

## WHY AND WHEN DOES THE GENDER GAP REVERSE? DIVERSITY GOALS AND THE PAY PREMIUM FOR HIGH POTENTIAL WOMEN

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**Abundant research has documented a gender pay gap; women earn less than men, all else being equal. Against the backdrop of an overall female penalty, we propose that the widespread adoption of diversity goals in organizations creates a female premium for certain women. We integrate the economic principle of supply and demand with theory from the field of strategic human resource management and theorize that individuals perceive high-potential women—who have the abilities needed to reach the upper echelons of organizations, where women remain underrepresented—as more valuable for achieving organizational diversity goals than high-potential men and, in turn, reward them with higher pay. Two field studies (Studies 1 and 3) and two laboratory experiments (Studies 2 and 4) reveal a female premium that is unique to high-potential women (Studies 1 and 2), driven by perceptions that high-potential women have more diversity value than high-potential men (Studies 2 and 4), and larger in contexts where diversity goals are stronger (Studies 3 and 4). Our theory and findings challenge the assumption that the gender pay gap uniformly disadvantages women and offer new insight into why and when the female penalty reverses and becomes a female premium.**

A strange thing began to happen a couple of years ago. As if the stars had simultaneously aligned in my favor, rather than having to ask, I began receiving [pay]

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We are grateful to David Kravitz, Elizabeth Morrison, and Becky Schaumberg for their feedback on an earlier draft. We also thank the following groups for their feedback on presentations of this work: the Micro Organizational Behavior Work-in-Progress group, New York University Stern School of Business; the Organizational Behavior Unit, Harvard Business School; the Management and Organizations Area, University of Michigan Ross School of Business; the Management Division, Columbia Business School; the Management and Organizations Department, University of Washington Foster School of Business; the Work and Organizations Department, University of Minnesota Carlson School of Management; the Work, Family, and Time Research Group, University of Minnesota Population Center; and the Social-Organizational Psychology Program, Columbia University Teachers College. Finally, we thank George-Levi Gayle, who provided us with the data for Study 3. Studies 1 and 2 were presented at the 2014 annual meeting of the Academy of Management.

increases that were 3–4 times the standard annual rates. In addition to my regular bonus, I received “special” cash and equity incentives from the company’s operating committee and Board of Directors. Soon, executives from external companies began calling and attempting to recruit me to their firms. I honestly wondered what “list” my name was on and how that list had ended up in the hands of this many executives at the same time. I have always delivered strong business results, but the intense focus that companies now have on “diversity” and “gender balance” is definitely working in my favor.

(High-potential woman, personal communication July 2, 2014)

The social sciences have provided abundant evidence of a gender gap in career success. Research spanning economics, industrial relations, management, psychology, and sociology has converged on the conclusion that women earn lower pay and are less likely to be hired and promoted into high-level positions than men (e.g., Blau & Kahn, 2006; Joshi,

Son, & Roh, 2015; Leslie, King, Bradley, & Hebl, 2008; Lyness & Heilman, 2006). Gender differences in human capital, occupation, and other factors explain the gender gap partially, but not fully (e.g., Blau & Kahn, 2007). The inability to fully account for the gender gap is consistent with evidence that women face a number of disadvantages that produce gender differences in career success, all else being equal, including stereotypes that women lack the qualities needed to succeed, and women's limited access to powerful sponsors (e.g., Heilman, 2012; Ibarra, Carter, & Silva, 2010).

In spite of robust evidence of a female penalty, evidence of a female premium has begun to emerge. Recent studies have revealed that women are favored over men in faculty hiring decisions (Williams & Ceci, 2015) and that female executives and CEOs earn more than male executives and CEOs, after controlling for human capital and organizational characteristics (Gayle, Golan, & Miller, 2012; Hill, Upadhyay, & Beekun, 2015). Evidence of a female premium remains the exception, rather than the rule, but suggests that the typical gender gap may reverse under certain circumstances. At the same time, prior work has provided limited theory and no evidence regarding why a female premium emerges, and has also failed to provide theory or evidence regarding when women receive a premium instead of a penalty. Thus, the mechanisms that produce the female premium remain a black box and the boundary conditions that delineate it remain unknown.

We build theory regarding why and when the gender gap reverses by integrating the economic principle of supply and demand with theory from the field of strategic human resource management. Consistent with the above quote, we propose that the female premium is rooted in the prevalence of organizational diversity goals. Facilitating diversity is a strategic goal in many organizations (Bartels, Nadler, Kufahl, & Pyatt, 2013), yet women remain underrepresented in high-level positions (Soarea, Bartkiewicz, Mulligan-Ferry, Fendler, & Kun, 2013b). As a result, high-potential women—defined as women with the abilities needed to reach the upper echelons of organizations—are in high demand. Consistent with the tenets of supply and demand (Jenkin, 1870; Marshall, 1890), we theorize that these conditions create a female premium, such that women earn higher pay than men, all else being equal, but only among high-potential employees.

Supply and demand offers a parsimonious explanation for why diversity goals produce a high-potential female premium, but is agnostic with

regard to how organizational diversity goals affect the pay decisions made by individual managers. Drawing from strategic human resource management theory (e.g., Bowen & Ostroff, 2004), we provide insight into the individual-level mechanisms that produce the high-potential female premium. Specifically, we theorize that organizational-level diversity goals and the associated demand for high-potential women shape individual-level perceptions of employees' value to the organization; individuals perceive high-potential women as higher in diversity value (i.e., more instrumental in achieving organizational diversity goals) compared to high-potential men. Managers, in turn, believe that they are expected to retain high-potential women and thus grant them higher pay compared to high-potential men.

To test our theory, we begin by seeking evidence of a female pay premium that is unique to high-potential women in a field study of a Fortune 500 organization (Study 1). Next, we investigate whether diversity value perceptions produce a high-potential female premium in the laboratory (Study 2). We then return to the field and test whether the premium is larger in industries where diversity goals are stronger (Study 3). We conclude with a second laboratory experiment in which we seek causal evidence that the premium is larger when diversity goals are stronger, and that organizational-level diversity goals drive individual-level diversity value perceptions (Study 4). Our multi-method approach lends credence to the validity of our findings.

The present work advances understanding of the gender gap. Empirically, we investigate whether certain women receive a pay premium, and therefore challenge the prevailing assumption that the gender gap uniformly disadvantages women. Theoretically, we build on limited prior evidence of a female premium by offering insight into why and when this phenomenon occurs; we introduce a new mechanism—perceived diversity value—that explains why women receive a pay premium, and identify a boundary condition—high potential—that explains when the premium emerges. More broadly, our theory contributes to the meso paradigm in organizational research (House, Rousseau, & Thomas-Hunt, 1995). By integrating supply and demand with strategic human resource management theory, we provide insight into the micro-level individual perceptions (i.e., diversity value) through which macro-level organizational initiatives (i.e., diversity goals and the associated demand for high-potential women) produce a high-potential female premium. Practical implications for creating gender equity are discussed.

## THE GENDER PAY GAP

Research has documented a persistent gender pay gap favoring men. Around the globe, women earn 80% or less of what men earn (Altonji & Blank, 1999; Arulampalam, Booth, & Bryan, 2007; Blau & Kahn, 2006, 2007; Grove, Hussey, & Jetter, 2011; Kulich, Trojanowski, Ryan, Haslam, & Renneboog, 2011). Compared to men, women have less human capital (Blau & Kahn, 2006); are more likely to prefer jobs that are intrinsically, versus extrinsically, rewarding (Tolbert & Moen, 1998); are less likely to negotiate pay increases (Kray & Thompson, 2005); and spend more time on personal life responsibilities (Hersh & Stratton, 2002). Controlling for these and other gender differences explains the gap partially, but not fully (Blau & Kahn, 2006, 2007; Graddy & Pistaferri, 2000; Mincer & Polachek, 1974). The inability to fully account for the gender pay gap provides indirect evidence that women earn less than men, all else being equal.

More direct evidence comes from research on a variety of mechanisms that produce a female penalty, in spite of equivalent skills, behaviors, and experiences. Compared to men, evaluators perceive women as less competent (e.g., Biernat & Kobrynowicz, 1997; Eagly & Karau, 2002; Foschi, 2000; Heilman, 1983, 2012; Heilman, Block, & Martell, 1995; Schein, 2001; Swim & Sanna, 1996), believe women experience more work–family conflict (Hoobler, Wayne, & Lemmon, 2009), and assume women value pay less (Belliveau, 2012), each of which limits pay and other career rewards. Managers also grant women fewer of the resources that lead to high-paying jobs compared to men, including less access to challenging assignments, critical feedback, and powerful sponsors (Belliveau, 2005; Ibarra et al., 2010; King et al., 2012). In all, research has documented a female penalty, which has not been fully explained by real differences between men and women.

## THE HIGH-POTENTIAL FEMALE PREMIUM

Against the backdrop of an overall female pay penalty, we propose that certain women receive a pay premium, all else being equal. Drawing from the principle of supply and demand, we theorize that the female premium is rooted in the widespread adoption of diversity goals.

In recent years, many organizations have adopted diversity goals and implemented practices to increase gender diversity. The emphasis on diversity

originated with legislation that prohibited discrimination and created accountability for monitoring diversity (Edelman, Fuller, & Mara-Drita, 2001; Kelly & Dobbin, 1998). More recently, leaders have come to value diversity as a moral imperative and as beneficial for performance, for example by enabling organizations to attract diverse employees and customers and to leverage diverse perspectives to enhance innovation (Ely & Thomas, 2001; Mayer, McCluney, Sunday, & Cameron, 2015). Organizations also face social pressure to be diverse from customers, peer institutions, and other stakeholders (e.g., Dobbin, Kim, & Kalev, 2011).

Given the variety of motives for adopting diversity goals, it is not surprising that diversity initiatives are widespread. A recent survey found that 93% of organizations promote diversity in their recruitment materials, 81% seek to establish a reputation for diversity, and 70% provide diversity training (Bartels et al., 2013). Moreover, 100% of Standard and Poor's (S&P) 100 organizations list diversity as a goal (Mayer et al., 2015), 95% of Fortune 1,000 organizations offer diversity training (Chavez & Weisinger, 2008), and 60% of Fortune 500 organizations have executive-level diversity officers (Kwoh, 2012). Diversity goals can target any underrepresented group; however, they most often target women, and executives report that it is particularly crucial to have women in their talent pipeline (Society for Human Resource Management, 2009).

In spite of the emphasis on gender diversity goals, women remain underrepresented in high-level positions. Women comprise half of the workforce and hold half of all managerial positions (Percheski, 2008; Welle, 2004), but a different picture emerges in the upper echelons. In Fortune 500 organizations, women hold only 17% of board seats, 15% of executive positions, and 8% of top-earner positions (Soarea, Bartkiewicz, Mulligan-Ferry, Fendler, & Kun, 2013a, 2013b). Moreover, the scarcity of women in high-level positions is a pervasive phenomenon that applies across industries (e.g., Bertrand & Hallock, 2001). Notably, women are only underrepresented at the highest organizational levels, which comprise a small percentage of employees. Yet the gender composition of the upper echelons is highly visible, internally and externally, and diverse perspectives are crucial at this level; senior leaders' decisions are more consequential than those made at lower levels. Thus, if women remain underrepresented in high-level positions, diversity goals remain unachieved.

The tenets of supply and demand suggest that these conditions create a female premium that is

unique to high-potential women—defined as women with the abilities needed to reach a high-level position, including both those who have reached the upper echelons and those deemed likely to do so in the future (e.g., Dries, Van Acker, & Verbruggen, 2012; Tormala, Jia, & Norton, 2012). A core principle of economic theory is that the demand for a resource drives its value and thus its price (Jenkin, 1870; Marshall, 1890). The prevalence of diversity goals, coupled with the scarcity of women in high-level positions, is likely to create greater demand for high-potential women than for high-potential men, all else being equal, due to their ability to reach the upper echelons. As a result, high-potential women have more value than do high-potential men, which creates upward pressure on their pay. In contrast, diversity goals do not create demand for low-potential women because they lack the abilities needed to reach high-level positions, and women are well represented at lower levels. It follows that women receive a pay premium, such that they earn more than men, all else being equal, when their potential is high, but not when it is low.

*Hypothesis 1. Potential moderates the effect of gender on pay; women earn more than men, all else being equal, but only when potential is high.*

Supply and demand offers a parsimonious perspective on why diversity goals and the associated demand for high-potential women create a female premium, but provides little insight into how diversity goals influence the pay decisions made by individual managers. Diversity goals are established at the organizational level, but will only have an impact if they are implemented by individuals. Drawing from strategic human resource management theory, we provide insight into the individual-level perceptions through which diversity goals affect pay decisions.

A core principle of strategic human resource management theory is that organizations achieve their goals through individuals; the practices an organization adopts to implement strategic goals elicit perceptions and behaviors from individuals that are instrumental in achieving those goals (e.g., Huselid, 1995; Jiang, Lepak, Hu, & Baer, 2012; Schuler & Jackson, 1987). Specifically, organizational goals and practices are a salient form of communication from an organization's leaders to its members that signal the organization's priorities. Individuals use this information to form perceptions of what is valuable to the organization and the behaviors organizational leaders expect, support, and reward.

These perceptions, in turn, motivate individuals to engage in behaviors that facilitate the attainment of organizational goals (Bowen & Ostroff, 2004; Guzzo & Noonan, 1994; Ostroff & Bowen, 2000; Schneider, 1990).

