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A study of linkages among leadership gender diversity, pay equity practices and financial performance

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Abstract

Purpose – Pay equity practices may help address the gender pay gap and resulting inequalities, which have organizational, economic, and social implications. Little is known about the determinants and benefits of pay equity practices. The knowledge created through this research can help drive and justify the offering of pay equity practices. Using an institutional theory lens, we propose: a positive relationship between leadership gender diversity and financial performance, a positive relationship between leadership gender diversity and pay equity practices, a positive relationship between pay equity practices and financial performance, and a mediating role of pay equity practices between leadership gender diversity and financial performance.

Design/methodology/approach – Based on a time-lagged design, archival data from multiple sources were collected from up to 4,943 organizations in Australia.

Findings – The analyses supported all hypotheses. The findings support and extend institutional theory, addressing important knowledge gaps pertaining to determinants and outcomes of pay equity practices and the mediating role of pay equity practices.

Practical implications – Practical implications include the need for management of leadership gender diversity to drive pay equity practices and financial performance.

Originality/value – Using novel theorizing, we provide new evidence for relationships between leadership gender diversity and pay equity practices, pay equity practices and operating revenue, and a mediating role of pay equity practices. These findings set a new solution-focused direction for pay equity research, as past research focused on pay gaps and perceived pay inequity.

Keywords Gender, Diversity, Leadership, Pay equity practices, Financial performance

Paper type Research article

1. Introduction

Globally, women are paid on average 68.5% of men's salary in a similar position (World Economic Forum, 2024). Pay gaps, or systematic differences in pay between employees from different demographic categories, create inequalities that have organizational, economic, and social implications (Yanadori *et al.*, 2021). Pay equity-related human resource practices (hereafter referred to as pay equity practices) seek to reduce biases in pay and eliminate pay gaps (Chicha, 2006; Coker *et al.*, 2025; Ugarte and Rubery, 2021). However, little is known about the determinants and organizational benefits of pay equity practices other than reduced

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pay gaps. This knowledge is important for organizational leaders to understand how to drive the offering of pay equity practices (determinants) and be able to present an evidence-based business case for these practices (benefits) and their sustained offering.

The focus of pay equity literature has been mostly on the *gender pay gap*, *perceived pay equity*, and *contextual factors*. The *gender pay gap* findings include: a negative relationship between women in management/top management and the gender earnings gap (gendered power relations theory, Abendroth *et al.*, 2017; upper echelon theory, Cohen and Huffman, 2007; Perryman 2016; statistical discrimination theory, Santero-Sánchez and Núñez, 2022), a positive relationship between female compensation committee chairs and narrower pay gap within the top executive team (Kanter’s theory of gender, Cook *et al.*, 2019), and a lower evaluation of female-dominated jobs (social role theory, Chordiya and Hubbell, 2023). The *perceived pay equity* findings include: a negative relationship between perceived pay equity and turnover intention of employees of color (social identity theory and equity theory, Buttner and Lowe, 2017), a positive relationship between perceived communication about pay level and desirable employee attitudes mediated by perceived pay equity (equity theory; Day, 2012), and positive effects of perceived rewards fairness on productivity and employee satisfaction and a negative effect on turnover (Fay and Thompson, 2001). The *contextual factors* studied include Covid-19 (Churchill, 2024), occupational segregation (Rucker *et al.*, 2025), board-level employee representation (Fard and Chung, 2024), high-status positions (Cohen and Huffman, 2007), job-level qualification and written performance evaluations (Abendroth *et al.*, 2017), lower through middle management (Ali and Konrad, 2017), gender diversity in the top management team (Perryman *et al.*, 2016), multiple or influential women board members (Glass and Cook, 2018), and diversity climate (Buttner and Lowe, 2017).

As one of the key factors associated with pay equity is leadership and gender diversity, it is plausible to assume that there will be much research on the relationship between gender diversity and pay practices, beyond the pay gap. However, the broader diversity literature provides only some insights as the diversity related human resource practices bundles (hereafter referred to as diversity practices) studied included a very narrow set of pay equity practices. For instance, using resource dependency theory, strategic human resource management theory and ability-motivation-opportunity theory, Ali and Konrad (2017) reported a positive relationship between top management team gender diversity and *overall* diversity and equality management (DEM) systems and a positive relationship between DEM systems and financial performance. Drawing on the gender difference and homophily perspectives, Glass and Cook (2018) found that firms with women CEOs and multiple/influential women board members offer a wide range of *general* equality practices and experience positive effects of equality practices on labor productivity, innovation, and retention. Studies in Asian and developing-country contexts also show that gender-diverse leadership strengthens organizational performance through improved environmental, social and governance (ESG) outcomes, governance quality, and innovation (Hadisurya *et al.*, 2025; Kampoowale *et al.*, 2024; Saleh and Maigoshi, 2024; Saleh *et al.*, 2025), which suggests that this is not only a Western phenomenon. However, these studies also provide a more general explanatory mechanism, not specifically focused on pay practices.

