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Stimulating Recruitment of Female Managers

Maurice D. Levi

In order to induce firms to feel indifferent towards the sexes in their recruitment for the administrative level, the cause of preference towards males must be eliminated. In this paper the author discusses the preference for males that arise out of expected lower turnover for male employees.

The reluctance of employers to recruit women into their administrative ranks has concerned women's liberation organizations, Federal and Provincial Governments and the courts. Despite the attention that the problem has received no suggestions have been made which would involve making employees indifferent towards the sex of a candidate for an administrative position. In order to induce firms to feel indifferent towards the sexes in their recruitment for the administrative levels we must eliminate the cause of preference towards males. This cannot be accomplished by legislative action. It can only be achieved by tackling the cause of the problem. This paper suggests a scheme that would attempt to do this.

THE PROBLEM CONSIDERED

We will concentrate our discussion on the preference for males that arises out of expected lower turnover of male employee.¹ We will thus be ignoring any preference for males that arises out of a feeling by employers that, for example, other workers resent taking instructions from a female or from

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* I have benefitted from the comments of the referees on an earlier draft of this paper and from discussion with Kristen Monroe.

¹ Some of the arguments contained in this paper and further implications of turnover rates for the employment of women can be found in D. Parsons, «Specific Human Capital: Layoffs and Quits», unpublished Ph.D. dissertation, University of Chicago, 1970, and E. Landes, «Male-Female Differences in Wages and Employment: A Specific Human Capital Model», National Bureau of Economic Research, Working Paper 27, Jan. 1974.

the feeling that women are unable to handle a crisis.² We will, however, show that it is possible that the particularly strong preference for males as managers relative to other occupations could well occur as a result of lower turnover and that we do not have to invoke these other possible causes of preference to explain the phenomenon.³ We will also see that if preference is given to males because they are likely to stay with a firm for a longer period, then a rather simple type of scheme may be successful. This will involve training cost repayment clauses in job contracts.⁴

THE IMPORTANCE OF TRAINING COSTS

Many firms, if questioned on their reluctance to hire women for the administrative ranks, will argue that women are likely to leave when they marry or begin a family. They might well admit that there are women who would either not marry or else remain after marriage or while having their family, but they will argue that there is no way of selecting these women from those who would readily leave the firm. As a consequence, the determined career woman suffers from being grouped with her less determined «sisters».

If we ask why firms prefer their employees to remain with them for some time we will see why preference for males might be particularly strong in recruitment for administrative positions. We will also see that a rather simple change in job contracts suggests itself for removing this preference.

² Elimination of preference resulting from these types of reasons would require a different treatment than is described in this paper. What would be required is a direct subsidy to firms for hiring women as managers. A policy is probably necessary only because of equal-pay rulings or the fear of these rulings. If a firm could pay a woman sufficiently less than a man to compensate for the lower psychic evaluation or for the higher expected turnover of a woman, employment prospects of women would be enhanced.

³ We do not mean to suggest that these other socio-psychological explanations are unimportant. Instead, we wish merely to point out the theoretical possibility that the scarcity of women in administrative ranks vs. jobs with less «specific on the job training», could well result from turnover alone, and to suggest a possible solution to this cause of discrimination.

⁴ The purpose of our discussion is not to describe a scheme that will reduce turnover rates. Indeed, reduced turnover may not increase overall efficiency See E.E. LAWLER III, *Pay and Organizational Effectiveness: A Psychological View*, New York, McGraw-Hill, 1971. We wish only to present a scheme that will eliminate the preference for males on account of perceived differences in turnover rates between the sexes.

It is likely that a new recruit for a management position will require training in his new job. Indeed, many firms establish lengthy training programs for their management trainees. This training is often provided to give higher ranking employees an overview of the operations of the type of firm they have joined or the industry they are within. For example, many of the larger banks will have their employees familiarized with the functions of the various divisions within a bank and perhaps even with the principles of banking. Manufacturing firms may wish their managers to know something of the techniques employed in the production, marketing and distribution of their product. And even if no formal arrangements are made for providing this type of training, experience on the job will provide a new recruit with a large part of the knowledge that a program would offer. Much of this type of training and even some of the training in the position the new recruit fills, will be of general value to the employee in that it will be useful in other firms than in which the knowledge was acquired. We can hence call this general on-the-job training.

