

Risky Business: Female Executives and the Pay Gap

The gender pay gap is a well-documented phenomenon, even in the rarefied air of corporate boardrooms. In this study, IESE's Mireia Giné analyzes the gap and looks at two possible explanations: women's apparent aversion to taking risks (in the form of stock options) and their underrepresentation on boards.



June 5, 2017

Women earn less than men do for the same work. But if anyone is exempt from this rule, surely it's highly-qualified, and highly paid, female executives.

Not so, according to research by Mary Ellen Carter of Boston College, Francesca Franco of London Business School and [Mireia Giné](#) of IESE. Even in the rarefied air of corporate boardrooms, women are earning less than men.

How much less depends on a number of factors. Running the numbers on a large sample of executives working for U.S. publicly traded companies from 1996 to 2010, the co-authors examine how women's apparent aversion to risk and their underrepresentation on corporate boards may play into the statistics. Homing in on those two factors, the second may be easier to fix than the first. In fact, the co-authors' research suggests boosting female representation on corporate boards may help equalize pay for all.

Money for Nothing?

The pay gap between male and female employees is frequently covered in the mainstream press, yet the reasons for it remain unclear. Focusing their efforts on executive pay, Carter, Franco and Giné found that women receive significantly lower salaries and total compensation compared to men. Salary and compensation gaps were about 7 and 15 percent, respectively, even after controlling for tenure, job responsibilities and other factors.

In fact, controlling for outside factors -- such as age, job tenure, title, firm size, firm performance and more -- was central to the study. In an attempt to eliminate bias, the study used a statistical technique called propensity-score matching to pair thousands of female executives with a subsample of male executives, selected for their similarities. The samples were drawn from executives working at S&P 1500 companies -- i.e., at 1,500 publicly held companies trading on U.S. stock exchanges.

Lower pay did not stem from educational differences. When 4,769 male-female pairs were compared, matching their attendance of ivy-league schools and MBA degrees, gender gaps remained.

The co-authors also examined the results of executive turnover, and found that when male executives were replaced by female executives, compensation was negatively affected, whereas when the change was female to male, compensation went up.

The Risks of Risk Aversion

"A challenge in documenting the existence of executive gender pay gaps is establishing the counterfactual pay rate -- that is, the pay female executives would have earned had they been males, all else equal," the authors assert.

Executives don't just receive a salary; their compensation package typically includes equity incentives. These incentives carry potentially greater rewards, but also greater risk. Female

executives were found to hold significantly lower equity incentive levels than their male counterparts, suggesting that they show, on average, a greater aversion to risk.

This equity gap is partially compensated for by additional "safe" pay, such as salary; however, taking both salary and overall compensation into account, women still received lower total pay compared to their male colleagues. It seems risk aversion explains part of the continuing gap, but is not the only factor.

Safety in Numbers

If risk aversion lowers a female executive's compensation, keeping company with other women can work to counter that trend.

When the study turned its sights on gender diversity within the board of directors, results showed that more female representation on the board resulted in smaller pay gaps. "For a firm with sample average proportion of female board members (9 percent), the gender pay gap in total compensation is approximately 5 percent lower than the 21 percent gap for firms with no females on the board," the authors assert.

These results suggest that encouraging increased gender diversity on boards may help erase gender pay discrepancies, all else being equal. Whether it's women's participation in overall corporate governance decisions or their say specifically on executive compensation committees doesn't really matter. Either way, even a single female board member could help level the playing field in terms of pay, the study indicates.

Meanwhile, women's reluctance to go for stock- or option-heavy compensation packages may be harder to control. The data indicates the phenomenon is real, but the remedy is unclear.

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