This study significantly advances our knowledge as follows. First, we focus on the relationship between pay equity practices and financial performance, thus setting a new solution-focused direction for pay equity research. Past research mostly focused on pay gaps and perceived pay inequity. Second, we demonstrate a positive relationship between leadership gender diversity and pay equity practices, thus also supporting the business case for the benefits of gender diversity, particularly on the leadership level. Our use of pay equity practices as a mediator between leadership gender diversity and financial performance provides a theoretical explanation for this relationship. Third, we use the lens of institutional theory (DiMaggio and Powell, 1983) as our guiding theoretical framework (see Figure 1). Leadership is primarily responsible for responding to the institutional environment (Konrad *et al.*, 2016), and institutional theory is often used to explain leadership actions as

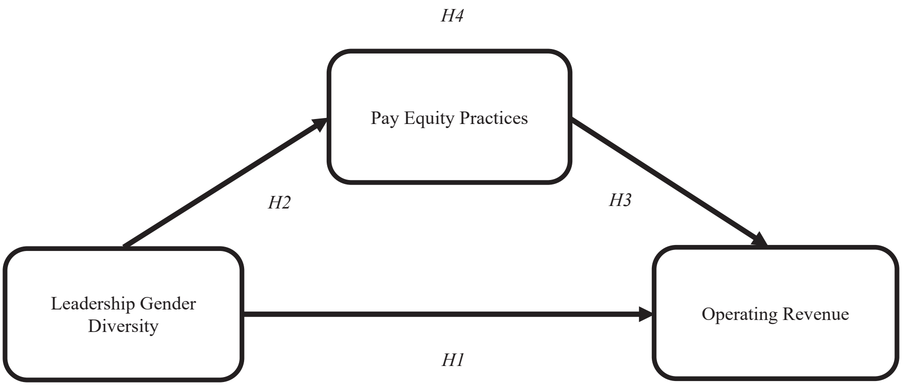

Figure 1. Research framework. Source: Authors' own work

outcomes of external pressures, which may result in adopting suboptimal practices. Our study uses this theory to demonstrate positive outcomes, where the institutional environment can lead to effective change (Thornton and Ocasio, 2008). Finally, our study uses a strong dataset and methods. In Australia, annual reporting on gender equality indicators to the Workplace Gender Equality Agency (WGEA) is mandatory for all private sector organizations with 100 or more employees. We use these archival data and data from the Orbis database to create a time-lagged dataset. Orbis is a global dataset of more than 400 million organizations from across countries. Data on operating revenue were obtained from Orbis, as these data are not available from the WGEA.

2. Theory and hypotheses development

Adopting institutional theory as a framework, we seek to understand the multifaceted external and contextual factors influencing organizational practices and behaviors, ultimately shaping work outcomes (DiMaggio and Powell, 1983; Meyer and Rowan, 1977). Powell and DiMaggio (2012) contend that organizations are intricately embedded in broader institutional environments, wherein external forces wield considerable influence over practices aimed at either aligning or responding to that environment. Organizations are shaped and constrained by societal norms, values, and expectations, and in turn, conform to or resist these constraints (Meyer and Rowan, 1977). The institutional environment influences the development of formal structures and practices that eventually become legitimized and perceived as desirable or appropriate within a socially constructed system of norms, beliefs, and expectations (Suchman, 1995).

Institutional theory posits that organizations, beyond responding solely to market pressures, navigate formal and informal institutional pressures from government regulatory bodies, professional entities, societal expectations, as well as the actions of industry leaders (Greenwood and Hinings, 1996). DiMaggio and Powell (1983) identify three key institutional mechanisms influencing organizational decision-making: normative, mimetic, and coercive. Firstly, normative pressures arise from the desire to conform to societal norms and expectations, and thus organizations may adopt certain practices because they are considered socially acceptable (Bose *et al.*, 2018). Normative mechanisms are linked to the alignment of management practices with professionalization of employee groups and identification with professional networks. Professional networks play pivotal roles in shaping organizational norms, particularly among professional managers, specialist staff, and external consultants across different functional areas, including human resource management (DiMaggio and Powell, 1983).