In addition to this type of knowledge an employee must also become familiar with the tasks he has to perform and the way these are to be done in the firms within which he works. This type of training is of specific value to the firm within which it was acquired and will be of no value to other firms even within the same industry. We can hence call this specific on-the-job training.⁵

It is possible that the knowledge that is required by an employee to perform his job efficiently could be acquired at the expense of either the employee himself or by the employer. The employee would generally meet the costs by accepting an initial low wage while the training was acquired. The employer would generally meet the costs by either direct outlays on instruction if the training is formal or by paying the new recruit a wage above his productivity while he was informally acquiring the knowledge.

To the extent that it is the employer who meets the costs of training, he will suffer a capital loss when an employee leaves. In other words, he would not obtain as large a return from his investment in the worker's training as is otherwise possible.⁶ The rate of return might even be negative. It is for this reason that a firm is concerned

⁵ The distinction between general and specific on-the-job training and many of the arguments that follow can be found in Gary Becker's extensive study, *Human Capital*, New York, Columbia University Press, 1964.

⁶ The returns occur by paying wages that are eventually less than productivity.

with the turnover of its employees.⁷ We must thus determine if, and under what circumstances, the firm will meet any of the training costs of its employees. When we do this we will see that there is a particular category of training that is currently acquired at the employer's expense and that this is the type of training that is so important for management trainees.

If we follow the distinction made earlier and divide the knowledge that must be acquired into that which is of use also to other firms, i.e., from general on-the-job training, and that which is of use only to the firm accepting the new employee, i.e., from specific on-the-job training, we will see that firms will pay for some part of only the specific on-the-job training and for none of the general training.

As knowledge that is useful also to other firms is acquired and the productivity of the employee increases from it, other firms will be prepared to offer higher wages to attract that employee. In order to retain him a firm would have to compensate him fully for his higher productivity. If it failed to do so the worker would soon leave for another firm where he would receive full compensation for his greater worth. Thus with general training, wages will have to increase by as much as the productivity of the employee. There would hence be no gain to a firm for paying for such training. The benefit would accrue to the individual receiving the training and he would have to pay the cost. As we noted, the cost would be borne by receiving lower wages while undergoing training than would be received in a position that did not require any additional knowledge.⁸

Training that is of use only to the firm in which it is acquired, i.e., specific training, will be paid for by the firm as well as by the employee. As such knowledge is acquired the productivity of the worker is increased only in the firm where it was acquired. Consequently, wages will

⁷ In restricting the costs to those of training we are assuming that when considering a particular applicant, a firm thinks of its future recruitment costs, i.e., the costs of searching for and selecting a new employee, as being invariant to the expected permanence of this applicant.

⁸ If there was a reluctance to change jobs after settling in, say as a result of personal contacts made or because the worker would have to move his home, some of the costs of general training might be borne by the firm. This is because wages would then not have to increase by as much as productivity in order to retain the employee. A gain would hence remain to the firm which would make it worthwhile bearing some of the cost of training. In this case we can argue that even general training is a cause of preference for a lengthy expected stay of an employee and hence a potential reason for preferring a male.

not have to be raised to retain this employee; competition from other firms to attract the employee with higher wages will not occur. Thus when a firm invests in specific knowledge it can expect a return from its investment — productivity of the employee can increase without this being lost through higher wages. Firms will thus be prepared to pay for this type of training.

But it is not the best alternative for the firm to pay all the cost of training of this type. It will be better for the firm to actually raise wages when knowledge is acquired. In this way it will give the employee an incentive not to leave as he could not obtain as high a wage elsewhere. But if wages were higher after training when no training costs were to be incurred by the employee, there would be an excess supply of candidates for the jobs. The firm will hence realize that it can share the cost with the employee and still obtain sufficient recruits. We would not, however, find the worker bearing *all* the cost of specific training for he would not receive full compensation for it if he decided or was forced to leave. Thus with specific training we can argue that part of the training will be paid for by the employer.⁹ Thus a firm will incur capital losses when a worker quits only if that worker required specific on-the-job training when he joined the firm. No capital losses are incurred if the worker required general on-the-job training.

