GENDER

Research: Gender Pay Gaps Shrink When Companies Are Required to Disclose Them

by Morten Bennedsen, Elena Simintzi, Margarita Tsoutsoura, and Daniel Wolfenzon

JANUARY 23, 2019

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Government-mandated reporting of gender pay discrepancies has been a subject of much debate in the last 5-10 years. Those arguing for legislation to require such reporting say that it will help to address the persistent gender wage gap. Opponents insist that not only is that unlikely; it will also increase companies' administrative burden and decrease profits. Until recently there has been no strong evidence to support either side.

However, we have just conducted the first empirical study on the impact of mandatory wage transparency. That study's results suggest that disclosing disparities in gender pay does in fact narrow the gender wage gap. It also can:

- Increase the number of women being hired, indicating that the supply pool of female employees increases as gender pay transparency improves.
- Increase the number of female employees being promoted from the bottom of the hierarchy to more senior positions.
- Lower companies' overall wage bills, largely by slowing down the growth of male wages.

Our research examined wage statistics of Danish companies before and after the introduction of the country's 2006 Act on Gender Specific Pay Statistics. That legislation requires companies with more than 35 employees to report on gender pay gaps. We focused on companies with 35-50 employees who had to report their wage gaps (we call them mandatory reporting firms) and compared their pay data with identical information from a group of similar-sized firms with 25-34 employees that weren't required to release gender-segregated data (our control group).

Our results showed that from 2003 to 2008, the gender pay gap at mandatory reporting firms shrank 7%, from 18.9% to 17.5%, while the gap at control firms stayed steady at 18.9%. These findings suggest that governments can indeed take effective steps to address gender wage disparities by making it mandatory for firms to provide data showing discrepancies in gender pay.

Wage transparency is not without cost, however.

All employees' remuneration increased during the period of our study, but the wages of men working in mandatory reporting firms increased by less than those in the control group.

Furthermore, mandatory reporting firms in our study experienced a significant 2.5% decline in productivity relative to the control group. However, by the end of our study period, the mandatory reporting firms' overall wage bills were 2.8% lower than those of the control firms. Thus, the decline in productivity is fully offset by the saved wage cost and we do *not* find that the increased transparency impacts firms' net income. Firms concerned about a negative impact of these new laws on their profit don't seem to have reason to fear.

Creating a more equitable workplace

We also found that the law had other beneficial effects on equity. It had a greater impact on the wages of low and intermediate level employees and had no significant effect on the pay performance of managers at the top of the corporate hierarchy. For example, low-level female employees in firms that reported on their gender pay gap were also more likely to get promoted to higher levels after the passage of the law.

Furthermore, mandatory reporting companies hired 5% more women in the intermediate and lower hierarchy levels than the control firms, suggesting firms are able to attract more female employees in positions where they offer fairer compensation.

While we didn't see a statistically significant change in departure rates of male or female employees, there was a slightly higher number of departures of high-level females, an indication that women may be more likely to leave positions where there is no adjustment in pay towards closing the gender gap.

We also noticed some specific mechanisms at play that enhanced pay gap improvements even further. First, we noticed that the improvement in the pay gap was most prevalent in firms where male managers had more daughters than sons. In these companies, female wages rose 5% higher than the rest of the mandatory reporting group, closing the gender pay gap by a further 2.4% - further support for an argument made elsewhere that men with diverse home lives are more progressive about bringing diversity and equality into the workplace. Second, industries which had higher disparities in pay between men and women before the laws were introduced saw a greater shrinking of the gender wage gap.

Two factors make it particularly remarkable that this reform has had an impact on reducing the gender wage gap: First, the reform was watered down from its original proposed state because of concerns from industry. And second, Denmark had a strong record on supporting women in the workforce even prior to the reform.

For these reasons, we believe that a mandatory wage transparency reform covering all firms would provide even larger reduction in the gender wage gap as would reforms in other less egalitarian countries.

And indeed, every country in the OECD — where government-mandated reporting of gender pay discrepancies has become a particularly prominent legislative issue — has a gender pay gap in favor of men, by an average of 15.1%. Despite the attention of governments and regulatory bodies in these regions this gap is holding fast and in some cases widening. The median gender pay gap across OECD countries ranges from 36.7% in Korea, to 3.4% in Luxembourg.

Our research suggests that governments' efforts to address these disparities through transparency can be effective — and beneficial to firms as well as to their female employees.

Morten Bennedsen is André and Rosalie Hoffmann Chaired Professor at INSEAD and Niels Bohr Professor at University of Copenhagen and the Center for Economic and Policy Research.

Elena Simintzi is an assistant professor of finance at the University of North Carolina Kenan-Flagler Business School and the Center for Economic and Policy Research.

Margarita Tsoutsoura is an associate professor of finance at Cornell University and the National Bureau for Economic Research.

Daniel Wolfenzon is Stefan H. Robock Professor of Finance and Economics at Columbia Business School and the National Bureau for Economic Research.

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