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HOMOPHILY OR HOMOMISIA:  
OWNER GENDER AND GENDER WAGE INEQUALITY IN SMALL BUSINESSES

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## Abstract:

Women's disadvantages in labor market outcomes are often attributed to the preponderance of male dominated networks in the workplace. This suggests that the presence of more women in positions of power would ameliorate gender differences in wages by providing women with the connections they need to succeed. However, there is little work evaluating these ideas, and the work that does so is unable to match individual workers to those in positions of power over them. This study considers these questions using a survey of several thousand small businesses, and examines how gender differences vary among establishments with male and female owners. We find no systematic differences between men and women owners in terms of gender wage inequality among their employees.

The fungibility of social capital and the economic consequences of relationships are of great interest both in and outside of the academy. The adage “It’s not just what you know, it’s who you know” has been explored by studies examining the roles of personal networks in getting and keeping jobs (Fernandez and Fernandez-Mateo 2006; Mouw 2003; Neckerman and Fernandez 2003; Petersen and Sapporta 2004), the roles of professional networks in getting promoted (Forret and Dougherty 2004; Allen et al. 2004), and the role of these networks in creating and maintaining inequality (Fernandez and Sosa 2005; Ostroff and Atwater 2003). This literature can be divided into two approaches. The first, and more common, looks at how individuals employ their social capital to achieve economic gains. These studies include, for example, Granovetter’s (1995) analysis of job searchers and Scandura’s (1992) analysis of mentoring and career outcomes. Similarly, while less concerned with actors’ intentionality, studies such as Petersen, Sapporta, and Seidel (2000) and Younkin (2006) explore how differences in social networks impact the economic wellbeing of individuals and companies. The second, and less common approach to the economic impacts of relationships looks at how individuals employ social capital to benefit others economically, or even allow themselves to be deployed as social capital. This work is typified by the work of Cohen and Huffman (2006) and Smith (2006).

Our study follows in this second vein of research by looking at how female ownership of small businesses impacts gender wage inequality among employees. This question is important not only because little is known about the impact of small business owners on gender inequality, but also because it ties into two broader questions. First, it addresses a growing empirical literature concerned with the effect of female managers and supervisors on gender inequality. Previous work suggests that because of homophily, having a manager who is the same gender is a form of

social capital that produces economic advantages for employees (e.g. Hultin and Szulkin 1999). While there are reasons to think that female managers, supervisors, and owners reduce gender inequality, there is as yet little research confirming this. Second, in looking at owners we gain insight into if and when people in positions of power act benevolently towards their subordinates. We briefly address each of these literatures in turn.

*Female Managers and Gender Equality.*

As women have increasingly moved into positions of management over the last several decades, a growing literature has emerged around the consequences of this for gender inequality in wages. Female managers should impact gender differences in wages in two ways. First, as much of the gender difference in wages stems from occupational sorting (Petersen and Morgan 1995), simply the existence of more women in managerial occupations should mitigate the gender wage gap. Second, female managers are argued to be less likely to engage in gender discrimination, leading to greater gender equality for workers under them (Cotter et al. 1997). Neither of these points, however, is entirely straightforward.

While the mere presence of women within managerial jobs should lower gender differences in wages, gender segregation in managerial jobs renders this assumption slightly problematic. Jacobs (1992), for example, shows that while the increase of managers over time has been accompanied by a decrease in the wage gap among managers, female managers still earn less and have less authority than their male counterparts. Furthermore, a voluminous literature on the “glass ceiling” is concerned with the fact that while women might be managers, they are underrepresented in the top level management positions (Morrison and Von Glinow 1990;

Wright, Baxter and Birkelund 1995). Finally, even among top level executives, women earn considerably less than men (Bertrand and Hallock 2001).<sup>1</sup> In spite of these caveats, given that managerial jobs on average do have higher pay than non-managerial jobs, the movement of women into these occupations should lower the gender wage gap.

