

# Young start-up companies survive longer if they have a high proportion of women, says economist

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In his book, "Behavioral Economics for Leaders: Research-based insights on the weird, irrational, and wonderful ways humans navigate the workplace", Matthias Sutter, director at the Max Planck Institute for Research on Collective Goods,

describes findings from behavioural economics that are relevant in everyday professional life. Credit: ECONtribute: Markets & Public Policy

Matthias Sutter has been Director at the Max Planck Institute for Research on Collective Goods in Bonn since mid-2017. He is one of the most prominent research-focused behavioral economists in the German-speaking world. He focuses on how and for what reasons people make certain economic decisions. In his latest book, "Behavioral Economics for Leaders: Research-based insights on the weird, irrational, and wonderful ways humans navigate the workplace" (hardcover, Wiley, 2023, 256 pages), he describes 50 behavioral economic findings to promote the understanding of the "human factor" in professional life and to facilitate successful cooperation. The German version of the book was on the bestseller list shortly after its publication in Austria.

In the following interview, Sutter explains why working from home can cause a career setback, what height has to do with earning money, to what extent some industries attract untrustworthy characters, why bonus payments always have to be transparent and why gender quotas ultimately make sense.

**Mr. Sutter, ever since the coronavirus pandemic, many people have been working from home. While this has its benefits, according to a study that you describe in your new book 'Behavioral Economics for Leaders: Research-based insights on the weird, irrational, and wonderful ways humans navigate the workplace,' there is one key disadvantage: it decreases the likelihood of being promoted. Why?**

Matthias Sutter: The explanation is probably related to the well-known saying "out of sight, out of mind." For [career advancement](#) you need not only suitable skills and professional experience, but also a good network within a company. And it is obviously easier to cultivate this in the office than virtually from home.

**There is one surprising criterion of success that does not play a role in Zoom meetings and in virtual professional life, but that does matter in real life: height. The taller people are, the more successful they are and the more money they make. Is this really true? Chancellor Scholz, Angela Merkel, and Gerhard Schröder can hardly be described as tall.**

Statistically, several studies show that taller men earn more on average. As a rule of thumb, ten centimeters of extra height translates to about ten percent more income. While height plays an important role in the teenage years, later employers are largely unaware of it. On average, taller [young people](#) have a larger circle of friends and are more involved in social activities or [volunteer work](#). This helps them to gain important skills that will pay off in later life: such as reliability, leadership skills, cooperation or the ability to delegate. The fact that Germany's last chancellors were not very tall only shows that they had to have skills that were far above-average in other areas.

**Does the same also apply to tall women?**

In principle, yes, but the data is less clear for [women](#) than for men. This may also be due to the higher frequency of career breaks, which make it more difficult to establish the same connections.

## **Men and women often differ in their willingness to compete in the career world for reasons that are not necessarily genetic. Why is that?**

In my own work, I have found that even at kindergarten age, boys enjoy competing much more than girls. This may have something to do with role models and role expectations. In professional life, facing competition is often essential—such as for an attractive job, for example. If women are less comfortable in such situations and are, therefore, more likely to avoid them, well-qualified women will be lost as candidates for such roles. This is a great loss for the companies, in particular, and society in general.

## **Does something need to change in the education of young girls?**

There are some studies which show that success in competitive situations reduces gender differences in willingness to compete. This is why, for example, I encouraged my daughters early on to try out activities with a competitive element.

## **When we look at societies where women play a greater role than men, such as the Khasi people in northeastern India, it becomes apparent that the culture in which we grow up have an impact on our willingness to compete. What can we learn from this?**

In matrilineal societies, women dominate because, for example, inheritance laws entitle them to more than men and it is customary for men to move to their wife's residence. It would appear that this leads to

women being more competitive than men in such societies. What we can learn from this is that the organization of a society has a very strong influence on economically relevant behavior.

**One outcome detailed in your book is that young start-up companies survive longer if the proportion of women in the workforce is higher. Women on the board and as CEOs also have an influence on salary distribution and productivity in companies. This all sounds very 'politically correct.' But what are the facts behind this?**

I hadn't thought of it in that way, but yes, it can be interpreted like that, although it is not about that. If start-ups have a significantly below-average proportion of women in their workforce—below average compared to the average in the respective industry—then this suggests a distortion in the recruitment process. This means that well-qualified women are consciously or unconsciously disadvantaged compared to men. Such distortions are a clear indication that companies do not have an optimal personnel policy. If more women sit on the board, the pay gap between men and women will narrow, especially at levels below the boardroom.

**You used to be an opponent of gender quotas, but have since changed your opinion. Why do you think gender quotas makes sense?**

My research with Loukas Balafoutas shows that quotas motivate the most capable women, in particular, to compete. Our studies show that this is something that they often do not do without quotas. I think this

effect makes a lot of sense today, because we want the best people to be successful irrespective of gender.

**You say that if you want to go all the way to the top, you must be pretty strong-willed. And a good communicator. Why is that?**

What I mean by strong-willed is that you need perseverance and patience, because the way to the top is a long one. Communication skills, social skills and generally the ability to get on with other people are helpful here. This is what I mean by the "human factor": Being able to interact with people, to cooperate and also to manage them always pays off, both in terms of career opportunities and the pay slip.

**The 'human factor' also plays a role in the choice of industry. You have found that some industries attract employees who are less trustworthy. How can this be measured?**

We behavioral economists like to use a "trust game," originally invented by Joyce Berg and co-authors. In it, person A is given, let's say, 100 euros. Person A can send some of it to person B. This amount will be tripled. If, for example, person A sends the entire 100 euros, then person B gets 300 euros. After that, person B can return something to person A, but this will no longer be tripled. For example, person B could then divide their 300 euros equally, which would give both 150 euros. In this example, the trust of person A—who can only hope that person B will give something back—would have paid off because person B was trustworthy by returning large part of the money,

**Have you ever run this experiment in the financial**

## sector?

Yes, with students from the University of Frankfurt am Main, many of whom find their first jobs in the financial sector. We have found that students who want to work in the financial sector return—as person B—significantly less than students who want to work in other industries. To ensure that these results were watertight, we contacted these students repeatedly over a period of six years. Ultimately, we established that those who start their careers in the [financial sector](#) returned significantly less in the experiment as person B than other former students in other sectors.

**Many of us are attracted by money, not only in the financial sector. And to make employees more productive, companies also like to pay bonuses. It has now been found that performance-related pay can be quite counterproductive—if it violates fairness. What does that mean?**

Axel Ockenfels et al have found that bonus payments can be demotivating and reduce job satisfaction—whenever employees can accurately compare their bonuses and feel that they have been treated unfairly. In the specific case of a multinational corporation, this was primarily due to the fact that some of the employees' performance was rated as "average—met expectations." However, if these employees received less—even if only slightly less—than the average bonus payment in their department, then they perceived this as a blatant violation of the principle of fairness. And this in turn has led to dissatisfaction and lower performance. Transparency and congruence—what you do must match what you say—are enormously important for the acceptance of bonus payments.



## **Reading your book, one quickly realizes that there is still significant room for improvement in today's professional life. What can individuals do to improve?**

I prefer to answer this with a quote from Mahatma Gandhi, which I really value: "Be the change you wish to see in the world." This way, everyone can make a difference.

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