

# Quotas: Pros and Cons

## The Challenge

Policy makers and organizations have been working toward achieving gender diversity for many decades, but progress has been slow and is perhaps even stagnating. Only 5% of the 500 CEOs on the 2016 Fortune 500 list are women, a mere 27 out of 500. Men are two to three times more likely to hold senior management positions, a figure that has stagnated for almost 30 years despite widespread efforts to remedy this imbalance. Employers still lean toward hiring men over women who have similar qualifications, and the gender wage gap persists in numerous occupations. In Canada, despite implementation of a “comply or explain” disclosure regime to facilitate gender diversity on boards of directors, 45% of companies still have no women on their boards.<sup>1</sup> Notwithstanding extensive research on the topic and widespread diversity initiatives, gender representation remains a persistent problem in corporate leadership and in the workforce.

Many have believed that it would be enough to develop “gender blind” or “gender neutral” management practices. The argument has been, if employers introduce structures and systems that focus on the objective merit of employees and job candidates, they should be able to overcome discrimination based on implicit or explicit biases. Yet, these systems seem not to have helped organizations make enough progress. Even some gender aware policies, such as requirements to fill candidate pools with underrepresented minorities without setting hard quotas, have failed to solve the key problem of female representation. At the rate we are going in North America, achieving 30% female representation on boards of directors, for example, would require at least 30 years.

Because of this sluggish progress toward gender equality, organizations and policy makers are increasingly considering the possibility of implementing quotas, particularly at the level of board directors, to achieve gender parity. Quotas, it is argued, would jump start the process of achieving equal representation. Yet, the idea of imposing quotas on employers – even only at the level of the board of directors – has been met with resistance. As a result, quotas have remained shrouded in controversy about their expected benefits and potential pitfalls.

Recently, leading scholars gathered to debate this question during the Gender and the Economy Research Roundtable held at the Rotman School of Management at the University of Toronto. In the format of an Oxford-style debate, Professors Tiziana Casciaro (University of Toronto, Rotman School), Aaron Dhir (Osgoode Hall Law School, York University), Lisa Leslie (NYU Stern School) and Nico Lacetera (University of Toronto, Institute for Management and Innovation; National Bureau of Economic Research) presented their research-based arguments for and against quotas as an important and useful tool for achieving gender equality in the workforce. The points below are a summary of the main arguments made in the debate.

## Why quotas might not work

Research suggests that there might be a number of reasons for being concerned about the effect of quotas.

- **Illegal or perceived as unjust.** In some jurisdictions, quotas may violate legislation. In the United States, for example, constitutional law would likely present insurmountable obstacles to the promulgation of a quota-based regime. Even where quotas are legal, people may interpret quotas as a violation of perceptions of justice at the individual level, even if they are creating more fairness in terms of gender distribution at the societal level. From a psychological perspective, any gain for one group (in this case, women) is often perceived as a loss for another group (in this case, men), leading men potentially to perceive quotas as unfair.
- **Potential stigma.** One risk is that those women who are included in boards due to the imposition of quotas might be stigmatized. There is a possibility that they will be seen as less qualified and only on the board because of the quotas. This may hurt their ability to contribute to board discussions and undermine their effectiveness. This is particularly true if women are added to boards at token levels. Evidence suggests that a single woman on a board will likely be marginalized or delegitimized.
- **Reduced employee engagement.** Perceptions of unfairness can trigger unintended negative consequences. Employers who impose quotas may become less attractive to male job applicants. Quotas may also lead to low engagement and negative job attitudes among male employees. Furthermore, this perception of unfairness may cause men to become less supportive of diversity policies than they were prior to implementing quotas.
- **Reduced support for diversity initiatives.** Research has long established that people can be motivated by intrinsic (personal) or extrinsic (externally provided) rewards. Quotas act as an extrinsic motivator because they are a rule imposed externally that forces managers to behave in a certain way. Psychological research has consistently shown that when someone else forces or rewards people for doing something, they become less motivated about the task: they attribute their motivation to coercion. In the case of quotas, even if employees personally believe in working toward gender diversity, imposed quotas can make them believe that they only care about diversity because the company wants them to, not because they do personally. Indeed, research suggests that external prompts, such as mandatory diversity training or grievance systems, are associated with negative impacts on the representation of women.
- **No trickle down.** Much of the conversation about quotas has focused on assuring that more women are represented on corporate boards of directors. This has the effect of democratizing access to opportunities in an important area of leadership. However, there is evidence that such quotas fail to lead to broader organizational impacts. For example, the quotas implemented in Norway did result in women holding 40% of board seats, but the positive effects in the boardrooms did not trickle down to lower levels in companies. A study showed that the benefits were strictly limited to the board level, and underrepresentation and wage disparities persisted at all other levels. For those who have argued that greater proportions of women on boards are correlated with performance, little evidence was found in Norway to support this claim.
- **Failure to address underlying discrimination.** Evidence from Norway suggests that quotas may not change anything about the deeper-rooted problem. For example, many Norwegian companies delisted from the stock exchange at the time quotas were imposed (though some of this may have been due to a contemporaneous modification in rules that changed the requirement that financial firms had to be public). In the early days of the quota implementation, a small group of women called the "golden skirts" came to hold several board positions at different