The effect of female managers on the level of gender inequality for workers under them has not received as much attention, and the evidence that does exist is somewhat mixed. Rothstein (1997) uses NLSY data to examine the effect of supervisor's gender on wages for workers aged 17-25. She finds that working for a female supervisor lowers the current earnings of both male and female employees, but that this effect is larger for men. Interestingly, Rothstein also shows that having a female manager is also related to higher wage growth for both men and women, though more so for men than women. Ferber and Green (1991), by contrast, find that working under a female supervisor lowers women's wages more than men's. They suggest that this is because women's work is devalued more when it is done for a woman supervisor. It is thus unclear whether working under a female supervisor ultimately reduces gender inequality.

Other studies using ecological data suggest that female managers lower the gender wage gap. Cohen and Huffman (2006) use Census data on local labor markets to show that labor markets with a higher percentage of women managers in upper level managerial positions have lower levels of gender inequality among non-managers. Hultin and Szulkin (1999, 2003) use matched employer-employee data to show that gender gaps are wider in firms with more male managers.

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<sup>1</sup> It is interesting that many of the differences between male and female managers are attributed to the same relational and networking concerns that women in management are supposed to help address.

While neither of these studies link individual employees to their managers, both provide compelling evidence that having women in managerial positions mitigates gender wage inequality.

Closely related to the literature on managers is the literature that looks at the effects of professional mentors. While the conventional wisdom states that male mentors help men get ahead, the results are considerably more convoluted. For example, while Kirchmeyer (1998) finds that among a sample of MBA's mentoring positively affects men's earnings but not women's, Laband and Lentz (1995) find that for lawyers protégé status is more beneficial for women than for men, and Johnson and Scandua (1994) find that mentoring has little effect on the wages of either male or female CPA's. Ragins and Cotton (1999) find that among engineers, journalists, and social workers the effects of mentoring vary according to the gender of the protégé and the mentor such that men with a history of male mentors have the highest earnings and women with a history of male mentors have the highest promotion rates, but the implications of these findings for gender inequality are unclear. Thus, although there is great interest in the effects of being mentored on career trajectories, most of the research focuses on cases with limited generalizability and thus provides little consensus on the general effect of these kinds of relationships.

#### *Altruism, Or Using Social Capital for the Economic Gain of Others*

While most of the previous work approaches the question of gender inequality under female managers from the perspective of those working for the managers, it is also important to consider this issue from the manager's perspective. Cohen and Huffman (2006) argue that there are two

main issues to consider in thinking about the impact of female managers on gender inequality: motivation and power. First, there is the question of motivation; that is, female managers have to want to help women under them. Cohen and Huffman cite two reasons why this might be the case. First, they posit that due to gender identification and homophily female managers will be inclined to help other women.<sup>2</sup> Second, they suggest that female managers might be less biased in their evaluations of women's abilities, and also less likely to conform to stereotypes about gendered occupations. Regarding power, Cohen and Huffman provide two reasons why female managers might not have the power to affect gender inequality. First, they note that it is unclear how much power managers in bureaucratic organizations have, suggesting that managers could be simply "cogs in the machine" (p. 6). Second, as women are often found in lower level managerial positions, it could be that they lack sufficient power to influence wage inequality. In contrast, Hultin and Szulkin (1999) assume that having women in management will help women in the firm by providing them with greater access to institutional power. They argue that "female subordinates should be advantaged when other women are an integral part of the organization's power structure, simply because interaction within organizations is facilitated by gender similarity between actors" (459-460).

While being implicated as somebody else's social capital is often seen as being cost-free, it is important to note that it is not universally viewed this way. Smith (2006), for example, finds that people are concerned with the reputational costs associated with helping others. Specifically,

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<sup>2</sup> Kanter posits a similar explanation for the distinctively male and socially homogeneous nature of managerial echelons in her study of a major U.S. corporation (Kanter 1977).



referrers are worried that the actions of their referees will reflect poorly on their reputations.<sup>3</sup>

This potential cost keeps people from using their position to help others, and must be somehow overcome for them to make a referral. More broadly this highlights the fact that the motivation to act on behalf of others must be sufficient to overcome the potential cost to one's reputation.

