent level. ***, **, and * indicate significance at the 1%, 5%, and 10% level, respectively.

	(1)	**(2)**	**(3)**
	Sample Firms 2017-2021	Sample Firms 2017-2021	Sample Firms 2017-2021
	***Basic**Gap (%)*	***Bonus**Gap (%)*	***Bonus**Gap (%)*
Suspect	-0.542	4.228***	4.420***
	(-1.105)	(2.670)	(2.654)
LargeMiss			-0.355
			(-0.126)
Beat1to5			1.114
			(0.458)
LargeBeat			1.695
			(0.681)
ROA	-5.736	8.425	9.018
	(-1.143)	(0.548)	(0.583)
Change in ROA	4.693	-2.569	-3.479
	(1.125)	(-0.191)	(-0.253)
Log employee	-2.447**	-2.440	-2.366
	(-2.341)	(-0.659)	(-0.636)
Sales Growth	2.235	-14.89**	-14.92**
	(1.053)	(-2.538)	(-2.540)
Log Sales/Employee Ratio	0.398	4.297	4.417*
	(0.395)	(1.610)	(1.684)
Abnormal Change in Employee	0.214	-9.129*	-9.179*
	(0.117)	(-1.689)	(-1.698)
Leverage	3.891	14.21	14.01
	(1.046)	(1.240)	(1.223)
Subsidiary FE	Yes	Yes	Yes
Parent's Industry-Year FE	Yes	Yes	Yes
Observations	2,248	2,248	2,248
Adjusted R-squared	0.818	0.571	0.570

Table 4: Benchmark Beating Pressure and the Extensive Margin of Bonus Allocation

This table explores the relation between the pressure to meet or beat (proxied by *Suspect*) and the proportion of employees receiving a bonus. This proportion is presented in the GEO dataset as a percentage, with Column (1) showing the percentage of female employees (e.g., 56 out of every 100 women), Column (2) showing the percentage of male employee, and Column (3) showing the overall percentage of employees rewarded a bonus. *AllWithBonus* (%) is the product of the female bonus percentage (*FemaleWithBonus%*) and the subsidiary's female ratio plus the product of the Male Bonus Percentage and the male ratio. Both gender ratios are computed based on the gender breakdown of each pay quartile provided in the GEO dataset. The sample size reduces by 6 in Column (3) because 6 observations do not report the gender breakdown (although other metrics were still mandatory, the gender breakdown was voluntary for certain companies during Snapyear 2020). The independent variable *Suspect* is the proxy for meet-or-beat behavior and an indicator variable equal to 1 if a subsidiary's parent company meets or beats the latest annual consensus analyst EPS forecast by 0 to 1 British pence during that year. Other control variables are collected at the parent level to maximize data availability and defined in Appendix A: Variable Definitions. T-statistics are presented in parentheses with robust standard errors clustered at the parent level. ***, **, and * indicate significance at the 1%, 5%, and 10% level, respectively.

	(1)	**(2)**	**(3)**
	Sample Firms 2017-2021	Sample Firms 2017-2021	Sample Firms 2017-2021
	FemaleWithBonus%	MaleWithBonus%	AllWithBonus%
Suspect	-0.623	-0.524	-0.588
	(-0.356)	(-0.343)	(-0.361)
Controls	Yes	Yes	Yes
Subsidiary FE	Yes	Yes	Yes
Parent's Industry-Year FE	Yes	Yes	Yes
Observations	2,248	2,248	2,242
Adjusted R-squared	0.740	0.759	0.758

Table 5 Simulations Based on Survey Information

This table explores the different scenarios in which men's average bonus pay is reduced by various percentages. Specifically, the table uses survey information from *People Management*, which indicate that over 2021-2022, British men receive an average of 2,907 pounds sterling in bonus pay while British women receive an average of 1,761 pounds sterling. Other information required to calculate the average number of female and male employees awarded a bonus is retrieved from the final sample of this paper.

