

Proposal for Choosing Top Managers with an Element of Lottery

From: Margit Osterloh & Bruno S. Frey (2019) Dealing With Randomness

https://www.bsfrey.ch/articles/C_363_2019.pdf. or

<https://www.nomos-elibrary.de/10.5771/0935-9915-2019-4-331/dealing-with-randomness-jahrgang-30-2019-heft-4>

On the top-management level focal random selection could also be used in order to improve management quality. A shortlist of candidates could first be determined competitively. The strict selection process ensures that the candidates in the pool have the required skills and characteristics. Out of this shortlist the winning candidate is chosen randomly. This procedure has been suggested by Frey et al. (2020). It has several advantages:

—*First*, managers selected for a top position in a firm by a random draw out of a shortlist of able managers are less susceptible to hubris and abuse of power. Excessive manager salaries are less likely to occur under these conditions.

—*Second*, losers retain their face and self-confidence, therefore cooperation between winners and losers will be improved.

—*Third*, candidates who are otherwise afraid of losing face will compete, thereby increasing the pool of candidates.

—*Fourth*, people act more socially when they know that they have been favored by fate (Frank, 2016). This has been recently tested and confirmed in a laboratory experiment (Berger et al., forthcoming).

—*Fifth*, when a careful preselection has taken place, the selected top candidates may meet different performance criteria, but all on the short list would have the necessary qualification for the vacant post. The better the preselection, the smaller is the difference between candidates with respect to suitability. Under this condition, random selection is fairer than conventional procedures during which old boys' networks may play an unfavorable role.

Random selection out of a preselected shortlist may also help to mitigate the gender gap in top management. Today, women have a better formal education and achieve higher scores than men (OECD, 2015). Female representation in top management is positively associated with organizational performance (Rost & Osterloh, 2010; Dawson et al., 2014) and less irregularities in financial statements (Gupta et al., 2019). Yet, women are still heavily underrepresented at upper echelons of management.

Recently, this gap has been explained by the difference in competitive behaviour between men and women. It has been demonstrated that on average women — especially high-performing women — are less willing to compete than men. They opt out of competitions more than men, even when they are equally or more qualified (Niederle & Vesterlund, 2007, 2010; Balafoutas & Sutter, 2012; Niederle et al., 2013). In order to encourage high-ability women to "throw their hat into the ring" (i.e. to become a candidate for the shortlist) it might be useful to avoid competition within the ring. Such a procedure has been proposed by Osterloh et al. (2019). With conventional preselection, a shortlist consisting of suitable candidates could be made along with announcing that the vacant position is drawn by lot from the shortlist. It is expected that more women apply in the final round through this process. This proposition can be tested in laboratory and field experiments. If it works, then not only the gender gap in top management could be mitigated, but the pool of high-quality candidates would be increased.

Frank, R.H. (2016). *Success and Luck: Good Fortune and the Myth of Meritocracy*. Princeton: Princeton University Press.

Frey, B.S., Osterloh, M., & Rost, K. (2020). *CEO by Lot*. ZFO Zeitschrift Führung & Organisation, Special issue on "Leadership and Luck" (*forthcoming*).

Osterloh, M., Goodall, A., & Fong, M. (2019). Put the Women in Charge - by Lot. *Working Paper University of Zurich*.