organizations. Quotas merely require a certain number of women to be present in a workplace, and this imposed number can distort the real purposes for promoting gender parity and diversity.

## Why quotas could work

Yet, other evidence suggests that concerns about the negative impacts of quotas may be overblown.

- **Fears not realized.** In interviews of board members in the US and Europe, it appeared that there is hostility toward quotas in countries that don't have them and enthusiasm for quotas in countries that do have them.<sup>2</sup> In other words, only those who were unfamiliar with quotas thought they were a bad thing. Indeed, when examining the lived experiences of board members in Norway, there was a strong narrative of change.<sup>3</sup> While directors in the Norwegian companies had initially strongly opposed quotas, once quotas were imposed by the government, the directors eventually changed their minds. According to these directors, their fears were unfounded, and, after a period of transition, they felt that the increased representation of women on boards actually improved overall governance and decision making. One analogy that some have made is to that of banning smoking in restaurants and bars. These policies – initially vehemently opposed by business establishments as risking financial losses – now are widely accepted and favorably viewed as a public good by almost everyone.
- **No pipeline problem.** An initial question about imposing quotas is always: where will we find the women? A survey of more than 1,000 board members found that men attributed the existing imbalance to a lack of women in the candidate pools, whereas women explained it as a function of established closed male networks and biases. While in Norway, there was an initial "golden skirt" effect where a few women held many seats, after a few years this problem resolved itself and now there are many different women represented on the country's boards of directors. The imposition of quotas led boards to search more creatively and expansively for board members – beyond their Rolodexes – and this dramatically increased the candidate pool.
- **No stigma.** Evidence from the Norwegian experience suggests that few female board members who had been beneficiaries of the quotas reported feeling stigmatized or isolated. This was in part because with a 40% quota, women achieved a critical mass on every board. At 40% representation, a group is no longer marginalized. Simply having enough women is a means for countering the potential negative stigma, while adding only one or two women leads to tokenization and delegitimization.
- **Positive effects.** Research suggests that insisting on a critical mass of women on boards can lead to several benefits in terms of board governance, including more robust deliberation, disruption of groupthink, more effective risk management, higher quality monitoring of management, and more systematic work.<sup>4</sup> Indeed, because searches for women board members often lead to candidates who may not fit the typical profile, women end up bringing more diverse experience in a wider variety of functional areas than men – often adding skills in the areas of HR, government relations, and marketing that might have been lacking.<sup>5</sup> The new women board members introduced new viewpoints not previously considered.
- **A useful shock to the system.** A sample research has established, gender biases are built into many organizational systems and human decision making processes. Psychological research shows that we are susceptible to unconscious biases and stereotypes. Additionally, research tells us that we form networks with others who are socially similar to ourselves. As a whole, these unconscious processes are deeply embedded in individuals and organizational systems, and it is unrealistic to

