

Discrimination and Profit

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Abstract

In this paper I analyze the relation between anti-discrimination policies applied by a company and its profit. Some authors argue that the problem of discrimination should not be approached at the company level, because this will negatively affect its profit, but at the public policy level. I try to show that a company can apply anti-discrimination policies with a positive impact on profit. Policies of the first type have as their aim to ensure fairness in the selection process. Other policies give privilege to the members of discriminated groups in the selection process. At last, companies can implement a minimum quota system for members of a discriminated group. I prove that these three types of policies can positively affect the company's profit.

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In this paper I will speak about the problem of discrimination in the process of hiring, focusing mainly on the ethical aspects, not on the legal ones. I will start with the arguments showing that companies aim at profit maximization only. For this, they have to obey the law, but, beyond that, they have right to use any means, including some practices that imply discrimination. I will try then to show that sometimes there can be implemented certain anti-discrimination policies that have no negative impact upon profit and I will analyze these types of policies. My paper will have three parts. In the first one I will discuss about the relation between discrimination at workplace and discrimination in society. In the next two parts, I will discuss two types of anti-discrimination policies: policies that ensure equal opportunities in the recruitment process and affirmative action policies.

1. The relation between discrimination at workplace and discrimination in society

Some authors think that as long as they obey the law, HR managers are morally entitled to hire whoever they want. They argue on the basis of the following general argument.¹ Any company has as its purpose profit maximization.

¹ This general argument is from Friedman, 1970. In *Capitalism and Freedom*, ch. VII, Friedman shows that on the long term free market is the best way to decrease discrimination in society and that the most laws against discrimination affect free market.

For a manager, following this purpose has both an egoistic dimension and an ethical one. In most of the cases, for a manager, a bigger profit means bigger benefits and advantages for himself/ herself. This is the egoistic dimension of a manager's action. Managers have also a moral duty to use the shareholders' financial resources as efficient as possible. A person may choose to spend its own money in a more or less morally acceptable way, while a manager can't do that. He/ she manages shareholders' money as they wish, following profit maximization, so any other deviation from this purpose would be contrary to their wishes. Even if it's true that managers are bound to obey the law, this is the only condition they have to follow.

According to this argument, the problem of discrimination can be approached in the same terms. It is possible that the discrimination be found everywhere in society, and this can have a negative effect upon certain categories of people. The companies should take account of this aspect when hiring people, without the possibility of changing it. For example, in some communities where they are a minority, the Afro-Americans are discriminated in terms of chances to get a job, especially qualified jobs. This happens mainly because lack of education, as a consequence of the insufficient resources their families can allocate for their education. According to the supporters of this argument, the companies have no obligation to offer certain advantages to Afro-Americans in the process of hiring. Some of these advantages would lead to hiring less qualified people, and thus to a smaller productivity. Therefore, the company's profit will be affected. The problem of discrimination should be approached at the public policy level, not at the company level. HR managers should only obey the laws and do whatever necessary to contribute to the profit of their companies.

The above vision has one correct element. It is true that we cannot separate the discussions concerning discrimination at workplace from the general discussion concerning discrimination for at least two reasons. Firstly, the employer is a member of a community, and often he accepts some of its prejudices. Secondly, even in the cases when the employer does not share the prejudices of his community, he can feel bound to respect them. An employer may not accept a woman as car salesman because he might think that clients would see a woman unfit for this job. A car saleswoman would bring losses to the company, which the company doesn't want to accept. In the same way, an employer with no prejudices can be influenced by the prejudices of the employees, suppliers, etc.

I will try to show that, despite this correct element, the above argument has two incorrect conclusions. Firstly, I will argue that laws cannot be sufficient for a right approach concerning discrimination. Beyond legal regulations, the policies of companies have an essential role. Secondly, and more important, I will show that companies can contribute to decreasing discrimination in society without endangering its profit.

No matter how elaborate, the legislation can solve only a small part of the discrimination cases. Regarding the problem of employees' rights or that of annual leave, the legal sanctions have an essential role, while in cases related to discrimination at workplace the regulations have no decisive role. In most of the

cases, an unjustified uneven treatment of certain categories is very hard to argue for. For this reason, it's important that the legal sanctions for discrimination should be accompanied by general company policies that aim to reducing discrimination. I am not referring primarily to ethic codes, not sufficient by themselves, but to the daily behavior of the employees and of the persons responsible for hiring.