The notion that organizational goals and practices shape individuals' perceptions of what is valuable to an organization and the behaviors that organizational leaders expect provides insight into the individual-level mechanisms that produce the high-potential female premium. Diversity goals signal that diversity is a priority, and are likely to prompt individuals to form perceptions of employees' differential value to the organization from a diversity standpoint. In particular, individuals are likely to perceive high-potential women as higher in diversity value—defined as the extent to which a specific employee's presence in an organization creates diversity and is therefore instrumental in achieving the organization's diversity goals—than high-potential men, due to the former's ability to reach the upper echelons, where women are underrepresented. Notably, diversity value perceptions do not reflect internalized, personal beliefs that diversity is a valuable asset, but instead capture whether an employee's presence creates diversity and is therefore valuable to the organization. Moreover, diversity value perceptions are not general perceptions that diversity is valued in an organization, but are target-specific; two employees in the same organization can differ in their diversity value, depending on their demographics. Specifically, we predict that individuals perceive high-potential women as higher in diversity value compared to high-potential men. In contrast, low-potential employees have little diversity value, regardless of gender, because women are only underrepresented in high-level positions.

*Hypothesis 2. Potential moderates the effect of gender on diversity value; individuals perceive women as higher in diversity value than men, but only when potential is high.*

Diversity value perceptions, in turn, are likely to drive pay. Perceptions that an employee is valuable to an organization from a diversity standpoint are likely to lead to perceptions that organizational leaders expect, support, and reward efforts to retain that employee, for example by granting the employee high pay and other career rewards. Individuals are therefore motivated to grant employees with high diversity value a pay premium because doing so is consistent with what organizational leaders expect

(Bowen & Ostroff, 2004). It follows that diversity value perceptions explain why high-potential women earn more than high-potential men.

*Hypothesis 3. The interaction between gender and potential has an indirect effect on pay, through diversity value perceptions; individuals perceive women as higher in diversity value than men and, in turn, reward them with higher pay, but only when potential is high.*

We test the proposition that diversity goals create a pay premium for certain women in four studies. We first seek evidence of a female premium that is unique to high-potential women (Hypothesis 1, Study 1) and driven by diversity value perceptions (Hypotheses 2 and 3, Study 2). We then provide further support for our theory by testing whether the high-potential female premium is larger when organizational diversity goals are stronger (Studies 3 and 4).

### STUDY 1: FIELD STUDY OF A FORTUNE 500 ORGANIZATION

In Study 1, we seek evidence of a female premium that is unique to high-potential women (Hypothesis 1) using employees from the corporate headquarters of a Fortune 500 organization. The organization has diversity goals and practices (e.g., employee networks, mentoring programs) and has won awards for its diversity efforts. Men and women are roughly equally represented in the organization overall, but women hold less than 10% of executive positions.

#### Method

**Participants and procedures.** We sent online surveys to employees who belonged to one of two employee groups, one focused on leadership and one focused on industry issues ( $n = 5,579$ ). We conducted the survey over three weeks and sent two reminder emails. The survey measured gender and a number of controls. A total of 1,834 employees responded to the survey (response rate = 33%). For those employees who completed the survey, we gathered data on their potential, performance, and pay from the organization. We limited the sample to employees rated on potential (i.e., those in managerial or professional positions), resulting in a final sample of 1,311 employees, 92% of whom were White and 52% of whom were female. The mean age was 44.73 years ( $SD = 9.06$ ), the mean tenure was 17.52 years ( $SD = 9.73$ ), and the mean pay was

\$112,698 ( $SD = \$40,637$ ). The employees worked in a variety of different functions (e.g., product development, marketing, legal, sales, etc.). Most did not hold high-level positions (91% individual contributors or low-level managers, 7% senior managers, 2% directors or above).<sup>1</sup>

**Gender.** The survey included a measure of employee gender. We created a dummy variable that indicated whether each employee was female (1 = female, 0 = male).

**Potential and performance.** We gathered supervisors' ratings of employees' potential and performance from the most recent annual review process. Potential ratings are a cornerstone of talent management (Dries et al., 2012; Lepak & Snell, 1999) and capture evaluations of whether an employee has the abilities needed to reach a high-level position. A value of 1 indicates the absence of high potential (65%,  $n = 846$ ), 2 indicates moderately high potential (abilities needed to be a senior manager; 26%,  $n = 338$ ), and 3 indicates exceedingly high potential (abilities needed to be a director or above; 10%,  $n = 127$ ). Employees with a potential score of 3 include both those who had ( $n = 30$ , 24%) and those who had not ( $n = 97$ ; 76%) reached the upper echelons (i.e., director or above). Performance ratings, which we included as a control, capture supervisors' evaluations of employees' task and leadership performance on a five-point scale. Performance and potential were positively correlated (task:  $r = .23$ ; leadership:  $r = .54$ ; both  $p < .01$ ), but capture distinct constructs. A low-potential employee may perform well in a low-level job and a high-potential employee may perform poorly at first in a high-level job.

**Pay.** We gathered information on pay, including base salary and variable pay, from the organization's records several months after the performance and potential ratings were conducted. As a result, the pay data includes raises and bonuses allocated based on the performance and potential ratings. We used the natural log of pay in our analyses because the pay data are skewed.

**Control variables.** We gathered variables that may affect pay, including human capital, personal life factors, and work attitudes. The human capital controls include weekly work hours, organizational tenure, education level, age, and career interruptions (e.g., parental leave, sabbatical). The personal life factors include parental status, marital status, primary breadwinner status, weekly hours spent on

<sup>1</sup> A subset of this dataset ( $n = 482$ ) was used by Leslie, Manchester, Park, & Mehng (2012, Study 1).

household chores, personal life–work conflict (six items;  $\alpha = .80$ ; Carlson, Kacmar, & Williams, 2000), and personal life identity (four items;  $\alpha = .71$ ; adapted from Kanungo, 1982). The career attitude controls include career aspirations (six items;  $\alpha = .86$ ; Gray & O'Brien, 2007), affective commitment (six items;  $\alpha = .83$ ; Meyer, Allen, & Smith, 1993), and work identity (four items;  $\alpha = .65$ ; adapted from Kanungo, 1982). Confirmatory factor analysis of the five multi-item scales revealed that a five-factor model had reasonable fit (CFI = .86, RMSEA = .06, SRMR = .06,  $\chi^2 = 1,963.24$ ,  $p < .01$ ; Hu & Bentler, 1999).

**Analyses.** We used hierarchical regression to test our hypotheses. The 1,311 employees were nested within 817 supervisors, who provided the potential and performance ratings. To account for the non-independence of ratings provided by the same supervisor we clustered the standard errors by supervisor (Wooldridge, 2002). We used hierarchical regression because doing so enabled us to cluster the standard errors. Using analysis of variance (ANOVA) and treating potential as a categorical variable produced the same statistical conclusions.

## Results

**The gender gap.** The descriptive statistics appear in Table 1 and the regression results appear in Table 2. Without any controls, gender was negatively related to pay ( $b = -.16$ ,  $p < .01$ ; Model 1); women earned 85% of what men earned (\$16,798 less). We next entered the human capital, personal life, and work attitude controls, as well as performance and potential (Models 2–5). The gender effect remained significant and negative ( $b = -.05$ ,  $p < .01$ ); women earned 95% of what men earned (\$5,055 less). This finding replicates prior evidence of an overall female pay penalty, after accounting for real differences between men and women.

**Hypothesis testing.** Hypothesis 1 states that the interaction between gender and potential predicts pay. We entered the interaction, which was significant ( $b = .07$ ,  $p < .01$ ; Table 1, Model 6; see Figure 1A). In support of Hypothesis 1, simple slope analyses (Aiken & West, 1991) revealed that high-potential women earned 107% of what high-potential men earned (\$8,874 more;  $b = .07$ ,  $t = 2.12$ ,  $p < .01$ ). In contrast, low-potential women earned 92% of what low-potential men earned (\$7,948 less;  $b = -.08$ ,  $t = -2.56$ ,  $p < .01$ ) and moderate-potential men and women did not differ in pay ( $b = -.01$ ,  $t = -.22$ , n.s.). Notably, only 10% of employees were rated as high

potential, whereas 65% of employees were rated as low potential, which explains the overall female pay penalty in the data. Additional simple slope analyses revealed that potential was positively related to pay for both women ( $b = .21$ ,  $t = 10.35$ ,  $p < .01$ ) and men ( $b = .13$ ,  $t = 6.65$ ,  $p < .01$ ), but the significant interaction indicates that the effect was stronger among women.

**Additional analyses.** High-potential women are likely to receive a premium, regardless of their current position; women who have already reached a high level position and those judged to have the abilities needed to do so in the future both have diversity value to organizations, due to women's severe underrepresentation in the upper echelons. Among high-potential employees ( $n = 127$ ; 70 men, 57 women), 24% held high-level positions (i.e., director or above;  $n = 30$ ; 19 men, 11 women). Additional analyses revealed a premium for high-potential women who did ( $b = .06$ ,  $t = 1.99$ ,  $p < .05$ ) and did not ( $b = .13$ ,  $t = 4.24$ ,  $p < .01$ ) hold a high-level position.

The high-potential female premium was expected to apply throughout the Study 1 organization, given that gender diversity was a uniformly valued goal and women were consistently underrepresented in high-level positions. An ANOVA revealed that the interaction between gender and potential remained significant after controlling for a categorical variable that captured function ( $F = 8.53$ ,  $p < .01$ ) and also was not further moderated by function ( $F = 1.00$ , n.s.).

We theorized that the gender gap is contingent on potential. A few prior studies have found that the effect of gender on career rewards varies with performance, but have not found evidence of a female premium for high performers (Castilla, 2008; Lyness & Heilman, 2006). We explored the interactions between gender and performance, but neither was significant (task:  $b = -.01$ ; leadership:  $b = -.01$ ; both n.s.). Evidence that potential, but not performance, is a boundary condition for the female premium is consistent with our theory; potential is a stronger indicator of an employee's ability to reach a high-level position, where women remain underrepresented.

Our theory focuses on employees who have been identified as high potential, but men and women may take different paths to earning a high-potential rating. The control variables include a number of common drivers of potential ratings (e.g., performance, career aspirations, etc.). We explored whether the control variables were stronger predictors of potential for men versus women. None of the results was significant, which suggests an absence of differences in how men and women are identified as high potential (full results available on request).

TABLE 1  
Descriptive Statistics, Study 1

Variables	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19
1. Gender <sup>a</sup>	-0.08**																		
2. Hours worked	-0.13**	0.10**																	
3. Organizational tenure	-0.14**	0.09**	-0.18**																
4. Education level	-0.16**	0.09**	0.75**	-0.02															
5. Age	0.42**	-0.15**	-0.01	-0.09**	0.00														
6. Career interruption <sup>a</sup>	-0.06*	-0.05	0.24**	-0.09**	0.30**	0.25**													
7. Parent <sup>a</sup>	-0.10**	-0.02	0.06*	0.09**	0.03	0.09**	0.33**												
8. Married <sup>a</sup>	-0.25**	0.14**	0.12**	0.00	0.11**	-0.17**	-0.04	-0.22**											
9. Primary breadwinner <sup>a</sup>	0.18**	-0.17**	-0.07*	-0.01	-0.10**	0.24**	0.22**	0.10**	-0.15**										
10. Weekly hours on chores	0.01	-0.12**	0.06*	0.01	0.02	0.15**	0.13**	0.02	-0.02	0.19**									
11. Work-life conflict	0.04	-0.19**	-0.05	-0.07*	-0.14**	0.07*	0.07**	0.09**	-0.06*	0.13**	0.10**	(0.71)							
12. Person-life identity	0.01	0.24**	-0.25**	0.10**	-0.31**	-0.06*	-0.06*	-0.01	0.02	-0.02	-0.10**	-0.09**	(0.86)						
13. Career aspirations	0.05	0.08**	0.20**	-0.09**	0.14**	0.05	0.13**	0.02	0.02	-0.04	-0.08**	-0.08**	0.18**	(0.83)					
14. Organizational commitment	-0.01	0.31**	0.03	0.06*	0.07*	-0.05	-0.03	-0.08**	0.06*	-0.11**	-0.13**	-0.46**	0.29**	0.27**	(0.65)				
15. Work identity	0.01	0.09**	-0.09**	0.02	-0.16**	-0.04	-0.04	0.03	0.00	-0.01	0.01	-0.02	0.12**	0.02	0.07**	0.16**	0.46**		
16. Task performance	-0.01	0.19**	-0.07**	0.17**	-0.13**	-0.06*	-0.03	0.08**	-0.05	-0.05	-0.03	-0.06*	0.20**	0.10**	0.16**	0.23**	0.54**		
17. Leadership performance	-0.05	0.25**	-0.04	0.29**	-0.12**	-0.04	0.05*	0.14**	-0.02	-0.04	-0.04	-0.05	0.25**	0.07*	0.18**	0.23**	0.54**		
18. Potential	-0.20**	0.32**	0.39**	0.39**	0.40**	-0.09**	0.16**	0.17**	0.11**	-0.11**	-0.03	-0.09**	0.07**	0.10**	0.19**	0.04	0.29**	0.51**	
19. Pay	0.52	46.65	17.52	3.47	44.73	0.34	0.78	0.81	0.65	16.92	2.05	5.34	3.79	5.31	3.79	3.36	3.30	1.45	112.70
Mean	0.50	7.13	9.73	0.94	9.06	0.47	0.41	0.39	0.48	11.80	0.50	0.92	0.88	1.04	0.99	0.57	0.27	0.66	40.64
SD																			

Notes:  $n = 1,311$ ; tenure and age are reported in years; education: 1 = elementary, 2 = high school, 3 = community/junior college, 4 = four-year college/university, 5 = doctoral degree; pay (salary and bonus) is reported in thousand USD.

