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Paying to Reduce Disparity: Financially Incentivizing Workforce Diversity and its Effects on Managers' Promotion Decisions and Employees' Effort

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by

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Disparities in employee representation persist in higher-level organizational positions despite recent attention to workforce diversity and its associated benefits. In response, companies have begun integrating diversity initiatives with varying degrees of specificity (hereafter, "initiative specificity") into their managers' compensation packages to increase underrepresented employees' representation in higher-level organizational positions. This study uses an experiment to examine how offering managers financial incentives to accomplish diversity initiatives (hereafter, "diversity incentives") and initiative specificity interact to influence managers' promotion decisions and employees' effort choices in a promotion setting.

The results suggest that as underrepresented employees' pre-promotion efforts increase relative to overrepresented employees' efforts, diversity incentives increase managers' likelihood of promoting underrepresented employees. Diversity incentives also increase managers' extrinsic diversity motives, which prior research suggests may adversely affect their prejudice regulation in the workplace. Initiative specificity does not affect managers' promotion decisions or extrinsic diversity motives.

I also find that employees choose similar pre-promotion efforts regardless of their group membership or managers' diversity incentives. Responses to post-experiment questions suggest that employees expect managers to promote them based on effort instead of group membership. After the promotion decision, non-promoted employees whose managers receive diversity incentives choose the lowest effort. This study adds to the growing literature examining how to advance diversity within higher-level organizational positions and clarifies how incentives interact at different hierarchical levels within a company.

DEDICATION

To my parents, for their unwavering support and encouragement.

To Carmen, for her humor and heart.

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CHAPTER I. INTRODUCTION

Investors, regulators, and other stakeholders increasingly ask companies to consider their economic, social, and environmental impact rather than solely maximizing profit for shareholders' benefit (e.g., BlackRock 2021; European Commission 2023). To align managers' incentives with these trends, many companies include corporate social responsibility (CSR) initiatives in their compensation plans (Deloitte 2021; Bebchuk and Tallarita 2022). In 2023, nearly three-quarters (72 percent) of S&P 500 companies incorporated CSR initiatives in their managers' compensation plans, up from 12 percent in 2004 (Flammer, Hong, and Minor 2019; Mazzoni and Teefey 2023). The most common CSR initiatives tied to managers' compensation relate to workforce diversity, with 55 percent of S&P 500 companies incorporating a diversity initiative in managers' compensation in 2023 (Mazzoni and Teefey 2023).

Despite the increasing prevalence of offering managers financial incentives to accomplish diversity initiatives (hereafter, "diversity incentives"), limited research examines their efficacy in advancing diversity in higher-level organizational positions.[1] This study uses an experimental research design to examine how diversity incentives affect managers' promotion decisions and motivation to advance diversity (hereafter, "diversity motives"). Diversity incentives may affect not only the managers making promotion decisions but also the employees subject to those decisions. Thus, I also examine employees' effort choices before and after managers' promotion decisions to

[1] Note that diversity *incentives* are different from diversity *initiatives*. Diversity initiatives are organizational policies or goals that aim to help societally disadvantaged groups achieve better outcomes in organizations (Leslie 2019). I use the term "diversity incentives" to refer to the financial incentives that companies offer their managers for accomplishing company-specific diversity initiatives. Not all diversity initiatives contain financial incentives.

understand how managers' explicit (i.e., contractual) diversity incentives affect employees' implicit (i.e., non-contractual) promotion incentives.

Diversity initiatives often focus on increasing underrepresented groups' presence in higher-level organizational positions (Dobbin and Kalev 2022). Companies define diversity initiatives with varying degrees of specificity (hereafter, "initiative specificity"), ranging from *qualitative* initiatives that state companies' intentions to increase the number of underrepresented employees in higher-level positions to *quantitative* initiatives that provide numerical benchmarks of success (Newbury, Delves, and Resch 2020; Bebchuk and Tallarita 2022).[2] While companies primarily frame their initiatives using qualitative goals, stakeholders prefer quantitative initiatives to increase transparency on progress (Maas 2018; Bebchuk and Tallarita 2022). Thus, initiative specificity is under stakeholder scrutiny as a factor that may moderate diversity incentives' efficacy. To contribute to this discussion, I examine how initiative specificity moderates diversity incentives' effects on managers' promotion decisions, diversity motives, and employees' effort choices in a promotion setting.

