

# Quotas on Boards and the Gender Gap

The gender gap has many dimensions. A decade ago, Norway passed a law mandating 40 percent representation of women on public boards, creating a new “natural experiment” for gender gap research.

## U.S. Gender Pay Gap in Top Corporate Jobs

Back in the late 1990s, Marianne Bertrand and I examined the pay gap between male and female executives listed in the proxy statements of publicly traded U.S. firms from 1992 to 1997, which we later published in the October 2001 edition of *Industrial and Labor Relations Review*. We found that, taken as a whole, women in these “top five” positions (about 2.5 percent of the

sample) earned about 45 percent less than men in these positions. At the same time, we found that as much as 75 percent of this gap could be explained by the fact that women managed smaller companies, and were less likely to be CEO, chairman or company president. Further, by taking into account the fact that these women were, on average, younger and had less seniority than their male counterparts, the unexplained gap dropped to less than 5 percent.

We argued at the time that these results certainly do not rule out the possibility of discrimination via gender segregation (e.g., in certain industries or jobs) or unequal promotion. Also, one could argue that the few women who made it into our sample (by having “top five” jobs in large publicly traded firms in the 1990s) were truly exceptional and that comparing their pay to that of the *average* male in the sample (as is implicit in the statistical models we estimated) might be underestimating the true pay gap.



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More recent work by George-Levi Gayle, Limor Golan and Robert Miller, “Gender Differences in Executive Compensation and Job Mobility,” published in the October 2012 edition of the *Journal of Labor Economics*, is related to this. Creating background histories for 16,300 executives linked to more than 2,800 firms, the authors determine that women who make it to the top executive ranks earn more but have “higher pay-for-performance sensitivity” than their male peers with similar background. These women also drop out of the executive ranks at higher rates, but are promoted internally more quickly – if they do hang on – which is consistent with being above-average contributors in the company’s eyes.

### Changing the Playing Field by Quota

Two recent studies of board quotas in Norway provide interesting extensions to the research on gender gaps at the top of the corporate structure. A decade ago, Norway passed a quota law that mandated that 40 percent of board seats be held by women. Obviously, for those organizations that already had high representation of women on their boards, the rule had no binding impact. But many had to increase the fraction of women on the board to comply with the rule. Some felt that in addition to increasing the representation of female directors, this rule could spur representation of women in executive jobs at large, reduce the gender earnings gap and motivate more women to go into corporate careers. Others argued against such a rule, suggesting that there weren’t enough qualified women to fill such roles. Academics saw a great opportunity for study.

### Female Style in Employment Strategies

In “A Female Style in Corporate Leadership: Evidence from Quotas” by David A. Matsa and Amalia R. Miller, published in the *American Economic Journal: Applied Economics* in July 2013, the authors compare firms affected by the rule to other Nordic companies (public and private) that are unaffected. They find, among other results, that those firms that are affected by the quota (i.e., increase the share of women on their boards to meet the new quota) execute fewer layoffs, increase relative labor costs and levels of employment and reduce short-term profits. The authors could not measure long-term profits or whether the labor-retention strategy provided some longer-run competitive advantage, but did find that the results exist even for companies with more experienced boards.

### Quotas and Quality


An even more recent paper on the Norwegian quotas considers the longer-term labor market consequences of

the quota law. In a National Bureau of Economic Research working paper, “Breaking the Glass Ceiling? The Effects of Board Quotas on Female Labor Market Outcomes in Norway,” June 2014, authors Marianne Bertrand, Sandra E. Black, Sissel Jensen and Adriana Lleras-Muney document a series of interesting findings.

One of their conclusions is that the chief criticism of the law – that there would not be enough qualified female board members to fill all of the roles – was just wrong. The authors show that the observable qualifications of the female board members *increased* after the reform. One possible reason for this is that, due to the publicity and energy around the reform, organizations worked harder to find qualified women, presumably through avenues they overlooked before.

Another important finding of their work is that the earnings gap within boards shrank (although male board members still earned more than female board members). A shrinking gap seems especially reasonable, given that the average qualifications of female board members increased.

### Trickle-down Progress

The benefits that Bertrand and her co-authors found in Norway’s gender quota law didn’t, however, extend beyond those women newly appointed to boards. Increased representation of women on boards in Norway hasn’t increased the relative earnings of other women with excellent qualifications who were not appointed to boards. Nor has the reform led to increases in female enrollment in business programs or a smaller earnings gap among new graduates of such programs. Perhaps role modeling and network effects from change at the top take more time to have an impact. Or maybe making broader change in the rest of the corporate ranks requires direct effort. Academic researchers will absolutely continue the search to find the answer, hopefully in partnership with practitioners working for the same end. 



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question

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