Panel A: Sample Average

No. Employees	Male Ratio (%)	Men W/ Bonuses (%)	No. Men W/ Bonuses	Total Savings in EmpComp (Mil.)
16206.5	65.21%	59.34%	6271.20	1.205
	Female Ratio (%)	**Women W/ Bonuses (%)**	**No. Women W/ Bonuses**	
	34.79%	56.37%	3178.28	

Survey Information (People Management)

	Men's Avg. Bonus	Women's Avg. Bonus	Gap (%, Based on Men's)
Normal Years	2907	1761	39.42%

Panel B: Simulations for Meet-or-Beat Behavior ("MOB")

MOB Years	Men's Avg. Bonus	Women's Avg. Bonus	Gap (+4.23% for MOB)	Women's Loss (%)	Men's Loss (%)	Savings (Mil.)	Increase in EPS
(1) Men -0%	2907	1638.09	43.65%	-6.98%	0.00%	0.390	0.115p
(2) Men -1%	2877.93	1621.71	43.65%	-7.91%	-1.00%	0.625	0.184p
(3) Men -2%	2848.86	1605.33	43.65%	-8.84%	-2.00%	0.859	0.253p
(4) Men -3%	2819.79	1588.95	43.65%	-9.77%	-3.00%	1.094	0.322p
(5) Men -3.48%	2805.98	1581.17	43.65%	-10.21%	-3.48%	1.205	0.354p

Comparison (Uniform Cuts)	Men's Avg. Bonus	Women's Avg. Bonus	Gap	Women's Loss (%)	Men's Loss (%)	Savings (Mil.)	Increase in EPS
(6) Both -2.62%	2830.81	1714.84	39.42%	-2.62%	-2.62%	0.625	0.184p
(7) Both -5.06%	2760.02	1671.96	39.42%	-5.06%	-5.06%	1.205	0.354p

Table 6: Gender Pay Gaps and Underlying Positions

This table demonstrates whether gender differences in positions can explain the pay gap across basic pay (Panel A) and bonus pay (Panel B). For operationalization, the four newly introduced control variables: *OverMaleQ1*, *OverMaleQ2*, *OverMaleQ3*, and *OverMaleQ4*, are used to proxy for underlying positions. The GEO dataset divides each observation's total workforce into quartiles based on basic salary and reports each quartile's gender ratio. Under the assumption that positions in the same pay quartile are comparable in nature, each company's gender wage structure serves as an empirical proxy for positions. To articulate, if the pay gap is driven by men's characteristics of holding positions and pay, then an overrepresentation of men in the upper (lower) echelon of the company should expand (shrink) the pay gap (i.e., a significantly positive (negative) coefficient). I characterize overrepresentation as a high percentage relative to the firm average. Accordingly, empirical measures of overrepresentation, *OverMaleQ1*, *OverMaleQ2*, *OverMaleQ3*, *OverMaleQ4*, are defined as the male ratio in each quartile: Q1/Q2/Q3/Q4 minus the overall male ratio of the workforce, with Q1 being the lowest-paid quartile and Q4 being the highest-paid quartile. The sample size reduces from 2248 to 2242 because 6 observations do not report their gender wage distribution (for Snapyear 2020, the main metrics are still mandatory, but gender wage distribution is optional for certain companies). Other control variables are collected at the parent level to maximize data availability and defined in Appendix A: Variable Definitions. T-statistics are presented in parentheses with robust standard errors clustered at the parent level. ***, **, and * indicate significance at the 1%, 5%, and 10% level, respectively.

Panel A: The Basic Pay Gap and Underlying Positions

	(1)	**(2)**	**(3)**	**(4)**
	Sample Firms 2017-2021	Sample Firms 2017-2021	Sample Firms 2017-2021	Sample Firms 2017-2021
	BasicGap(%)	***Basic***Gap(%)	***Basic***Gap(%)	***Basic***Gap(%)
Suspect	-0.570	-0.596	-0.610	-0.490
	(-1.523)	(-1.201)	(-1.309)	(-1.233)
OverMaleQ1 (%)	-0.540***			
	(-6.957)			
OverMaleQ2 (%)		-0.255***		
		(-3.825)		
OverMaleQ3 (%)			0.306***	
			(3.322)	
OverMaleQ4 (%)				0.860***
				(12.70)
Control	Yes	Yes	Yes	Yes
Subsidiary FE	Yes	Yes	Yes	Yes
Parent's Industry-Year FE	Yes	Yes	Yes	Yes
Observations	2,242	2,242	2,242	2,242
Adjusted R-Squared	0.858	0.825	0.827	0.878

Table 6: Gender Pay Gaps and Underlying Positions (continued)

Panel B: The Bonus Pay Gap and Underlying Positions

	(1)	(2)	(3)	(4)
	Sample Firms 2017-2021	Sample Firms 2017-2021	Sample Firms 2017-2021	Sample Firms 2017-2021
	BonusGap (%)	***Bonus***Gap (%)	***Bonus***Gap (%)	***Bonus***Gap (%)
Suspect	3.947**	3.956**	3.940**	3.997**
	(2.513)	(2.535)	(2.518)	(2.542)
OverMaleQ1 (%)	-0.0698			
	(-0.383)			
OverMaleQ2 (%)		-0.180		
		(-1.001)		
OverMaleQ3 (%)			-0.0485	
			(-0.222)	
OverMaleQ4 (%)				0.381
				(1.642)
Control	Yes	Yes	Yes	Yes
Subsidiary FE	Yes	Yes	Yes	Yes
Parent's Industry-Year FE	Yes	Yes	Yes	Yes
Observations	2,242	2,242	2,242	2,242
Adjusted R-Squared	0.572	0.572	0.572	0.574