<sup>a</sup> Dummy variable; gender: 1 = female, 0 = male; all other dummy variables: 1 = yes, 0 = no.

\*  $p < .05$

\*\*  $p < .01$

**TABLE 2**  
**Regression Results, Study 1**

Variables	Model 1		Model 2		Model 3		Model 4		Model 5		Model 6	
	<i>b</i>	<i>t</i>	<i>b</i>	<i>t</i>	<i>b</i>	<i>t</i>	<i>b</i>	<i>t</i>	<i>b</i>	<i>t</i>	<i>b</i>	<i>t</i>
Step 1: Gender												
Gender <sup>a</sup>	-0.16	-8.25**	-0.07	-4.53**	-0.05	-2.82**	-0.05	-2.86**	-0.05	-3.35**	-0.16	-5.04**
Step 2: Human capital												
Hours worked			0.01	9.08**	0.01	8.63**	0.01	7.17**	0.01	5.24**	0.01	5.28**
Organizational tenure			0.01	10.21**	0.01	9.83**	0.01	10.05**	0.01	9.14**	0.01	9.27**
Education level			0.17	21.73**	0.17	21.23**	0.17	20.88**	0.13	17.63**	0.13	17.62**
Age			0.01	4.58**	0.00	3.73**	0.01	4.56**	0.01	8.64**	0.01	8.82**
Step 3: Personal life factors			0.03	1.95	0.01	0.68	0.01	0.76	0.02	1.12	0.02	1.08
Parent <sup>a</sup>					0.07	3.69**	0.06	3.21**	0.02	1.50	0.02	1.41
Married <sup>a</sup>					0.08	4.45**	0.09	4.77**	0.06	3.46**	0.06	3.43**
Primary breadwinner <sup>a</sup>					0.03	2.34*	0.03	2.30*	0.04	3.34**	0.04	3.35**
Weekly hours on chores					0.00	-1.64	0.00	-1.62	0.00	-0.60	0.00	-0.58
Work-life conflict					-0.01	-0.69	0.00	-0.29	0.00	-0.21	0.00	-0.12
Step 4: Work attitudes					0.00	-0.46	0.01	1.40	0.01	1.26	0.01	1.20
Career aspirations							0.03	4.21**	0.02	2.19*	0.02	2.22*
Organizational commitment							-0.01	-1.06	-0.01	-1.88	-0.01	-1.60
Step 5: Supervisor ratings							0.03	3.56**	0.02	2.32*	0.01	2.05*
Task performance									-0.02	-1.55	-0.02	-1.81
Leadership performance									0.11	4.19**	0.12	4.28**
Potential									0.17	15.61**	0.13	9.78**
Step 6: Interactions											0.07	4.36**
Gender × potential												0.01**
$\Delta R^2_{\text{previous step}}$	0.06**		0.44**		0.02**		0.01**		0.12**		0.07	0.01**
$R^2_{\text{model}}$	0.06**		0.49**		0.51**		0.52**		0.64**		0.64**	0.64**
Gender gap (%)	85		93		96		96		95		95	95

Notes:  $n = 1,311$ ; we used the natural log of pay; the gender gap was calculated by dividing women's estimated pay by men's estimated pay.

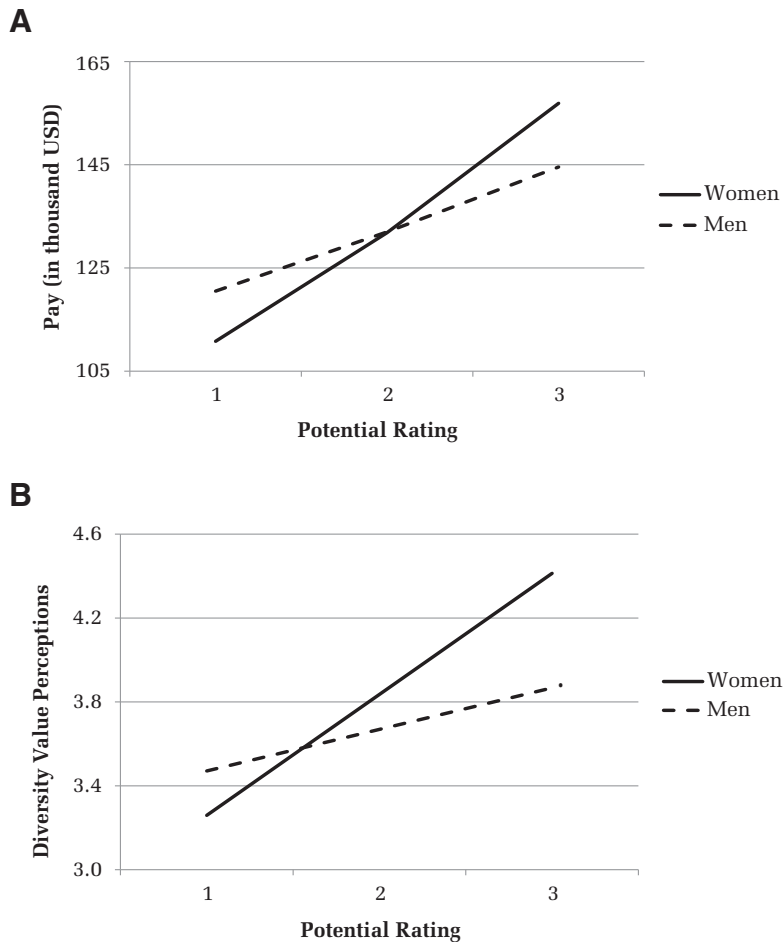
<sup>a</sup> Dummy variable; gender: 1 = female, 0 = male; all other dummy variables: 1 = yes, 0 = no.

\*  $p < .05$

\*\*  $p < .01$



**FIGURE 1**  
**Effects of Gender and Potential, Studies 1 & 2**  
**A) Study 1: Effect of Gender and Potential on Pay**  
**B) Study 2: Effect of Gender and Potential on Diversity Value Perceptions**



## Discussion

Study 1 reconciles abundant evidence of a female penalty with limited recent evidence of a female premium; low-potential women receive a pay penalty, but high-potential women receive a pay premium. Our results converge with evidence of a female premium among employees who fit the definition of high potential, including top executives (Gayle et al., 2012; Hill et al., 2015) and highly accomplished entry-level job applicants (Williams & Ceci, 2015), yet these studies find a uniform female premium and do not provide insight into when the female penalty reverses. Study 1 demonstrates that high potential is a boundary condition for the female premium.

Evidence of a high-potential female premium is consistent with our theory that high-potential women

are in high demand due to their diversity value, but also suggests that high-potential women are immune to the countervailing biases that produce the female penalty. Consistent with this notion, evidence indicates that although evaluators tend to discount women's abilities, resulting in low pay and few career rewards, this bias dissipates among high-ability women (e.g., Heilman, 2012; Heilman & Haynes, 2005; Pheterson, Kiesler, & Goldberg, 1971).

The Study 1 data were correlational and we cannot draw causal inferences. Moreover, Study 1 did not allow a test of the mechanisms that produce the high-potential female premium. We theorized that high-potential women receive a premium due to perceptions of their diversity value, but cannot rule out alternative possibilities. For example, high-potential men and women may have different

characteristics (e.g., skills, behaviors, experiences) that explain the premium. The high-potential female premium emerged after including extensive human capital controls, which reduces the likelihood that real differences between high-potential men and women produced the female premium. Nevertheless, we address these limitations in Study 2.

## STUDY 2: EXPERIMENT WITH BUSINESS STUDENTS

In Study 2, we seek insight into why high-potential women receive a pay premium. Specifically, we predict that evaluators perceive women as higher in diversity value than men and, in turn, reward them with higher pay, but only when potential is high (Hypotheses 2 and 3). We use a laboratory experiment in which we manipulate a target employee's gender and potential, holding all other information constant. As a result, we can draw causal inferences and rule out real differences between high-potential men and women as an alternative explanation.

We theorize that high-potential women receive a premium, all else being equal, due to perceptions of their diversity value. At the same time, prior work suggests that other differences in how individuals perceive men and women could produce a high-potential female premium. For example, due to the disadvantages that make it difficult for women to succeed, individuals may perceive high-potential women as more competent and agentic than high-potential men (e.g., Foschi, 2000; Foschi, Sigerson, & Lembesis, 1995; Heilman, Martell, & Simon, 1988; Pheterson et al., 1971). Alternatively, individuals may stereotype high-potential women as warmer than high-potential men, and thus better suited for leadership positions that require interpersonal skills (e.g., Eagly, 2007; Rosette & Tost, 2010). Finally, due to the scarcity of women in high-level positions, high-potential women may be perceived as having unique and beneficial attributes (e.g., Foschi et al., 1995; Heilman et al., 1988). Perceptions of competence, agency, warmth, or uniqueness could produce a high-potential female premium; however, we theorize that diversity value perceptions produce a premium, over and above these alternative possibilities. To test this assumption, we include measures of competence, agency, warmth, and uniqueness in Study 2.

### Method

**Participants and procedures.** The sample included 270 graduate business students and was 46%

female, 64% white, 31% Asian, 2% biracial, 1% black, 1% Hispanic, and 1% Native American. The average age was 27.85 years ( $SD = 4.11$ ), the average work experience was 6.49 years ( $SD = 3.91$ ), and 50% of participants had experience managing direct reports. The study took 15 minutes to complete and participants received gift cards as compensation.

Participants took part in an organizational simulation in which they assumed the role of a director at Dosagen (Rosette & Tost, 2010), a consumer products company. They received an organizational chart indicating that the company employed 5,121 individual contributors, 1,953 first-level managers, 437 senior managers, 42 directors, and 6 top executives.

Participants evaluated a target employee, who was an individual contributor. We gave participants a packet of information about the employee, including a human resources (HR) file and a performance and potential appraisal form, both modeled after materials used in prior research (Castilla & Benard, 2010; Leslie, Manchester, Park, & Mehng, 2012). The HR file included employment details, such as date of hire (two-and-a-half years ago), current position (product development analyst), average hours worked per week (45), and annual pay (\$77,458). The performance and potential appraisal indicated that the employee was a good performer; the employee received a performance score of four on a five point scale (i.e., "employee consistently meets and often exceeds goals/expectations for the position," adapted from Castilla and Benard [2010]). We varied the employee's potential rating across conditions. After reviewing the information packet, participants evaluated the employee and made reward recommendations.

**Manipulations.** The study design was a two (gender) by three (potential) between-subjects design. We manipulated gender by using a female name (Sarah) and feminine pronouns or a male name (Matthew) and masculine pronouns (e.g., Leslie et al., 2012).

In the low-potential condition the employee was rated as "1 = Not high potential (unlikely to advance beyond first-level manager)." Comments from the employee's manager indicated:

Sarah (Matthew) has not demonstrated that she (he) has the abilities needed to advance within this organization. Based on my interactions with Sarah (Matthew), I don't believe that she (he) is a high-potential employee. It is possible that she (he) will become a first-level manager, but she (he) is unlikely to advance beyond that level.

In the moderately high potential condition the employee was rated as "2 = High potential (potential

to become a senior manager, but no higher.” The comments indicated:

Sarah (Matthew) has demonstrated that she (he) has some of the abilities needed to advance within this organization. Based on my interactions with Sarah (Matthew), I believe that she (he) is a high-potential employee. She (he) is likely to become a senior manager, although unlikely to become a director.

In the high-potential condition the employee was rated as “3 = Exceptionally high potential (potential to become a director or higher).” The comments indicated:

Sarah (Matthew) has demonstrated that she (he) has all of the abilities needed to rapidly advance within this organization. Based on my interactions with Sarah (Matthew), I believe that she (he) is an exceptionally high-potential employee. She (he) is likely to become a director, or even a top-level executive.

**Mechanism measures.** Participants completed original measures of diversity value perceptions (three items;  $\alpha = .92$ ; e.g., “Sarah [Matthew] will help achieve organizational goals surrounding diversity”) and uniqueness (two items;  $\alpha = .83$ ; e.g., “Sarah [Matthew] has qualities that make her [him] unique”) and existing measures of competence (five items;  $\alpha = .87$ ), agency (three items;  $\alpha = .86$ ), and warmth (three items;  $\alpha = .91$ ; all adapted from Fiske, Cuddy, Glick, and Xu [2002] and Rosette and Tost [2010]). The response scale was 1 = strongly disagree to 7 = strongly agree for all items. An exploratory factor analysis revealed that the five measures loaded on distinct factors ( $\lambda_1 = 5.48$ ,  $\lambda_2 = 2.65$ ,  $\lambda_3 = 2.17$ ,  $\lambda_4 = 1.31$ ,  $\lambda_5 = 1.11$ ,  $\lambda_{6-21} \leq .57$ ; 71% variance explained).

**Reward measures.** Participants allocated pay (salary increase: 1 = 0% to 7 = more than 10%; bonus: 1 = \$0 to 7 = more than \$10,000;  $\alpha = .79$ ) and career rewards (six items;  $\alpha = .91$ ; Leslie et al., 2012) to the employee. An exploratory factor analysis revealed that pay and career rewards loaded on separate factors ( $\lambda_1 = 4.60$ ,  $\lambda_2 = 1.21$ ,  $\lambda_{3-8} \leq .64$ ; 64% variance explained).

