

POLICY *focus*

RECIPES FOR RATIONAL GOVERNMENT

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Gender Board Quotas

By Charlotte Whelan, Policy Research Assistant

What You Need to Know

Women now hold more than **20 percent** of corporate board seats in the nation's top 3,000 publicly traded companies. This record high represents a great achievement for women, but for some activists, it's not enough. California has recently enacted a law enforcing gender quotas on corporate boards, and other states are weighing similar measures. Some European countries have long had gender quotas in place for corporate boards.

While these quotas certainly stem from good intentions, they ultimately undermine women's hard work. Gender quotas signal that women cannot reach high level leadership positions without special treatment, and sustain the lie that sexism is the primary driver of disparities in workplace outcomes. Women are reaching new heights in the business world every day. Gender quotas will only create an image of "token women" on boards, instead of allowing them to flourish in their current positions and rise through the ranks on their own. And there's no evidence that increasing the number of women on corporate boards bears any fruit for women who are further down the workplace hierarchy. Quotas also represent an unnecessary and unconstitutional intrusion into the business decisions of private companies.

Additionally, women should be supported in their different career choices, even if that means that fewer women than men reach the boardroom. Many women make career choices that lead to greater flexibility or irregular schedules, instead of climbing the corporate ladder. We should celebrate those choices and work to ensure equal opportunities for all women, not equal outcomes.

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Why You Should Care

Corporate gender quotas will do nothing to truly help women in the workplace. Here are the facts:

- **Women are reaching leadership positions without the help of quotas.** While men still outnumber women on corporate boards, as women continue to work and gain experience and expertise, they will naturally reach boards on their own merit. In fact, data shows this is already happening. Quotas would only undermine the hard work that many women are already doing.
- **Firms should focus on profit, not gender diversity.** Firms have responsibilities to shareholders, consumers, and employees to offer the best goods and services at the best prices in order to maximize profit, which are a measure of value. Some argue that greater gender diversity on boards will lead to higher profits, but if this were true, firms would choose gender-diverse boards for the sake of their own self-interest. Instead, evidence from Europe shows that quotas result in less-experienced boards, which threaten firms.
- **Quotas fail to recognize the real root of workplace disparities.** The choices that women make throughout their careers affect their trajectories. Just because some women prefer flexibility and prioritize their families doesn't mean that those women are victims of discrimination.

More Information

Background and Lessons from Europe

As female participation in the workforce has grown, many have pointed to male-dominated boardrooms as examples of persistent sexism in the workplace. Beginning in the 2000s, some European countries began to consider and implement corporate board gender quotas.

Norway took the first step in 2006, requiring publicly traded companies to appoint women to at least 40 percent of their director seats. Companies that did not comply would be forced to shut down. Soon, other European countries, including Belgium, France, and Italy, instituted their own quotas.

Most recently, in 2018, California joined the club. The state passed a law requiring that all publicly traded corporations headquartered in California include at least one woman on their board of directors by the end of 2019. The law includes a plan to add more women to corporate boards in the following years, providing clear quotas depending on the size of each board.

Some proponents of gender quotas argue that by imposing gender quotas at the highest level, the boardroom, a trickle-down effect will lead to more women in leadership positions throughout the company. Studies in these European countries, however, have found that quotas **do not have**

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that effect. In fact, quotas may have detrimental effects on firm performance because they often result in **less-experienced boards**, and poor firm performance can have a negative impact on all employees (e.g. reduced wage growth).

The Washington Times reports that in Norway, following the installation of gender quotas on corporate boards, “stock prices plunged and firm values dropped as boards added less experienced female directors.” Some companies simply became privately traded or moved their headquarters out of Norway in order to avoid the gender quotas. But placing inexperienced women on the boards not only hurt the companies but the women themselves. Instead of working up the corporate ladder throughout their career, gaining experience and expertise, these women were placed on boards to fulfill a quota and perform a job that they did not have enough experience to do exceptionally.

While women may provide different experiences and more diverse viewpoints to corporate boards, installing a gender quota is not the right approach to enhancing diversity.

Gender Quotas Hurt Women

Supporters of gender quotas on corporate boards argue that corporations need the motivation of fines, as in California, or worse, to change the institutional sexism. But gender quotas will not help remove any sexism that may exist in the corporate world. Instead, they may worsen sexism by perpetuating the stereotype that women are weaker and need special treatment to succeed.

First, women (and men) should question whether disparate outcomes in aggregate in the workplace are necessarily the result of sexism. Whether it’s parity on corporate boards, other demanding positions of leadership, or wages, often the disparity in men’s and women’s outcomes is due to different preferences. Of course, all else held equal, we might presume that all people want as much influence (and money) as they can get. But all other variables do not hold equal; success in the workplace often comes with a set of tradeoffs that many women are not willing to make because they have other priorities. Most notably, many women prioritize caring for families. As Pew Research has recorded, many more working mothers than fathers say that part-time work **would be ideal**.

Second, women (and men) should recognize that absent government interference, women are making incredible strides, as shown in the high numbers of women graduating from college, the increasing numbers of female entrepreneurs, the growing average salaries of women and more.

