

# Why are firms so resistant to hiring women?

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**Project: Exploring Fixed Costs in Female Hiring: The Role of Adjustment Costs and Cultural Barriers in Women's Employment**

## KEY INSIGHT

**Firms face a multifaceted set of challenges when employing women.** Challenges span from unclear female labor regulations, to the high cost of accommodating workplaces, to low retention of workers. Policymakers can provide incentives for firms to mitigate challenges associated with employing women.

## WHAT CHALLENGES DO FIRMS FACE WHEN EMPLOYING WOMEN?

The Nitaqat employment quota program, which provides private firms with incentives<sup>1</sup> to hire Saudi nationals, has led to a sharp and sustained increase in female private sector employment since 2011. However, the proportion of women working in firms is still very low, and many firms remain reluctant to hire women, hampering government efforts to increase female employment levels in line with Vision 2030.

A research team sought to understand the barriers that firms face in employing women. They conducted interviews and focus groups with large international businesses and small- and medium-sized firms (SMEs) representing 17 sectors. They asked firms with female employees the challenges they faced, and the firms without female employees what challenges they foresaw if they hired women.

**Actual and perceived barriers to employing women differ across firms.** Firms who require intensive physical labor prefer to hire men. Service sector firms who depend on a lot of employee-client interaction stress that segregation is not a viable option for them, as “[...] our work needs involvement, by being separated it will not work.” However, not all firms view female employees as a liability, with some suggesting that hiring women is more efficient than hiring Saudi men to meet Saudization quotas because “their work ethic is better.”

**Nearly 40% of firms believe they have difficulty or would have difficulty retaining female employees.** A high turnover rate implies higher onboarding and training costs for firms, and lower institutional knowledge of employees.

**Almost one-third of firms fear that their chances of labor inspection will increase if they hire females.** The Ministry of Labor and Social Development (MLSD) conducts random inspections to monitor firm compliance with labor regulations, and imposes financial sanctions on firms ‘violating’ them. Many firms fear that they are under increased risk of inspection if they hire women and are subject to additional scrutiny with regards to female employee specific regulations, such as separate entrances and working spaces. Many firms are also uncertain of what these female employee regulations entail and how



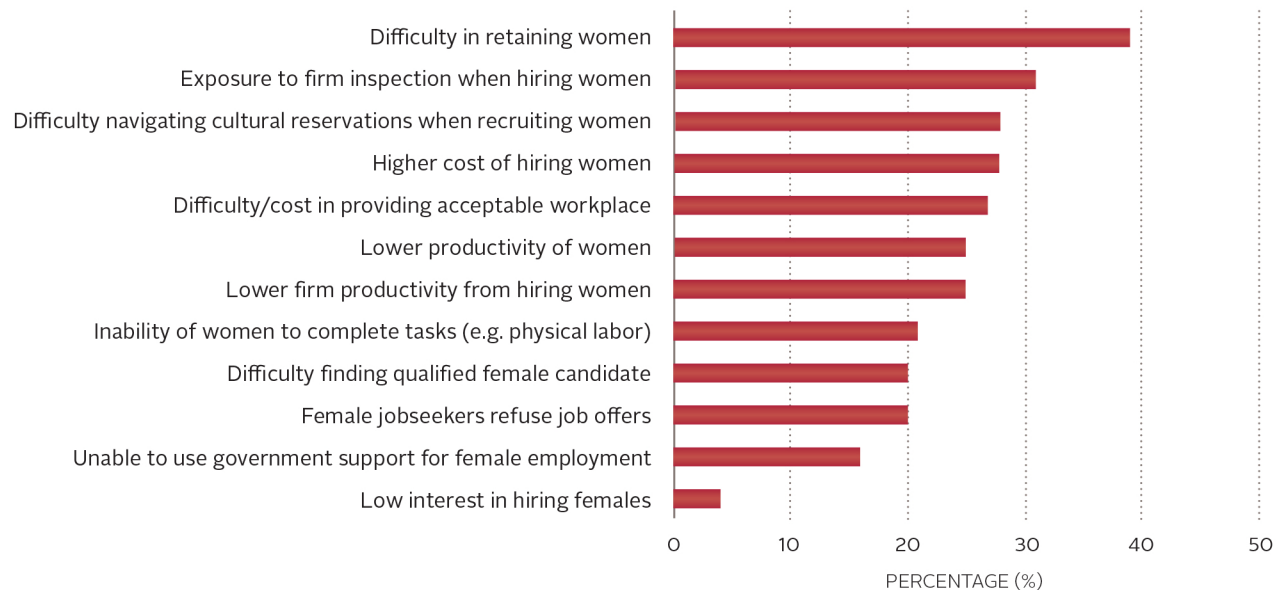
<sup>1</sup> Firms above an established Saudi employee share quota can access expedited visa services for foreigners, and those below the cutoff face foreign hiring restrictions. These cutoffs vary by firm size and industry.

strictly they are enforced, partly due to their often arbitrary method of enforcement, which further discourages them from hiring women. In a mixed workplace, some firms' reactions to inspections could undermine women's position and constrain their career progress. One respondent described how their firm asks female employees to move to the ladies section during MLSD inspections and remain there until officials leave. Efforts on both the regulatory and compliance side could therefore help

promote female participation in alignment with the Saudi Vision and strengthen women's position as equal employees.

**Providing a suitable workspace for women requires large upfront costs, even for large firms.** According to one interview, "the whole ecosystem was not built to accommodate women." Many firms have to "double everything," such as separate entrances, elevators, and toilets, which poses significant costs on firms.

**Figure 1 | Proportion of Firms that Perceive an Actual or Potential Barrier to Employing Women**



### How can policymakers effectively use this information?

To promote female employment, policymakers must have a comprehensive understanding of the barriers firms face in hiring females and design policies to mitigate them accordingly.

In the next phase of research, the research team plans to conduct a formal quantitative survey to assess how systematic and widespread each of the various obstacles are, and understand how they vary by firms with and without previous experience hiring women, firm size, and industry. Based on the findings, the research team plans to pilot interventions that aim to address the primary challenges firms face in hiring women.

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