Gender diversity curbs CEO excess

November 17 2015, by Natasha Wallace

Women on company boards ask the hard questions when awarding CEO salaries. Credit: Thinkstock

Chief executives are less likely to be overpaid when women are on a board's compensation committee, according to world-first research that draws a direct link between the two.

The findings, based on a detailed analysis of almost 2000 US companies, show strong evidence that gender-diverse compensation committees are associated with lower levels of CEO compensation as well as excess compensation (for example unexplained bonus amounts).

Co-author Zoltan Matolcsy, professor of accounting in the UTS Business School, says the research makes an important contribution to the public policy debate about gender diversity on boards.

His project, The Association between Gender-Diverse Compensation Committees and Excess CEO Compensation, is a collaboration with UTS colleagues Professor Martin Bugeja and Dr Helen Spiropoulos.

Their research is based on annual company data collected between 2002 and 2009, and comes at a time of widespread criticism of high chief executive salaries and moves for "say on pay" reforms that would give shareholders more input on remuneration levels.

According to The Australian Financial Review's annual salary survey (2014), 264 chief executives in Australia were paid more than $1 million a year, with the then Nine Entertainment boss David Gyngell topping the list on $19.6 million.

However, Professor Matolcsy says he does not support mandated quotas for women on boards, which is the case in several European countries, as more evidence is needed that they increase the economic benefit.

"It may very well be justified on equity grounds but I think at the end of the day we want economic benefits and, if we can't come up with that evidence, we need to leave the market alone … Just to push for regulations because it sounds good is not a reasonable proposition from my perspective," says Professor Matolcsy.

However, research already shows gender diversity can have positive economic consequences. Companies with gender-diverse boards are known to be better informed about share price movements, to have higher earnings quality and to make better merger and acquisition decisions.

It is suggested this may be due to different group dynamics during meetings or to female directors asking tougher questions because they are less likely to feel indebted or be "captured" by the chief executive. That could be because they feel more secure in their position, having had to work harder to attain their board seat, or because the company faces pressure to have one or more female directors on the board.

The UTS research also showed positive returns on assets for companies with CEOs who were paid excess compensation only when women were on the committees.

Professor Matolcsy is reluctant to speculate on what's behind the team's finding of downward pressure on CEO pay.

"I can't tell you. I have no idea … this research is devoid of saying that women are whatever or men are whatever because then we are sexist or misogynist … but we know that we are different."

Shareholder activist Stephen Mayne says the research presents a compelling argument for more women on boards.

"The bottom line is men are greedier than women. They are more aggressive and they are more used to large pay packets. The fastest way to destroy money in a public company is from overpriced takeovers. Men are very happy to write a big cheque to vanquish some competitor or expand their empire and women are more constrained than that," says Mayne.

"They are not dominated by ego and it's not about winning at all costs, so that culture would also come into a remuneration situation. Women are more respectful of shareholders' money and don't want to waste it on overpaid men."

The executive chair of Women on Boards, Ruth Medd, says the research clearly shows what has been known for more than a decade – that having women on compensation committees leads to a broader evaluation of CEO performance beyond financial outcomes to include such measures as environmental impact and corporate values.

Medd attributes the restraint in CEO pay to the fact that fewer women on compensation committees are likely to be former chief executives.

"If it's the male club who's deciding on the worth of another member of the male club, then you might get a different outcome than if it's a mixed group who is deciding," says Medd.

Provided by University of Technology, Sydney

Citation: Gender diversity curbs CEO excess (2015, November 17) retrieved 5 May 2024 from https://phys.org/news/2015-11-gender-diversity-curbs-ceo-excess.html