This suggests that these interactions occur when the costs are low or when the motivation is high.

This corresponds with Smith's findings that job referrals are more likely where there is a strong relationship (enhanced motivation) or the referee is perceived as being reliable (low cost).

The costs incurred by managers for paying women similarly to men are not clear, but there could be reputational costs if they are perceived as favoring women. There are also potentially workload costs for hiring less productive workers or workers that needed to be replaced because they are not as attached to the labor force. This extra work presumably would negatively affect the managers' productivity, thereby decreasing their likelihood of advancement. While there are presumably benefits in terms of workplace morale if employees perceive that they are receiving fair treatment, it is unclear whether in a particular context gender equality or inequality would be perceived as fair.<sup>4</sup> Thus, while it is unclear what the costs and benefits associated with reducing gender inequality are for female managers, it is important not to assume that egalitarian behavior is cost-free for female managers.

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<sup>3</sup> While Smith argues that people are engaging in exchange and not altruism, she still pays considerable attention to the ways in which people use their social capital for others.

<sup>4</sup> That is, if gender differences in wages are the norm than paying men and women equally might be perceived as being unfair. Most of the studies that we have discussed assume that women are treated unfairly in the labor force. While this is likely true, it is worth considering the alternative, that the female wage penalty is somehow fair, for example, due to lower productivity or labor force attachment. In this case it is still plausible that being under a female manager would reduce the gender wage gap for the same reasons that male managers are thought to contribute to the gender wage gap.

*This study.*

We address two questions: what is the effect of female owners on gender wage inequality, and what does this effect imply for our understanding of the behavior of female owners toward their female employees? More specifically, we examine whether wage data provide evidence of homophilous effects from the relationship of female owners with their female employees.

To explore these questions we look at information on workers and owners in small businesses. While small businesses are often overlooked in traditional labor market analyses, according to the United States Small Business Administration (2006) firms with 20 or fewer employees constitute nearly all of the firms in the United States (97.5% in 2005), generate the majority of net new jobs, and account for half of the nation's non-farm real gross domestic product. These businesses are well-suited for this analysis as they provide insight into situations where we would expect to see any effects of owner's gender on gender inequality that exist for two reasons. The first reason for this is that we are observing owners. Where managers in larger organizations could be constrained by their superiors, owners of small businesses should not face this constraint. Small business owners have greater freedom than managers not only to enforce policies, but also to set them. They are also likely to be more involved in all aspects of running the company, from hiring and promotions to wage setting and firing.

The second reason that this context is ideal for this analysis is that we are looking at small establishments. As such they are less likely to have trained human resource personnel, auditors, and in general are likely less well-informed and less-concerned about employment regulations.

The size also suggests that owners are likely to know many of the employees personally, and so are less likely to resort to statistical discrimination, that is, discrimination based on group (as opposed to individual) characteristics. Carrington and Troske (1994) note that small businesses are less restricted by federal regulations on sex discrimination, so that any effects of having a female boss should be more salient in this context than in those concerned with governmental regulations.

While it makes sense that small business owners have more power to produce either gender equality or gender inequality, whether they differ from managers in their motivation is less obvious. For example, while the question of cost is still difficult to untangle, there are relatively obvious pecuniary costs for owners, as paying women more than is needed would result in loss of profits for the company, and presumably the loss of income for the owners. In addition to considerations surrounding pecuniary costs, given the size of the businesses and the relative lack of bureaucracy, we would expect relationships between small business owners and their employees to be more personal than the relationships between managers and supervisees. This should presumably result in owners being less likely than managers to treat employees in a manner perceived to be unfair, but whether this should lead to lesser gender inequality is unclear. In sum, we would expect that relative to female managers, female small business owners have at least as much motivation to contribute to gender equality and more power to do so.

## DATA AND METHOD

Data for this paper are from Wave 2 of the Small Business Benefits Study (SBBS) collected between October 1992 and February 1993 (McLaughlin 1993). The SBBS surveyed businesses

with between 2 and 25 employees working 17 hours or more the previous week and collected information on up to two owners and eight employees per business. Businesses were selected using a stratified random sample, and 81 percent of the businesses contacted responded.