Regardless of initiative specificity, I predict that offering managers diversity incentives will complement (i.e., interact with) underrepresented employees' effort levels before a promotion decision (hereafter, "pre-promotion efforts") to increase the likelihood that managers will promote them. Specifically, I predict that offering managers diversity incentives will direct attention to underrepresented employees as promotion candidates and increase managers' commitment to the associated initiatives (Nishii, Khattab, Shemla, and Paluch 2018; Flammer et al. 2019; Manthei, Sliwka, and

[2] See Appendix A for examples of diversity incentives under quantitative and qualitative diversity initiatives.

Vogelsang 2023), thereby complementing underrepresented employees' pre-promotion efforts to increase the likelihood that managers will promote them. Consistent with stakeholder preferences, I predict that offering managers diversity incentives to accomplish quantitative (versus qualitative) initiatives will further strengthen the positive relationship between underrepresented employees' pre-promotion efforts and promotion chances. I predict this effect occurs because quantitative initiatives provide managers with a clear benchmark of success and greater confidence that their promotion decisions will earn the incentives (Vroom 1964; Latham and Locke 1991).

While diversity incentives, particularly those tied to quantitative initiatives, may increase promotions of underrepresented employees, there may be a downside to how diversity incentives affect the source of managers' diversity motives. Prior research shows that the source of individuals' diversity motives (extrinsic or intrinsic) has important implications for their ability to regulate prejudicial biases (Devine, Plant, Amodio, Harmon-Jones, and Vance 2002; Legault, Green-Demers, Grant, and Chung 2007; Legault, Gutsell, and Inzlicht 2011). Specifically, intrinsic motivators to advance diversity (e.g., recognizing the value of an inclusive work environment) diminish prejudicial biases, but extrinsic motivators (e.g., financial incentives) may not (Legault et al. 2007, 2011). Drawing on self-perception theory (Bem 1972), I predict diversity incentives, particularly those tied to quantitative initiatives, will increase managers' extrinsic diversity motives (Lepper, Greene, and Nisbett 1973). If true, diversity incentives may adversely affect managers' prejudice regulation in the workplace and fail to address the biases contributing to disparities in higher-level employee representation.

Understanding such effects informs companies about designing managerial compensation contracts that support overall diversity strategy.

In addition to their effects on managers' promotion decisions, diversity incentives may influence employees' pre-promotion efforts. Since diversity incentives direct managers' attention to target employees (i.e., underrepresented employees targeted by diversity initiatives) as promotion candidates (Flammer et al. 2019), target employees may believe their promotion chances increase when managers receive diversity incentives. Economic and expectancy theories suggest that as target employees' perceived promotion chances increase, their marginal return to pre-promotion efforts also increases, thus motivating increased effort (Vroom 1964; DeVaro 2006). Accordingly, I predict that target employees' pre-promotion efforts will be higher when managers receive diversity incentives than when they do not.

The effect on non-target employees' (i.e., employees not targeted by diversity initiatives) pre-promotion efforts is less clear. If non-target employees believe managers' diversity incentives improve target employees' promotion chances and decrease their own, economic and expectancy theories suggest that non-target employees will reduce their pre-promotion efforts when managers receive diversity incentives (Vroom 1964; DeVaro 2006). Alternatively, prior research provides evidence consistent with distributive fairness theory that employees expect managers to promote them based on their controllable efforts (Adams 1965; Gilliland 1993; Chan 2018). Thus, non-target employees may expect their managers to promote those who exert higher effort, so their pre-promotion efforts may be unaffected by managers' diversity incentives. Given these

opposing arguments, I make no directional prediction of diversity incentives' effect on non-target employees' pre-promotion efforts.

Finally, as a research question, I examine employees' effort levels after the promotion decision (hereafter, "post-promotion efforts") to understand how managers' diversity incentives interact with employees' promotion status and group membership (i.e., employees' target or non-target status) to influence their reactions to managers' decisions.

I examine the effects of diversity incentives and initiative specificity in a promotion setting using a 2×2 between-participant experiment with 221 university students as participants. I manipulate (1) managers' financial incentives to accomplish a diversity initiative (diversity incentive or no diversity incentive) and (2) the specificity of the diversity initiative (quantitative or qualitative). Additionally, I implement a control condition that does not utilize a diversity initiative or incentive to serve as a benchmark for manager and employee decision-making in a promotion setting.