The companies can have an important role in decreasing the general level of discrimination in society, because the income inequalities, the consequence of discrimination at workplace, lead to other inequalities. However, the purpose of companies is profit maximization and this is why it is essential to show that companies can implement anti-discrimination policies that do not jeopardize their profit.

At the society level, there are good reasons to think that the lack of discrimination brings certain advantages. The discrimination of certain categories leads to an underutilization of the contribution which these categories can bring to society. This is true even if discrimination refers to certain types of activities, not to all of them. For instance, if the employers decide from the beginning that certain activities are unfit for women, then selection pool for these jobs will be smaller. Furthermore, this will increase excessively the salary in these jobs. Nevertheless, this general argument is not useful at the company level because a company can do little to change the general level of discrimination and underutilization of women's work. However, in the following pages I will analyze three types of policies that can be applied to the company level, without profit decreases.

2. Equal opportunities in the recruitment process

When they speak of equal opportunities in the context of discrimination, many people think about the inequality of chances between different categories of people, for instance between poor people and rich people. This sort of inequality cannot be solved by company policies, but the public policies, especially the education policies, are the only ones that can attenuate this problem. This kind of inequality is related to the concept of moral merit.

The recruitment process is not based on moral merit. An individual deserves more and is morally appreciated when his performances are based in a higher degree on his/ her individual efforts. The achievements of a person born in a poor family are more valuable than the ones of a person coming from a rich family. However, the companies are not bound, morally or legally, to take into consideration such arguments (Sher, 1975, p. 166). Finally, the companies want to have profit and this guides their policy of hiring. Thus, it is important to show that the companies can implement policies that lead to reducing discrimination, without having a negative influence upon profit. I will focus on this in the following paragraphs.

In order to reduce discrimination, the companies can ensure fairness in the selection process. First, this refers to an objective process of evaluating the hiring candidates, with no bias against a certain group. This could be accomplished by a

recruitment method as precise as possible. The persons responsible for hiring should avoid biases in recruitment process. Often, these biases are based on general beliefs, justified or not, on some categories.² For instance, it is possible that an employer should think that, on average, black people are less productive than the white men and to use this belief in the selection process, in lack of further information (Holzer, 1998, p. 91). Even if this belief is correct, its use does not lead necessarily to employing better people, because a black candidate may have a higher productivity than a white one.

However, discrimination is often not related with the employers' direct bias against a group, but with the conditions placed on hiring candidates. For instance, an employer can decide that he would not accept women for a hard labor job. His decision is justified by the fact that, in general, women are less capable of physical labor. Although this is probably true for most women, the employer can organize a test proving this aspect, if it's true. For this specific type of discrimination of women, based on physical hard labor, a solution is automation, which makes physical labor easier (Harrison, 1995, p. 194).

This example seems isolate, referring only at jobs that require physical labor. However, the conclusion is general. In many cases, HR managers impose conditions too severe at hiring, which are a clear disadvantage to certain categories. In other cases, the conditions imposed at hiring discriminate indirectly some categories. For example, the employers that imposed on candidates a higher level of education that was necessary for the job discriminate indirectly the categories that have, on average, a lower level of education, like the Roma minority in Romania. Another case of discrimination of this kind is imposition of the minimum experience condition that, disadvantages especially young employees.³ One could say that establishing such conditions is not, strictly speaking, discriminatory. These conditions concern the job for which the new employee is recruited. The persons discriminated for some jobs have an advantage for other jobs.⁴ This is not completely true, because some categories are discriminated asymmetrically and more often than the others. For example, women are discriminated more often than the men and for high salary positions.

Are these hiring conditions advantageous for companies? The simple answer is affirmative, if the companies impose them. However, the limitation of the number of possible candidates can lead to a growth in the salary that the company will have to offer to the employee. If, for a certain job only people with university degree are accepted, the company excludes the possibility of hiring less educated people, who might accept a smaller salary. Of course, hiring more educated people would lead probably to a greater productivity, but only in

² This sort of discrimination is called "statistical discrimination", because is based on a statistical belief (Sattinger, 1998).

³ In some countries, height requirement for certain jobs represents a form of indirect discrimination of members of some ethnic minorities, with an average height much smaller than overall national average (Tomei, 2003, p. 403).

⁴ For instance, women have an advantage for cosmetician jobs.

exchange for a bigger salary. Additionally, the limitation of the number of possible candidates leads to a simpler and faster process of selection and this might prove to be an advantage. Thus, the companies have to choose between imposing and not imposing such conditions in hiring process, with each possibility having advantages and disadvantages. So, giving up these conditions can have a positive influence on the company's profit.