Businesses were from seven sites: Cleveland, Denver, Flint, Pittsburg, Portland, Tampa, and Tucson. Interviews were generally with the owner or office manager, and typically lasted under 30 minutes. The survey was primarily designed to assess issues surrounding health insurance coverage in small businesses (e.g. McLaughlin, Zellers, and Frick 1994), but also collected information on employee wages, hours worked, tenure with the company, age, gender, and marital status. This study contains information from 7,174 individuals and 2,099 businesses. We restrict our analysis to employees working 30 hours or more per week, so that we use data on 6030 employees in 1924 businesses.

While the dependent variable is simply the log of the hourly wage, the independent variables are slightly more complicated. Age, tenure, business type, and business gross receipts are all non-continuous, and are introduced into models as a series of dummy variables.<sup>5</sup> Industry classifies the firms by 2 digit industry codes, of which there are 28 in this sample. These are introduced into models as fixed effects. Hours worked reports the number of hours worked in the past week and business size refers to the number of non-owners working more than 17 hours in the past week; these variables are logged so that their coefficients can be interpreted as elasticities.

Measures of business age and of how long the current ownership has been in place are measured

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<sup>5</sup> Age is in four categories: 24 and younger, 25-39, 40-59, and 60 or older. Tenure is also four categories: 5 months or less, 6 to 11 months, 1 to 3 years, and more than three years. Legal form contains four categories: for-profit corporation, not-for-profit organization, sole proprietorship, and partnership. Gross receipts is in six categories: <\$50,000; \$50,000 to \$99,999; \$100,000 to \$200,000; \$200,001 to \$500,000; \$500,001 to \$1,000,000; or >\$1,000,000

in years; these are also logged. Finally, gender, marital status, and temporary worker status are operationalized as dummy variables for female, married, and being a temporary worker, respectively.

These data are well-suited for this analysis as they allow us to examine gender differences in companies where we can link individual employees with the person making decisions about their wages. Previous studies using matched employee-employer data do not match employees to specific supervisors, but rather look at the percentage of female managers in the firm. While this is helpful and provides strong ecological evidence, it is plausible that this is a spurious correlation, and that the percentage of female managers and the gender gap among non-managerial workers are both driven by the firm's egalitarian ideals. Further, as the data contain both information on the employer and the employees, we are able to examine the question from the managers perspective in a way that studies asking a sample of individuals about their managers cannot. Although these issues might seem somewhat trivial, they are analytically important and allow us to investigate this question in greater detail.

The one shortcoming of these data is that they do not contain any information on the educational backgrounds of the employees. While this is somewhat problematic, there are several reasons to think that this is not as big of a problem as it might seem. First, while education matters in the labor market as a whole, there is no compelling reason that we can think of why male small business owners would value and reward education more or less than female small business owners. Second, as small businesses have less bureaucracy than large companies the signaling effect of education should matter less. That is, in big companies education often serves as a

proxy for characteristics that are difficult or costly to measure, but given the smaller scale in these businesses it should be less necessary to rely on a secondary signal because it should be possible to directly observe the characteristics of interest. This is congruent with previous studies finding that the returns to education are larger for bigger firms (e.g. Stolzenberg 1978).<sup>6</sup> Third, as small businesses have less differentiation and functional specialization than in larger companies, we would expect education's role of sorting people into occupations to be less meaningful in this context. This is supported by Evans and Leighton's (1989) finding that small firms not only have lower returns to education, but they also have higher returns to experience than large firms.<sup>7</sup> Finally, given that introducing dummy variables for educational categories does not affect the gender gap in hourly wages among employees in firms of under 25 people, it seems unlikely that this omission seriously biases our results (authors' calculations on March 1992 CPS data, available upon request).

Models in this study are estimated using ordinary least squares regression.