The experiment has two stages, each with three work periods. I randomly assign participants to an employee or manager role at the beginning of stage one. I further divide employee participants into two groups, one overrepresented in higher-level positions and one underrepresented. I randomly assign two employee participants (one from each group) to work for a manager participant for the duration of the experiment. I inform all participants (except those in the control condition) that managers and employees work for a fictitious company with an initiative to increase underrepresented employees' presence

in higher-level positions.[3] The diversity initiative either lacks a specific goal (qualitative) or states a specific numerical goal (quantitative) to increase underrepresented employees' presence in higher-level positions.

Employees select an effort level in each of the three periods of stage one. Higher effort levels are costlier to the employee but produce higher earnings for the manager. Managers learn their employees' effort selections after each work period. At the end of stage one, managers must promote one of their employees to a higher-level position. Compared to employees' original positions, this higher-level position pays them more and increases their contribution to managers' earnings. Managers' compensation is determined primarily by employees' effort selections. Depending on the experimental condition (incentive or no incentive), managers also earn bonus compensation if they accomplish the diversity initiative to increase underrepresented employees' presence in higher-level positions. After managers' promotion decisions, employees select their effort levels in the three stage-two work periods to conclude the experiment.

The results suggest that, while manager participants base promotion decisions primarily on employees' pre-promotion efforts, diversity incentives interact with target employees' pre-promotion efforts to increase their promotion chances. Specifically, as target employees' pre-promotion efforts increase relative to non-target employees' efforts, diversity incentives increase the likelihood that managers promote target employees. Diversity incentives also increase managers' extrinsic diversity motives.

[3] In the experiment setting, employees from the underrepresented group are "target" employees because they are the diversity initiative's targeted group. Throughout the manuscript, I use "underrepresented (overrepresented)" interchangeably with "target (non-target)" to refer to participants' role assignments.

Initiative specificity does not affect managers' promotion decisions or extrinsic diversity motives.

I also find that employee participants choose similar pre-promotion efforts regardless of managers' diversity incentives or initiative specificity. Additional analyses indicate that employees choose pre-promotion efforts to capture managers' attention and increase their promotion chances, suggesting they expect managers to promote employees based on effort instead of group membership.

After all promotion opportunities are exhausted, promoted employees choose higher effort than non-promoted employees, consistent with prior research (Chan, Lill, and Maas 2023). Employees' post-promotion efforts do not vary based on their group membership or initiative specificity. However, there is a significant interaction between employees' promotion status and managers' diversity incentives on post-promotion effort, such that non-promoted employees whose managers receive diversity incentives choose the lowest post-promotion effort.

This study makes several contributions to accounting research and practice. First, this study extends the literature that examines how managers' incentives influence subordinate employees' behavior (Christ and Vance 2018; Fisher, Mitchell, Peffer, and Webb 2019; Brink, Gouldman, Rose, and Rotaru 2020). Specifically, this study examines how managers' contractual financial incentives to achieve specific promotion outcomes affect employees' non-contractual promotion incentives, a relationship that has received little attention in prior research. Results suggest that managers' financial incentives do

not dampen employees' promotion incentives in the short term.[4] Target and non-target employees choose costly pre-promotion efforts regardless of managers' diversity incentives because they believe that effort will improve their promotion chances. These findings clarify how incentives interact at different hierarchical levels within a company and generalize to mid or top-level managers who receive diversity incentives and their promotion-eligible employees.

Second, this study adds to the growing literature examining how to reduce bias in promotion decisions and advance diversity within higher-level organizational positions (e.g., Bohnet, van Geen, and Bazerman 2016; Manzi and Heilman 2021; Bloomfield, Rennekamp, Steenhoven, and Stewart 2021; Dobbin and Kalev 2022; Farrell and Frank 2022). This study extends this literature by examining how diversity incentives and initiative specificity affect managers' appraisal of underrepresented employees for promotion, which is currently missing from the accounting literature (Farrell and Frank 2022). My results suggest that diversity incentives interact with target employees' pre-promotion efforts to increase their promotion chances. However, I report a potential downside to diversity incentives within an organization. Specifically, I find that diversity incentives increase managers' extrinsic (relative to their intrinsic) diversity motives, which prior research suggests may adversely affect managers' prejudice regulation in the workplace (Legault et al. 2007, 2011). Collectively, these results inform companies about

[4] My experiment is not designed to test diversity incentives' long-term effects on employees' promotion incentives. On the one hand, diversity incentives may affect target and non-target employees' long-term promotion incentives differently as employees learn managers' promotion criteria under diversity incentives. On the other hand, the results from my study may generalize to a longer timeframe if employees do not learn managers' promotion criteria under diversity incentives for reasons like employee turnover and time between promotion decisions. Future research is needed to clarify diversity incentives' long-term effects on employees' promotion incentives.

the potential costs and benefits of using diversity incentives to advance workforce diversity in higher-level organizational positions.

