



Bolder policies for diversity at the top?

A research symposium presented by the Athena Center for Leadership Studies at Barnard College and the Sanford C. Bernstein & Co. Center for Leadership and Ethics at Columbia Business School
December 10, 2010





Bruce Kogut, the Sanford C. Bernstein & Co. Professor of Leadership and Ethics and director of the Sanford C. Bernstein & Co. Center at Columbia Business School, introduced the keynote address.

Symposium Participants

In order of symposium agenda

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Former chairman and CEO
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Acknowledgements

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Debra Spar, president of Barnard College, welcomed guests to the symposium.



Sheila Hooda, senior managing director at TIAA-CREF, Barbara Colwell BUS '80, advisory board member of Women Corporate Directors, and Gillian Tett, managing editor of the *Financial Times*, spoke during a coffee break.

Introduction

Kathryn Kolbert

Director of the Athena Center for Leadership Studies and Professor of Leadership Studies, *Barnard College*
Bruce Kogut, the Sanford C. Bernstein & Co. Professor of Leadership and Ethics and Director of the Sanford C. Bernstein & Co. Center for Leadership and Ethics, *Columbia Business School*

This conference represents a cooperative project of the Athena Center for Leadership Studies at Barnard College and the Sanford C. Bernstein & Co. Center for Leadership and Ethics at Columbia Business School. The Athena Center has an ambitious mission — the cultivation of smart, engaged, confident leaders who are making their mark on the world. As the leadership hub for Columbia Business School, the Bernstein Center views its responsibility as preparing students, faculty members, and alumni to take proactive roles in improving the ethics and social justice of business.

Both centers have a strong commitment to improving opportunity and diversity at the top of corporations. As this conference shows, there is a lot to be done. Unfortunately, women remain stuck at less than 3 percent of CEO jobs of public corporations in the United States; the story is not much different for other underrepresented groups. After decades of discussing the need for more diversity, why are the results so dismal?

One is encouraged by the dedication and commitment of new generations who sequentially inch the world towards greater diversity. However, progress is slow.

It is fair to ask then whether bolder policies for diversity at the top are needed. We were delighted that the conference began with the keynote address by Esther Duflo, professor of economics at MIT and a pioneer in developmental economics and winner of the John Bates Clark medal for the best young economist. Duflo said quotas can work to break the vicious cycle by which women are deprived of the opportunity to lead and then are found lacking in leadership experience. The most poignant result of her research is that while quotas don't initially change attitudes toward women (people are still biased), they do improve opinions regarding their competence

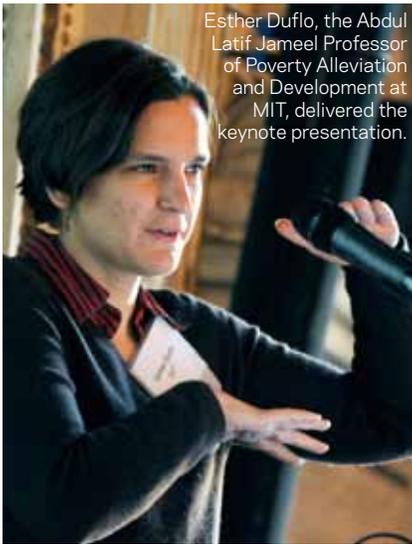
and the issues for which they are engaged.

The keynote was followed by a research panel that explored when quotas matter, their costs, and promise. A note of optimism was sounded in reference to the finding that bosses with daughters pay their workers better and also narrow the gender wage gap. Our last panel, moderated by *Financial Times* correspondent Gillian Tett, explored the perspectives of leaders. They generally were not persuaded of the merits of quotas and instead relied upon policies that emphasized diversity and created more inclusive leadership.