Secondly, mimetic pressures arise in the face of environmental uncertainty, and thus organizations may imitate the practices of successful or reputable organizations in their environment in order to reduce uncertainty or to cope with competition (Meyer and Rowan, 1977). They manifest through the imitation of competitors' strategies or the adoption of fashionable management trends within the industry. Thirdly, coercive pressures arise from formal or legislative sources, such as government, employment laws, and industry-level policies and expectations (Meyer and Rowan, 1977). They stem from political influence and the need for legitimacy, with labor legislation, governmental directives, and trade unions serving as influential factors in shaping human resource practices. The legal and regulatory coercive mechanisms can also drive employee behaviors (Edelman, 1992).

2.1 Leadership gender diversity and financial performance

Institutional theory (DiMaggio and Powell, 1983; Meyer and Rowan, 1977) can serve as a useful lens to understand the relationship between gender diverse leadership and organizational performance. It suggests that organizations operate within socially constructed frameworks of norms, values, and expectations that indicate legitimate organizational practices (DiMaggio and Powell, 1983). In contemporary societies, gender diversity has become an institutionalized expectation, allowing gender diverse leadership to become a source of organizational legitimacy (Terjesen *et al.*, 2009). When organizations show commitment to gender diversity in their leadership ranks, they demonstrate conformity to these institutional pressures, and their practices are perceived to be appropriate within the social context (Scott, 2014). This legitimacy may enhance stakeholder relationships and access to needed resources, which can directly contribute to improved organizational performance (Suchman, 1995). This improved performance may be related to a greater ability to attract high-quality gender gender-diverse talent due to gender diverse leadership (Post and Byron, 2015). It can also relate to a competitive advantage driven by customers and business partners who seek organizations with diversity credentials in their decision-making processes (Carter *et al.*, 2003). In line with this argument, recent evidence suggests that board gender diversity strengthens environmental sustainability outcomes, thereby reinforcing legitimacy through improved ESG performance (Saleh *et al.*, 2025). Evidence from Asian companies further demonstrates that board gender diversity significantly enhances environmental sustainability, highlighting the institutionalization of diversity norms beyond Western contexts (Saleh and Maigoshi, 2024). Additional findings from Malaysia and Indonesia also indicate that gender-diverse boards and ESG disclosure jointly improve both operating and market performance, even in patriarchal governance contexts (Kampoowale *et al.*, 2024; Hadisurya *et al.*, 2025).

Institutional investors and shareholders increasingly view leadership gender diversity as an indicator of good governance and sustainable business practices, improving access to capital (Adams and Ferreira, 2009). Hence, the organizational legitimacy gained through diverse leadership can translate into tangible performance benefits (Hillman and Dalziel, 2003). Furthermore, gender diversity has been shown to reduce firm risk by enhancing governance quality and stabilizing financial practices, which strengthens investors' confidence (Saleh *et al.*, 2025). Additional evidence from ASEAN countries, of which Australia is a Dialogue partner (Ab Aziz *et al.*, 2025), finds that board gender diversity mitigates the negative impact of ESG controversies, thereby preserving firm performance across Malaysia, Thailand, Singapore, Indonesia, and the Philippines. In Malaysia, Saleh and Mansour (2024) further demonstrate that gender-diverse audit committees reduce earnings management, enhancing financial transparency. Similarly, Zeng *et al.* (2025) show that female executives in China reduce financial constraints, further strengthening organizational resilience. In addition, according to the institutional theory, organizations with gender diverse leadership may be better positioned to manage complex institutional environments. As female leaders often bring different perspectives, experiences, and skills, they can enable organizations to better respond to different institutional demands (Nielsen and Huse, 2010). This further enables organizations to better understand and adapt to changing societal expectations and to better maintain legitimacy across different contexts and stakeholder groups (Terjesen *et al.*, 2009). The improved stakeholder relationships and institutional alignment further contribute to improved organizational performance.

Past empirical research supports a positive relationship between leadership gender diversity and financial performance. For instance, Wu *et al.* (2022) found that high levels of gender diversity in top management teams and boards of directors lead to organizational innovation, which ultimately improves organizational performance. Complementing this, female CEOs have been found to significantly enhance green innovation, indicating that gender-diverse leadership not only facilitates strategic innovation but also translates into measurable innovation outcomes (Mansour *et al.*, 2024). Importantly, these findings are consistent in Asian contexts, where female CEOs have been shown to significantly improve green innovation outputs (Mansour *et al.*, 2024). A study of Indian firms further demonstrates that when a critical mass of women directors is reached, the relationship between gender diversity and firm performance is significantly strengthened, underscoring the importance of board composition thresholds in emerging markets (Jayaraman *et al.*, 2025). Similarly, gender diversity at the executive levels was also linked to improved strategic decision-making, enhanced stakeholder relationships, and therefore higher financial performance (Baker *et al.*, 2019b). Fernando *et al.* (2020) posit that gender diverse top management teams improve organizational performance by enhancing managerial ability, particularly during times of crisis. Thus, we hypothesize:

H1. Leadership gender diversity is positively associated with firm financial performance.