3. Affirmative action policies

I talked so far about the first type of anti-discrimination policies, which may not lead necessarily to a decrease of profit. In this section, I will analyze a second type of policies, affirmative action policies.⁵ Now I will discuss very quickly about the general problems of affirmative action. While the policies designed to offer equal chances, discussed in the second section, are almost unanimously accepted, the affirmative action policies are often rejected, an important ethical argument being that, by offering some advantages to a category, one necessarily disadvantages another category.⁶ However, the distinction mentioned above is not so clear (Edmonds, 2006, p. 55). Certain policies for selecting employees, which seem, from a certain perspective, to favor some categories, seems, from another perspective, that they would bring equal chances to all the candidates. In this situation, an argument against all affirmative action practices may not seem too efficient, because it will be followed to a debate whether a certain practice will lead to affirmative action or not.

Sometimes, affirmative action policies are justified as a form of compensation for past discriminations (Groarke, 1990, p. 211). This kind of justification leads to the idea that these policies leads to employing people less qualified than other candidates, who are refused. But this will affect the company's profit. However, this is not the only way to justify affirmative actions. For instance, the affirmative action for women can be justified like this. For many centuries, women were deprived of self-esteem. This affects the self-confidence of present women in the interviewing process (Minas, 1977, p. 75). Therefore, some women that do not perform so well at a job interview can perform better later, in the job tasks, when the "marketability" will be less important. Thus, an employer who aims to profit can justify the privileging of women in the recruitment process. I will discuss about two types of policies considered in general as promoting affirmative action.

The argument of those who consider that any anti-discrimination policy would lead to a lower productivity and a smaller profit is based often on a misconception regarding the role of the staff selection procedures implemented by HR managers. These procedures have as their aim the selection of people sufficiently qualified for this job, not of the most qualified ones. In very few cases,

⁵ Another commonly used syntagm, considered in general synonymous, is „positive discrimination”.

⁶ There are also other arguments for and against affirmative action. For a review of them, see Boxill, 1978.

the procedures are so precise that they could point exactly to the person that would be hired. When, according to these procedures, two persons are equally qualified for a job; the HR managers can prefer a person from a discriminated category (Thomson, 1973, p. 365).

Additionally, in many situations, the evaluating and interviewing is not accomplished in the same time for all the candidates. A decision that can be taken by the persons responsible for hiring staff bears on the moment when the selection procedure is closed. The persons responsible for hiring can wait until a member of a discriminated group, qualified to fill the job, is hired (Philips, 1991, p. 161). This type of policy does not lead to employing lower productivity workers; therefore, it does not adversely influence the company's profit.

The anti-discrimination policy discussed above can be furthered by a more radical measure. A lot of companies or institutions establish a minimum quota of a certain category, for example women or minority people (Harrison, 1995, p. 194). Such measures are often taken, for example in universities, concerning the minimum quota of women. This type of measure seems obviously disadvantageous because it may not lead to hiring the best people. Why should human resources manager limit his/ her choices by imposing such a restrictive condition?

First, such measures can encourage people from discriminated groups to choose such companies. This will bring more hiring candidates and, possibly, better employees. Secondly, in this way, the company could acquire a better image that will bring advantages in its relation with clients. Thirdly, this measure can ensure a climate of non-discrimination and a good organizational culture in company, which could have a positive impact on company's profit.

But in order for a company to take a profit from such measures, the quotas applied by a company, for instance the minimum quota of women, should be carefully chosen. For example, a simple rule of equality between men and women professors in a certain university would not bring any advantage. A rule that takes in account the percentage of women with Ph. D. or the percentage of women in other universities would be more useful. Also the companies can establish a minimum quota of women, for instance for management positions. This minimum quota could be related with the percentage of lower similar position filled by women. In the same time, a company can apply a policy of slow and constant increase of women percentage.

I have analyzed three types of anti-discrimination policies and I have showed that they do not necessarily have a negative impact on the company's profit. First, the companies can ensure equal opportunities in hiring process, mainly by giving up the conditions that affect negatively some categories. Secondly, the companies can give privilege to members of a discriminated group, if their qualification are as good as the others' ones. Thirdly, the companies can implement a quota system for some discriminated categories (for instance for women). All of these anti-discrimination policies can have a positive impact on the companies' profit.

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