Management and other administrative positions generally require much specific training. A management trainee may have to spend a considerable amount of time just to become familiar with the features of the firm he is within.¹⁰ He will have to learn who is responsible for particular functions and how his firm performs these functions. It may be perhaps a couple of years before a newly hired manager is sufficiently skilled and confident with this type of knowledge to do his job smoothly and become a valuable asset to the company. We can thus claim that specific training costs are particularly important at the management level. Since these are the only training costs which are met, although partially, by the firm, then if firms expect higher turnover of women we can explain why preference for males is so particularly strong in these ranks. At lower ranks less of the training will be specific and hence less of the training will be met by the firm. Lower ranks will also require less training in total. Thus smaller capital losses

⁹ For a fuller discussion of this proposition see Becker, *Human Capital*, pp. 18-29.

¹⁰ As Alfred Marshall put it, he will require «an acquaintance with men and things [which are]... of a kind to be of no value save to the business in which he already is...». A. MARSHALL, *Principle of Economics*, 8 th ed. New York, 1949, p. 626.

are imposed if such a worker quits. In consequence, little value will be placed on the expected permanence of an employee.¹¹ We can hence claim that we do not have to invoke arguments that firms think women are unable to efficiently perform the management function in order to explain the relatively greater preference for males at the management level. We can explain it, at least theoretically, purely in terms of training costs.

THE EFFECT OF A REPAYMENT OF TRAINING COSTS CONTRACT

The above discussion should make it clear why firms will show preference for males in their recruitment decisions for the management levels. If they believe that there would be a lower turnover of males as a result of voluntary quits they will expect to face greater capital losses if they recruit any women.¹²

Now, if we can devise a scheme which will remove the capital losses associated with a quit then it should be clear that such a scheme would result in no value being placed on the expected turnover of a prospective employee. Then, if women are currently not hired because of the suspicion that they will leave, such a scheme should be very effective in improving the recruitment prospects of women. It would eventually result in women taking a more proportionate share in the management and administration of business. The outcome would not be the result of tokenism.

If firms could bind employees to remain it would remove the risk of capital losses that would lead to a preference for males. However, it has proved to be very difficult to bind an employee to a contractual obligation to remain with a firm; the courts have considered such contracts as resulting in involuntary servitude. And in any case, an employee who is forced to remain is likely to put very little into his job. But what can be done in the absence of such contracts?

¹¹ If we consider different positions up the hierarchy of a firm we can employ out intuition to see how more and more value is attached to turnover as we proceed upwards. For example, little concern is given to the expected permanence of a new dishwasher or cleaner (and wages do not increase with seniority to reduce the risk of them leaving). Somewhat more concern would be given to expected permanence of say a sales assistant or secretary (and wages would increase to retain them) etc.

¹² It should be apparent that it is the same costs that also explain why many firms are reluctant to employ very capable university and college students during their summer vacations and why those who do take summer help prefer to take back in later summer students that they have already employed. It should also be clear why students are given part-time and summer positions that require very little specific knowledge.

We have said that a firm will not mind that it cannot ensure that an employee will stay provided we can remove the capital loss it would face if the employee quits. This would be achieved by a different type of contract. The contract that is required would not bind an employee to stay. Rather, it would bind the employee who leaves to compensate the firm for the capital loss it suffers when the employee quits. This would mean repaying all of the costs of training incurred by the firm that the worker has not already repaid by the work he has done.¹³ Such a contract which would be signed when the employee joined the firm would remove the preference for types of individuals with a low turnover and as we shall see, it will also work to the benefit of the employee, employer and society.

Since the repayment would equal the amount of training costs that were not recovered by the employer from the work that was done (i.e., by eventual productivity exceeding wages), the repayment would initially increase with the amount of time the employee had remained. But as the employee begins to devote more of his time with greater efficiency to his job, he will be «repaying» the firm for more of the training costs it had incurred. Thus after some point the repayment would diminish. The employee's obligation might then, for example, be to contract at the time of hiring to repay say, \$2,000 if he or she left within three months, \$2,500 if he or she left within six months, \$1,500 if within a year, \$700 if within 18 months etc. The actual amounts will depend upon the extent of training costs that are incurred by the firm and would be determined at the time of hiring in the same way that wages are currently determined.¹⁴ We could present many arguments in favor of such a contract. Before doing this we can note that under such a scheme employers would bear all of the cost of specific training.¹⁵

¹³ Included in the costs should be the return on the firm's investment in training.