2.2 Leadership gender diversity and pay equity practices

Research highlights the positive impact of diverse leadership teams on various organizational outcomes, such as innovation, equity, and fairness (Glass and Cook, 2018). Men and women develop skills, behaviors, and traits in line with societal expectations, shaping their distinctive leadership styles and organizational priorities (Eagly, 1987; Eagly and Karau, 1991). Gender-based leadership differences are often attributed to masculine and feminine traits, with women leaders exhibiting communal, nurturing, and people-oriented qualities, reflecting transformational and inclusive leadership (Bass *et al.*, 1996; Eagly *et al.*, 2003). Women's focus extends to advocating for equity, diversity, and social responsibility (Adams and Funk, 2012). Women in leadership positions use their agency to exert influence to dismantle gender barriers and promote positive change in these areas (Cohen and Huffman, 2007).

Conversely, men's leadership is associated with masculine, instrumental, agentic, and transactional qualities (Eagly *et al.*, 2003). Gender balance in leadership teams fosters a culture of diversity, enhancing men's recognition of women's contributions (Glass and Cook, 2018). Gender-diverse leadership teams are more likely to consider a broader range of stakeholder groups in their decisions, including women. Furthermore, research indicates that women and men in leadership may hold somewhat different values, with women leaders displaying lower acceptance of unethical business practices (Chen *et al.*, 2016). Women's presence on boards of directors is associated with better corporate social performance (Cook and Glass, 2018), indicating a heightened concern for equity and equality in employee treatment as per their higher ethical standards.

Institutional theory acknowledges the influence of legal and regulatory coercive mechanisms on organizational behavior. Organizations facing pressure to improve workplace equity comply with legal requirements, creating legitimacy for gender-diverse leadership teams to act upon their stronger interest in pay equity compared to their homogeneous counterparts (Edelman, 1992). As organizations respond successfully to legal and regulatory requirements, their compliance practices diffuse across industries, prompting other organizations to follow suit. Therefore, this study posits that as coercive mechanisms influence the strategic agenda of organizations, gender diverse leadership teams may be empowered to have greater interest in and influence on pay equity practices than gender homogeneous leadership teams. This is in line with numerous studies indicating the positive impact of gender diverse leadership teams on the offering of broader diversity practices (Ali and Konrad, 2017; Glass and Cook, 2018). Thus, we hypothesize:

H2. Leadership gender diversity is positively associated with pay equity practices.

2.3 Pay equity practices and financial performance

Employees form perceptions, interpretations, and responses to legal structures and law-related actions at the organizational level (Fuller *et al.*, 2000). These structures and actions often relate to equality and diversity legislation and requirements. In Australia, pay equity legislation mandates equal remuneration for men and women performing work of equal value, aiming to enhance economic equality for women in the workplace. Organizations attuned to their legal environments respond by developing formal governance structures, such as pay equity strategies, policies, and practices, aligning with normative legal pressures to achieve legitimacy (Edelman, 1992). Seeking legitimacy serves to mitigate legal risks, enhance social approval, and signal fairness within the organization (Edelman, 1992; Fuller *et al.*, 2000).

Research indicates that employees' interpretation of the legality of governance structures significantly impacts their attachment to the workplace and willingness to work hard (Fuller *et al.*, 2000). Fuller *et al.* (2000) propose that individual employees interpret these legal structures as indicators of fairness and compliance. Their experiences with these structures shape their understanding and assessment, and a positive interpretation is likely to result in increased commitment, loyalty, and improved performance (Fuller *et al.*, 2000). Given organizations' considerable control over their human resource practices and their fairness (Moorman *et al.*, 1998), pay equity practices can foster feelings of gratitude and positive attitudes toward the organization and its authorities (Allen and Meyer, 1990), ultimately leading to positive employee behaviors and task performance. Aligned with institutional theory, this study contends that organizational pay equity practices symbolize fairness and compliance, thereby positively influencing financial performance. Thus, we hypothesize:

H3. Pay equity practices are positively associated with firm financial performance.

2.4 Mediating role of pay equity practices

Integrating the above arguments derived from institutional theory for a positive relationship between leadership gender diversity and pay equity practices and a positive relationship between pay equity practices and financial performance, we hypothesize:

H4. Pay equity practices mediate the relationship between leadership gender diversity and firm financial performance.

3. Methods

We used a time-lagged research design and archival data to investigate the effects of leadership gender diversity (2018 data) on pay equity practices (2019 data), the effects of pay equity practices (2019 data) on financial performance (2020 data), and the mediation effects.

