Do Women Really Hold Up Half the Sky in Chinese Firms?

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In China, gender equality has been part of the national policy and a fundamental pursuit of the government since the Communism state was founded. "Women hold up half the sky"—this famous saying stemmed from Mao Zhedong's time.

However, according to Prof. Huangsheng Gao, Assistant Professor of Finance at Nanyang Technological University, Singapore, who recently spoke about this subject in a seminar at the Chinese University of Hong Kong Business School, sex discrimination is an important factor that prevents women from climbing up the corporate ladder in Chinese firms. In his latest study (see reference 1), Prof. Gao has found that over the past decade, only 10% of top management positions in firms listed on the Shanghai and Shenzhen stock exchanges were female, although women accounted for 45% of the national labor force and 43% of all college graduates.

"Clearly, the under-representation of female top managers cannot be fully explained by the difference in participation in the labor market or the difference in the education level of the overall population," says Prof. Gao.

Female executives are also paid significantly less than their male counterparts, according to Prof. Gao. "If a female executive overcomes all the biases and becomes a top manager, one would expect her to be very capable, otherwise she would not have been able to reach the position. That means she should have a higher compensation. But in reality, she has a lower compensation. The basic idea is, for example, the market compensation for a female executive is $1 million. Since I know other firms have some bias toward her and don't want to hire her, I can safely lower her compensation to $0.8 million. As a result, her compensation is lower than the market rate," explains Prof. Gao.

Having looked at new appointments and dismissals of female executives in individual firms, Prof. Gao found that “in the first place, a firm [generally] does not want to hire a woman to be the top manager; it is more likely to hire a man than a woman. But if a firm wants to fire an executive, it is more likely to fire a female manager than a male one.”

Is there any relationship between hiring female executives and a firm’s performance? Prof. Gao says: “Our results show that female managers increase a firm’s value. Having women in the top management team improves a firm’s performance.” This answer makes the under-representation of female top managers particularly puzzling.

State-Owned Enterprises

In China, top management positions in state-owned enterprises (SOEs) are controlled by the central government. So in terms of the proportion of female top managers, is there a difference between SOEs and non-SOEs? Prof. Gao’s research has confirmed that non-SOEs have a larger percentage of female executives than SOEs. He cites one research paper by Kailing Shen from Xiamen University (see reference 2), in which job ads posted on a Chinese Internet job-search board Zhaopin.com have been studied.

Prof. Gao explains: “In the job requirement section, gender-specific requirements for women are equally common as those for men. The difference is: If a firm has a job for a man, it typically requires that the man has a college degree or certain number of years of work experience. But if a firm wants to hire a woman, it often requires that the girl be tall and young. And SOEs are more likely to have this gender-specific requirement. That means that if an SOE wants to hire a woman, it is more likely to require her to be tall and young. Since an SOE is typically a monopoly in a local market, the discrimination would not hurt its profitability.”

But Prof. Gao also notes that sex discrimination is a significant issue in both SOEs and non-SOEs even though there is a difference between them in terms of the percentage of female top managers vs. male managers.

Great Regional Differences

One would expect that discrimination against women is something that people would not readily admit. So how can sex discrimination be measured? In his research, Prof. Gao measured sex discrimination by the ratio of the number of new-born boys over the number of new-born girls. According to him, discrimination against women is more severe in China than in developed countries such as the United States. “Look at the gender ratios across all the countries in the world. China is No. 1 with the highest ratio at 1.13. That means there are 113 boys for every 100 girls.”

There are a lot of variations in the gender ratios across different areas of China, emphasizes Prof. Gao. “The Top 3 provinces with the highest gender ratios are Anhui, at almost 1.3, followed by Hainan and Hubei. Three provinces that have the lowest gender ratios are Ningxia, Xinjiang and Tibet, which are very close to the global average and the natural ratio,” he says.

Since the discrimination situation is very different across different areas of China, should one expect that a firm in a high-discrimination area would hire fewer female top managers? The answer is "yes." Prof. Gao found that firms located in the provinces with a stronger discrimination tendency have a smaller percentage of female executives: For example, in Anhui province, there are far more boys than girls. "If I am a public firm in Anhui, I would not be likely to hire female top managers."

Prof. Gao explains this phenomenon from a demand-and-supply perspective: "On the demand side, there is less demand for female managers in high-discrimination areas, since middle managers are most likely local people, who are biased and don't want to hire females. In this case, even if the top managers themselves are not local and do not share the same bias, they still rationally avoid hiring females. Why? Because if they bring in female managers, I believe their senior colleagues would disagree with the decision, leading to conflicts in the firm."

"On the supply side," Prof. Gao continues, "there is also a weaker supply of female candidates in high-discrimination areas. Junior female employees might have fewer chances of promotion, so they cannot join the market pool for top managers in the first place. Good female executives would also avoid working in such areas and would go to regions with a lower level of sex discrimination. Maybe local girls have generally poor education before they enter the job market. Another possible reason on the supply side is that if a talented woman knows it would be difficult for her to become successful as a professional manager, she would go for a different career."

Factors other than Sex Discrimination

Why are there so few top female managers? There are many possible explanations, and audience members attempted a few hypothesis. Cong Wang, a finance professor at CUHK Business School, conjectured that since a lot of businesses in China are relationship-based, a top manager would have to participate in social activities such as excessive drinking, with which Chinese women are generally not comfortable. Other factors may include the fact that women are generally more family-oriented, according to Albert Wang, a finance professor at the CUHK Business School.

Prof. Gao agrees that the small number of female managers who have made it to the top might not be purely due to sex discrimination. He says: "I totally agree that there are other factors that might matter, but we find sex discrimination to play an important role".

It is expected that the proportion of female executives would vary across different industries. For example, the mining industry might have fewer female executives than the cosmetics industry. The industry effect has also been considered by Prof. Gao: "We've used industry-adjusted percentages of top female managers in the firms. Still we can see that in high-discrimination provinces, the percentages of female executives are very small."

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Reference

1. Huasheng Gao and Yaheng Lin, "Sex Discrimination and Female Top Managers: Evidence from China," 2013, working paper.

2. Kailing Shen and Peter J. Kuhn, "Gender Discrimination in Job Ads: Theory and Evidence," Quarterly Journal of Economics, 2013, 128(1), pp. 287-336.

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