Our view is that bolder policies are necessary. Unlike Europe, the United States is unlikely to enact laws similar to Norway, which have a 40 percent female quota for boards of directors. However, as research has shown, surprisingly low quotas can be effective.¹ Achieving a social consensus around a focal rule of even 10 to 20 percent is pragmatically reasonable and is likely to spur discussion of parity in appropriate boardrooms.

This joint conference is part of an effort to build consensus in the business community that diversity at the top is an integral part of good business practice and that women and other groups excluded from leadership must be included in a wide range of roles at the top of corporations. The Athena and Bernstein Centers were privileged to have the participation of excellent speakers and an engaged audience, and we look forward to working together on future projects.

¹ See Sanford C. Bernstein & Co. Center working paper by Bruce Kogut and Jordi Colomer, "Corporate Boards and Gender: An Analysis of the Possibility of Attaining Structural Equality among Women and Men."



Keynote Presentation “Political Reservation and Substantive Representation: Evidence from Indian Panchayats”

The percentage of women in the top ranks of US corporations has barely moved in the last two decades. At the executive level, women remain particularly scarce: in 2008, women accounted for fewer than 3 percent of CEOs of US firms, an increase of just 2 percentage points from 1992. “Despite decades of talented women in all of the right pipelines, women have remained stuck below what seems to be a magic threshold,” said Debora Spar, president of Barnard College. Given this slow progress, is it time for bolder remedies?

The use of quotas to increase the representation of women at the top of corporations is not an idea generally welcomed in business circles. Often, the objection is political: what right has the government—or anyone other than shareholders—to choose the leadership of a private enterprise? And if quotas were imposed on corporations, would this controversial move result in any measurable social or economic benefits?

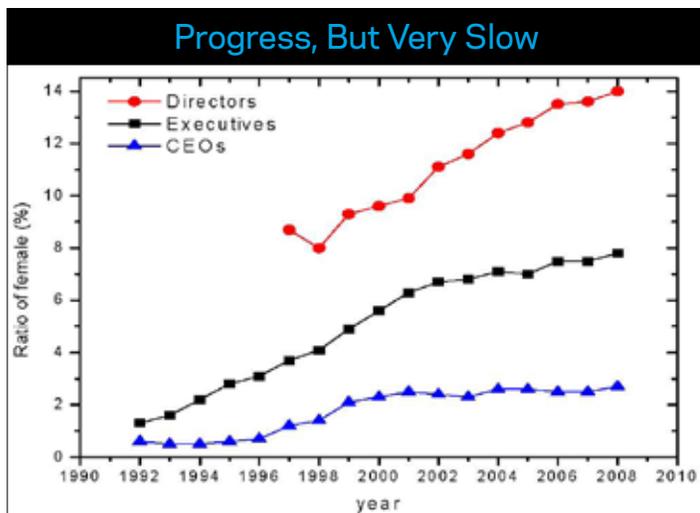


Figure 1 source: BoardEx, ExecuComp, compiled by Jae-Suk Yang

Would greater equality in gender representation change the perception of women business leaders and make it easier for other women to follow in their path? If so, at what cost?

It is to these questions that the work of Esther Duflo speaks. Duflo, the Abdul Latif Jameel Professor of Poverty Alleviation and Development at MIT, is an expert in the study of “counterfactual” policies. One of the greatest problems faced by researchers interested in this topic is the lack of data; there is no direct method of predicting the economic consequences of imposing gender quotas on US corporate boards. Duflo’s study of the far-reaching shift carried out in India’s system of village government offers unexpected insights about the effect of quotas on a population.

In 1992, India passed a constitutional amendment to adopt a form of affirmative action called a reservation policy, which increased the participation of women and disadvantaged minorities. Under the new law, one-third of the seats on every village council were reserved for women. In addition, one-third of the councils would have a woman serve as council leader, or *pradhan*. The reserved *pradhan* positions were to be assigned in a random rotation to prevent women politicians from being relegated to less desirable locations.