expect that these will disappear without an abrupt external shock. Under the Canadian “comply or explain” approach to board diversity, the primary explanation offered by companies who do not adopt gender targets is that they recruit “based on merit.”<sup>6</sup> However, research shows that supposedly meritocratic systems are as susceptible to these biases as other systems (and perhaps even more).<sup>7</sup> Thus, quotas provide a stringent and structured framework to overcome these unconscious biases such that there is less room for unintended discrimination to emerge.

## Next steps

We can glean advice from this debate about what mistakes and pitfalls to avoid when enforcing quotas – or more broadly, affirmative action programs – and what some alternatives to this form of action may be.

### *If you do impose quotas, how can you avoid the pitfalls?*

The debated suggested that quotas can be very effective and even well-received if implemented with care. Some actions include:

- **Change the narrative.** There is evidence that how affirmative action plans are framed matters. In particular, when decision makers justify an affirmative action (quota) plan because of the need to remedy past discrimination or the desire to increase diversity, they reduce negative reactions to the policy. Alternatively, just saying that a certain group is underrepresented increases negative reactions.<sup>8</sup>
- **Establish a critical mass.** A quota of 20% women is unlikely to perpetuate any positive change and will instead incur negative reactions. As shown in interviews with female directors in Norway, marginalization becomes difficult when 40% of the workforce are women. This is a potential difficulty with the “comply or explain” approach. It may lead boards to make incremental progress, adding one woman at a time. Where there is low representation, then the risks of stigmatization and tokenism increase.
- **Expand your search.** To avoid the problem of having the same small group of women getting appointed to various different boards or positions – termed “golden skirts” in Norway – employers should be actively seeking and reaching out to women so they have a large qualified pool from which they can extract large numbers of qualified women.
- **Expand your definition of the ideal candidate.** There are competent and qualified women out there, but companies must look beyond their typical circle of recruitment and reach out. Research has shown that people have prototypes about the ideal worker, or the ideal leader, which is typically male. Recruiters need to expand their idea of an ideal candidate beyond the male prototype and create a large pool of qualified female candidates.
- **Provide support to facilitate quota implementation.** Simply imposing a quota is not enough, and there should be support in the form of policies to facilitate quotas. For example, parental leave policies and work re-entry programs for both men and women should be in place to avoid potential pitfalls and help smooth out the process.
- **Expect some discomfort.** Moving to quotas may not be a smooth process. Even in Norway, where there is general satisfaction with quotas now, there was a period of transition. Organizational change is never easy, but it is the price to pay for the benefits.

## If you don't use quotas, how can you make enough progress? <sup>9,10</sup>

The debate suggested some tools for making change without using quotas. These include:

- **Engage in targeted recruiting.** Reach out and find women to apply for jobs and offer them resources for training, but do not impose a required number of women to be hired. Research shows that the larger number of women in your candidate pool, the higher the chance you will hire a woman. Recent research has shown that when you have just one woman in the finalist candidate pool, there is statistically no chance that she will be hired.<sup>11</sup>
- **Provide voluntary opportunities for diversity training.** Voluntary diversity training for managers are programs where they can voluntarily sign up for training sessions that teach them the benefits of diversity and how to reduce unconscious bias. These programs, when voluntary, have been shown through research to increase diversity efforts and beliefs, and increase the number of women and minorities hired.
- **Appoint diversity managers.** Designating specific roles dedicated to creating and sustaining diversity at the workplace will signal that the organization is committed to diversity and will create more awareness about diversity issues. Research has also shown that appointing diversity managers increases social accountability, or the desire to look more fair-minded for other managers, and increases the hiring rate of women and other minorities.
- **Create corporate diversity task forces.** Effective task forces include department heads and other line executives as well as members of underrepresented groups. Task forces can analyze information on diversity for the whole company, for business units, and for departments to figure out what needs attention and then develop action plans for change. These task forces also help promote social accountability of the organization as a whole.
- **Hold people accountable.** One form of accountability is through transparency, as research shows that people monitor their own biases when they expect that others will see what decisions they make. A second form of accountability is through external monitoring, in which achieving diversity targets is part of a person's compensation and reward system.

