Creating More Economic Equality for Women

How to address resource-based gender gaps across a wide variety of contexts.

Economics & Finance

From a financial resources perspective, women remain relatively disadvantaged. The latest Global Gender Gap Report from the World Economic Forum finds an “economic participation and opportunity gap” of 41.9 percent between men and women globally. Even in developed economies where women are relatively well represented in the workforce, they continue to receive only around 80 cents for every dollar a man earns – and when they are women of colour, even less.

The Women at Work conference held earlier this month on INSEAD’s Singapore campus included a session of research talks that zeroed in on possible interventions for creating economic equality. Set in contexts ranging from rural areas in Sri Lanka to elite MBA programmes in the United States, the research conveyed a sense of the diversity of solutions that will be required if we are to effectively address the multifaceted and complex issues that contribute to financial inequality. Wrapping up the session, Professor Natalia Karelaia, of INSEAD’s Decision Sciences area, led a stimulating and forward-thinking discussion integrating the research and encouraging ideas for future directions and next steps organisations can take.

Good intentions vs. impact

Microfinance is often touted as a sustainable, market-based solution to alleviate the hardships of the poor in developing countries – which usually affect women and children most of all. NGOs and for-profits alike have widely adopted a model of providing small loans to poor people, typically women outside the purview of traditional finance. However, stories of predatory interest rates, aggressive loan collections and misused funds have shed doubt on many microfinance institutions’ ambitious claims of positive impact. The intended
empowering effect for women also often fails to materialise, as husbands or male relatives effectively seize control of the money, for instance. Research evidence further supports a view that microfinance on its own is no magic bullet for large-scale transformation.

During the session, INSEAD Strategy Professor Jasjit Singh explained that microfinance institutions and their funders often mistakenly assume that all recipients of microfinance loans are entrepreneurs-in-waiting, lacking only the capital necessary to lift themselves out of poverty. Consequently, many proponents of microfinance have been obsessed with the idea of providing loans earmarked for launching microenterprises. But Singh and INSEAD Economics Professor Pushan Dutt found that for clients of one Sri Lankan microlender, microenterprise loans were associated with no greater (and if anything, slightly less) impact upon household income than other types of “livelihood loans”, such as those supporting traditional methods of subsistence through agriculture, livestock or fisheries. Further, the distinction between livelihood and non-livelihood loans (the latter may be used for housing, education and the like) seems rather thin in terms of actual impact, according to the working paper that emerged from Singh and Dutt’s research.

Singh and Dutt also concluded that all types of loans – no matter how large – were more beneficial when the amount disbursed matched the request lodged in the loan application, suggesting that the rather low ceilings placed on microfinance loans (to minimise risk) can get in the way of making a real difference. The authors also examined peer effects among borrowers, which have in prior research been shown to help ensure that the microfinance loans get paid despite not being backed by collateral. Singh and Dutt found that such peer effects – such as multiple women taking livelihood loans together – might also help the livelihood loans become more impactful.

The poor should not be forced onto the entrepreneurship track through rigidly targeted loans, Singh says. Instead, he recommends that microfinance institutions offer more flexible sources of funding and a wider range of financial products to better meet the needs of the clients, who are mostly women. Also, lenders should remember that finance is only one aspect of the overall solution. For example, providing the infrastructure to connect women to markets and the resources for improving productivity might be equally important.

She works hard for the money

Campaigns for economic equality are predicated on the idea that men and women are similarly motivated to participate in the economy. The prevalence of gender stereotypes, however, can prevent that idea from gaining traction, as INSEAD Organisational Behaviour Professor Elizabeth Baily Wolf shared in her presentation drawing upon research in progress.

She began with the idea – a mainstay of psychology research since the 1970s – that there are two types of motivation: intrinsic and extrinsic. The former refers to factors originating from within the self, such as pleasure or challenge; the latter encompasses external objectives, e.g. money and social status. In past studies based largely on Western and individualist populations, research participants exhibited a consistent tendency to underestimate their own extrinsic motivations and overestimate those of others. Being motivated by bright shiny things instead of inner fulfilment is seen as shallow, thus undesirable – something from which to distance oneself.