3.1 Sample and data collection

The study's population consisted of private sector organizations operating in Australia across all of Australia's industry sectors. The initial sample comprised 4,943 [1] organizations that submitted an annual gender-equality report to the WGEA for 2018 and 2019. The reporting period is from 1st April of the preceding year to 31st March of the submission year. Data for

2020–2024 were not included because of the possible effect of Covid-19, and a significantly smaller number of questions on pay equity practices were included for these years. Data for the following variables were obtained from the WGEA: organization size for the year 2018 (number of employees), industry for 2018, leadership gender diversity for 2018, and pay equity practices for 2019. Data on financial performance (operating revenue) for 2020 were obtained from the Orbis database for the matching 303 organizations.

The final sample was diverse: leadership gender diversity displayed the full range from 0 (homogenous leadership) to 0.5 (gender balanced leadership); and pay equity practices ranged from 0 to 22, with a maximum possible score of 23. The final sample represented all 19 industry groups from the Australian and New Zealand Standard Industrial Classification. The major representations were health care and social assistance (14.1%); manufacturing (12.4%); professional, scientific, and technical services (11.7%); and education and training (11%).

3.2 Measures

3.2.1 Leadership gender diversity. Leadership gender diversity was calculated using Blau's index of heterogeneity for categorical variables (Blau, 1977). Heterogeneity equals $1-\sum pi^2$, where pi represents the fractions of male top management team members and female top management team members; for example, when 0.7 of leaders are male and 0.3 are female, the value of the Blau index is 0.42. Our data reflected the full range of the index from zero, representing homogeneity (0/100 gender proportions), to 0.5, representing maximum gender diversity (50/50 gender proportions).

3.2.2 Pay equity practices. We used 23 items from the WGEA database's section on pay equity practices (see Appendix for items). All items were coded as "0" indicating "no" and "1" indicating "yes". The scores for the 23 items were summed to obtain the final offering of pay equity practices (possible range is 0–23), which ranged from 0 to 22 in our data (Cronbach's $\alpha = 0.78$).

3.2.3 Operating revenue. Operating revenue data were obtained from Orbis. Natural logarithm values were used.

3.2.4 Organization size. Organization size was measured as the total number of employees (Huselid, 1995).

3.2.5 Industry. Industry was initially coded as services 1, resources 2, and manufacturing 3. Services industries comprised accommodation and food services; administrative and support services; arts and recreation services; education and training; financial and insurance services; health care and social assistance; information media and telecommunications; rental, hiring and real estate services; wholesale trade; retail trade; transport, postal and warehousing; electricity, gas, water and waste services; professional, scientific and technical services; public administration and safety; and other services. The resources industry comprised mining. Manufacturing industries comprised agriculture, forestry and fishing; manufacturing; and construction. For the analyses, the three categories were collapsed into these dummy variables: *Services industries*, codes as 0 for resources and manufacturing, and 1 for services; and *Resources industry*, codes as 0 for services and manufacturing, and 1 for resources.

4. Results

Table 1 displays the means, standard deviations, and correlation coefficients for the study variables.

We performed hierarchical regression analyses to test H1-H3. H1 predicts a positive relationship between leadership gender diversity and financial performance, while H3 predicts a positive relationship between pay equity practices and financial performance. To test H1 and H3, operating revenue was regressed on control variables, leadership gender diversity, and pay equity practices. The control variables (organization size, services industries, and resources industries) were entered in Step 1, followed by leadership gender diversity and pay equity

Table 1. Means, standard deviations and correlations[a]

Variable	N[b]	Mean	SD[c]	1	2	3	4	5
1. Organization size	4,019	948.93	3849.50					
2. Services industries	4,019	0.79	0.41	0.04^{*}				
3. Resources industries	4,019	0.03	0.17	0.01	-0.34^{***}			
4. Leadership gender diversity	4,943	0.18	0.21	0.08^{***}	0.14^{***}	-0.05^{**}		
5. Pay equity practices	4,364	3.38	4.24	0.18^{***}	-0.03^{*}	0.12^{***}	0.15^{***}	
6. Operating revenue (natural log)	303	19.46	1.73	0.68^{***}	−0.03	0.11	0.18^{**}	0.33^{***}

Note(s): [a]2-tailed; $^{*}p < .05$, $^{**}p < .01$, $^{***}p < .001$, [b]N refers to number of organizations, [c]SD refers to standard deviation

Source(s): Authors' own work

practices in Step 2. The results presented in Table 2 (Model 2) indicate that both leadership gender diversity ($\beta = 0.125$, $p < 0.05$) and pay equity practices ($\beta = 0.470$, $p < 0.001$) positively predicted operating revenue, supporting H1 and H3. H2 predicts a positive relationship between leadership gender diversity and pay equity practices. To test H2, pay equity practices were regressed on control variables and leadership gender diversity. The control variables were entered in Step 1, and leadership gender diversity was entered in Step 2. The results presented in Table 3 show that leadership gender diversity positively predicted pay equity practices ($\beta = 0.135$, $p < 0.001$), supporting H2 [2].

