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Firms’ productivity rises as women become executives

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There may be more women in the corner office today than a decade ago, but the gender gap is still very real at the top of the corporate ladder. As of 2012, women made up a little more than 50 percent of white collar workers but represented only 4.6 percent of executives, according to “Do female executives make a difference? The impact of female leadership on gender gaps and firm performance” (National Bureau of Economic Research working paper no. 22877, December 2016).

In that study, economists Luca Flabbi, Mario Macis, Andrea Moro, and Fabiano Schivardi answer the question: How would the corporate world be different if there were more female leaders? They explore what happens to a firm’s wages and productivity when women are promoted to executive roles.

The authors use a unique matched employer–employee panel dataset representative of Italian manufacturing firms with at least 50 employees between 1982 and 1997. The data include all employees at a firm and are used to calculate measures such as employee compensation, sales per worker, value added per worker, and total factor productivity.

An executive’s personal traits—such as leadership style or intelligence—go a long way in determining a firm’s policies and success. Not surprisingly, a characteristic as fundamental as gender also plays a large role.

One of the major findings is that the performance of a firm led by a female CEO increases with the share of female workers. In other words, the more women who work for the firm, the better the firm does when a female CEO is in charge.

A firm where the workforce is 20 percent female would increase overall sales per employee by about 3.7 percent if it hired a female CEO. If a female CEO took over a male-managed firm where the workforce is at least 20 percent female, sales per employee would increase by about 14 percent.

The study also found that wages change when a woman becomes CEO. Female leadership has a positive impact at the top of the female wage distribution and a negative impact at the bottom. Female workers at the top of the wage distribution receive wages that are about 10 percentage points higher when the workers are employed by a female CEO. Female workers at the bottom of the wage distribution receive wages that are about 3 percentage points lower when there is a female CEO. The impact of female CEOs on male workers’ pay turns out to be the opposite: wages decrease for men at the top of the wage distribution and increase for men at the bottom.

The authors theorize that female leaders have a better ability to “interpret signals of productivity.” For example, female leaders are better at matching employees to jobs that are in line with skills. Female leaders also pay employees wages that are closer to their actual productivity. They also suggest that the positive outcomes are a product of complimentary relationships between female workers, including mentoring.

The authors conclude by noting that businesses potentially face substantial costs due to a lack of women in top corporate jobs, and particularly urge companies with a substantial number of female workers to assign women to leadership positions.