## RESULTS

Table 1 reports means and standard deviations by employee and owner gender. This provides an overview of how different owners pay different employees. Two points are worth mentioning. First, not only do male employees typically earn more than female employees, but male owners

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<sup>6</sup> While Kalleberg, Wallace, and Althaus (1981) find that the interaction of firm size and education varies by gender, so that men have higher returns to education in larger firms and women in smaller firms, when looking only at small firms there are no gender differences in the returns to education (authors' calculations on CPS data from March of 1992, available upon request).

<sup>7</sup> Evans and Leighton (1989) also find that large firms employ better educated workers, so that there is less variation in education among employees in small firms than in the labor market as a whole. This should also lead to a lessening of the importance of education in this context.

on average pay more than female owners.<sup>8</sup> Not surprisingly male employees working for male employers earn the highest wages, while female employees of female employers earn the lowest wages. Second, in looking at the gender differences among employees by owner type, we find that the gap between what male and female employees earn under male employers (\$10.78 versus \$9.05) is actually slightly smaller than the difference among female employers (\$9.95 versus \$8.09). This is, however, without controls.

[Insert Table 1 about here.]

Table 2 provides estimates of gender differences adding controls for employee tenure, employee age, hours worked, temporary status, percent of firm female, type of organization, sales, organization size, and employer tenure. Model 1 reveals that controlling for these factors women earn approximately 24 percent less than men.<sup>9</sup> Model 2 includes the effect of female owners, and finds that controlling for female owners women earn approximately 22 percent less than men, and that there is a 4 percent penalty (statistically significant at  $\alpha=.1$  but not  $\alpha=.05$ ) for working for a female employer. Model 3 interacts employee and employer gender, allowing us to observe how different owners pay different employees net of the controls. Results for the main effects of employee and employer gender are similar to Model 2, and their interaction effect is slightly positive, indicating that women owners have slightly less gender inequality (though this is not statistically significant). These results are summarized more intuitively in

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<sup>8</sup> It is worth noting that the same pattern does not hold when looking at gender differences in variance: Female employees have a smaller variation in wages than male employees, but variation in wages among workers for both male and female employers is similar.

<sup>9</sup> Coefficients are in log units and thus approximate percentage differences. Actual percentage differences can be obtained by subtracting one from the exponentiated coefficient. In this case  $\exp(-.24)-1=-.21$ , so that women earn 21 percent less than men.

Table 3, which reports wages as a proportion of what male employees of male owners earn.

Table 3 shows that female employees do equally poorly under men and women owners, and that if women employees experience less inequality under women employers, it is not because they earn more, but rather because men working for women employers earn less. These results contrast with the findings of Table 1, which showed that with no controls gender differences were larger under female employers.

[Insert Table 2 about here.]

[Insert Table 3 about here.]

We next examine how marital status interacts with questions of gender differences and managers. Marriage is interesting in this context for two reasons. First, several studies have shown that marriage and parental status play an important role in gender differences (Waldfogel 1997). Second, arguments for why gender differences would vary by the manager's gender can easily be extended to include marital status. For example, if it were the case that female managers were more sympathetic to female workers because of shared experiences we would expect that married women managers would be as, if not more, sympathetic towards other married women. Similarly, if male managers were discriminating against female workers because they were skeptical of their commitment to the labor force, we would expect this to be even more true of married female workers. In short, introducing marital status as another axis of similarity might serve to reinforce and magnify the effects of gender solidarity.



Table 4 essentially replicates the results presented in Table 3, as it includes all of the same controls, but it breaks the gender gap down not only by employer and employee gender but also by marital status. Results shows that married men owners pay married men the most, and that single women owners pay single women the least. Somewhat surprising is that women earn the most under men in general, but especially single men. In terms of gender differences we find that gender inequality is lowest among single men owners, then married women owners, then married men owners, and highest among single women owners. Thus accounting for marriage, does not reveal any clear patterns in gender differences, and the pattern of results is if anything more perplexing.

[Insert Table 4 about here.]

