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Why are women paid less than men? New research in South Africa shows the company you work for makes the biggest difference

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Why do women earn less than men? The usual suspects – occupation, hours, experience – explain some of it. But a powerful, often overlooked reason is simply this: where women work. The companies that hire them play a huge role in shaping their lifetime earnings. South Africa has a severe gender pay gap, much of which is unexplained by worker characteristics such as occupation, skills or experience.

In our new SA-TIED study published in the Journal of Development Economics, using tax data on the universe of formal workers in South Africa, we uncover a striking fact: nearly half of the gender pay gap in South Africa is explained by women working at lower-paying companies than men. That is, more women tend to work at companies that pay all workers less. In addition, this phenomenon evolves dramatically over a woman's life.

We tracked millions of workers between 2010 and 2018 using tax data. We wanted to figure out how much money different companies paid, relative to each other, regardless of the type of worker. To do this, we compared what two companies pay the same worker. We looked at workers who switched companies and compared how their pay changed when they moved to a new company. By doing this for many workers and many companies, we could see how much more or less that company tends to pay people with the same kind of background or job. In the formal sector in South Africa, women, on average, get paid 12% less than men. We find that about 45% of this gap – 5.5 percentage points – is due to women being concentrated in firms that pay less overall (to both women and men). This isn't because women are paid less within the same company — that kind of direct discrimination plays a much smaller role. Instead, it's largely about sorting: women and men end up at different companies, and those pay differently.

Women disproportionately enter lower-paying sectors such as education, retail, or personal care, while men are over-represented in high-premium sectors like construction, mining, and manufacturing. As labour and development economists, we argue that reducing the gender pay gap takes more than putting women into male-dominated jobs or promoting equal pay for equal work. It means tackling the invisible structures that steer women into lower-paying companies.

A gender gap that grows, then shrinks

What's particularly revealing is how the firm-pay gap changes across the life cycle. For workers in their early twenties, this gap is almost nonexistent. But from the mid-20s to the mid-40s — roughly the child-rearing years — the gap widens significantly.

Why does this happen? First, women who remain continuously employed through their 30s tend to move to worse-paying firms than men, even though they switch jobs at similar rates. Second, women entering or re-entering formal work (after a spell of unemployment or informal work) tend to start at lower-paying firms than men. This disadvantage when re-entering contributes to the overall gap but is more constant over the life cycle. Interestingly, churn (moving in and out of employment) is common — but men and women do it at similar rates. The key difference is what type of firm they land in when they return. Nearly half the gap among entrants is explained by industry sorting — women disproportionately enter lower-paying sectors such as education, retail, or personal care, while men are overrepresented in high-premium sectors like construction, mining, and manufacturing.

This isn't because women have less (or different) skills. That might be another contributor to the overall gender gap in pay, but it's not what we looked at. This is the pay disadvantage that women face from being at firms that pay less for the same job or skill. The firms that women join tend to be in lower-paying industries, have fewer resources, and are less likely to be covered by collective bargaining agreements (union-negotiated industry wages) that boost pay. Just like women leave or re-enter formal jobs at the same rates as men, they are in fact just as likely to switch jobs when employed. The problem then is that their job switches are less likely to lead to upward moves in the pay hierarchy, possibly due to employer discrimination or a need to prioritise non-pay job characteristics (like flexibility).

Then something remarkable happens. As women age into their late 40s and 50s, the gender gap begins to close. They start making more advantageous moves than men. This is likely because, having been sorted into lower-paying firms earlier in their careers, they have more room to climb. And with child-related constraints easing later in life, they finally can.

Firms in developing countries

Our finding — that women ending up in lower-paying companies accounts for nearly half of the pay gap — is higher than estimates from high-income countries like Portugal or Italy, where it explains around 20%–25%. But in developing countries like Brazil and Chile, the contribution is similar to what we find. Why do firms matter more in places like South Africa? Labour markets are more "monopsonistic" — firms have more power to set wages due to high unemployment and few outside options for workers. So because formal jobs are scarce, entering or moving up within the formal sector is harder, especially for women. In fact, we show that in regions of South Africa with lower levels of formality, the gender gap in firm pay is wider.

Policy takeaways

One instructive exception is the public sector, where the state has actively pursued gender equity in hiring. Public administration employs a much higher share of women than men and offers relatively high pay premia. In developing countries especially, where formality is limited and transitions into good jobs are harder, policy can focus on easing women's access to high-paying companies. This can mean policies that support childcare, promote flexibility without penalising pay, or reduce discrimination in hiring. Otherwise, sorting into low-paying firms will keep reproducing the gender pay gap, one job move at a time.