While this policy may seem unusual, even radical, more than 100 countries have adopted some form of affirmative action—from mandatory quotas to voluntary efforts by political parties—in order to accelerate women’s representation in government. “The number of women in politics the world over is moving very slowly on its own accord,” Duflo said. “This is similar to the progress of women at the very top of the business world. And the only way that the number of women in politics worldwide has increased is through the adoption, in more and more countries, of some sort of quota policy.”

But does it matter if a village is led by a man or a woman? Are there any benefits to the average villager? To answer these questions, Duflo studied how a leader’s gender influenced a council’s agenda. With the help of local observers, Duflo recorded and analyzed 265 village councils in the states of West Bengal and Rajasthan. In villages in which a woman served as *Pradhan*, Duflo found that women villagers were



Conference attendees listened to the keynote presentation.



Conference attendees, including Ellen Stafford-Sigg, board member of Deloitte LLP and principal at Deloitte Consulting LLP, spoke during a coffee break.

no more likely to attend council meetings, but those who attended were more likely to speak. About 52 percent of women attendees spoke in an unreserved council, while 65 percent spoke in a reserved council. In addition, the presence of a female pradhan encouraged more participation by both men and women. "In these meetings, there were fewer words spoken by the leadership, and more by the villagers," Duflo said. "Having a woman leader may improve the representation of all villagers, not just women."

The women who spoke at these meetings often addressed issues traditionally of interest to women, such as drinking water, while men tended to speak about issues such as schools, Duflo found. She compared villages that were led by a woman for two years with villages that had been led by a man for two years. Villages led by a woman spent more of their resources on drinking water infrastructure, while those led by a man spent more on schools.

Duflo repeated her survey seven years later to examine the longer-term effects of having a woman leader. Using data from 20 Indian states culled from a broader study known as the Millennial Survey, Duflo found there was more investment in drinking water in villages in which a woman served as pradhan. She often found more investment in public works in these villages. "Not only are there more projects, but they are of slightly better quality," Duflo said. "One thing that might help to explain better quality is the evidence that women are taking less bribes. How is it possible to do more with the same funds? If you put less in your pocket, there's more for the budget."

The system of random assignments allowed Duflo to compare villages that were reserved once and subsequently led by a man, and villages that were reserved twice in a row. In villages that were reserved twice, the second woman leader proved to be more effective than the first, based on an increase in spending on public works. Duflo also found that men who took over from a woman pradhan tended not to reverse their predecessors' policies. "Once you have invested in water wells, you need to maintain them," Duflo says. "So we see men continuing to put money into wells."

How long would such quota policies need to be enforced



Esther Duflo, the Abdul Latif Jameel Professor of Poverty Alleviation and Development at MIT, delivered the keynote presentation.



Conference attendees listened to the keynote presentation.



David Ross, assistant professor at Columbia Business School, and Mona Lena Krook, professor of political science and women, gender, and sexuality studies at Washington University in St. Louis, spoke on the research panel about diversity.

before attitudes toward women leaders changed? The evidence was unsettling. Although the quality and quantity of public works projects increased under women leaders, the surveyed villagers said they were strongly dissatisfied with their performance. This dissatisfaction could simply suggest bias. “Since many villagers were not fans of the reservation policies, some might have given answers that don’t reflect a real backlash,” Duflo said.

To get a more accurate assessment, Duflo adapted implicit association tests from psychologists and political scientists. She found that the associations between women and politics changed very quickly under the reservation policy. After just two years, villagers who had been exposed to a female pradhan found it easier to associate women with politics. “We were surprised, because many psychologists consider these attitudes to be deeply ingrained,” Duflo said. In a separate test, she had male and female actors record a political speech, which was later played to villagers. In villages that had not experienced a woman leader, most respondents, and particularly men, disliked the speech more when it was recited by a woman. In villages that had experienced a woman leader, the findings were reversed: both men and women were more likely to approve of the speech when it was recited by a woman.