The results broken down by marriage in Table 4 are interesting not just in what they tell us about where employees are best off, but also for what they tell us about what kind of owners are the most gender equitable. Table 5 attempts to get at this question further by examining other criteria and potential reasons for the lack of systematic differences in previous models. Model 1 is the baseline model, and is identical to Model 3 in Table 2. Model 2 restricts the analysis to employees who work in establishments with only one owner. This removes any ambiguity surrounding issues of power. Our earlier analyses compared employees who had a female owner to those who did not, so that one explanation for the lack of differences could be that the female owners lacked the power to make decisions. Restricting the analyses to sole owners means that we are comparing only men and women who have sole discretion in decision-making. This restriction is important as Cohen and Huffman (2006) show that women's position in the

hierarchy matters, so that women who are higher up in management have an effect on gender inequality, but those lower down do not. Interestingly, Model 2 finds a negative coefficient (insignificant) for the gender interaction, revealing that if anything there are larger gender wage differences in companies with women as the only owners than in establishments with men as the only owners. This is especially noteworthy as it is a change in sign from the baseline model.

[Insert Table 5 about here.]

Models 3 and 4 are concerned with the strength of the relationship between owners and employees. Model 3 restricts the analysis to owners who are involved in the firm, on the assumption that these owners will have more interactions with the employees, and Model 4 examines only cases where both the employee and owner have been at the establishment for more than three years. Restricting the analysis to establishments where owners work 30 or more hours per week results in the exclusion of only 98 cases in 48 establishments, so that the results do not vary significantly from those in the baseline model. By contrast the restrictions imposed in Model 4 result in the exclusion of over half of the cases in the baseline model. Model 4 finds stronger negative main effects for both being a female employee and working for a female manager, as well as a slightly larger (though again statistically insignificant) positive interaction effect. It is worth noting however, that although women employees might experience less gender inequality under female owners, they actually earn more under male owners.

In sum, this study found no statistically significant evidence that gender inequality differs under male and female small business owners. In looking at the direction of the statistically

insignificant differences, we find that without controls gender differences in wages are found to be slightly larger among employees working for women owners, while with controls differences are slightly smaller among employees of women owners. In analyses accounting for employer and employee marital status, while there was some variation, there was no systematic evidence suggesting preferential in-group treatment. Further, when observing only sole owners, we find that if anything women employers are less equitable than males. Finally, while restricting the sample based on the potential for stronger relationships does result in findings indicating that gender inequality is somewhat less pronounced among these female owners, it is still relatively small relative to the size of the gender difference.

## DISCUSSION

Gender in the workplace is often viewed as a gender war, with old boys' networks struggling to retain male dominance while women seek to break in (e.g. McCarthy 2004). Under this paradigm, women owners are expected to act sympathetically towards women employees. While our study does not look at corporate elites but rather small business owners, this notion of gender solidarity, or homophily, is not supported by our findings. However, it is also not the case that female owners penalize their female employees any more than male owners penalize women employees. This might be expected given that women in positions of power might try to distance themselves from other women. Similarly, it is possible that women owners are less likely to be suspected of discrimination against women, giving them more opportunities to discriminate. However, if anything the lack of difference found suggests that as small business owners, men and women have very similar tastes and tolerance for gender differences in pay.

Put another way, given that women owners can underpay women employees as much as men owners, we find that they do.

Thus, in contrast to arguments for norms of gender solidarity, these data suggest that both men and women owners act in an economically rational manner in the face of relatively similar constraints. Of course, it is also possible that the norms of gender solidarity on the one hand and the desire to distance themselves from other women on the other combine to cancel one another out. Regardless of the precise mechanisms, the empirical finding remains that female employees receive no pecuniary benefits for working for a female owner. Ideas postulating that there is some form of altruistic use of social capital utilized by women owners on behalf of women employees receive no support. In fact, the conception of owner gender as a potential source of social capital receives little support.<sup>10</sup>