**Additional measures.** Participants completed manipulation checks that assessed their recall of the employee’s gender and potential score, as well as other details (e.g., performance score, hours worked), and recorded their demographics (e.g., gender, age, management experience). Including participants’ demographics in the analyses, as well as the interactions between their demographics and the study manipulations, did not alter our conclusions.

**Analyses.** We used hierarchical regression to test our hypotheses because doing so allowed us to use

the Edwards and Lambert (2007) procedure to test for moderated mediation (Hypothesis 3). Analyzing the data with ANOVA produced the same statistical conclusions.

## Results

**Manipulation checks.**  $\chi^2$  tests revealed that participants accurately recalled the employee’s gender ( $\chi^2 = 248.72$ ,  $p < .01$ ) and potential ( $\chi^2 = 497.15$ ,  $p < .01$ ). Regression analyses revealed that gender, potential, and the interaction between gender and potential did not affect participants’ recall of the employee’s performance ( $-.08 \leq b \leq .04$ , n.s.) or hours worked ( $-1.20 \leq b \leq .56$ , n.s.), which were provided in the information packet and held constant across conditions.

**Hypothesis testing.** The descriptive statistics and regression results appear in Tables 3 and 4, respectively. Hypothesis 2 states that the interaction between gender and potential predicts diversity value perceptions (Model 1). The effect of gender (1 = female, 0 = male) was not significant ( $b = .17$ , n.s.). The potential effect was significant ( $b = .39$ ,  $p < .01$ ), but was qualified by an interaction between gender and potential ( $b = .38$ ,  $p < .05$ ; see Figure 1B). In support of Hypothesis 2, simple slope analyses revealed that evaluators perceived women (mean = 4.21,  $SD = 1.03$ ) as higher in diversity value than men (mean = 3.70,  $SD = 1.10$ ) when potential was high ( $b = .55$ ,  $t = 2.84$ ,  $p < .01$ ), but not when potential was moderate ( $b = .17$ ,  $t = 1.41$ , n.s.; women: mean = 4.29,  $SD = .96$ ; men: mean = 4.00,  $SD = 1.09$ ) or low ( $b = -.21$ ,  $t = -1.05$ , n.s.; women: mean = 3.04,  $SD = 1.06$ ; men: mean = 3.31,  $SD = 1.00$ ). Additional simple slope analyses revealed that potential was positively related to diversity value perceptions for women ( $b = .58$ ,  $t = 5.27$ ,  $p < .01$ ), but not for men ( $b = .20$ ,  $t = 1.74$ , n.s.).

Hypothesis 3 states that the interaction between gender and potential has an indirect effect on pay, through diversity value perceptions. We tested whether diversity value perceptions predict rewards, controlling for the manipulations and their interactions as well as the alternative mechanisms (Table 4, Models 2–3). Diversity value perceptions were positively related to rewards (pay:  $b = .15$ ,  $p < .05$ ; career:  $b = .33$ ,  $p < .01$ ). We next calculated the indirect effect of gender on pay in each potential condition; we multiplied the coefficient for the effect of gender on diversity value perceptions in each potential condition by the coefficient for the effect of diversity value perceptions on rewards (Edwards &

**TABLE 3**  
**Descriptive Statistics, Study 2**

Variables	1	2	3	4	5	6	7	8	9
1. Gender manipulation									
2. Potential manipulation	0.03								
3. Diversity value perceptions	0.08	0.29**	(0.92)						
4. Competence	-0.05	0.30**	0.15*	(0.87)					
5. Agency	-0.02	0.54**	0.44**	0.43**	(0.86)**				
6. Warmth	0.04	0.04	0.27**	0.20**	0.35**	(0.91)			
7. Uniqueness	-0.03	0.40**	0.30**	0.21**	0.35**	0.08	(0.83)		
8. Pay rewards	-0.01	0.38**	0.31**	0.37**	0.37**	0.03	0.34**	(0.79)	
9. Career rewards	0.03	0.64**	0.53**	0.37**	0.60**	0.13*	0.47**	0.54**	(0.91)
Mean	0.50	2.00	3.76	5.85	4.68	4.46	4.38	4.50	4.57
SD	0.50	0.82	1.13	0.70	1.10	0.85	1.33	0.85	1.22

Notes:  $n = 270$ ; gender manipulation: 1 = female, 0 = male; potential manipulation: 1 = not high potential, 2 = moderately high potential, 3 = exceedingly high potential.

\*  $p < .05$

\*\*  $p < .01$

Lambert, 2007; see Figure 2A). We constructed 95% bias-corrected bootstrap confidence intervals ( $CI_{95}$ ) around the indirect effects. Gender had a significant indirect effect on rewards when potential was high (pay:  $b = .08$ ,  $CI_{95} = .02$  to  $.20$ ; career:  $b = .18$ ,  $CI_{95} = .05$  to  $.37$ ), but not moderate (pay:  $b = .02$ ,  $CI_{95} = .00$  to  $.09$ ; career:  $b = .06$ ,  $CI_{95} = -.02$  to  $.17$ ) or low (pay:  $b = -.03$ ,  $CI_{95} = -.11$  to  $.02$ ; career:  $b = -.07$ ,  $CI_{95} = -.22$  to  $.08$ ). Thus, in support of Hypothesis 3, gender had an indirect effect on rewards, through diversity value perceptions, but only when potential was high. We also calculated the indirect effect of potential on rewards, through diversity value perceptions, for each gender. The indirect effect was significant for women (pay:  $b = .09$ ,  $CI_{95} = .03$  to  $.17$ ; career:  $b = .19$ ,  $CI_{95} = .11$  to  $.32$ ), but not for men (pay:  $b = .03$ ,  $CI_{95} = .00$  to  $.08$ ; career:  $b = .07$ ,  $CI_{95} = .00$  to  $.16$ ).<sup>2</sup>

**Alternative mechanisms.** None of the alternative mechanisms produced a high-potential female premium. Both gender ( $-.12 \leq b \leq .07$ , n.s.) and the interaction between gender and potential ( $-.20 \leq b \leq .09$ , n.s.) were unrelated to competence, agency,

warmth, and uniqueness (Table 4, Models 4-7). Moreover, the effect of the interaction between gender and potential on diversity value perceptions remained significant after controlling for all of the alternative mechanisms ( $b = .38$ ,  $p < .01$ ).

**Discussion**

Study 2 identifies a mechanism that produces the high-potential female premium. High-potential women were perceived as higher in diversity value than were high-potential men and, in turn, were granted higher pay. As in Study 1, the female premium was unique to high-potential women, but Study 2 also builds on Study 1 by demonstrating that diversity value perceptions produce the female premium. In addition, in Study 2 we manipulated gender and potential, holding all else constant. We can therefore rule out real differences between high-potential men and women as an alternative explanation for our findings and draw causal inferences.

Gender was unrelated to a number of alternative mechanisms that could produce a high-potential female premium, all else being equal, including perceived competence, agency, warmth, and uniqueness. Although the focus has been on performance, rather than potential, prior work has indicated that high-performing women are perceived more favorably than are high-performing men on some of these mechanisms, but only under certain circumstances. For example, as compared to high-performing men, high-performing women are perceived as more competent, but only in male-dominated settings (Heilman et al., 1988), and are perceived as warmer, but only

<sup>2</sup> Participants completed the diversity value measure before the rewards measures, which may have created demand characteristics and caused participants to give additional weight to diversity value when allocating rewards (Campbell & Stanley, 1996; Orne, 2009). Demand characteristics are an unlikely alternative explanation for our findings; this logic applies to each of the mechanisms we measured, only some of which predicted rewards (see Table 4, Models 2-3). Nevertheless, we address this potential limitation in Study 4 by manipulating measure order.

**TABLE 4**  
Regression Results, Study 2

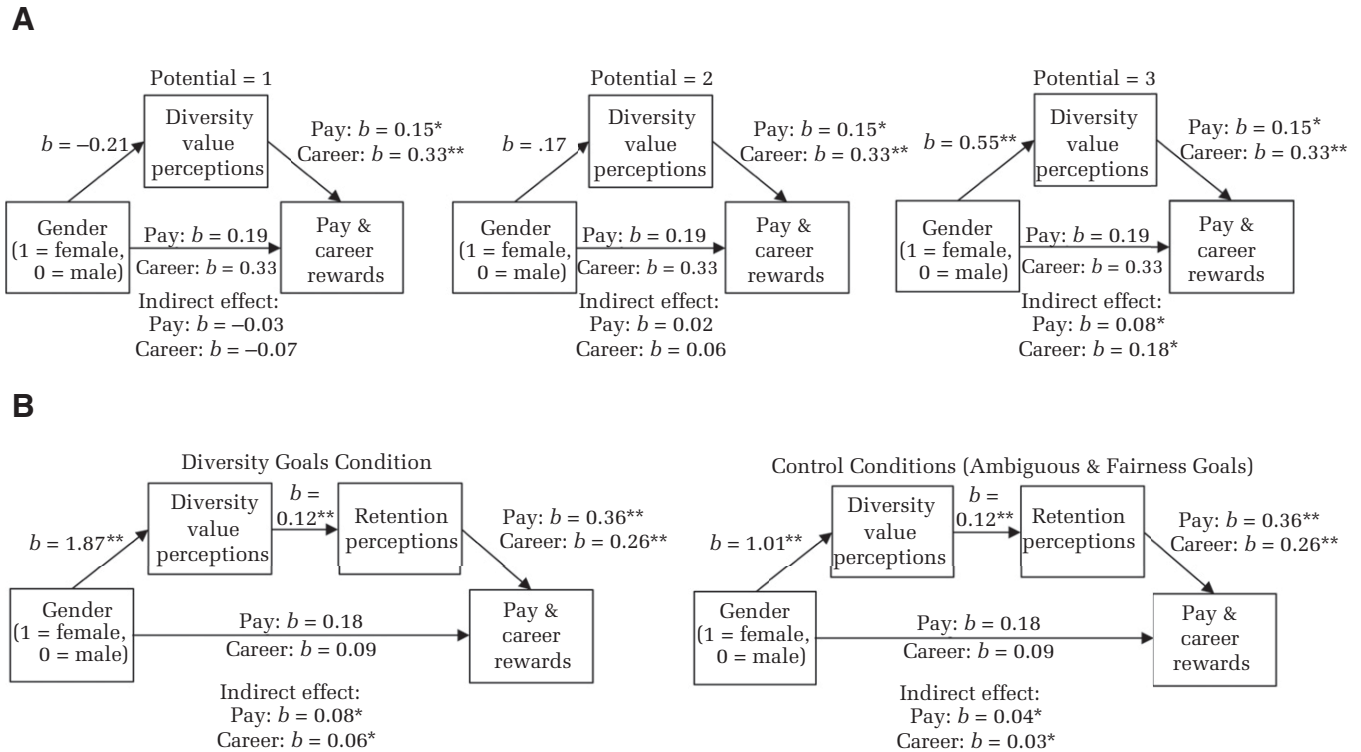
Variables	Model 1: Diversity value perceptions		Model 2: Pay rewards		Model 3: Career rewards		Model 4: Competence		Model 5: Agency		Model 6: Warmth		Model 7: Uniqueness	
	<i>b</i>	<i>t</i>	<i>b</i>	<i>t</i>	<i>b</i>	<i>t</i>	<i>b</i>	<i>t</i>	<i>b</i>	<i>t</i>	<i>b</i>	<i>t</i>	<i>b</i>	<i>t</i>
Step 1: Manipulations														
Gender manipulation	0.17	1.27	-0.09	-0.76	0.02	0.20	-0.07	-0.91	-0.07	-0.61	0.07	0.62	-0.12	-0.80
Potential manipulation	0.39	4.83**	0.40	5.65**	0.96	13.71**	0.26	5.17**	0.72	10.48**	0.04	0.57	0.65	7.19**
Step 2: Interaction														
Gender × potential	0.38	2.38*	-0.08	-0.60	-0.05	-0.34	0.05	0.50	0.04	0.29	0.09	0.75	-0.20	-1.08
Step 3: Mechanisms														
Diversity value perceptions														
Competence			0.15	2.56*	0.33	6.85**								
Agency			0.32	3.65**	0.20	2.63**								
Warmth			0.06	0.87	0.21	3.41**								
Uniqueness			-0.13	-1.86	-0.08	-1.35								
Model fit			0.09	1.83	0.13	3.26**								
$R^2_{Step 1}$	0.09**		0.11*		0.41**		0.09*		0.29**		0.00		0.16**	
$\Delta R^2_{Steps 1-2}$	0.02*		0.00		0.00		0.00		0.00		0.00		0.00	
$\Delta R^2_{Steps 2-3}$			0.10**		0.20**									
$R^2_{Final model}$	0.11**		0.21**		0.61**		0.09**		0.29**		0.01		0.17**	

Notes: *n* = 270; Gender manipulation: 1 = female, 0 = male; Potential manipulation: 1 = not high potential, 2 = moderately high potential, 3 = exceedingly high potential.

\* *p* < .05

\*\* *p* < .01

**FIGURE 2**  
**Indirect Effects of Gender on Rewards, Studies 2 & 4**  
**A) Study 2: Indirect Effect of Gender on Rewards by Potential Condition**  
**B) Study 4: Indirect Effect of Gender on Rewards by Organizational Goals Condition<sup>a</sup>**



<sup>a</sup> In Study 4, all targets were high potential (i.e., potential = 3 in Study 2). The indirect effect of gender on rewards was larger in the diversity goals condition than in the control conditions (pay:  $b_{diff} = .04$ ,  $CI_{95} = .01$  to  $.12$ ; career:  $b_{diff} = .03$ ,  $CI_{95} = .01$  to  $.07$ ).