Table 7: The Bonus Pay Gap and Workplace Flexibility

This table examines workplace flexibility as a metric for corporate culture and explores its potential impact on the relation between benchmark-beating pressure and the bonus pay gap (*BonusGap*, %). Panel A presents the subsample regression results, and Panel B reports the summary statistics of the two subsamples. Empirically, I collect reviews and ratings on four specific amenities related to work-life balance: (i) Flexible Working, (ii) Work from Home, (iii) Dependent Care, and (iv) Maternity & Paternity Leave for each parent company identified in my sample on Glassdoor as of March 16, 2023. I calculate the average score (*FlexScore*) based on these four categories for each parent company and assign the score to each subsidiary within the parent company group. I then turn to categorize the sample into High and Low flexibility firms. To account for industry norms, I define High (Low) flexibility firms as the top 50% (bottom 50%) in each industry. A large portion of the sample happens to stand exactly at the industry median. To account for this, the analysis is conducted in two iterations: one includes the median observations in the top 50% (as reported below), and the other includes them in the bottom 50% (results not tabulated). The outcomes of both analyses are qualitatively consistent. Moreover, because workplace flexibility is a parent-level variable that will be absorbed by subsidiary fixed effects in a pooled regression, I use the Fisher's permutation test (e.g., Cleary 1999; Brown et al. 2010) to test the statistical significance of the difference between the two coefficients on *Suspect*. I bootstrap 1,000 times to calculate the p-value, representing the likelihood of obtaining the observed difference between the two "*Suspect*" coefficients if the true coefficients are, in fact, equal (Gao et al. 2023). T-statistics are presented in parentheses with robust standard errors clustered at the parent level. ***, **, and * indicate significance at the 1%, 5%, and 10% level, respectively.

Panel A: Subsample Regression Results on Workplace Flexibility

	(1) Btm 50% Flexibility in Each Ind. W/O Median Obs.	(2) Top 50% Flexibility in Each Ind. W/ Median Obs.
	BonusGap	BonusGap
Suspect	6.972***	1.447
	(3.001)	(0.836)
	Difference in *Suspect* =5.525**	
	p=(0.028)	
Controls	Yes	Yes
Subsidiary FE	Yes	Yes
Parent's Ind-Year FE	Yes	Yes
Observations	849	1,383
Adjusted R-squared	0.589	0.569

Table 7: The Bonus Pay Gap and Workplace Flexibility (continued)

Panel B: Summary Statistics by Workplace Flexibility

	Bottom 50%		Top 50%			
Subsidiary-Level Variables	N	Mean	N	Mean	Diff.	T-stat
BasicGap (%)	858	17.901	1388	16.736	1.166	2.040
BonusGap (%)	858	37.905	1388	37.971	-0.066	-0.048
FemaleRatio(%)	856	35.22	1385	34.56	0.661	0.844

Parent-Level Variables	N	Mean	N	Mean	Diff.	T-stat
Suspect	444	0.333	522	0.328	0.006	0.189
ROA	446	0.054	522	0.050	0.004	0.583
Change in ROA	446	-0.008	522	-0.005	-0.002	-0.511
Log (Employee)	446	7.900	522	8.747	-0.847	-8.728
Sales Growth	446	0.081	522	0.047	0.035	2.559
Log Sales/Employee Ratio	446	12.079	522	12.125	-0.046	-0.819
Abnormal Change in Employees	446	-0.007	522	-0.025	0.018	1.321
Leverage	446	0.192	522	0.191	0.001	0.097
Overall ESG Scores	431	0.559	513	0.717	-0.158	-9.661
Avg. Num. of Female Directors	444	0.347	522	0.466	-0.119	-3.759