¹⁴ We will return to the determination of the reimbursement scale shortly. At this point we should note that the amount would also depend upon the pension plan associated with the job. With no vesting, the repayments that would be contracted would be reduced by the accumulation in the plan. Employees will be prepared to repay the extent of their training costs less that lost through the pension plan and employers would accept that amount since they would gain that lost in pension by the employee.

¹⁵ The firm would also be prepared to pay the cost of general training if the employee contracted to repay this cost too if he quit. This would be determined by the preference of the employee at the time of hiring and would depend upon whether he preferred a lower initial wage without an obligation to repay the costs of general training to a higher initial wage with an obligation to repay.

We have already explained why firms and employees currently share the expense of training for job specific knowledge. The explanation involved the argument that firms would not pay all of the expenses of training because by allowing the employee to bear some of the cost there would be an incentive for him to stay. The employee would receive a higher wage after training than he could obtain with another firm.

Now if the employee contracts to repay the costs incurred by the firm then there would be no reason for the firm to offer an incentive to keep the employee i.e., by offering him higher wages after training. The firm would not lose if the employee decided to leave. Consequently it would be prepared to pay all of the cost of specific training.¹⁶ The employee would not be prepared to pay any of the cost of specific training while working. He would know that the firm would have no reason to induce him to remain and hence to offer a wage after training that would be higher than he could obtain elsewhere. There would thus be no expected return to investing in his own training. Thus the employer would have to bear all of the cost of training and would be prepared to do this knowing that he would be reimbursed in the event of quit.¹⁷ Now, what arguments can be made for the contract we have described apart from that it would remove preference for males on account of turnover?

Only those individuals sincerely interested in making a career would sign. Workers who had no real intention of remaining would not contract to pay for training which would be of no value when they leave. They would instead seek positions requiring less specific training. Thus by selecting those that sign contracts, firms would be selecting from amongst their female applicants for management positions those women who would intend to remain if they were to marry or have children. Indeed, there would be a strong incentive to remain, an incentive which would increase with the extent of the costs of training incurred by the firm and hence to be repaid in the event of a quit.

The contracts would not have to be limited to women. Firms could write up contracts with male employees too. The terms of the

¹⁶ The firm would hence obtain the return.

¹⁷ If the employee could obtain a contract that promised a higher wage after training was completed if he were to bear the cost of training, then the employee might be prepared to pay some of the training costs if it fully reduced the sum he had to repay if he was to leave. However, firms are unlikely to promise wages sufficiently far into the future to make this outcome likely.

contract would be exactly similar provided the same costs were incurred in the training and recruitment of both sexes. They would thus not lead to claims of discrimination.¹⁸

Economic theory teaches us that wages will equal the marginal revenue product of labour. No firm has to make the complex calculation of the product to determine the wage. The wage paid is that in the market or else the firm cannot prevent an employee from going to another firm. Similarly no firm will have to compute the training cost schedule. Where similar positions are available in other firms, the schedule can be «read» from the market. Put differently, we would not have to fear that firms would use those contracts to extract extravagant payments from new employees. No one would go to work for a firm which made excessive demands. Job hunters would «shop-around» and weigh up wages *and* the potential demands in choosing the firm they will join. If employment were terminated at the request of the firm, then reimbursement could be prevented.¹⁹

The individual sincerely interested in a career with the firm would not lose by having to sign an obligation to repay his or her training costs. The firm would pay the costs and these would never have to be repaid. Indeed, the sincere individual would gain because firms, for the same training costs, would be prepared to pay better wages to those employees who sign than when contracts are not employed; they would know they would not lose the training costs that are involved.²⁰ The

¹⁸ Firms might expect to collect on average more repayments from women if they continued to remain for shorter durations despite the cost of doing so, but the *scale* of repayment would be the same as for males — provided only that the costs of training were the same.

¹⁹ This is the only part of the scheme that would necessarily require surveillance — even if it was required that such a provision was written into the contract. Surveillance would be required to help ensure that employees did not try and induce firms to lay them off by working poorly so as to avoid compensating the firm for the training costs.