Given that our findings diverge from previous research, it is worth discussing the strengths and weaknesses of this study vis-à-vis other studies examining the effects of having female managers, supervisors, and mentors. The primary strength of our study is that it has examined this issue using data that match individual employers with individual employees. This is important as it allows us to identify the effect of women in positions of power on gender inequality. That is, even previous analyses using matched employer-employee datasets (e.g. Hultin and Szulkin 1999, 2003) look at the effect of being in a firm with a high proportion of women in management; they do not examine how gender differences vary under managers of different genders. Although there are smaller scale surveys and case studies examining the

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<sup>10</sup> The only evidence for this is that male employees earn more working for male owners than male employees of female owners.

effects of mentors and supervisor on business school graduates or lawyers, their findings vary and it is not obvious how widely applicable they are. While our study faces similar challenges as it looks only at small business owners, it does provide information on over 1,000 firms from seven sites across the United States. Thus, while it is not clear that the findings are applicable to managers in large firms, it does provide strong evidence from a simplified setting.<sup>11</sup>

The major weakness of these data is the lack of information on education. It could be that although women owners have similar gender inequality as male owners, they actually have smaller gender differences net of education.<sup>12</sup> However, we think that this is unlikely for two reasons. First, education seems to matter less in small businesses than in larger ones, so that it would presumably not play as large role in this context. Second, although our results contradict some earlier research, they are congruent with Rothstein's (1997) analysis of NLSY data that shows that the effect of having a female supervisor goes to zero over time.<sup>13</sup>

The question then becomes what to make of previous work finding that managers play a role in mitigating gender wage inequality. In the case of firm level ecological studies (e.g. Hultin and Szulkin 1999, 2003) it seems plausible that the homophilous effects observed are tapping into aspects of institutional culture. That is, firms with a higher percentage of female managers are

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<sup>11</sup> That is, where managers in a large firm would be subjected to a host of pressures from their managers, institutional policies and norms, and the like, we would expect small business to be less constrained by these considerations.

<sup>12</sup> This might occur, for example, if under women owners the male employees were much more educated than the female employees, and employees under male owners had equal education.

<sup>13</sup> Rothstein (1997) finds that while young men and women both experience lower current wages and higher wage growth for working under a female supervisor, both the initial disadvantage and the increased growth are larger for men than women, and thus the supervisor gender effect goes to zero over time.

more gender egalitarian overall, and this egalitarianism results in lower gender inequality in these establishments. It is also possible that women as managers act differently than women as owners; perhaps women owners are less likely to exhibit gender solidarity because they are more concerned about their income.

Cohen and Huffman's (2006) findings are more difficult to reconcile with our findings, in that they show that only the proportion of higher level female managers affects gender inequality. The difference between high and low status managers seems to suggest lower level managers lack the power necessary to affect change. This is consistent with Wolf and Fligstein's (1979) finding that supervisory authority is more egalitarian than authority over hiring, firing, and pay. This is also consistent with Kanter's (1977) suggestion that male gatekeepers occupy key positions that have important consequences for gender differences. However, our analyses show that even among female small business owners who have sole discretionary power, gender differences in wages are nearly identical to those found under male small business owners. This suggests that the power female managers' hold in upper levels of management but not in lower levels is not the power to make wage setting decisions. One possibility is that the importance of women in higher level management positions is related to the power to affect change at the level of organizational culture, along the lines suggested by the work of Baron, Mittman, and Newman (1991). Again though, our findings from small businesses provide a cautionary note, as small business owners would appear to have as much if not more power as upper level management in issues of firm culture. Thus, we would not necessarily expect this effect to be at the firm level, but potentially at the level of local industry that Cohen and Huffman (2006) consider. Future research would do well to consider local industries longitudinally to observe how changes over

time in the composition of high level female managers affects gender differences among non-managerial workers.

In conclusion, while previous work on gender inequality under managers of different genders finds some evidence for homophily, this study does not. Rather, we find that having women in ownership positions does not seem to make any difference in the gender differences in wages of employees. This finding is robust across a variety of sample restrictions related to the level of similarity between owners and employees, the decision-making power of the owner, and the strength of the ties between owners and employees.

