Gender pay gaps: Self-sabotaging diversity and profits in Australian firms

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New research from the University of South Australia shows a significant gender pay gap across most Australian firms, with 80 percent of them paying female executives 30-35 percent less than their male counterparts, despite being of equal caliber, education, and achievement.

While it's evidence that gender inequality is still live and (un)well in top tier management, it also reveals that the impact goes far beyond the individual, with large gender pay gaps directly associated with lower firm performance,

The world-first study assessed 539 ASX-listed firms across 10 years of data (2095 observations) to identify the implications of gender pay disparity in top management teams.

UniSA researcher, Professor Carol Kulik, says the study confirms that Australian businesses that are not compensating men and women equally, are effectively self-sabotaging their diversity efforts and overall firm profit.

"It might surprise people that gender pay gaps exist at very senior levels, but with senior performance criteria often vague and subjective—and gender stereotypes still rife—the resulting imbalance is commonplace," Prof Kulik says.

"We hear a lot about the benefits of women in executive levels. They provide different views and perspectives, reduce risks, improve decision-making, and promote performance, but if a firm has a large gender pay gap, promoting women to the top team will neither deliver benefits for the individual nor the organization.

"Our research shows that gender pay disparities in top management teams negatively moderate the relationship between the women's representation and subsequent firm performance.

"In dollar figures, if a male executive is paid 2.6 times that of their female counterpart, every woman added to the team will lower the firm's annual return on assets by 2.2 percent.

"The cause, we suspect, is that underpaying women sends a powerful signal that the organization has low expectations about women's contributions—that women executives have a lower status and less influence than their male counterparts.

"Women executives are then less forthright with their views; and men are more likely to discount their female colleagues' opinions.

"Ultimately, a gender pay gap reduces the extent to which women's voices can influence the executive's actions and decisions, so the firm gets no value from the diversity within the team."

The study controlled for executive quality, ensuring comparable education, executive role, tenure, and board memberships, to ensure women were not being discounted because they had less to contribute.

Co-researchers, Dr. Yoshio Yanadori and Dr. Jill Gould say that the research is a warning for organizations that are driving gender diversity initiatives.

"Organizations pay a price for gender inequality," Dr. Yanadori says.

"Just because an organization has a good representation of women at the top doesn't mean that they are a gender equal firm. Women's representation is only one indicator.

"Stakeholders must dig deeper to establish whether the organization is best positioned to use its visible gender diversity effectively.

"Gender diversity must be matched with equal pay. If organizations have women in senior leadership roles but pay them less than their male counterparts, they're simply shooting themselves in the foot."

The findings were published in *Human Resource Management*.

More information: Yoshio Yanadori et al, Who pays the penalty? Implications of gender pay disparities within top management teams for firm performance, *Human Resource Management* (2021). DOI: 10.1002/hrm.22067

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