H4 predicts that pay equity practices mediate the relationship between leadership gender diversity and financial performance. To test H4, we used the mediation model in the Process macro. It is based on ordinary least squares regression and the bootstrap method for inference (Hayes, 2013). The analyses controlled for the effects of organization size, services industries, and resources industries. The results presented in Table 4 indicate that leadership gender diversity had a significant positive effect on operating revenue via pay equity practices ($B = 0.746$, LLCI = 0.078, ULCI = 1.296). The 95% bootstrap confidence intervals for 5,000 samples did not include zero. Thus, pay equity practices mediated the positive relationship between leadership gender diversity and operating revenue, supporting H4.

Table 2. Hierarchical regression analyses – H1 and H3

Variable	Operating revenue β (model 1)	β (model 2)
Controls		
Organization size	0.392^{***}	0.291^{***}
Services industries	-0.154^{*}	-0.231^{***}
Resources Industries	0.140^{*}	0.070
Predictors		
Leadership gender diversity Neurodiversity policies		0.125^{*}
Pay Equity Practices		0.470^{***}
R^2	0.205	0.448
F	21.292^{***}	39.797^{***}
ΔR^2	0.205	0.243
F for ΔR^2	21.292^{***}	53.879^{***}

Note(s): $n = 251$; Standardized coefficients are reported; $^{*}p < 0.05$, $^{***}p < 0.001$

Source(s): Authors' own work

Table 3. Hierarchical regression analyses – H2

Variable	Pay equity practices β (model 1)	β (model 2)
Controls		
Organization size	0.180***	0.170***
Services industries	0.000	−0.020
Resources Industries	0.119***	0.118***
Predictors		
Leadership gender diversity Neurodiversity policies		0.135***
R^2	0.047	0.064
F	62.648***	66.025***
ΔR^2	0.047	0.018
F for ΔR^2	62.648***	72.644***

Note(s): $n = 3839$; Standardized coefficients are reported; $^{***}p < 0.001$

Source(s): Authors' own work

Table 4. Mediation analysis — H4

Variable	Operating revenue Effect	LLCI	ULCI
Indirect effect of leadership gender diversity via pay equity practices	0.746	0.078	1.296

Note(s): $n = 251$; Unstandardized regression coefficients are reported; analysis controlled for organization size, services industries, and resources industries; Bootstrap sample size = 5,000 bias corrected; LL lower limit, CI confidence interval, UL upper limit, Level of confidence 95%

Source(s): Authors' own work

5. Discussion

The objectives of this study were to investigate: (1) a relationship between leadership gender diversity and financial performance, (2) a relationship between leadership gender diversity and pay equity practices, (3) a relationship between pay equity practices and financial performance, and (4) the mediation role of pay equity practices between leadership gender diversity and financial performance. Our findings supported all predicted relationships. These findings are consistent with past research that reported the positive effects of leadership gender diversity on various aspects of equity (Ali and Konrad, 2017; Glass and Cook, 2018), and with recent international evidence on the benefits of leadership gender diversity which shows that gender-diverse leadership enhances ESG performance, governance quality, innovation (Hadisurya *et al.*, 2025; Kampoowale *et al.*, 2024; Mansour *et al.*, 2024; Saleh *et al.*, 2025), and specifically financial performance (e.g. Baker *et al.*, 2019b; Fernando *et al.*, 2020; Wu *et al.*, 2022). Moreover, our findings suggest that leadership gender diversity is positively associated with the offering of a range of pay equity practices. This is a novel finding but is broadly consistent with past research highlighting the role of diversity in leadership for supporting gender equity and helping reduce the pay gap (Abraham, 2017; Flabbi *et al.*, 2019). Past studies attributed these relationships to the role of women leaders in establishing a female-friendly work culture, promoting social responsibility, ethics, and fairness (Adams and Funk, 2012), and seeking to reduce risks (Perryman *et al.*, 2016). In the current study, we employed institutional theory (DiMaggio and Powell, 1983; Meyer and Rowan, 1977) that describes how organizations adopt practices as a response to external pressures, arguing that a gender diverse leadership team is more sensitive and responsive to such pressures, leading to positive outcomes. Our findings add a specific focus on pay equity practices to prior conclusions that leadership gender diversity increases the overall implementation of equity measures in organizations (Ali and Konrad, 2017; Glass and Cook, 2018).