Table 8: The Bonus Pay Gap and Corporate Sustainability

This table examines the corporate sustainability aspect of corporate culture and its potential impact on the relation between benchmark-beating pressure and the bonus pay gap (*BonusGap*, %). For corporate sustainability, I obtain data on each parent company's ESG scores from *Refinitiv*, including Overall (Panel A) and Social scores (Panel B). Panel C reports the summary statistics of the two subsamples based on overall ESG scores. Similar to Table 7, I calculate the average score in each category throughout the sample period of 2017-2021 and then assign the score to each subsidiary within the same parent company group. I account for industry norms by defining low (high) sustainability firms relative to the industry median, rather than the sample median. Moreover, because corporate sustainability is a parent-level variable that will be absorbed by subsidiary fixed effects in a pooled regression, I use the Fisher's permutation test (e.g., Cleary 1999; Brown et al. 2010) to test the statistical significance of the difference between the two coefficients on *Suspect*. I bootstrap 1,000 times to calculate the p-value, representing the likelihood of obtaining the observed difference between the two "*Suspect*" coefficients if the true coefficients are, in fact, equal (Gao et al. 2023). T-statistics are presented in parentheses with robust standard errors clustered at the parent level. ***, **, and * indicate significance at the 1%, 5%, and 10% level, respectively.

Panel A: Overall ESG Scores and the Bonus Pay Gap

	(1) Overall Scores Btm 50% in Each Ind. BonusGap	**(2)** Overall Scores Top 50% in Each Ind. BonusGap
Suspect	6.760***	2.630
	(2.936)	(1.260)
	Difference in *Suspect* =4.130**	
	p=(0.034)	
Controls	Yes	Yes
Subsidiary FE	Yes	Yes
Parent's Ind-Year FE	Yes	Yes
Observations	958	1255
Adjusted R-squared	0.575	0.562

Panel B: Social Scores and the Bonus Pay Gap

	(1) Social Scores Btm 50% in Each Ind. BonusGap	**(2)** Social Scores Top 50% in Each Ind. BonusGap
Suspect	7.994***	-0.033
	(3.644)	(-0.024)
	Difference in *Suspect* =8.026***	
	p=(0.000)	
	Yes	Yes
Subisdiary FE	Yes	Yes
Parent's Ind-Year FE	Yes	Yes
Observations	963	1240
Adjusted R-squared	0.591	0.550

Table 8: The Bonus Pay Gap and Corporate Sustainability (continued)

Panel C: Summary Statistics by Overall ESG Scores

	Bottom 50%		Top 50%			
Subsidiary-Level Variables	N	Mean	N	Mean	Diff.	T-stat
BasicGap (%)	963	19.518	1260	15.449	4.069	7.307
BonusGap (%)	963	41.872	1260	35.062	6.810	5.002
FemaleRatio(%)	959	36.600	1259	33.204	3.396	4.445
Parent-Level Variables	N	Mean	N	Mean	Diff.	T-stat
Suspect	562	0.352	384	0.305	0.048	1.527
ROA	562	0.059	384	0.045	0.013	2.159
Change in ROA	562	-0.006	384	-0.008	0.002	0.339
Log (Employee)	562	7.785	384	9.275	-1.490	-16.349
Sales Growth	562	0.075	384	0.040	0.035	2.613
Log Sales/Employee Ratio	562	11.986	384	12.284	-0.298	-5.296
Abnormal Change in Employees	562	-0.012	384	-0.021	0.009	0.070
Leverage	562	0.181	384	0.205	-0.024	-2.191
Flexibility Scores	560	1.208	384	1.630	-0.423	-4.760
Avg. Num. of Female Directors	562	0.224	384	0.711	-0.487	-16.994

Table 9: The Bonus Pay Gap and Female Directors

In this table, I attempt to measure corporate culture by using the number of female directors as a metric. Panel A presents the subsample regression results, and Panel B reports the summary statistics of the two subsamples. The independent variable is the gender gap in bonuses expressed as a percentage (*BonusGap*) while the main treatment variable is *Suspect*, an indicator variable equal to 1 when the observation is suspected of earnings management. For information on each company's female board representation, I calculate the average number of female directors for the period of 2017-2021 and assign this number to each subsidiary in the same parent company group. The sample is divided at the sample median, 2.44, for the subsample analysis. Moreover, to test the statistical significance of the difference between the two coefficients on *Suspect*, I use the Fisher's permutation test (e.g., Cleary 1999; Brown et al. 2010) and bootstraps 1,000 times to calculate the p-value, representing the likelihood of obtaining the observed difference between the two "*Suspect*" coefficients if the true coefficients are, in fact, equal (Gao et al. 2023). T-statistics are presented in parentheses with robust standard errors clustered at the parent level. ***, **, and * indicate significance at the 1%, 5%, and 10% level, respectively.