\* $p < .05$   
 \*\* $p < .01$

when it is clear that their success stems from ability, not situational factors (Rosette & Tost, 2010). Thus, perceived competence and warmth may also contribute to the high-potential female premium when these conditions are met. Nevertheless, Study 2 demonstrates that diversity value perceptions produce the high-potential female premium after accounting for these alternatives.

We theorized that the prevalence of diversity goals triggers perceptions that high-potential women have more diversity value than do high-potential men. Consistent with our assumption that diversity goals are widespread, individuals perceived high-potential women as higher in diversity value compared to high-potential men, even though we did not explicitly state that the Study 2 organization had diversity goals. At the same time, the strength of diversity goals and, in turn, the size of the high-potential female premium is likely to vary across organizations. We seek

evidence of contextual variation in the high-potential female premium in Studies 3 and 4.

**STUDY 3: FIELD STUDY OF TOP EXECUTIVES**

In Study 3, we seek further evidence of a high-potential female premium and investigate whether the premium varies across organizations. We have documented a high-potential female premium among employees, most (Study 1) or all (Study 2) of whom occupy lower-level jobs. In Study 3, we investigate the premium among high-potential employees who have already reached the upper echelons, namely top executives. Prior work has documented an overall female pay penalty among executives, much of which is explained by evidence that women have less human capital and work in lower-ranking positions and for smaller organizations (Bertrand & Hallock 2001; Gayle et al., 2012;

Muñoz-Bullón, 2010; Renner, Rives, & Bowlin, 2002). Including limited controls for these factors reduces (Muñoz-Bullón, 2010, total pay) or eliminates (Bertrand & Hallock, 2001; Muñoz-Bullón, 2010, base pay; Renner et al., 2002) the penalty. Moreover, a study using more comprehensive controls found a female premium (Gayle et al., 2012, total pay; see also Hill et al., 2015). Consistent with our prediction that high-potential women earn more than high-potential men, all else being equal (Hypothesis 1), we expect a female premium among executives, but only after controlling for human capital and organizational characteristics.

We also build on prior evidence of a female premium among executives by investigating contextual variation. We theorize that organizational diversity goals create greater demand for high-potential women than for high-potential men, resulting in a female premium. Diversity goals are widespread, but are also likely to vary in strength across organizations. Most organizations face some legal or social pressure to be diverse, but differ in the extent to which diversity is viewed as valuable for business reasons (e.g., Ely & Thomas, 2001) and are therefore likely to vary in the emphasis placed on diversity goals and the associated demand for high-potential women. The tenets of supply and demand dictate that the demand for a resource drives its price. It follows that the high-potential female premium is larger in organizations where diversity goals are stronger. We test this proposition using industry as a proxy for the strength of diversity goals.

Specifically, we theorize that diversity goals are stronger in consumer goods and services industries (e.g., retail, financial services, telecommunications) than in manufacturing industries (e.g., energy, utilities, materials, industrials) for two reasons. First, diversity is a particularly valuable asset for improving performance in consumer industries. In industries with extensive consumer interactions, diverse employees help attract a wider, more diverse customer base by building a reputation for diversity and enabling the organization to tailor goods and services to fit diverse preferences (Blum, Fields, & Goodman, 1994; Reskin, McBrier, & Kmec 1999). As a result, gender and racial diversity have stronger positive relationships with performance in consumer industries than in industries with less customer contact, such as manufacturing (Ali, Kulik, & Metz, 2011; Frink et al., 2003; Joshi & Roh, 2009; Richard, Murthi, & Ismail, 2007). Second, in stereotypically masculine settings, such as manufacturing, women are often viewed as incompetent or as interpersonally hostile

(e.g., Eagly & Karau, 2002; Heilman, 2012). Evidence that women are devalued in masculine settings provides another rationale for why diversity goals and the associated demand for high-potential women are likely weak in manufacturing.

Ratings of the extensiveness of the diversity policies and practices used in S&P 100 organizations support that diversity goals are stronger in consumer industries than in manufacturing industries (Calvert Investments, 2015). We used the Global Industry Classification Standard to code S&P 100 organizations and found that consumer organizations (mean = 77.39 out of 100,  $SD = 17.97$ ,  $n = 71$ ) have more extensive diversity initiatives than do manufacturing organizations (mean = 69.66 out of 100,  $SD = 17.42$ ,  $n = 29$ ;  $t = 2.00$ ,  $p < .05$ ). To the extent that diversity goals and the associated demand for high-potential women are stronger in consumer industries than in manufacturing industries, the high-potential female premium should be larger in these contexts.

Notably, we theorize that industry variation in the high-potential female premium is a demand-side phenomenon; the premium is larger in industries where diversity goals and the associated demand for high-potential women are stronger. Alternatively, industry-level variation could be a supply-side phenomenon; the premium may be larger in industries where the supply of women in high-level positions is more restricted, assuming that the demand for high-potential women is constant across industries. Although the overall supply of women is lower in manufacturing (e.g., 18% in mining, oil, and construction) than in consumer industries (e.g., 50% in banking), in the upper echelons women are severely underrepresented in both industries (e.g., 1% in mining, oil, and construction; 2% in banking; Bertrand & Hallock, 2001). Thus, we expect that the female premium is larger in consumer industries than in manufacturing industries due to theoretical and empirical evidence of greater demand for high-potential women in consumer industries, coupled with severe low supply of women in high-level positions in both industries.

*Hypothesis 4. Among high-potential employees, industry moderates the effect of gender on pay; high-potential women are more likely to earn more than high-potential men in consumer industries than in manufacturing industries.*

## Method

**Participants and procedures.** We used an existing dataset on the pay of top executives in S&P 1500

organizations compiled by Gayle and colleagues (2012). The dataset includes data from ExecuComp, COMPUSTAT North America, and the Center for Securities Research database. It also includes detailed human capital data from Marquis Who's Who, thus enabling a strong test of gender differences in pay, all else being equal. We extend Gayle and colleagues' finding of a female premium by testing whether the premium varies by industry.<sup>3</sup>

The sample included the highest-paid executives (5–9 per organizations) in S&P 1500 organizations from 1992 through 2006. We limited the dataset to executives with available data on all study variables, resulting in 35,602 observations (8,968 executives in 2,320 organizations). The sample was 96% male ( $SD = 19\%$ ), the mean age was 54.15 years ( $SD = 9.30$ ), the mean tenure was 14.52 years ( $SD = 11.35$ ), and the mean pay was \$2.85 million ( $SD = \$13.64$ ).

**Gender.** We used a dummy variable to capture gender (female = 1, male = 0).

**Industry.** Organizations were categorized as consumer goods (28%; e.g., retail, food), consumer services (34%; e.g., healthcare, financial services), or "primary," a category that captured manufacturing (38%; e.g., energy, materials). We created dummy variables for consumer goods and for consumer services, making manufacturing the comparison. Consistent with our assumption that women are in short supply in high-level positions in all industries, women were severely underrepresented in goods (6%), services (5%), and manufacturing (4%).

**Pay.** Pay reflected total compensation, given that stocks and options are a large component of executive pay (e.g., Bertrand & Hallock, 2001; Muñoz-Bullón, 2010). Specifically, the pay measure included salary, bonus, options, restricted stocks, long-term compensation, retirement, and changes in wealth due to holding options and stocks specific to the organization.

**Control variables.** We controlled for a number of human capital variables. To capture education, we included dummy variables indicating whether each executive had no college degree, an MBA, an MS or MA, a PhD, or a professional certificate. We also controlled for age, age-squared, organizational

tenure, and executive experience. To capture career trajectory, we controlled for the number of times each executive had changed organizations, overall and prior to becoming an executive, and whether they had changed organizations in the last year. To capture position, we used dummy variables to capture seven hierarchical ranks (e.g., rank 1: chairman; rank 2: CEO; rank 3: president; rank 4: executive vice president; rank 5: regional president; rank 6: vice president; rank 7: regional vice president). We also controlled for organization-level variables, including number of employees and total assets, as well as abnormal returns, a performance indicator that captures whether stock returns differ from the expected rate.

**Analyses.** We analyzed the data with median regression because the pay variable was skewed (Greene, 2003). Observations across time were nested within individuals (i.e., an executive could appear in multiple years) and individuals were nested within organizations (i.e., the data included 5–9 executives per organization). We therefore used robust clustered standard errors to prevent biased results (Wooldridge, 2002). We accounted for both sources of nesting simultaneously by clustering the standard errors with an identifier that captured each executive's tenure at a given organization (i.e., an individual who worked for two organizations at two different points in time had two identifiers; Parente & Santos Silva, 2015).

## Results

**Hypothesis testing.** The descriptive statistics appear in Table 5 and the regression results appear in Table 6. Without any controls (Model 1), gender was unrelated to pay ( $b = -124.86$ , n.s.). After including human capital, organizational factors, and industry (Models 2–3), a female premium emerged ( $b = 205.62$ ,  $p < .05$ ); women earned 110% of what men earned (\$205,621 more). This finding replicates those of Gayle et al. (2012) and supports Hypothesis 1. To test Hypothesis 4, we entered the interactions between gender and industry (Model 4), which were significant (goods:  $b = 514.52$ ,  $p < .01$ ; services:  $b = 429.98$ ,  $p < .05$ ; see Figure 3a). Simple slope analyses revealed that women earned 122% of what men earned in consumer goods (\$425,118 more;  $b = 425.12$ ,  $t = 2.37$ ,  $p < .05$ ). There was no gender gap in manufacturing ( $b = -89.40$ ,  $t = -1.02$ , n.s.). Women earned 115% of what men earned in consumer services (\$340,581 more), but the effect was not significant at the traditional level ( $b = 340.58$ ,  $t = 1.83$ ,

<sup>3</sup> Our methodology differs from Gayle and colleagues in three ways: (1) we clustered the standard errors to account for nesting in the data (described below); (2) we did not include interactions among the control variables; and (3) we limited the sample to observations with no missing data in all analyses. These changes did not alter our conclusions.



TABLE 5  
Descriptive Statistics, Study 3

	1	2	3	4	5	6	7	8	9	10	11
1. Gender <sup>a</sup>											
2. Age	-0.07**										
3. No college <sup>a</sup>	0.01**	-0.02**									
4. MBA <sup>a</sup>	-0.01	-0.07**	-0.24**								
5. MS/MA <sup>a</sup>	-0.01**	0.04**	-0.23**	-0.11**							
6. PhD <sup>a</sup>	0.01**	0.01*	-0.22**	-0.17**	0.11**						
7. Certificate <sup>a</sup>	0.01	-0.02**	-0.18**	-0.11**	0.00	0.29**					
8. Executive exp.	-0.01**	0.14**	0.02**	-0.02**	0.00	-0.03**	-0.02**				
9. Org tenure	-0.03**	0.34**	0.04**	-0.06**	-0.05**	-0.04**	-0.05**	0.13**			
10. Org. changes	-0.01	0.13**	-0.14**	-0.01	0.17**	0.08**	0.13**	0.04**	-0.34**		
11. Org. changes before exec.	-0.02**	0.13**	-0.09**	0.06**	0.06**	-0.02**	0.01	0.10**	-0.35**	0.72**	
12. Org. change last year <sup>a</sup>	0.00	0.00	0.02**	0.02**	-0.02**	-0.01	-0.01*	0.00	-0.05**	0.01	0.04**
13. Rank 1 <sup>a</sup>	-0.03**	0.17**	0.03**	0.01*	-0.02**	-0.02**	-0.04**	0.02**	0.05**	-0.01	0.03**
14. Rank 2 <sup>a</sup>	-0.07**	0.13**	0.03**	0.05**	-0.05**	-0.05**	-0.13**	0.02**	0.03**	-0.06**	0.03**
15. Rank 3 <sup>a</sup>	-0.02**	-0.05**	0.04**	0.01	-0.02**	-0.03**	-0.05**	0.01	-0.02**	-0.04**	-0.02**
16. Rank 4 <sup>a</sup>	-0.02**	-0.10**	-0.01*	0.02**	-0.02**	-0.04**	0.01*	-0.03**	-0.02**	-0.02**	-0.02**
17. Rank 5 <sup>a</sup>	0.03**	-0.04**	-0.02**	-0.03**	0.03**	0.04**	0.04**	0.01	-0.02**	0.04**	-0.02**
18. Rank 6 <sup>a</sup>	0.06**	-0.07**	-0.04**	-0.05**	0.02**	0.10**	0.14**	-0.01	-0.03**	0.06**	-0.01*
19. Assets	-0.01	0.02**	-0.01	0.04**	-0.03**	-0.02**	-0.03**	-0.01**	-0.02**	-0.04**	0.01*
20. No. employees	0.01	0.01	-0.02**	0.04**	-0.01*	0.00	-0.01*	-0.01*	-0.02**	-0.02**	0.00
21. Abnormal returns	0.00	-0.03**	0.01*	-0.01	0.00	0.00	0.00	0.00	0.00	0.00	-0.01
22. Consumer goods <sup>a</sup>	0.05**	0.00	0.10**	0.01	-0.07**	-0.07**	-0.02**	-0.01	0.00	-0.02**	0.01*
23. Consumer services <sup>a</sup>	0.00	-0.09**	-0.04**	0.01	0.06**	0.01*	-0.01	0.01	-0.05**	0.03**	0.00
24. Pay	0.00	-0.03**	0.00	0.03**	-0.01	0.00	-0.02**	-0.01*	-0.03**	-0.01*	0.00
Mean	0.04	54.15	0.17	0.23	0.20	0.19	0.24	19.52	14.52	2.33	1.14
SD	0.19	9.30	0.37	0.42	0.40	0.40	0.43	40.92	11.35	1.98	1.46

Notes:  $n = 35,602$  observations; age, executive experience, and org. tenure are in years; assets are in million USD; number of employees and pay (total compensation) are in thousand USD.