We found strong support for the predicted relationship between pay equity practices and operating revenue. This is a new finding, as the authors are unaware of this relationship being examined in prior research. These findings strengthen the overarching argument that pay equity is not only an issue of organizational and social fairness, but it also has business implications. This finding is broadly consistent with a body of literature that focused on the relationship between the broader gender equity practices/gender equity and employee performance/organizational performance (Ali and Konrad, 2017; Armstrong *et al.*, 2010; Yanadori *et al.*, 2021). Moreover, the findings suggest an unprecedented mediation role of pay equity practices in the relationship between leadership gender diversity and operating revenue.

5.1 Theoretical and research contributions

This study makes several contributions to theory and research. It provides a fresh approach to institutional theory (DiMaggio and Powell, 1983; Meyer and Rowan, 1977), which is often portrayed as restrictive due to the need to respond to multiple external pressures and even coercion. Thus, leaders may act in different ways to demonstrate conformity to social norms (Bose *et al.*, 2018), as they try to achieve and maintain legitimacy (DiMaggio and Powell, 1983). However, we demonstrate that the choice to conform is not necessarily undesirable, and may lead to positive outcomes, seeing gender diversity as expected and rewarded (Scott, 2014; Suchman, 1995; Terjesen *et al.*, 2009). Our findings focus on financial performance, which complements previous studies that suggested competitive advantage based on stakeholder perceptions (Carter *et al.*, 2003) and attractiveness to potential job candidates (Post and Byron, 2015).

Past research linked equity measures with demographics or characteristics of decision-makers (e.g. social roles, Eagly, 1987), derived from arguments of power with little reference to the external environment (e.g. Abendroth *et al.*, 2017; Cook *et al.*, 2019). Our study emphasizes the value of responding to external pressures, as they can also lead to improved equity, to which employees are likely to respond positively, which may result in improved revenue. There have been earlier attempts to link the institutional approach with some aspects of diversity practices, including addressing the wage gap (Cohen and Huffman, 2007; Konrad *et al.*, 2016). Our findings further extend institutional theory to demonstrate a direct relationship between pay equity practices and enhancing operating revenue, a proximal financial performance measure. Thus, our research shows that the institutional environment is not just restrictive, it also enables agency to choose which practices should be adopted and therefore promotes positive change (Thornton and Ocasio, 2008).

Therefore, we provide empirical evidence supporting arguments in favor of gender diversity in senior roles and explaining its value in motivating prosocial behaviors enacted by female leaders resulting in improved organizational functioning in terms of pay equity practices and operating revenue (Dezsö and Ross, 2012; Konrad *et al.*, 2016). We also demonstrate that pay equity serves as an explanatory mechanism that connects leadership gender diversity to financial outcomes. Pay equity is often seen as a variable of interest with mostly social, rather than economic implications, although evidence shows that pay gaps are negatively related to organizational performance (Yanadori *et al.*, 2021). Moreover, while there was interest in the business-related aspects of pay equity, the research to date mainly investigated the relationship between perceived pay equity and individual employee attitudes such as commitment and satisfaction (e.g. Fay and Thompson, 2001; Buttner and Lowe, 2017). Our study indicates that offering a wide range of pay equity practices helps the organizations to improve its revenue, supporting their business case. Finally, we studied organization-level factors, which may help to clarify findings of past studies regarding the relationship between gender diversity and pay equity (Abraham, 2017; Cook *et al.*, 2019; Flabbi *et al.*, 2019), providing needed insights into institutional dynamics.

5.2 Practical implications

The practical implications of our study are as follows. First, the findings demonstrate that leadership gender diversity is positively associated with both pay equity practices and operating revenue, which implies that the presence of women in higher management can help the organizations to improve overall fairness and equity as well as financial performance (Adams and Funk, 2012; Corwin *et al.*, 2022). Equity is positively appreciated by employees and other stakeholders because organizations are increasingly expected to focus on both social and financial performance to reconcile meritocracy with justice (Konrad *et al.*, 2021). Therefore, adding more women to leadership will improve various aspects of equity including pay equity. An important step forward was taken by the Australian government in 2022, banning pay secrecy in order to ensure pay transparency which allows women to know how their wages compare with their male and female peers (Fair Work Ombudsman, 2025), thus improving their ability to negotiate their salary. As the next step, the re-evaluation of discretionary payments, such as bonuses, which may widen gaps between the salaries of men and women, is also recommended.

