

# Leadership Excellence and Gender in Organizations

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## Incentivizing equity through executive compensation

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## **Incentivizing Equity Through Executive Compensation**

### **ABSTRACT**

Targeted efforts have helped to improve demographic diversity within organizations, but despite these efforts, women and racial minorities continue to be underrepresented in a variety of positions. While research has consistently validated the existence of employment discrimination, there is an important need for research to begin addressing actionable steps that can be implemented in order to create a more inclusive workplace. Integrating agency theory and the business case for diversity, this paper begins to address that need by examining the relationship between the structure of executive compensation and workforce diversity. These relationships are tested using CEO compensation and workforce data for a sample of Fortune 500 firms. In support of our model, we found a positive relationship between CEO bonus compensation and gender diversity within the organization. Contrary to our expectations, however, we found a negative relationship between firm equity compensation and racial diversity in the workforce. These negative effects were strongest in industries that rely on employees in customer-facing positions. The differential effects of executive compensation on gender and racial diversity provide strong support for the argument that women and racial minorities face different workplace challenges that require unique solutions.

**Keywords:** gender diversity, racial diversity, agency theory, asymmetrical index of diversity, executive compensation