In her ongoing research, Wolf is exploring how gender plays into this. Because traditional family structures denote men as breadwinners while women stay at home, it seems reasonable to assume women would be viewed by many as less extrinsically motivated (particularly less motivated by money) than men. And she finds this. When asked to indicate the money motivation of a “stereotypical” man or woman, people expected that men would be more motivated by money than women.

Why does this matter? Our beliefs about what motivates others go to the heart of how organisations incentivise and reward employees of both genders. Indeed, work by INSEAD Professor Natalia Karelaia shows that the way organisations incentivise women’s and men’s stereotypical leadership behaviours (e.g. exhibiting prosocial vs. competitive qualities) can place women leaders in identity conflict with how they believe an influential leader looks. If women are perceived as caring less about money than men, is it any
wonder they're paid less? However, these commonly held perceptions may not reflect the reality regarding what motivates women.

Indeed, Wolf's initial findings show no support that these gender stereotypes about resources motivating men and women are accurate. When completing surveys about what motivates them personally, men and women report essentially no difference in the extent to which they are motivated by money. In one study, Wolf actually found that women’s self-reported level of money motivation is a little bit higher than that of men.

Wolf says, “The message I have from this research and other research as well is that gender differences are often overblown.” Yet an exaggerated sense of gender difference – in this case, when it comes to motivation – could serve as an underlying justification for perpetuating resource gaps.

**Trial runs can close the gap**

Professor Adina Sterling, of the Stanford Graduate School of Business, argued that one way to resolve this problem would be for companies to have direct proof of female candidates’ high performance prior to hiring them. Fortunately, a popular tool for providing this sort of proof already exists in the business world. It’s called an internship.

For her research (co-authored by Professor Roberto Fernandez of MIT), Sterling analysed salary data for two MBA classes, following them from their pre-MBA days, to their summer internships and beyond. The compensation figures revealed a significant (but smaller than average) gender wage gap favouring men among MBA holders who were hired by companies other than their internship employer. However, when the internship employer and the later full-time employer were the same firm, the gap all but disappeared – in fact, women’s pay was slightly higher, though the difference was not statistically significant.

Sterling says that after controlling for alternative explanations such as possible variances in negotiation skills, it becomes clear that the most likely cause of the levelling effect on salary is the information employers were able to glean about candidates during the internship.

Sterling’s findings seem to support the widely held perception that “men are promoted based on potential, women on performance”. Wolf’s findings on inaccurate motivation-based stereotypes may add a further explanatory layer: Women are seen as having less likelihood of fulfilling their potential, because the prizes (i.e. raises and promotions) organisations have to offer are thought not to hold as much appeal for women. The good news is that at least in some contexts, women’s proven excellence, as conveyed through internships, can supersede gender stereotypes. Advocates of gender-balanced leadership, then, can consider the internship-to-employment track as a potentially effective lever for organisational change.

**Is transparency key?**

In addition to the above, other interventions have surfaced as potential solutions to address economic inequality – with varying effectiveness. Some U.S. states have started enforcing salary history bans as an attempt to close gender wage gaps that might arise from employers having access to prior salary history. However, it remains an open question whether or not salary history bans are actually achieving this goal.

Organisation-wide audits are another potential intervention to reduce gaps and correct inequalities. Salesforce CEO Marc Benioff, for example, committed US$6 million to wage adjustments after two rounds of internal audits revealed significant gender pay gaps throughout the organisation. In an interview, Benioff underscored the clarity and consensus that pay-rate audits can bring to the fraught issue of inequality: “I've had CEOs call me and say, ‘This is not true. This is not real.’ And I'll say to them, ‘This is true. Look at the numbers.’

On the other hand, going strictly by the simple numbers can sometimes prevent one from seeing the forest for the trees, as in the recent Google audit that found — controversially — that some men were underpaid relative to women holding similar job titles. A more holistic view, which also includes analysis of pay grades and salary
relative to experience and performance by gender, is better.

Although wage transparency is only one piece of a larger puzzle on how to create economic equality for women and men and drive balance in terms of respect and representation, it is one that can improve the situation dramatically, in combination with a commitment to remedy inequality, as was the case at Salesforce.

Clarissa Cortland is a Post-Doctoral Research Fellow at INSEAD.

Zoe Kinias is an Associate Professor of Organisational Behaviour at INSEAD and the Academic Director of INSEAD’s Gender Initiative.

Follow INSEAD Knowledge on Twitter and Facebook.

Download the Knowledge app for free