<sup>a</sup> Dummy variable; gender: 1 = female, 0 = male; all other dummy variables: 1 = yes, 0 = no.

\*  $p < .05$

\*\*  $p < .01$

$p = .07$ ). We also ran analyses comparing a combined consumer goods and services category (1) to manufacturing (0). The interaction between gender and industry was significant ( $b = 480.96$ ,  $p < .01$ ); women earned 120% of what men earned in consumer industries (\$383,661 more;  $b = 383.66$ ,  $t = 3.14$ ,  $p < .01$ ). There was no gender gap in manufacturing ( $b = 97.30$ ,  $t = -1.12$ , n.s.). Thus, Hypothesis 4 was supported.

## Discussion

Study 3 replicates the high-potential female premium among executives and documents contextual variation in its magnitude. We expected a larger premium in consumer industries than in manufacturing, due to evidence that diversity goals and the associated demand for high-potential women are stronger in consumer industries and that severe underrepresentation of women in high-level positions is common to both industries. We found a larger premium for executive women in consumer industries than in manufacturing, which is consistent with our proposition that

the high-potential female premium is rooted in the prevalence of diversity goals.

Study 3 has strong external validity, given that the sample included executives from a large number of organizations. At the same time, Study 3 is limited by our use of industry as a proxy for diversity goals. Theory and evidence support that diversity goals are stronger in consumer industries than in manufacturing, but we did not measure diversity goals directly and other industry differences may account for our findings. We address this limitation in Study 4.

## STUDY 4: EXPERIMENT WITH WORKING ADULTS

In Study 4, we seek additional evidence of contextual variation in the high-potential female premium. Specifically, we provide more definitive evidence of whether the premium is larger when diversity goals are stronger by manipulating the presence of explicit diversity goals. We also provide a fuller test of the mechanisms that produce the high-potential female premium. We have proposed

**TABLE 5**  
**(Continued)**

12	13	14	15	16	17	18	19	20	21	22	23	24
0.04**												
0.02**	-0.16**											
0.01**	-0.07**	-0.18**										
0.00	-0.12**	-0.31**	-0.14**									
-0.02**	-0.11**	-0.28**	-0.13**	-0.23**								
-0.02**	-0.11**	-0.27**	-0.12**	-0.22**	-0.20**							
0.02**	0.07**	-0.01**	0.03**	0.04**	0.02**	-0.07**						
0.02**	0.06**	-0.01	0.03**	0.01*	0.00	-0.05**	0.29**					
-0.02**	-0.01*	-0.01*	0.01	0.01*	-0.01	0.01	-0.03**	-0.01*				
-0.01	0.05**	0.02**	0.03**	0.00	0.00	-0.05**	0.20**	-0.05**	-0.03			
0.00	-0.02**	-0.03**	0.01	0.02**	0.00	0.00	-0.10**	0.10**	0.07**	-0.44**		
0.01	-0.01*	0.06**	0.02**	0.00	-0.02**	-0.04**	0.06**	0.09**	0.34**	-0.02**	0.06**	
0.02	0.06	0.28	0.07	0.20	0.17	0.16	12,177.93	22.39	-0.03	0.28	0.34	2,845.40
0.14	0.24	0.45	0.26	0.40	0.38	0.37	55,463.90	52.26	0.56	0.45	0.47	13,640.73

a cross-level theory, such that organizational-level diversity goals result in individual-level perceptions that high-potential women have more diversity value than do high-potential men. Study 2 revealed that individuals perceive high-potential women as higher in diversity value than high-potential men, but we focused on gender and diversity value perceptions at the individual level without accounting for variation in diversity goals at the organizational level. Study 3 revealed a cross-level effect; industry, a proxy for the strength of organizational diversity goals, moderated the individual-level effect of gender on pay, but we did not measure diversity value perceptions. In Study 4, we provide a more complete test of our theory by hypothesizing that the strength of organizational diversity goals increases individual perceptions that high-potential women have more diversity value than do high-potential men.

*Hypothesis 5. Among high-potential employees, diversity goals moderate the effect of gender on diversity value perceptions; individuals are more likely to perceive high-potential women as higher in diversity value than high-potential men when diversity goals are stronger.*

Our theory also suggests that diversity value perceptions affect pay and therefore produce the high-potential female premium. In Study 4, we investigate

the micro-mechanism that explains why diversity value translates into high pay. According to strategic human resource management theory, organizational goals and practices shape individuals' perceptions of what is valuable to an organization and the behaviors leaders expect, support, and reward. Individuals, in turn, are motivated to engage in the behaviors that organizational leaders expect (e.g., Ostroff & Bowen, 2000). Consistent with these ideas, we theorize that perceptions that an employee is valuable to an organization from a diversity standpoint are likely to lead to perceptions that organizational leaders expect, support, and reward efforts to retain that employee (i.e., retention perceptions). Individuals, in turn, are motivated to grant the employee high pay and other career rewards as a mechanism for retention because doing so is consistent with what organizational leaders expect. It follows that among high-potential employees, gender has an indirect effect on pay through diversity value perceptions and, in turn, retention perceptions. Following from Hypothesis 5, we expect that the indirect effect of gender on pay is larger when diversity goals are stronger.

*Hypothesis 6. Among high-potential employees, the interaction between gender and diversity goals has an indirect effect on pay, through diversity value perceptions and, in turn, retention perceptions; individuals perceive high-potential*

**TABLE 6**  
**Regression Results, Study 3**

Variables	Model 1		Model 2		Model 3		Model 4	
	<i>b</i>	<i>t</i>	<i>b</i>	<i>t</i>	<i>b</i>	<i>t</i>	<i>b</i>	<i>t</i>
Step 1: Gender								
Gender <sup>a</sup>	-124.86	-1.34	90.58	1.17	205.62	2.35*	-89.40	-1.02
Step 2: Human capital								
Age			42.02	4.63**	15.19	1.50	14.66	1.53
Age <sup>2</sup>			-0.36	-4.65**	-0.16	-1.77	-0.15	-1.80
No college <sup>a</sup>			-56.06	-1.07	18.58	0.41	12.72	0.28
MBA <sup>a</sup>			201.44	3.93**	146.83	3.29**	146.77	3.32**
MA/MS <sup>a</sup>			-68.74	-1.85	3.38	0.09	0.24	0.01
PhD <sup>a</sup>			73.40	1.82	31.48	0.79	30.15	0.76
Certificate <sup>a</sup>			-114.00	-3.24**	-93.28	-2.64**	-89.54	-2.55*
Executive exp.			0.04	0.10	0.05	0.37	0.04	0.32
Org. tenure			-9.57	-5.43**	-6.45	-4.18**	-6.58	-4.24**
Org. changes			-56.46	-5.18**	-31.07	-2.99**	-31.26	-2.97**
Org. changes before exec.			33.11	2.20*	29.40	2.09*	28.06	2.00*
Org. change last year <sup>a</sup>			562.54	3.82**	579.23	4.25**	561.05	4.02**
Rank 1 <sup>a</sup>			649.25	5.87**	234.76	2.80**	214.34	2.60**
Rank 2 <sup>a</sup>			1445.03	15.68**	1219.42	15.61**	1202.11	15.44**
Rank 3 <sup>a</sup>			1006.03	8.26**	631.78	7.72**	602.95	7.36**
Rank 4 <sup>a</sup>			483.44	9.56**	168.99	3.26**	151.25	2.89**
Rank 5 <sup>a</sup>			307.13	6.44**	120.52	2.40*	101.07	2.00*
Rank 6 <sup>a</sup>			-58.42	-1.43	-57.07	-1.21	-87.46	-1.84
Step 3: Organization & industry								
Assets					0.02	4.00**	0.02	4.00**
Number employees					12.29	7.79**	12.27	7.86**
Abnormal returns					3622.55	33.41**	3630.54	33.85**
Consumer goods <sup>a</sup>					61.14	1.40	42.76	0.96
Consumer services <sup>a</sup>					358.73	9.54**	344.17	8.92**
Step 4								
Gender × consumer goods							514.52	2.65**
Gender × consumer services							429.98	2.11*
Pseudo <i>R</i> <sup>2</sup>	0.00		0.01		0.12		0.12	
Gender gap (%)	90		106		110			

Notes: *n* = 35,602; the gender gap was calculated by dividing women's estimated pay by men's estimated pay.

<sup>a</sup> Dummy variable; gender: 1 = female, 0 = male; all other dummy variables: 1 = yes, 0 = no.

\* *p* < .05

\*\* *p* < .01

women as higher in diversity value, perceive that greater efforts to retain them are expected, and grant them higher pay, relative to high-potential men, and this effect is larger when diversity goals are stronger.

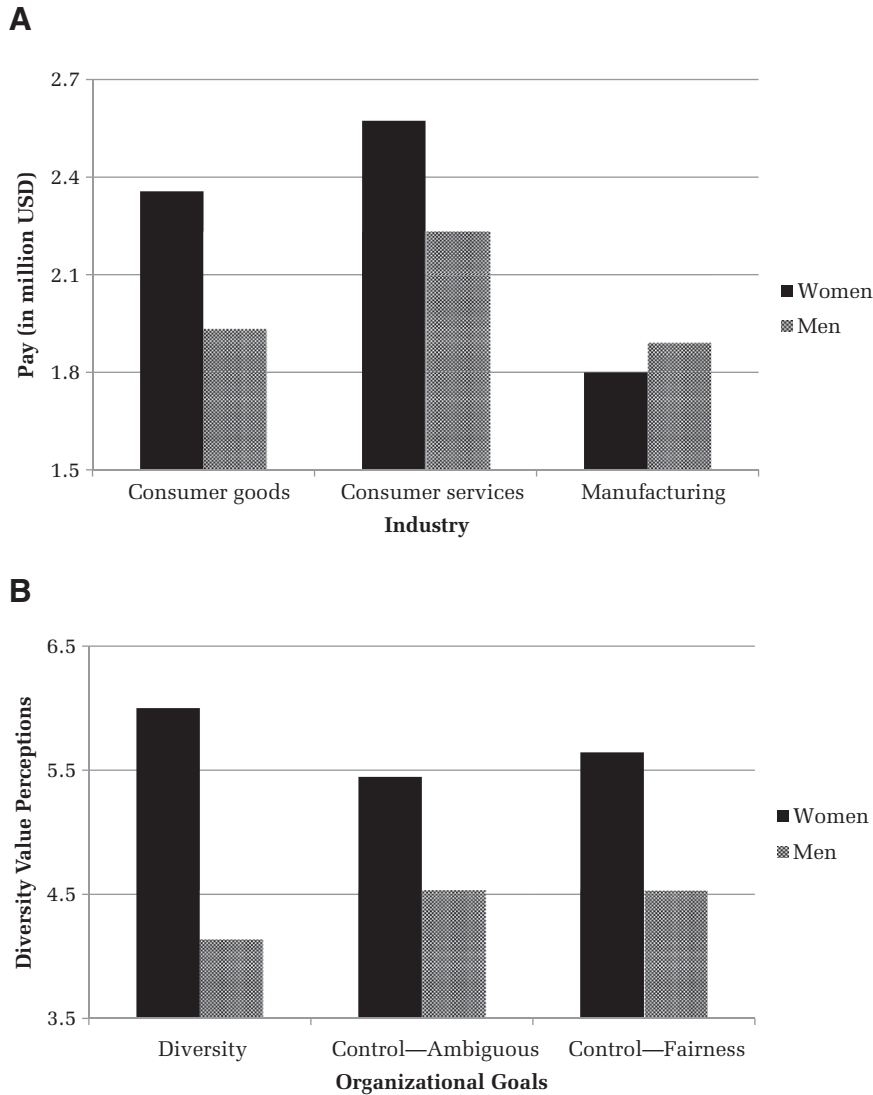
## Method

**Participants and procedures.** The sample included 303 participants recruited from Amazon's Mechanical Turk, an online labor market. The sample was 51% female, 82% white, 7% black, 5% Asian, 4% Hispanic, 1% Native American, 1% multiracial, and 1% other races. The average age was 35.29 years (*SD* = 11.10), the average work experience was

17.39 years (*SD* = 11.64), and 62% of participants had experience working as a manager with direct reports. The study took 15 minutes to complete and participants received monetary compensation.

We used the same organizational simulation that we used in Study 2, but made a few minor changes to the study materials. We theorize that high-potential women receive a pay premium, regardless of their current position. In Study 4, we extend evidence of a high-potential female premium among relatively low-level employees (i.e., individual contributors, Study 2) and high-level employees (i.e., top executives, Study 3) by having participants evaluate a mid-level employee (i.e., senior manager, one step below director). As a result, the Study 4 information packet

**FIGURE 3**  
**Effect of Gender across Contexts, Studies 3 & 4**  
**A) Study 3: Effect of Gender on Executive Pay by Industry**  
**B) Study 4: Effect of Gender on Diversity Value Perceptions by Organizational Goals**



conveyed that the employee worked longer hours and had higher pay than in Study 2.

**Manipulations.** We used a 2 (employee gender) × 3 (organizational goals) × 2 (measure order) between-subjects design. Studies 1 and 2 demonstrate that high potential is a boundary condition for the female premium. Thus, all Study 4 participants received the exceedingly high potential condition used in Study 2. As in Study 2, we manipulated the employee’s gender using the names Sarah and Matthew and gender-appropriate pronouns.