The debate helps bring research-based evidence to change the conversation about quotas.

## Suggested reading list for more information

Dhir, Aaron A. *Challenging boardroom homogeneity: Corporate law, governance, and diversity*. Cambridge University Press, 2015.

Dhir, Aaron A. "What Norway Can Teach the U.S. About Getting More Women Into Boardrooms." *The Atlantic*. Atlantic Media Company, 4 May 2015.

Dobbin, Frank, and Alexandra Kalev. "Why Diversity Programs Fail." *Harvard Business Review*. Harvard Business Publishing, Aug. 2016.

Johnson, Stefanie K., David R. Hekman, and Elsa T. Chan. "If There's Only One Woman in Your Candidate Pool, There's Statistically No Chance She'll Be Hired." *Harvard Business Review*. Harvard Business Publishing, 26 Apr. 2016.

Kaplan, Sarah (2015). "Meritocracy: From Myth to Reality." *Rotman Magazine* (Spring: 48-53)

Wiersema, Margarethe, and Marie Louise Mors. "What Board Directors Really Think of Gender Quotas." *Harvard Business Review*. Harvard Business Press, 14 Nov. 2016.

## References cited in summary

<sup>1</sup> CSA Multilateral Staff Notice 58-308 Staff Review of Women on Boards and in Executive Officer Positions – Compliance with NI 58-101 Disclosure of Corporate Governance Practices, September 28, 2016

<sup>2</sup> Wiersema, Margarethe, and Marie Louise Mors. "What Board Directors Really Think of Gender Quotas." *Harvard Business Review*. Harvard Business Press, 14 Nov. 2016.

<sup>3</sup> Dhir, Aaron A. *Challenging boardroom homogeneity: Corporate law, governance, and diversity*. Cambridge University Press, 2015.

<sup>4</sup> Dhir, Aaron A. *Challenging boardroom homogeneity: Corporate law, governance, and diversity*. Cambridge University Press, 2015.

<sup>5</sup> Kim, Daehyun & Laura Starks, Gender Diversity on Corporate Boards: Do Women Contribute Unique Skills? *American Economic Review: Papers & Proceedings*, 106(5): 267-27

<sup>6</sup> CSA Multilateral Staff Notice 58-308 Staff Review of Women on Boards and in Executive Officer Positions – Compliance with NI 58-101 Disclosure of Corporate Governance Practices, September 28, 2016, p. 6.

<sup>7</sup> Kaplan, Sarah (2015). Meritocracy: From Myth to Reality. *Rotman Magazine* (Spring: 48-53)

<sup>8</sup> Harrison, D. A., Kravitz, D. A., Mayer, D. M., Leslie, L. M., & Lev-Arey, D. (2006). Understanding attitudes toward affirmative action programs in employment: Summary and meta-analysis of 35 years of research. *Journal of Applied Psychology*, 91, 1013-1036.

<sup>9</sup> Dobbin, Frank, and Alexandra Kalev. "Why Diversity Programs Fail." *Harvard Business Review*. Harvard Business Publishing, Aug. 2016.

<sup>10</sup> Dobbin, F., Schrage, D., & Kalev, A. (2015). Rage against the Iron Cage: The Varied Effects of Bureaucratic Personnel Reforms on Diversity. *American Sociological Review*.

<sup>11</sup> Johnson, Stefanie K., David R. Hekman, and Elsa T. Chan. "If There's Only One Woman in Your Candidate Pool, There's Statistically No Chance She'll Be Hired." *Harvard Business Review*. Harvard Business Publishing, 26 Apr. 2016.