“This makes me think that one reason many people in India have negative attitudes toward women leaders is a lack of information,” Duflo said. “Because they have never seen women leaders, they view them as untested propositions. That’s why forcing people to experience women leaders is also a way of increasing their access to information. And that’s potentially very wealth-enhancing, because now they have access to the full population of people to choose from, not only half.”

Duflo also investigated whether exposure to women leaders changed the way villagers think about themselves. She and her research partners asked adolescents what they hoped to

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—Esther Duflo, MIT

accomplish in the future. In villages that had experienced two cycles of women leaders, girls were more likely to say they wanted a career, and that they wanted to serve as a pradhan. Their parents, also surveyed, gave similar answers when asked about their aspirations for their children. Overall, in places that had been led by a woman pradhan, villagers said they would be more likely to vote for a woman in the future. Duflo’s findings suggest quota policies can be very powerful in changing attitudes, though the effect might be less than desired: men might not admire women leaders any more than they used to, but there is an increase in respect.

“Avoiding half the population is a waste of talent and potential,” noted Bruce Kogut, the Sanford C. Bernstein & Co. Professor of Leadership and Ethics, in his introduction to the conference. “It’s also a question of social justice—of giving all people the opportunity to lead their societies.” This leads to an important question, one of particular interest within the corporate world: what is the financial cost of increasing social justice?



Ann Bartel, the Merrill Lynch Professor of Workforce Transformation at Columbia Business School, moderated the research panel.



Amy Dittmar, associate professor of finance at the University of Michigan's Stephen M. Ross School of Business, presented her research on "The Impact on Firm Valuation of Mandated Female Board Representation."

Research Panel: Increasing Equality in the Firm

As Bruce Kogut noted in his opening comments, the very shortage of women executives makes it difficult to gather data and to test policies that might alleviate the gender gap. In a panel moderated by Ann Bartel, the Merrill Lynch Professor of Workforce Transformation at Columbia Business School, four researchers showed what we can learn from the available evidence, whether from political initiatives or from the experiences of other countries.

Amy Dittmar, associate professor of finance at the University of Michigan's Stephen M. Ross School of Business, analyzed the effects of corporate quotas in Norway. In 2003, Norway passed a law that women must account for 40 percent of all corporate board members. Norway began enforcing the law in 2006, and warned that any firm that did not meet the minimum percentage would be dissolved. By 2008, all firms in the country were in compliance.

Dittmar and her co-author, Kenneth Ahern of the University of Michigan, studied the impact of this law on firms—specifically, how the quotas affected firm valuation. "A stock price, or the value of the firm, is the accumulation of investors' expectations of the firm's future," Dittmar said. "So we can see what the expectations are for cash flows and decision-making by looking at the change in value."

In many ways, the corporate gender gap is a problem of perception: Are women executives perceived by others as experienced and capable?

Dittmar compiled data from the 241 firms listed on the Oslo Stock Exchange in 2007, as well as biographical data (such as age, education, and corporate experience) about these firms' directors in 2001 and in 2008. The firms' staggered compliance with the law provided a means of comparison. Surprisingly, Dittmar found that when a firm increased its percentage of women directors by 10 percentage points—which often translated to adding one woman—its valuation dropped by about 14 percent. In other words, adding women directors hurt firm value. (See figure 2.)

However, further analysis showed that this decline was not related to gender, or more specifically, to gender bias on the part of shareholders. Rather, it correlated with specific characteristics of the newly added women board members, who tended to be younger, less experienced, and less likely to have an MBA than their male counterparts.

Norway passed its law to address inequality, not to protect stock prices, noted Dittmar. In effect, this imposed a one-time transaction cost on firms—one, she stated, that could be short-lived. "The motivation for the law is to promote women, but companies want executives with experience," Dittmar said. "This emphasis on experience creates a vicious cycle, because most women don't have that experience. It seems reasonable that if women were to gain experience, this vicious cycle would go away."