The organizational goals manipulation included three conditions. In all conditions, we listed high-quality

customer service and protecting the environment as organizational goals. In the diversity goals condition, we indicated that a third organizational goal included:

Taking steps to increase diversity. Creating gender diversity in high-level positions is a challenge. Dosagen has implemented a number of policies and practices aimed at closing the gender gap by recruiting and retaining talented women with the qualifications and abilities needed to advance to and succeed in high-level positions.

The other two conditions were control conditions. In the first control condition (ambiguous goals), we

did not list any additional goals. In the second control condition (fairness goals), we indicated that an additional organizational goal was fair treatment, regardless of gender. Specifically, we indicated that the organization's goals included:

Taking steps to ensure pay and promotion decisions are fair. Preventing background characteristics, such as gender, from influencing pay and promotions is a challenge. Dosagen has implemented a number of policies and practices aimed at ensuring that pay and promotion decisions are based on qualifications and abilities, not gender.

We also manipulated the order of the study measures; half of the participants completed the mechanism measures first and half completed the reward measures first. Presenting the mechanisms first is consistent with the theorized causal order among the variables, but may create demand characteristics by priming participants to believe the mechanisms are important to the study prior to allocating rewards (Campbell & Stanley, 1966; Orne, 2009). Manipulating measure order allowed us to balance these concerns and test whether demand characteristics provide an alternative explanation for our results (e.g., Feiler, Tost, & Grant, 2012; Naquin, 2003).

**Mechanism measures.** Participants completed a diversity value perceptions measure, including the three items from Study 2 and five new items ( $\alpha = .98$ ; e.g., "Sarah [Matthew] will help this organization meet strategic goals around diversity that are important to organizational leaders"). They also completed an original retention perceptions measure (10 items;  $\alpha = .94$ ; e.g., "Managers at Dosagen are expected to retain employees like Sarah [Matthew]"). We also included six alternative mechanism measures. We included the same measures of competence ( $\alpha = .94$ ), agency ( $\alpha = .79$ ), warmth ( $\alpha = .93$ ), and uniqueness ( $\alpha = .76$ ) used in Study 2. In addition, individuals may believe women are held to a double standard and have to work harder than men to achieve success, or that women have valuable management skills due to their communal nature (e.g., Rosette & Tost, 2010), either of which could produce a female premium. We included measures of double standards (four items;  $\alpha = .96$ ; e.g., "Sarah [Matthew] has encountered more road blocks than men [women] do in advancing her [his] career") and feminine management skills (six items;  $\alpha = .91$ ; "Sarah [Matthew] is sensitive to the needs of others;" both adapted from Rosette and Tost [2010]). The response scale was 1 = strongly disagree to 7 = strongly agree for all mechanisms.

An exploratory factor analysis revealed that the eight mechanism measures loaded on seven factors ( $\lambda_1 = 13.36, \lambda_2 = 6.82, \lambda_3 = 3.56, \lambda_4 = 2.56, \lambda_5 = 2.37, \lambda_6 = 1.38, \lambda_7 = 1.21, \lambda_{8-42} \leq .95$ ; 71% variance explained); the warmth and feminine management skills items loaded on a single factor. Consistent with past work, we treated warmth and feminine management skills as separate constructs (Rosette & Tost, 2010). Combining them into a single measure produced the same conclusions as those we report for the feminine management skills measure.

**Outcome measures.** Participants completed the pay ( $\alpha = .69$ ) and career ( $\alpha = .88$ ) rewards items used in Study 2. An exploratory factor analysis revealed that these measures loaded on separate factors ( $\lambda_1 = 4.22, \lambda_2 = 1.11, \lambda_{3-9} \leq .69$ ; 55% variance explained).

**Additional measures.** Participants completed manipulation checks to assess their recall of the employee's gender and the organization's goals and reported their demographics. We expect that perceptions of an employee's diversity value to the organization produce the high-potential female premium, regardless of participants' personal diversity beliefs. We included measures of personal beliefs regarding the value of diversity (adapted from Homan, Greer, Jehn, & Koning, 2010; e.g., "I believe that gender diversity is good") and sexist attitudes (Tougas, Brown, Beaton, & Joly, 1995; e.g., "Women shouldn't push themselves where they are not wanted"). Including participants' diversity beliefs, sexist attitudes, and demographics in the analyses, as well as the interactions between these variables and the study manipulations, did not alter our conclusions.

**Analyses.** We used hierarchical regression to test our hypotheses because doing so allowed us to use the Edwards and Lambert (2007) procedure to test for moderated mediation (Hypothesis 6). Using ANOVA produced the same statistical conclusions.

## Results

**Manipulation checks.** A  $\chi^2$  test revealed that participants accurately recalled the employee's gender ( $\chi^2 = 279.66, p < .01$ ). An ANOVA revealed that the goals manipulation influenced participants' recall of diversity goals ( $F = 15.69, p < .01$ ) and fairness goals ( $F = 4.65, p < .01$ ). Participants rated the organization as higher in diversity goals in the diversity condition than in the ambiguous ( $t = 5.47, p < .01$ ) and fairness ( $t = 2.00, p < .05$ ) conditions. Participants also rated the organization as higher in fairness goals in the fairness condition than in the

diversity ( $t = 2.27, p < .05$ ) and ambiguous ( $t = 3.00, p < .01$ ) conditions. Measure order, gender, and the interactions between gender and goals were unrelated to participants' recall of diversity goals ( $.12 \leq F \leq 3.65$ , all n.s.) and fairness goals ( $.51 \leq F \leq .75$ , all n.s.). The manipulations were also unrelated to participants' recall of the employee's potential ( $.01 \leq F \leq .73$ , all n.s.), performance ( $.14 \leq F \leq 1.83$ , all n.s.), and hours worked ( $.01 \leq F \leq 1.19$ , all n.s.), which we held constant across conditions.

**Hypothesis testing.** The descriptive statistics and regression results appear in Tables 7 and 8, respectively. Hypothesis 5 states that the interaction between gender and diversity goals predicts diversity value perceptions. We tested the effects of measure order, gender, goals, and the interactions between gender and goals on diversity value perceptions (Model 1).<sup>4</sup> We used dummy variables to capture the diversity and fairness goals conditions, making the ambiguous goals condition the comparison. Gender was significant ( $b = 1.29, p < .01$ ); participants perceived women (mean = 5.68,  $SD = .92$ ) as higher in diversity value than men (mean = 4.39,  $SD = 1.39$ ). Organizational goals were not significant (diversity:  $b = .07$ ; fairness:  $b = .10$ ; both n.s.).

The gender effect was qualified by an interaction between gender and diversity goals ( $b = .96, p < .01$ ; see Figure 3B). Simple slope analyses revealed that participants perceived women (mean = 6.00,  $SD = .81$ ) as higher in diversity value than men (mean = 4.13,  $SD = 1.50$ ) in the diversity ( $b = 1.87, t = 7.97, p < .01$ ) and in the ambiguous ( $b = .91, t = 4.08, p < .01$ ; women: mean = 5.45,  $SD = .94$ ; men: mean = 4.54,  $SD = 1.15$ ) goals conditions, but the significant interaction indicates the effect was stronger in the diversity condition than in the ambiguous condition. The interaction between gender and fairness goals was not significant ( $b = .21$ , n.s.). Thus, the gender effect did not differ in the fairness ( $b = 1.12, t = 4.69, p < .01$ ; women: mean = 5.64,  $SD = .91$ ; men: mean = 4.52,  $SD = 1.50$ ) and ambiguous conditions. These results support Hypothesis 5.<sup>5</sup> Additional analyses revealed that participants perceived women as

higher in diversity value in the diversity than in the ambiguous condition ( $b = .55, t = 2.41, p < .05$ ), but perceptions of women's diversity value did not differ in the fairness and ambiguous conditions ( $b = .20, t = .88$ , n.s.). Perceptions of men's diversity value did not differ in the diversity and ambiguous conditions ( $b = -.40, t = -1.76$ , n.s.) or in the fairness and ambiguous conditions ( $b = -.01, t = -.04$ , n.s.).

Hypothesis 6 states that the interaction between gender and diversity goals has an indirect effect on rewards, through diversity value and retention perceptions. Diversity value perceptions were positively related to retention perceptions ( $b = .12, p < .01$ ) and retention perceptions were positively related to rewards (pay:  $b = .36$ ; career:  $b = .27$ ; both  $p < .01$ ; Table 8, Models 2–4). To calculate the simple indirect effects, we multiplied the simple effect of gender on diversity value perceptions in each goals condition by the effect of diversity value perceptions on retention perceptions and by the effect of retention perceptions on rewards (Edwards & Lambert, 2007; see Figure 2B). When calculating simple indirect effects we combined the two control conditions, given the absence of significant differences between them. We constructed 95% bias-corrected bootstrap confidence intervals around the indirect effects. The indirect effect of gender on rewards, through diversity value perceptions and, in turn, retention perceptions, was significant in the diversity goals condition (pay:  $b = .08, CI_{95} = .01$  to  $.21$ ; career:  $b = .06, CI_{95} = .01$  to  $.14$ ) and in the control conditions (pay:  $b = .04, CI_{95} = .01$  to  $.10$ ; career:  $b = .03, CI_{95} = .01$  to  $.07$ ). We compared the two indirect effects by calculating their difference. In support of Hypothesis 6, the indirect effect was larger in the diversity goals condition than in the control conditions (pay:  $b_{diff} = .04, CI_{95} = .01$  to  $.12$ ; career:  $b_{diff} = .03, CI_{95} = .01$  to  $.07$ ).

**Alternative mechanisms.** As in Study 2, gender (and the interactions between gender and goals) was unrelated to competence, agency, warmth, and uniqueness ( $-.29 \leq b \leq .52$ , n.s.; full results available on request). For double standards, participants rated the female employee as held to a higher standard than the male employee ( $b = 1.26, p < .01$ ), but the effects of the goals manipulation (diversity:  $b = -.09$ ; fairness:  $b = -.23$ ; both n.s.) and the interactions between gender and goals (diversity:  $b = -.06$ ; fairness:  $b = .47$ ; both n.s.) were not significant (Table 8, Model 5). For feminine management skills, only the interaction between gender and diversity goals was significant ( $b = .60, p < .05$ ; Table 8, Model 6); participants rated women as higher in feminine

<sup>4</sup> Measure order was not significant in any of our regression models (see Table 8) and did not moderate any of our findings (results available by request). As a result, demand characteristics cannot explain our findings.

<sup>5</sup> In further support of Hypothesis 5, additional analyses in which fairness goals were the omitted condition revealed the gender effect was stronger in the diversity goals condition than in the fairness goals condition ( $b = .75, p < .05$ ).

TABLE 7  
Descriptive Statistics, Study 4

Variables	1	2	3	4	5	6	7	8	9	10	11	12	13	14
1. Measure order manipulation														
2. Gender manipulation	-0.03													
3. Diversity goals condition	0.02	-0.04												
4. Fairness goals condition	-0.06	0.02	-0.47**											
5. Diversity value perceptions	0.03	0.48**	-0.01	0.03	(0.98)									
6. Retention perceptions	0.08	-0.01	-0.05	0.01	0.30**	(0.94)								
7. Competence	0.00	0.00	0.04	-0.02	0.17**	0.54**	(0.94)							
8. Agency	0.06	-0.02	0.09	-0.07	0.26**	0.44**	0.48**	(0.79)						
9. Warmth	0.01	0.05	0.00	0.04	0.40**	0.29**	0.20**	0.46**	(0.93)					
10. Uniqueness	0.03	0.05	0.03	-0.04	0.15*	0.17**	0.17**	0.22**	0.31**	(0.76)				
11. Double standards	0.01	0.38**	0.04	-0.07	0.40**	-0.05	-0.08	-0.02	0.16**	0.20**	(0.96)			
12. Feminine management skills	0.00	0.11	0.00	0.05	0.51**	0.36**	0.24**	0.40**	0.73**	0.36**	0.17**	(0.91)		
13. Pay rewards	0.07	0.13*	0.00	-0.08	0.18**	0.34**	0.28**	0.14*	0.05	0.18**	0.07	0.11	(0.69)	
14. Career rewards	0.09	0.08	0.00	0.06	0.34**	0.56**	0.57**	0.45**	0.23**	0.22**	0.05	0.31**	0.46**	(0.88)
Mean	0.50	0.51	0.33	0.31	5.04	5.78	6.44	5.91	4.83	4.98	3.61	5.09	4.58	5.82
SD	0.50	0.50	0.47	0.46	1.34	0.81	0.64	0.79	0.99	1.16	1.65	0.89	1.10	0.77

Notes:  $n = 303$ ; Measure order manipulation: 1 = outcomes first, 0 = mechanisms first; Gender manipulation: 1 = female, 0 = male; Goal conditions: 1 = yes, 0 = no (ambiguous goals is the omitted condition).