CHAPTER II. BACKGROUND

Workforce Diversity

Investors, regulators, customers, and employees increasingly ask companies to serve all stakeholders rather than solely maximize profit for shareholders' benefit. The World Economic Forum states this clearly: "The purpose of a company is to engage all its stakeholders in shared and sustained value creation. In creating such value, a company serves not only its shareholders, but all its stakeholders – employees, customers, suppliers, local communities and society at large" (Schwab 2019). Similarly, the Business Roundtable, composed of CEOs from the world's largest companies with 20 million employees and more than $9 trillion in annual revenues, declared in 2019 that the purpose of a corporation is not just to serve shareholders but to create value for all stakeholders (Serafeim 2020). BlackRock, the world's largest asset manager, echoed this sentiment by asking CEOs to prioritize value creation for all stakeholders (BlackRock 2022). These remarks reflect a broader trend in market preferences. In 2020, $17.1 trillion of assets managed in the U.S. were branded as "sustainable investments," up from $12.0 trillion two years prior (US SIF Foundation 2020; Christensen, Hail, and Leuz 2021). Sustainable investments and CSR assets could grow to $53 trillion by 2025, representing one-third of global assets under management (Diab and Adams 2021).[5]

Companies' treatment of their workforce and advancement of workforce diversity is an increasingly important CSR issue. Diversity is the "distribution of differences

[5] CSR refers to companies' voluntary actions to manage their environmental and social impact and increase their positive contributions to society (Khan, Serafeim, and Yoon 2016).

among the members of a unit with respect to a common attribute" (Harrison and Klein 2007, p. 1200). The attribute can be visible (e.g., age, ethnicity, gender) or invisible (e.g., sexual orientation).

While there may be moral reasons to advance workforce diversity, companies also have financial and social motives. From a social standpoint, companies advance workforce diversity to develop a positive corporate reputation in light of social movements in the United States and elsewhere (e.g., Black Lives Matter, #MeToo). When companies enhance their reputations, they facilitate societal acceptance and add legitimacy to their operations (Ashforth and Gibbs 1990; Cook and Glass 2014; Baldini, Dal Maso, Liberatore, Mazzi, and Terzani 2018). A positive reputation for advancing diversity is also important in an increasingly heterogeneous U.S. population (Vespa, Medina, and Armstrong 2020).

From a financial standpoint, growing evidence indicates that workforce diversity is an important factor that employees and consumers consider when deciding whether to align themselves with a company (Greening and Turban 2000; Deloitte 2019; Glassdoor 2020). Similarly, investors show preferences for equitable treatment of companies' workforces; research indicates that investors reward companies for advancing diversity with higher share prices (Cook and Glass 2014; Balakrishnan, Copat, De la Parra, and Ramesh 2023). Further, a workforce of diverse backgrounds and perspectives is more likely to meet the demands of a more extensive, diverse consumer base (Cox 1994), leading to improved financial performance (Richard 2000; Lourenço, Di Marco, Branco, Lopes, Sarquis, and Soliman 2021).

Diversity Initiatives and Incentives

Despite more attention in recent years to workforce diversity and its associated benefits, disparities in employee representation persist in higher-level organizational positions (Dobbins and Kalev 2022). In response, companies have renewed their focus on diversity initiatives. Leslie (2019) defines diversity initiatives as organizational practices aimed at improving the workplace experiences and outcomes of groups that face disadvantages in organizations and the broader society. Diversity initiatives often seek to increase the variety of employees from different demographic or social groups in a company's management team to decrease disparities between under and overrepresented groups (Harrison and Klein 2007).

Companies have begun integrating diversity initiatives into their managers' compensation packages (i.e., offering diversity incentives) to signal their commitment to advancing diversity (Hong, Li, and Minor 2016; Maas 2018; Flammer et al. 2019; Bebchuk and Tallarita 2022; O'Connor and Gosling 2022). For example, Verizon writes in its 2021 Proxy Statement, "The [Compensation] Committee also selected diversity and sustainability metrics [to include in managers' compensation plans] to reflect Verizon's commitments to promoting diversity among our employees" (Verizon 2021). Over half (55 percent) of S&P 500 companies offered their managers diversity incentives in 2023, up from 35 percent in 2020 (Spierings 2022; Mazzoni and Teefey 2023). This proportion continues to grow as institutional shareholders pressure companies to incorporate diversity and other CSR initiatives into managers' pay (Klasa 2022; Spierings 2022).