We might note that a case might be made for reimbursement to be made by the employee even if employment was terminated by the firm. Such a scheme would make firms prepared to take «risks» on appointing management trainees and hence try racial minority group members etc., knowing there is no loss to them if they turn out to be poor managers. The arguments behind this would require too much explanation to enter into it this paper.

²⁰ More generally, the sincere individual would gain by having his training costs fall by more than wages, i.e., since the training costs met by the employee would decline, so might his wage and yet he would still come out ahead. For the same training costs, the «present value» of wages over the new expected permanence of employees would increase by up to the «present value» of capital losses that firms currently incur. Wages would increase still more if firms currently plan on a return to bearing the risk of specific training investment.

firms would also gain for they would no longer face a capital loss when an employee quits. And society would gain by making insincere candidates for jobs requiring specific training realize the extent of the costs they are imposing — they would no longer ignore when deciding to quit the training costs that are currently met by the firm. The externality would be internalised with the employee realising the full social cost of his act. The consumer would eventually benefit via lower prices by the saving of the society's resources from being devoted to the training of individuals who would not use their training.

Now it is likely that if employees contract to repay specific training costs, then they will seek and find insurance companies that are prepared to accept the obligation to repay the firms in return for a regular premium payment. If employees did seek cover in this way it would not remove any of the advantages of the repayment contract that we described. Employers would still be indifferent towards turnover and not prefer males on that basis. Employees would still have an incentive not to quit if they intended working for some other establishment and not leave the job market; the incentive would be in the form of facing lower insurance premiums in the future. The insurance would be available to both men and women and the repayment scales would still be simply contracted between employees and employers at the time of hiring with an incentive for the employee to minimize the repayment obligation for a given wage so as to minimize the premium payments.²¹ We might note that by the scale of their operation, the insurance companies would develop an expertise and learn the characteristics that reveal a sincere and determined career seeker in a way that a firm could not do. The premiums would then vary with such «risk» factors as the age of the job candidate, their previous (job) experience etc., in the same way that auto insurance premiums depend on these same variables.²²

²¹ The premiums would be higher for women if they had a higher turnover even with an incentive not to quit. In fact, the turnover of women would probably increase *relatively* to that of men. This is because when women quit they often leave the job market altogether and the prospect of higher future insurance premiums would not therefore be a disincentive.

²² The expected present value of the premiums for each risk class of insurers would equal the present value of the expected repayments to the firms plus a normal rate of profit on the enterprise.

CONCLUSIONS

Repayment of training cost contracts, despite their advantages, are unlikely to arise without some encouragement.²³ This could be achieved with only partial loss of some of the advantages of the scheme, by the government promising to share the obligation to repay training costs with the employee or the insurance premiums that covers this obligation. Alternatively, the government could enter the insurance business itself charging full or subsidized premiums. Consideration of such a policy might suggest that its potential was greater than the « pressure » techniques employed to improve the recruitment prospects of women.

Des moyens de stimuler le recrutement des femmes dans les postes administratifs

La rareté relative de femmes dans les fonctions administratives peut s'expliquer, au moins théoriquement, par le haut roulement de la main-d'œuvre féminine. L'article ci-dessus veut démontrer pourquoi il en est ainsi et également proposer un plan qui éliminerait la discrimination contre les candidates à des fonctions administratives à cause du taux de roulement de la main-d'œuvre féminine. L'auteur soutient que le plan qu'il préconise servirait à la fois les travailleurs, les employeurs et la collectivité.

Les entreprises ne se préoccupent du taux des départs que dans la mesure où elles ont engagé des capitaux dans la formation de leur personnel. Si nous divisons la formation interne en deux catégories, la formation *générale* et la formation *spécialisée*, nous y verrons que l'entreprise sera perdante lorsque l'employé démissionne uniquement dans le cas où celui-ci avait besoin d'un entraînement d'un type spécial.

La formation interne *générale* implique l'acquisition, en milieu de travail, de connaissances qui valent aussi pour les autres entreprises. Une fois celles-ci acquises et que la productivité s'est accrue, d'autres entreprises seront désireuses d'offrir un traitement plus élevé à l'employé pour l'attirer chez elles. Étant donné que le salaire devrait être augmenté proportionnellement à la hausse de productivité du travailleur, il n'y a aucun intérêt pour un employeur à dépenser en vue de la formation de son personnel. Les avantages en reviendraient à la personne qui a acquis l'expérience et elle devrait avoir à en défrayer le coût en recevant au départ un bas salaire alors qu'elle se trouve en quelque sorte à l'apprentissage.

