

THE PAY AND LONGEVITY OF FEMALE AND ETHNICALLY DIVERSE CEOs

Research in the *Strategic Management Journal* tests competing views of minority CEOs. They develop arguments that membership in an underrepresented group might lead to decreased salaries and increased risk of exit based on bias, as is common in lower levels of organizations. On the other hand, demand for diverse CEOs may outstrip supply, which would lead to higher pay and more job security. The authors find that female and ethnic minority CEOs actually command higher compensation. The impact of minority status on job exit was inconclusive.

Key Takeaways:

- Minority CEOs could be hindered by bias, or might be in high demand, and there's reason to expect either.
- Female CEOs make 6% more, and ethnically diverse CEOs make 32% more total compensation than their similarly situated white male counterparts.
- This is not necessarily evidence that bias does not exist at the highest levels of the firm – females and ethnic minorities are still substantially underrepresented among for CEOs.

Substantial research about the biases that lead to unequal pay for women and minorities implies that female and minority CEOs might be paid less. A contrary view is that female and ethnic minority CEOs bring unique perspectives and provide motivation to similar workers elsewhere in the organization. These CEOs might also be especially talented, because overcoming bias throughout their career path requires unique

qualities. Also, a scarce market for diverse talent could drive up compensation. This research tested these theories against each other to find out whether minority CEOs experience bias or capture added value through higher compensation and longer survival in their CEO post.

The authors examined 2,255 publicly traded firms over ten years. About 2% of their observations were of firms with female CEOs, and 4% with ethnically diverse CEOs. Considering firm and environmental conditions, they concluded that female CEOs made about 6% more in total compensation, and ethnically diverse CEOs made 32% more than their white male counterparts. Tests of the link between diversity and job exit were mostly inconclusive.

The research team cautioned that their results do not disprove discrimination against female and minority CEOs, who are still quite uncommon. They also questioned whether their findings would hold in smaller, private companies.

Hill, A. D., Upadhyay, A. D., & Beekun, R. I. (2015). Do female and ethnically diverse executives endure inequity in the CEO position or do they benefit from their minority status? An empirical examination. *Strategic Management Journal*, 36(8): 1115-1134.