\*  $p < .05$

\*\*  $p < .01$

**TABLE 8**  
**Regression Results, Study 4**

Variables	Model 1: Diversity value perceptions		Model 2: Retention perceptions		Model 3: Pay rewards		Model 4: Career rewards		Model 5: Double standards		Model 6: Feminine management skills	
	b	t	b	t	b	t	b	t	b	t	b	t
Step 1: Manipulations												
Order manipulation	0.13	0.99	0.12	1.29	0.14	1.14	0.15	1.70	0.04	0.22	0.01	0.05
Gender manipulation	1.29	9.53**	-0.01	-0.08	0.30	2.38*	0.12	1.37	1.26	7.18**	0.20	1.94
Diversity goals condition	0.07	0.44	-0.10	-0.91	-0.09	-0.57	0.08	0.71	0.09	0.41	0.07	0.57
Fairness goals condition	0.10	0.60	-0.03	-0.23	-0.22	-1.40	0.15	1.37	-0.23	-1.07	0.12	0.94
Step 2: Interactions												
Gender × diversity goals	0.96	2.95**	0.42	1.87	0.23	0.77	-0.15	-0.69	-0.06	-0.14	0.60	2.45*
Gender × fairness goals	0.21	0.63	-0.21	-0.90	-0.17	-0.56	-0.16	-0.73	0.47	1.08	-0.24	-0.98
Step 3: Mechanisms												
Diversity value perceptions			0.12	3.13**	0.09	1.41	0.14	3.79**				
Competence			0.51	7.56**	0.44	4.05**	0.51	8.36**				
Agency			0.15	2.46*	-0.01	-0.09	0.19	3.53**				
Warmth			-0.01	-0.12	-0.08	-0.85	-0.10	-1.89				
Uniqueness			0.01	0.38	0.13	2.34*	0.05	1.63				
Double standards			-0.04	-1.41	0.00	0.00	0.00	0.07				
Feminine management skills			0.10	1.45	-0.03	-0.25	0.08	1.26				
Step 4: Micro-mechanism												
Retention perceptions					0.36	3.84**	0.27	5.13**				
Model fit												
$R^2_{Step 1}$	0.24**		0.1		0.03		0.02		0.15**		0.02	
$\Delta R^2_{Steps 1-2}$	0.2**		0.03*		0.01		0.00		0.01		0.04**	
$\Delta R^2_{Steps 2-3}$			0.37**		0.10**		0.42**					
$\Delta R^2_{Steps 3-4}$					0.04**		0.05**					
$R^2_{Final model}$	0.26**		0.40**		0.18**		0.49**		0.16**		0.05**	

Notes:  $n = 303$ ; Measure order manipulation: 1 = outcomes first, 0 = mechanisms first; Gender manipulation: 1 = female, 0 = male; Goal conditions: 1 = yes, 0 = no (ambiguous goals is the omitted condition).

\*  $p < .05$   
\*\*  $p < .01$



management skills than men in the diversity condition ( $b = .68, t = 3.90, p < .01$ ), but not in the control conditions (ambiguous:  $b = .08, t = .46$ ; fairness:  $b = -.16, t = -.92$ ; both n.s.). Importantly, neither double standards nor feminine management skills were related to retention perceptions or rewards ( $-.04 \leq b \leq .10$ , n.s.; Table 8, Models 2–4). Thus, neither of these alternative mechanisms produced a high-potential female premium. Moreover, after controlling for all alternative mechanisms, the effects of gender ( $b = .97, p < .01$ ) and the interaction between gender and diversity goals ( $b = .59, p < .05$ ) on diversity value remained significant and the effect of the interaction between gender and fairness goals remained nonsignificant ( $b = .28$ , n.s.).

**Mechanism order.** Strategic human resource management theory suggests that organizational goals shape perceptions of what is valuable to an organization (diversity value perceptions) and the behaviors leaders expect (retention perceptions), but does not specify a clear causal order for these constructs. Path analyses revealed that our hypothesized model, in which diversity value perceptions precede retention perceptions, fit the data reasonably well ( $\chi^2[11] = 43.29, CFI = .90, RMSEA = .08, SRMR = .04$ ). An alternative model, in which the interaction between gender and diversity goals predicts retention perceptions ( $b = .42, p = .06$ ), retention perceptions predict diversity value perceptions ( $b = .27, p < .01$ ), and diversity value perceptions predict rewards (pay:  $b = .05$ , n.s.; career:  $b = .10, p < .01$ ), did not fit the data well ( $\chi^2[11] = 202.74, CFI = .42, RMSEA = .24, SRMR = .12$ ). These results are consistent with our theory, but are not definitive; we measured both mechanisms, which prevents strong causal inferences.

## Discussion

Study 4 provides additional support for the proposition that diversity goals produce a high-potential female premium. We manipulated diversity goals and thus provide more definitive evidence that the high-potential female premium is larger when diversity goals are stronger. We also provide a fuller test of the mechanisms that produce the high-potential female premium. We found that organizational diversity goals drive individual-level diversity value perceptions and that retention perceptions explain why diversity value perceptions are positively related to pay.

The indirect effect of gender on rewards was largest in the diversity goals condition, but was also significant in the control conditions. Evidence of

a high-potential female premium in the control conditions is consistent with Study 2 and supports that individuals assume organizations have diversity goals in the absence of explicit information to the contrary. Indeed, the mean of the diversity goals manipulation check was above the scale midpoint in the control conditions (mean = 5.26 out of 7,  $t = 16.58, p < .01$ ), although it was significantly lower than in the diversity goals condition (mean = 5.84). Notably, participants in the control conditions may have assumed the organization had diversity goals because the context was a consumer products company. This finding may not hold in contexts where diversity goals are less prevalent (e.g., manufacturing).

## GENERAL DISCUSSION

In spite of abundant evidence of a female pay penalty, we advanced the proposition that the widespread adoption of organizational diversity goals creates a pay premium for certain women, all else being equal. We integrated the economic principle of supply and demand with strategic human resource management theory and hypothesized that the female premium is unique to women with high potential, driven by perceptions that these women are valuable for achieving organizational diversity goals, and larger in organizations where diversity goals are stronger. Using a multimethod research approach, we found strong support for our theory.

## Implications for Theory and Practice

The present work demonstrates that the gender gap is more complex than a uniform bias against women, and offers new insight into why and when women receive a pay premium. We introduced a new mechanism—diversity value perceptions—that produces gender differences in pay. In contrast to evidence of a number of mechanisms that produce a female penalty, diversity value perceptions produce a female premium for certain women, all else being equal. In addition, our theory offers insight into the boundary conditions that delineate the female premium; only women with high potential, who have the abilities needed to reach the upper echelons of organizations where women are underrepresented, are perceived as high in diversity value and receive a pay premium. Notably, a few recent studies have also found a female premium, but either have not hypothesized this effect a priori (Gayle et al., 2012; Williams & Ceci, 2015), or have offered competing hypotheses regarding the effect of

gender on pay (Hill et al., 2015), and have also failed to provide evidence regarding the mechanisms that produce the female premium. Moreover, although these studies have used target individuals who happen to meet the definition of high potential, they have revealed a uniform female premium and have not provided theory or evidence regarding the boundary conditions for this effect, making these findings difficult to reconcile with the well-documented female penalty. The present research advances theory by demonstrating that diversity value perceptions are a mechanism that explains why certain women receive a pay premium and that high potential is a boundary condition that explains when the premium occurs.

We also contribute to the meso paradigm in organizational research (House et al., 1995). Central to this paradigm is an appreciation for the limitations of both macro theories, which explain organization-level phenomena while treating the individual-level processes that drive them as a black box, and micro theories, which explain individual-level phenomena while ignoring the role of context. A full understanding therefore requires a meso-level perspective that specifies the relationships among macro and micro constructs. We developed a meso-level theory by proposing that the widespread adoption of organizational-level diversity goals and the associated demand for high-potential women result in individual-level perceptions that these women have significant diversity value and that efforts to retain them are expected. These perceptions, in turn, lead individual managers to grant a pay premium to high-potential women. Thus, our theory provides insight into the micro-level individual perceptions that explain how macro-level organizational initiatives create a high-potential female premium.

The focus on diversity in organizations has a number of benefits; efforts to foster diversity can result in increased engagement, improved performance, and even higher levels of charitable giving (e.g., Joshi & Roh, 2009; Leslie & Gelfand, 2008; Leslie, Snyder, & Glomb, 2013; McKay, Avery, & Morris, 2008; Plaut, Thomas, & Goren, 2009). However, diversity practices can also have unintended consequences, for example by triggering stereotypes that women lack competence and warmth, which in turn undermine their performance outcomes (Leslie, Mayer, & Kravitz, 2014). In contrast to evidence that diversity goals and practices create perceptions that *undermine* outcomes for women, we found that diversity goals and practices create perceptions that

*enhance* outcomes for certain women. Thus, diversity goals trigger a wider range of perceptions, with more varied consequences for career success, than previously thought.

Our findings are consistent with evidence that individuals at times construe diversity goals and practices as an indication that underrepresented groups are advantaged in organizational decision making and, in turn, react negatively to these practices (e.g., Harrison, Kravitz, Mayer, Leslie, & Lev-Arey, 2006; Plaut, Garnett, Buffardi, & Sanchez-Burks, 2011; Shteynberg, Leslie, Knight, & Mayer, 2011; Unzueta, Lowery, & Knowles, 2008). Evidence of a high-potential female premium suggests there may be a kernel of truth to these perceptions; however, only the highest-ability women—those deemed high potential—receive a pay premium, and this high-potential female premium is outweighed by the overall female penalty. As a result, our results do not give credence to perceptions that diversity goals afford widespread advantages to undeserving women.

From a practical standpoint, evidence of a pay premium for high-potential women raises questions regarding whether the phenomenon is beneficial or problematic for organizations. On the one hand, diversity can improve organizational performance and a case could be made that a high-potential female premium is just and equitable, due to the business case for diversity. Moreover, our theory suggests that the demand for high-potential women in the marketplace may require organizations to pay them a premium to retain them. In addition, given that women are more likely than men to opt out of fast-track jobs (Gayle et al., 2012; Hewlett & Luce, 2005), a high-potential female premium may be instrumental in preventing talented women from leaving the workforce, thereby improving women's representation in the upper echelons.

On the other hand, organizations are liable for ensuring pay equity. Moreover, women are not a protected group; rather, gender is a protected class. Thus, gender-based pay disparities are problematic from a legal standpoint, even if women are advantaged. Indeed, the courts have deemed practices aimed at creating diversity by favoring members of underrepresented groups as inequitable (e.g., *Piscataway School Board v. Taxman*, 1996; *Ricci v. DeStefano*, 2009). In addition, the tendency to grant high-potential women a pay premium may create backlash among men with similar experiences and abilities who may believe the premium is unfair. Finally, in organizations where diversity goals stem from a desire to create equity by reducing the

disadvantages faced by women, our findings suggest that diversity goals may have the ironic effect of creating inequity by producing advantages that favor certain women.

Regardless of whether organizational leaders view the high-potential female premium as beneficial or detrimental, our findings have implications for pay equity audits. An overall analysis of gender differences in pay may uncover a female penalty while masking a high-potential female premium. As a result, pay audits that compare men's and women's pay separately by potential rating and job level are needed to fully capture the nature of the gender gap. Evidence of a high-potential female premium also has practical implications for whether and how reward systems are used to enact strategic goals surrounding diversity. Studies 2 and 4 reveal that diversity value perceptions shape pay decisions in the absence of explicit instructions to reward diversity value. Thus, managers may reward employees for their diversity value without the knowledge of senior leaders. Our findings suggest that leaders should decide whether the potential benefits of a high-potential female premium (e.g., more progress toward diversity goals) outweigh the potential costs (e.g., legal concerns) and clearly convey to managers whether diversity value is a legitimate or illegitimate factor to weigh in allocating pay and other rewards.

### Strengths, Limitations, and Future Research

We tested our hypotheses using two field studies and two laboratory experiments. Our field studies have strong external validity, but do not allow causal inferences or provide a test of the individual-level mechanisms that drive the premium. In contrast, our laboratory studies have strong internal validity, provide direct support for the proposed mechanisms, and afford an all-else-being-equal comparison of men and women, but also rely on a simulated task and only included some participants with management experience. In spite of the respective limitations, Studies 1–4 provide convergent findings regarding why and when women receive a pay premium. Consistent evidence generates confidence that our conclusions are not an artifact of any one methodology.

The present work suggests new avenues for future research. We theorized and found that the high-potential female premium varies with the strength of diversity goals; however, there may be other sources of contextual variation. For example, our theory suggests that diversity goals produce a high-potential female premium, regardless of the motives that

underlie diversity goals. Nevertheless, the premium may be smaller when diversity goals stem from legal or social pressure versus the belief that diversity is beneficial for moral or business reasons.

Our theory may also apply to other groups targeted by diversity initiatives, including racial minorities. Indeed, a recent study found a pay premium for both female and racial minority CEOs (Hill et al., 2015). We used the Study 1 data to explore the possibility of a high-potential minority premium. Racial minority employees earned 93% as much as white employees overall, but the effect of race was not moderated by potential (results available by request). On the one hand, low statistical power may explain the absence of a high-potential minority premium; the sample included only six high-potential racial minorities (< 1% of the sample). On the other hand, women are more frequent targets of diversity goals than racial minorities are (Society for Human Resource Management, 2009), and racial minorities may face larger barriers to career advancement compared to women. Thus, theory building regarding whether, why, and when racial minorities receive a pay premium remains an important avenue for future work.

### CONCLUSION

Against the backdrop of abundant evidence of an overall female pay penalty, we theorized and found that organizational diversity goals produce a female pay premium that is unique to high-potential women. This work challenges the prevailing assumption that women are uniformly disadvantaged in pay decisions and expands knowledge of the consequences of diversity goals and practices in organizations. A deeper understanding of the effects of adopting organizational diversity goals advances theory and offers practical insights regarding the implications of diversity initiatives for facilitating gender equity in organizations.

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