La formation interne *spécialisée* implique que l'acquisition des connaissances ne vaut que pour l'entreprise où elle a été obtenue. Au fur et à mesure que l'employé

²³ There are a couple of examples of repayment obligations like that described in this paper. The Royal Canadian Mounted Police, for example, require recruits that quit to pay compensation at a rate based on the number of months remaining to be served on their first appointment.

se familiarise avec son travail, sa productivité ne s'accroît que s'il demeure chez son employeur. Par conséquent, il ne sera pas nécessaire d'en augmenter le traitement pour en retenir les services. Il n'y aura aucune pression des entreprises voisines pour l'attirer en lui offrant davantage. Donc, lorsqu'une entreprise engage des capitaux dans la formation interne *spécialisée*, elle peut espérer en retirer un profit et elle sera disposée dans une certaine mesure à en défrayer le coût. Elle offrira au départ un traitement supérieur à la productivité de l'employé. En réalité, la firme imposera ainsi à son employé une part du coût de sa formation *spécialisée* et lui permettra, par ailleurs, de tirer profit de cet investissement plus tard sous forme d'incitations à rester à son service.

Les postes administratifs exigent d'ordinaire passablement de connaissances spécialisées. Il peut s'écouler plusieurs mois avant qu'un nouvel employé soit assez familier avec le fonctionnement d'une entreprise pour devenir un administrateur efficace. Il lui faut acquérir beaucoup de connaissances variées. En conséquence, nous devons nous attendre à trouver moins de femmes dans la hiérarchie administrative que dans les postes de rang inférieur où la formation qu'ils exigent est plutôt de caractère général.

S'il est possible de mettre au point un plan qui puisse éviter les pertes découlant d'un départ, nous éliminerons la préférence qui est accordée aux hommes par suite du roulement de la main-d'œuvre. Un plan apte à réaliser un tel objectif consisterait dans le remboursement du contrat d'apprentissage ou de formation. Un semblable contrat, conclu au moment de l'engagement, garantirait le remboursement à l'entreprise du coût de la formation selon une échelle tout comme les salaires sont ainsi fixés. Le remboursement serait élevé au départ, puis irait en diminuant suivant la durée de service de l'employé. Il équivaudrait aux coûts de la formation encourus par l'employeur que le travailleur n'a pas déjà remis par le travail qu'il a exécuté à un traitement moindre que sa productivité.

Ainsi protégé par le contrat de remboursement du coût de la formation, l'entreprise serait prête à en payer tous les frais. Tel qu'il a été exposé précédemment, l'employeur ferait d'abord assumer à l'employé une partie du coût de la formation spécialisée qui, par la suite, profiterait de cet investissement sous forme d'incitations à ne pas abandonner son emploi. Si, cependant, l'entreprise devait être complètement remboursée advenant le départ, il n'y aurait aucune raison d'offrir d'incitations à l'employé pour qu'il reste à son service non plus qu'à ne lui charger le paiement que d'une partie de sa formation spécialisée.

En outre de faire disparaître la préférence qui est accordée aux hommes à cause du roulement, le contrat de remboursement du coût de la formation servirait les employeurs, les travailleurs et la société. Les entreprises y gagneraient parce qu'elles n'auraient plus à absorber des pertes advenant le départ de l'employé. L'individu loyal y gagnerait en touchant au départ un traitement plus élevé du fait que les employeurs seraient disposés à absorber le coût total de la formation spécialisée. La collectivité y gagnerait aussi en ce que cette formule ferait comprendre aux candidats peu sérieux l'importance du coût qu'exige leur formation. Ils n'ignoreraient plus s'ils décidaient de partir ce qu'il en a coûté à l'entreprise pour les former. L'employé se rendrait compte du coût social de son comportement et, éventuellement, le consommateur y trouverait à son tour profit par l'abaissement des prix consécutif à l'épargne des ressources de la communauté qui sont consacrés à la formation d'individus qui n'utilisent pas pleinement la formation qu'ils ont acquise.