Diversity Goals and the Pay Premium for High-Potential Women

**Key Finding**: The authors find that the gender gap reverses from a pay penalty for low-potential women into a pay premium for high-potential women due to diversity value perceptions.

**Executive summary**: The study is based on the idea that women are still underrepresented in the upper echelons of organizations and that high-potential women, who have the abilities to reach that part of the organization, are therefore perceived as higher in diversity value and thus receive a pay premium.

The authors further showed that the individual-level diversity value perceptions are rooted in organizational-level diversity goals. Hence, managers reward high-potential women with a pay premium because they believe them to have significant diversity value for the organization and that efforts to retain them are expected. Nonetheless, high potential is a boundary condition for this pay premium and it is still outweighed by the overall female penalty. At the same time, the authors emphasize that a pay premium may be beneficial for your company as it can improve organizational performance and retain high-potential employees, but that it can also be problematic because it reverses pay equity and favors women over men which can also lead to legal complications.

**What are the practical implications for my organization?**

- Carefully determine whether and how reward systems are used to enact strategic goals surrounding diversity since diversity value perceptions shape pay decisions.
- Discuss whether the potential benefits of a high-potential female premium outweigh the potential costs and clearly convey to managers whether diversity value is a legitimate or illegitimate factor to weigh in allocating pay and other rewards.
- Consider the prevailing assumption that women are uniformly disadvantaged in pay decisions and expand your knowledge about the positive and negative consequences of diversity goals and practices in your organization.


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