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Table 1. Hourly wages by employer and employee gender

Employee		Employer		Overall
		Male	Female	
Male	mean	10.78	9.95	10.54
	sd	5.64	4.70	5.39
	n	2,129	875	3,004
Female	mean	9.05	8.09	8.73
	sd	3.64	3.30	3.56
	n	1,556	779	2,335
Overall	mean	10.05	9.07	9.75
	sd	4.97	4.21	4.76
	n	3,685	1,654	5339

Table 2. Models estimating logged wage

	Models:		
	1	2	3
Female employee	-.24*	-.22*	-.23*
Female owner		-.04	-.05
Fem owner X Fem employee			.03
Employee Tenure (<5 months baseline):			
6-11 months	-.03	-.02	-.02
1-3 years	.08*	.08*	.08*
>3 years	.22*	.21*	.21*
Employee Age (<25 baseline):			
25-39	.20*	.19*	.19*
40-59	.30*	.30*	.30*
>59	.10	.08	.08
Logged hours worked	.05	.06	.06
Temporary status	-.12*	-.10	-.10
Establishment % female	.07*	.06	.05
Legal Form (for profit baseline):			
Sole proprietorship	-.13*	-.11*	-.11*
Partnership	-.19*	-.18*	-.18*
Not-for-profit	-.01	.05	.04
Gross Sales (<\$50,000 baseline)			
\$50,000-\$99,999	-.11	.01	.01
\$100,000-\$200,000	-.04	.05	.05
\$200,001 to \$500,000	.02	.14*	.14*
\$500,001 to \$1,000,000	.08	.20*	.20*
>\$1,000,000	.23*	.33*	.33*
Logged firm size	-.02	-.01	-.01
Logged company age	-.03*	-.02*	-.02*
R-square	.35	.35	.36
Employees	5229	4642	4642
Firms	1667	1496	1496

\*indicates p&lt;.05

Table 3. Estimated wage relative to male employee of male employer, net of controls. From Table 2 Model 3.

Employee	Employer	
	Male	Female
Male	1.00	.95
Female	.77	.75

Table 4. Estimated wage relative to single male employee of single male employer, net of controls.

Employee	Employer			
	Single man	Married man	Single woman	Married woman
Single man	1.00	.99	1.06	.94
Married man	1.11	1.16	1.07	1.09
Single woman	.89	.86	.82	.82
Married woman	.89	.84	.82	.85

Table 5. Models estimating logged wage with various sample restrictions

	Models			
	Baseline	Sole owners	Involved owners	Longstanding relationship
	1	2	3	4
Female employee	-.23*	-.25*	-.24*	-.27*
Female owner	-.05	-.02	-.05*	-.10*
Fem owner X Fem employee	.03	-.02	.05	.06
Employee Tenure (<5 months baseline):				
6-11 months	-.02	.00	-.02	
1-3 years	.08*	.10*	.08*	
>3 years	.21*	.24*	.21*	
Employee Age (<25 baseline):				
25-39	.19*	.17*	.19*	.24*
40-59	.30*	.29*	.30*	.34*
>59	.08	.14	.07	.07
Logged hours worked	.06	.02	.06	.00
Temporary status	-.10	-.11*	-.09	-.16
Establishment % female	.05	.13*	.05	.02
Legal Form (for profit baseline):				
Sole proprietorship	-.11*	-.13*	-.11*	-.12*
Partnership	-.18*	-.35*	-.17*	-.23*
Not-for-profit	.04	.29*	.05	.24*
Gross Sales (<\$50,000 baseline)				
\$50,000-\$99,999	.01	.06	-.02	-.06
\$100,000-\$200,000	.05	.15*	.03	.02
\$200,001 to \$500,000	.14*	.22*	.11	.15
\$500,001 to \$1,000,000	.20*	.29*	.17*	.19*
>\$1,000,000	.33*	.36*	.30*	.33*
Logged firm size	-.01	.02	-.01	.01
Logged company age	-.02*	-.04*	-.02*	-.05*
R-square	.36	.38	.35	.33
Employees	4642	2541	4544	1869
Firms	1496	880	1458	968

\* indicates p&lt;.05