In many ways, the corporate gender gap is a problem of perception: Are women executives perceived by others as experienced and capable? David Ross, professor of

What do we do in this study?

What is the impact of gender quotas on firm value?

- Use two methods to study change in value
 - Examine change in Q on dummy for year when added women, compared to firms not changing boards in that year (utilizing staggered compliance)
 - $Tobin's\ Q = \frac{\text{total assets} + \text{market equity} - \text{book equity}}{\text{total assets}}$
 - Examine stock return at announcement of the quota, comparing firms with and without women already on the board (Feb. 22, 2002)

Why did gender quotas impact firm value?

- Determine if the change in value was due to gender or some other director or firm characteristics.
 - Director characteristics: age, experience, education, and number of other board positions held.
 - Other factors: size of the board and firm controls

Figure 2: From the presentation of Amy Dittmar, associate professor of finance at the University of Michigan's Stephen M. Ross School of Business.



Conference attendees listened to the session discussion.



Conference attendees chatted during a coffee break.

management at Columbia Business School, focused his research on how to change the attitudes of male executives—a key factor often cited as preventing the promotion of women to corporate boards. Less than one-third of US firms have even a single woman executive, a percentage that has remained flat in recent years. Although the moral case for encouraging diversity is clear, it is also possible to make a business case, Ross argued.

Meritocratic firms perform better than those with barriers to advancement, and many studies have shown that firms that have at least one woman in top management outperform those that do not. “However, executives tend to say they already have a meritocratic human resources process,” Ross noted. “How can you convince these executives that they should still make more room for women?”

Ross evaluated the performance of firms in the S&P 1500 over a 15-year period, using a method that allowed him to compare a firm with itself. At times a firm had one or more female executives, while at other times it had none. Ross found that a firm tended to perform better when it had at least one woman on its top management team. Further analysis showed the increase in performance correlated with an increase in innovation.

“There’s a large literature that says innovation increases if managers are more collaborative, are better mentors, and encourage participation,” Ross said. This matches the particular style of management at which many women are said to excel according to some researchers—a contention, Ross noted, that has been controversial. If these correlations exist, then a firm that dedicates relatively more of its resources to innovation should perform even better when it has women in its top management team. Ross found this was the case, indicating that the presence of women executives can support innovation.

Yet do these findings lead to just another form of stereotyping, even if this stereotype might be considered positive? Are there any other ways to change the attitudes of men on corporate boards? In his research, Ross noted that executives with daughters tended to be relatively more supportive of the

advancement of women.

To investigate this phenomenon, Ross compiled data on every male CEO of a Danish company over a 10-year period. Ross found that if a CEO has a son while in office, there is no effect on his firm’s wage gap. But if the CEO has a daughter, his firm’s wage gap shrinks; in fact, the wage gap continued shrinking with each additional daughter. It is a telling finding, one that reminds us of the human dimensions of these issues. “Maybe we’re closer to solving this problem than we dare even to hope,” Ross said.

There is a vicious circle: this lack of experience is a direct result of the discrimination that women face.

Evidence from the political world is less encouraging. Mona Lena Krook, professor of political science and women, gender, and sexuality studies at Washington University in St. Louis, investigated how quotas function in elections. While corporate quotas are still very new (Norway’s 2003 law was the first), more data are available on political quotas, which date to 1995. Approximately 10 countries are in the process of considering corporate quotas, while more than 100 have some form of political quota.

Although these political quotas are a promising means of changing attitudes toward women leaders, Krook argued that these quotas are often little more than symbolic, with some policies aimed at merely increasing the percentage of women candidates. In France, for example, women’s representation increased from just 11 percent to 12 percent under a quota policy. There is a lot more to be done, Krook concluded.

Why is there slow progress even when quotas are enacted? In some countries, resistance runs so high that ballots contain the name of phantom candidates (an effort by political parties to boost their number of women candidates). In a finding that correlates with evidence from Duflo’s and Dittmar’s work, Krook showed that women candidates in countries with quotas were less experienced than their male counterparts. Here again, there is a vicious circle: this lack of experience is a direct result of the discrimination that women face. “People say this lack of experience is an argument against quotas,” Krook said. “I say it’s an argument for quotas. We need conscious strategies for change.”