Panel A: Subsample Regression Results on Female Board Representation

	(1)	**(2)**
	No. of Female Directors Btm 50% (<2.44)	No. of Female Directors Top 50% (>=2.44)
	BonusGap	BonusGap
Suspect	6.934***	1.673
	(3.180)	(1.003)
	Difference in *Suspect* = 5.261*** p=(0.003)	
Total Board Size	0.694	0.0736
	(0.713)	(0.163)
Controls	Yes	Yes
Subsidiary FE	Yes	Yes
Ind-Year FE	Yes	Yes
Observations	1,117	1,116
Adjusted R-squared	0.519	0.605

Table 9: The Bonus Pay Gap and Female Directors (continued)

Panel B: Summary Statistics by Female Board Representation

	Avg. Number <2.44		Avg. Number >2.44			
Subsidiary-Level Variables	N	Mean	N	Mean	Diff.	T-stat
BasicGap (%)	1127	17.432	1121	16.942	0.490	0.882
BonusGap (%)	1127	40.050	1121	35.835	4.216	3.139
FemaleRatio(%)	1123	33.782	1120	35.839	-2.057	-2.709
Parent-Level Variables	N	Mean	N	Mean	Diff.	T-stat
Suspect	569	0.351	399	0.308	0.051	1.653
ROA	569	0.048	399	0.058	-0.011	-1.701
Change in ROA	569	-0.008	399	-0.005	0.002	0.339
Log (Employee)	569	7.823	399	9.120	-1.297	-13.968
Sales Growth	569	0.080	399	0.039	0.041	2.996
Log Sales/Employee Ratio	569	11.963	399	12.303	-0.340	-6.167
Abnormal Change in Employees	569	-0.009	399	-0.028	0.019	1.387
Leverage	569	0.179	399	0.209	-0.030	-2.747
Flexibility Scores	569	1.147	397	1.683	-0.536	-6.141
Overall ESG Scores	562	0.492	384	0.870	-0.378	-30.630

Table 10: Falsification Test Based on Alternative Temporal Settings

In this table, I conduct a falsification test by shifting the treatment variable, *Suspect*, by one year, both lagging and leading. Specifically, *Lag_Suspect* (*Lead_Suspect*) is an indicator variable that takes the value of 1 when the subsidiary's parent company meet the latest forecast consensus by 0 to 1 British pence in the previous (following) year. The dependent variable remains the bonus pay gap (*BonusGap*, %) from the current year. T-statistics are presented in parentheses with robust standard errors clustered at the parent level. ***, **, and * indicate significance at the 1%, 5%, and 10% level, respectively.

	(1)	**(2)**
	Sampled Firms 2017-2021	Sampled Firms 2017-2021
	BonusGap(%)	***Bonus***Gap(%)
Lag_Suspect	-0.529	
	(-0.275)	
Lead_Suspect		0.928
		(0.614)
Controls	Yes	Yes
Subsidiary FE	Yes	Yes
Parent's Industry-Year FE	Yes	Yes
Observations	2,165	2,076
Adjusted R-Squared	0.565	0.590

Table 11: Sensitivity Tests on the Definition of Suspect

In this table, I explore whether the relation between benchmark-beating pressure and the bonus pay gap is sensitive to alternative intervals of forecast error used to define suspicion of earnings management, *Suspect*. Panel A reports the parent-year level summary statistics of Suspect when the interval of forecast error is different. Panel B reports the subsidiary-level regression results based on these alternative definitions of *Suspect*.

Panel A: Different Definitions of *Suspect*

Variables	Mean	STD	P25	P50	P75	N
Suspect (2 Pence)	0.45	0.50	0	0	1	968
Suspect (1 Pence)	0.33	0.47	0	0	1	968
Suspect (0.5 Pence)	0.22	0.41	0	0	0	968
Suspect (0.25 Pence)	0.13	0.33	0	0	0	968

Panel B: Regression Results

	(1) Sampled Firms 2017-2021	(2) Sampled Firms 2017-2021	(3) Sampled Firms 2017-2021	(4) Sampled Firms 2017-2021
	BonusGap(%)	***Bonus***Gap(%)	***Bonus***Gap(%)	***Bonus***Gap(%)
Suspect (2 Pence)	3.900***			
	(2.602)			
Suspect (1 Pence)		4.228***		
		(2.670)		
Suspect (0.5 Pence)			4.595***	
			(3.052)	
Suspect (0.25 Pence)				4.038**
				(2.302)
Controls	Yes	Yes	Yes	Yes
Subsidiary FE	Yes	Yes	Yes	Yes
Parent's Industry-Year FE	Yes	Yes	Yes	Yes
Observations	2,248	2,248	2,248	2,248
Adjusted R-Squared	0.571	0.571	0.571	0.569