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Since the **early 2000s**, women have outpaced men in education, earning the majority of bachelor's, master's and doctorate degrees. In 2019, women comprised **the majority** of the college-educated workforce for the first time ever. **Women's wages are growing faster than men's**, with the average hourly wage for women jumping 45 percent between 1980 and 2018, compared with 14 percent for men. And the **number of women-owned firms** increased by 21 percent between 2014 and 2019 compared to 9 percent for all firms. **The American Express State of Women-Owned Business Report** found that women-owned businesses "skyrocketed from a mere 4.6 percent [of all firms] in 1972 to 42 percent in 2019." And the employment increase for women-owned businesses dominated the employment increase for all businesses with increases of 8 percent and 1.8 percent respectively.

The number of board seats occupied by women is growing as well, and would be growing even absent California's new law. From 2016 to 2019, the share of board positions at the nation's top 3,000 publicly traded firms increased from about **15 percent to 20 percent**. When a woman is appointed to a board not because of a quota but because of her hard work and expertise, the other board members will be more likely to treat her with the respect she deserves.

A **Danish study** found that the best way to ensure female leadership was to let women work their way through a company, just the same as any male would have to do. These are the women who could act as mentors and role models to other women and flourish in their positions, confident in their own hard work and the expertise that they possess.

For the vast majority of women in the workplace, gender quotas on boards are worth nothing (or worse than nothing, if they perpetuate sexism). Corporations may think that they have fulfilled their duty to women by fulfilling the quota, rather than considering policies that would be far more meaningful and beneficial to more female employees, such as greater workplace flexibility, paid leave benefits, or higher wages. Most importantly, companies should give women the respect they deserve by responding to their individual preferences as they negotiate their jobs, promotions, and compensation for themselves without tokenism.

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Gender Quotas Hurt Companies

Some may argue that gender quotas will ensure a wide range of viewpoints and opinions on a corporate board. In their reasoning, it follows that this diversity would help boost corporate profits. In European countries, however, where gender quotas have been in place the longest, research on the effects of the quotas is unclear whether the gender quotas have any strong effect on a company's performance, let alone boost profits. (In fact, as previously discussed, there may be some evidence that quotas hurt firm performance because they may lead to less-experienced boards.) And importantly, if better gender parity on the board does boost a firm's profitability, the firm will ultimately seek to include more women without a government mandate. The profit motive will be enough to incentivize the desired behavior.

Instead, government-imposed quotas interfere with private business decisions in an inappropriate way. Even in firms where there is no evidence of past sex-based discrimination, quotas purport to “fix” the effect of sexism. Ironically, gender quotas that force firms to choose women over men for open seats are openly encouraging discrimination based on sex (against men). For the sake of their own self interest, firms should be free to select whomever they believe are most qualified and best suited for positions of leadership. It’s none of Uncle Sam’s (or any state’s) business.

In fact, in *Meland v. Padilla*, a shareholder of a California company is challenging the constitutionality of California’s quota requirement. Creighton Meland Jr. argues that SB 826 violates the Equal Protection Clause of the 14th Amendment because it forces companies selecting board members to consider them on the basis of sex, rather than as individuals. In so doing, the law imposes rigid quotas in perpetuity across all companies—without specific evidence of past or present discrimination by those companies, as required by the Supreme Court in *Regents of Univ. of California v. Bakke*, 438 U.S. 265, 307 (1978), and relies on a variety of “overbroad generalizations about the different talents, capacities, or preferences of males and females,” which the Court warned about in *United States v. Virginia*, 518 U.S. 515, 533 (1996).

Solutions

While sexism anywhere is deplorable, gender quotas are not the solution to male-dominated boardrooms. But importantly, and happily, gender disparities in the workplace are often not the result of sexism. They are the result of different preferences of men and women as aggregate groups. Therefore, we should not make perfect parity between the sexes the end goal. Instead, we should do our best to ensure that all people, regardless of sex, have every opportunity to reach their own goals.

That said, for some women, corporate leadership is the goal! To better support all women in the corporate world, we can encourage businesses to make female employees a priority. Women face **the greatest hurdle** in simply being promoted from an entry-level position to a manager position, likely because this coincides with a chapter in their personal lives (young motherhood) that can be very demanding outside of work. To reduce this pressure, corporations should adopt better workplace policies for retention/promotion rates for this group. For further reading, IWF produced a slate of public policy recommendations that will foster a better working world in our **Working for Women Report**.

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What You Can Do

Get Informed

For more information about Board Gender Quotas, visit:

- [The Economist](#)
- [Harvard Business Review](#)
- [Journal of Business Ethics](#)
- [Pacific Legal Foundation](#)

Talk to Your Friends

Help your friends and family understand these important issues. Tell them about what's going on and encourage them to join you in getting involved.

Become a Leader in the Community

Get a group together each month to talk about a political/policy issue (it will be fun!). Write a letter to the editor. Show up at local government meetings and make your opinions known. Go to rallies. Better yet, organize rallies! A few motivated people can change the world.

Remain Engaged Politically

Too many good citizens see election time as the only time they need to pay attention to politics. We need everyone to pay attention and hold elected officials accountable. Let your Representatives know your opinions. After all, they are supposed to work for you!

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ABOUT INDEPENDENT WOMEN'S FORUM

Independent Women's Forum (IWF) is dedicated to building support for free markets, limited government, and individual responsibility.

IWF, a non-partisan, 501(c)(3) research and educational institution, seeks to combat the too-common presumption that women want and benefit from big government, and build awareness of the ways that women are better served by greater economic freedom. By aggressively seeking earned media, providing easy-to-read, timely publications and commentary, and reaching out to the public, we seek to cultivate support for these important principles and encourage women to join us in working to return the country to limited, Constitutional government.

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information and
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