Given this antipathy, how should advocates make an argument for quotas or other bold strategies? Susan Sturm, the George M. Jaffin Professor of Law and Social Responsibility at Columbia Law School, called for framing such an agenda in terms of inclusion. “If you are interested in increasing the participation of women on corporate boards, there are ways to frame the problem that will advance that goal,” Sturm said.

Merely allowing a few women to reach the boardroom will do little to alleviate inequality, Sturm argued. Changing the attitudes of male executives might be a good first step, but shareholders also need to be convinced. To make an effective case, advocates need to articulate an affirmative vision—one that acknowledges the existence of bias, but within a context of positive ideals such as democracy, ethics, or innovation. “This is the kind of thinking we need if those policies are going to be more than purely symbolic,” Sturm said. “Corporations are very good at managing—particularly with boards—a symbolic legitimacy without instilling change within the company itself.”

Considering the enduring debate within the United States on the merits of affirmative action, advocates for corporate quotas would surely face an uphill battle. Quotas might be too divisive to create meaningful change, Sturm said. “It’s not that I wouldn’t love to have much higher representation of women on boards, but I don’t think quotas are a viable starting point for the serious work that needs to be done.”

Are quotas worth a one-time transaction cost? Or do they cause more harm than good, particularly when it comes to changing attitudes? As the debate among practitioners in the following panel shows, Sturm’s skepticism is hardly a minority view. Many women, including those who have reached the rank of executive or director, voice opposition to quotas. However, some firms have experimented with efforts to increase women’s representation, setting goals that in many ways resemble quotas. Could supporters and critics reach some sort of compromise on this issue, or is it best to consider quotas a last resort?

Panel Discussion: “Recruiting for Boards and CEOs”

“If you’re in Europe today, with examples like Norway on your doorstep, the question of quotas is not theoretical,” said Gillian Tett, US managing editor of the *Financial Times*. “It’s something very real and very tangible.”

Tett moderated a roundtable discussion of practitioners with boardroom experience on the merits of corporate quotas. Sheila Hooda, senior managing director at TIAA-CREF, immediately challenged the appropriateness of quotas, declaring, “If we’ve reached the point where we want to have quotas, we’ve probably not thought through the issue well.”

As an alternative, Hooda proposed a three-pronged approach. First, all corporations should be responsible for developing pipelines to increase diversity. “There’s a lot of talk of having diversity officers and diversity programs, but it’s still not part of the DNA of every organization.” Diversity should not be limited to gender, but should include factors such as race, nationality, and age, and be a key part of a firm’s strategic agenda. Second, firms should make their diversity goals public, and have audits to determine if their strategies are working. “The third prong is arriving at the need for regulations,” Hooda said. “If firms are not fulfilling their tasks and delivering results, then yes, we need quotas. But quotas are the last recourse.”

Rather than resorting to quotas, should firms self-regulate in an effort to increase women’s representation? Norway’s law, with its government threat of corporate dissolution, “seems a bit extreme for the US,” said Ellen Stafford-Sigg, a board member of Deloitte and principal at Deloitte Consulting. She favors a policy that is “as close to quotas as we can get. There should be a certain representation, and that may be based on our population, or the business population.”

About 12 years ago, Deloitte—which already had diversity rules for its geographical regions and its business specializations—decided that the percentage of women on its board should reflect the population of its partners. “Making that a goal changed the role of our nominating committee,” said Stafford-Sigg. “They started looking for gender balance.



A conference guest listened to the panel discussion on challenges and effects of policies to encourage diversity in the firm.



Gillian Tett of the *Financial Times*, James DeGraffenreid '78, former chairman and CEO of WGL Holdings, Inc., and Barbara Colwell '80, board member of Women Corporate Directors, discussed policies for diversity.