Second, this study's findings provide evidence for a business case such that formal pay equity practices are positively related to operating revenue and bring human resource management to the forefront of pay equity. Although pay equity practices drive organizational gender pay gap and pay equity perceptions among employees, determinants and benefits of pay equity practices have received little attention. The evidence we provide in this study can help in seeking ongoing organizational commitment for a wide range of pay equity practices (Ali and Konrad, 2017). Third, we studied a wide range of pay equity practices, separating them from broader diversity practices bundles of past research (see Appendix). Pay equity practices foster fairness by examining and rectifying wage gaps, ensuring that employees receive equitable remuneration for their contributions, irrespective of demographic factors, especially gender (Chicha, 2006; Coker *et al.*, 2025; Ugarte and Rubery, 2021). While the benefits of organizational equity and justice in promoting motivation, engagement, and performance are well-known (Bretz and Thomas, 1992; Cowherd and Levine, 1992; Gupta *et al.*, 2024), recent research on pay gaps demonstrates that there is still a long way to go to reach equity (Yanadori *et al.*, 2018). Thus, we restate the need for organizations to introduce a wide range of pay equity practices, revisit their pay equity practices for refinements, and monitor their implementation for accountability. Future research should investigate whether pay equity practices are more valuable when they are effectively implemented (Castilla, 2015).

Finally, the findings suggest that further tracking and monitoring of pay equity practices is needed to ensure that they are implemented in the true spirit of equity rather than for reporting purposes only. While the principle of equal pay for equal work was adopted in the Universal Declaration of Human Rights in 1948 and in Australia in 1969, pay gaps still exist and vary across industries. Therefore, it is important for organizations to understand the pay gap in their industry for identifying the sources of the gap and to align the pay accordingly, which may also require change in value systems (Baker *et al.*, 2021). Understanding potential industry-specific sources of the gap can be achieved with the support of industry bodies that can provide policy advice and educational programs. While discussions about the gender pay gap exist on the global and national levels (e.g. OECD, 2022; WGEA, 2022), our findings suggest there is a need for organizational-level initiatives as organizations operate differently (Elvira and Saporta, 2001). A collaboration among multiple stakeholders, such as industry bodies, employers, and employee unions, may help in reducing the gender pay gap.

5.3 Limitations

This research has some limitations. One such limitation is that we only provided indirect support for institutional theory (DiMaggio and Powell, 1983). Data limitations meant that we measured leadership diversity but could not assess the motivations and the reasoning of the leaders; similarly, we measured revenue but not the motivations of the employees.

Moreover, we were unable to capture the effectiveness of pay equity practices in closing the firm's gender pay gap (Baker *et al.*, 2019a). Organizational pay gap data is generally not available from archival sources and is too sensitive to be collected via an organizational survey. It is possible that a variation in the quality of practice implementation across organizations is related to the pay gap and other work outcomes.

Appendix

Pay Equity Practices Scale

(1) Do you have a formal policy on remuneration generally?

(2) Do you have a formal strategy on remuneration generally?

(3) Are specific gender pay equity objectives included in your formal policy and/or formal strategy?Does your formal policy and/or formal strategy include any of the following gender pay equity objectives (select all applicable answers)?

(4) To achieve gender pay equity

(5) To ensure no gender bias occurs at any point in the remuneration review process (for example at commencement, at annual salary reviews, out-of-cycle pay reviews and performance pay reviews)

(6) Be transparent about pay scales and/or salary bands

(7) To ensure managers are held accountable for pay equity outcomes

(8) To implement and/or maintain a transparent and rigorous performance assessment process

(9) Other

(10) Have you analyzed your payroll to determine if there are any remuneration gaps between women and men (e.g. conducted a gender pay gap analysis)?Did you take any actions as a result of your gender remuneration gap analysis?

(11) Created a pay equity strategy or action plan

(12) Identified cause/s of the gaps

(13) Reviewed remuneration decision-making processes

(14) Analyzed commencement salaries by gender to ensure there are no pay gaps

(15) Analyzed performance ratings to ensure there is no gender bias (including unconscious bias)

(16) Analyzed performance pay to ensure there is no gender bias (including unconscious bias)

(17) Trained people-managers in addressing gender bias (including unconscious bias)

(18) Set targets to reduce any organization-wide gaps

(19) Reported pay equity metrics (including gender pay gaps) to the governing body/board

(20) Reported pay equity metrics (including gender pay gaps) to the chief executive officer

(21) Corrected like-for-like gaps

(22) Conducted a gender-based job evaluation process

(23) Implemented other changes

All 23 items were coded as Yes (1) and No (0).

Notes

1. Number of organizations vary across analyses due to missing data and a lack of availability of performance data.
2. To address possible endogeneity (Hill *et al.*, 2021), we used industry variable as instrument and conducted two-stage least squares regression analyses to retest H1-H3. H1 ($\beta = 0.044$, n.s.) was no longer supported, while H2 ($\beta = 0.127$, $p < 0.001$) and H3 ($\beta = 0.490$, $p < 0.001$) were still supported.

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