Gillian Tett, managing editor of the *Financial Times*, moderated a roundtable discussion of practitioners with board experience.

And lo and behold, they found qualified women.”

Did Deloitte experience a one-time transaction cost? Hardly. In the years following the change, the partnership experienced tremendous growth, said Stafford-Sigg. “Our financial success would indicate that these measures don’t cause harm.” One important factor was the firm’s dedication to coaching and mentoring women, she said. Also to prevent the measure from being symbolic, a conscious effort was made to ensure that women were not steered to internal roles, but rather to client leadership roles.

One recurrent criticism of quotas among practitioners is that for many firms, such mandates would be superfluous. “Companies that view diversity as part of their strategic imperative for the long haul are already trying to achieve these goals,” said James DeGraffenreid, the former chairman and CEO of WGL Holdings. “They’re anticipating what the world will look like five, 10, 20 years from now.”

However, if firms were forced to introduce quotas, they would adapt with few negative side effects in the long-term, DeGraffenreid said. “At least in the US, quotas are kind of like taxes. You can predict—excuse my cynicism—the usual dance. The more successful companies are going to be the ones who integrate it with the strategic imperatives of their business.”

If that’s the case, why is there so little diversity at the top? Is true diversity anathema to the culture of some firms? “Corporations don’t mind people who look ‘diverse,’ as long as everyone sounds the same,” said Barbara Colwell, a corporate director, an advisory board member of Women Corporate Directors, and a former executive director of ThinkQuest NYC. “So, I’m afraid quotas will not accomplish the cultural heterogeneity that we’d like to see them accomplish.”

A quota based solely on gender or race would do little to increase the representation of many groups that face significant barriers, concluded Colwell. “If you say the purpose of a quota is to get a rich and robust diversity of opinions, there are a number of people, such as the physically disabled, who may not be invited to the table. It’s very easy to set quotas for the sightline we all can see.”

Some industries are just beginning to see the benefits of

Conference attendees spoke during a coffee break.



Sheila Hooda, senior managing director at TIAA-CREF, discussed corporate quotas and diversity.



diversity. "If there was ever a time that demonstrated the danger of having tunnel vision—of having people who all think in the same way off in a silo, cut off from rest of society—it's been now," said Tett of the *Financial Times*.

During the question-and-answer session, a member of the audience asked about the importance of role models for women who are trying to advance within a firm. "That is a problem, and a hard one to crack," said Stafford-Sigg. Even within corporations that have diversity initiatives, it is difficult to get "people to understand that they have a responsibility to get to know someone who is different."

"It's sad to say, but I've never had a mentor," added Hooda. "I took it upon myself to learn from external role models, to read up, to attend conferences." After all, to most corporations, encouraging diversity is still new, she said. "I hope the next wave will be in a better spot."

At Columbia Business School, about 16 percent of professors are women. At the senior level, women account for 11 percent and at the junior level, 22 percent. Some see a promising trend in these numbers. "I wonder if there's a message here that over time things will correct themselves," said Gita Johar, the Meyer Feldberg Professor of Business and vice dean for research at Columbia Business School, in her closing remarks. "I also believe that without paying attention to this issue, it's not going to be self-correcting to the extent that it represents the population."

Indeed, the last 20 years give little indication that significant change is coming soon. As research by Duflo, Dittmar, and others showed, sweeping—and often controversial—policies deserve much of the credit for recent increases in women's representation. "The most hopeful lesson is that with every push for more diversity in leadership, young girls have more to aspire to," said Kathryn Kolbert, director of the Athena Center for Leadership Studies and professor of leadership studies at Columbia University's Barnard College. "Perceptions change more quickly than many of us think."

Ellen Stafford-Sigg, board member of Deloitte LLP and principal at Deloitte Consulting LLP, spoke on the practitioners panel.



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