Prior research supports using diversity incentives to address disparities in employee representation. Nishii et al. (2018) suggest that diversity incentives enhance

managers' accountability for the desired initiatives. Accountability facilitates progress by increasing responsibility for and monitoring of diversity outcomes (Nishii et al. 2018; Leslie 2019). However, opponents argue that compensating managers for advancing diversity could divert their attention away from genuine socially motivated objectives (e.g., promoting inclusion and equality) (Hasan and Adeleye 2021).[6]

This study informs this debate by examining how diversity incentives affect managers' promotion decisions and diversity motives. Prior research suggests that the source of individuals' motivation to advance diversity – extrinsic or intrinsic – has important implications for their ability to regulate prejudicial biases. Specifically, prior research indicates that using external motivators (e.g., financial incentives or social pressure) to encourage nonprejudicial behavior or attitudes may not reduce prejudicial biases and could amplify those biases (Plant and Devine 1998; Devine et al. 2002; Legault et al. 2007). In comparison, intrinsic motivators (e.g., recognizing the importance of being nonprejudiced) lead to sustained prejudice reduction (Legault et al. 2007). Thus, understanding whether diversity incentives increase managers' extrinsic (relative to intrinsic) diversity motives clarifies whether diversity incentives can accomplish their objective of helping underrepresented groups achieve better organizational outcomes. Better outcomes for underrepresented groups include reducing their disparity in higher-level positions *and* addressing existing biases among managers contributing to that

[6] Diversity incentives face additional scrutiny after the United States Supreme Court in June 2023 ruled against universities' consideration of race in admission decisions (Weber and Cutter 2023). Opponents argue that the Supreme Court's ruling makes employment- and promotion-related diversity policies illegal (Sapsford 2023). However, legal scholars argue that the Supreme Court's decision does not apply to diversity policies at private-sector companies (Sapsford 2023). In August 2023, a U.S. District Court in Washington dismissed claims against Starbucks for its diversity policies, reaffirming companies' rights to determine their diversity strategy (Lipton 2023). Many companies indicate they will continue utilizing diversity policies but acknowledge that the Supreme Court's ruling will require them to articulate how their policies support business strategy (Weber and Cutter 2023).

disparity. Examining how diversity incentives affect managers' promotion decisions and diversity motives addresses these concerns and clarifies the broader implications of implementing diversity incentives within an organization.

Diversity Initiative Specificity

Early adopters of diversity incentives primarily frame their initiatives using unspecific, qualitative goals (Newbury et al. 2020; Bebchuk and Tallarita 2022). Qualitative diversity initiatives state companies' intentions to advance diversity without providing quantitative benchmarks of success. These initiatives signal companies' awareness of the issue but can fail to spur meaningful change because managers may not know what constitutes acceptable performance (Latham and Locke 1991). Consistent with this reasoning, Maas (2018) finds little evidence that qualitative CSR initiatives improve company-level CSR activities.

To enhance transparency and accountability, stakeholders often prefer that companies use quantitative rather than qualitative initiatives (Maas 2018; Bebchuk and Tallarita 2022). Quantitative initiatives provide clear benchmarks for success, facilitate stakeholder monitoring, and improve corporate social performance more than qualitative initiatives (Latham and Locke 1991; Maas 2018; Flammer et al. 2019; Bebchuk and Tallarita 2022). Despite these benefits, less than ten percent of S&P 500 companies' diversity incentives include a quantitative diversity metric (Maas 2018; Newbury et al. 2020; Bebchuk and Tallarita 2022). One potential reason companies avoid quantitative initiatives is the stigma associated with quotas (Smith 2021). Appendix A contains examples of diversity incentives tied to qualitative and quantitative initiatives.

Given diversity incentives' increasing prevalence and debated use, it is important to examine whether the allocated resources accomplish their objective of helping underrepresented groups achieve better outcomes (Leslie 2019). Further, as stakeholders call for companies to abandon qualitative diversity initiatives that may lack substance to spur meaningful change, it is important to examine whether diversity initiative specificity (i.e., quantitative vs. qualitative diversity initiatives) moderates diversity incentives' effects (Maas 2018; Nishii et al. 2018). Such an examination would inform companies about designing managerial compensation contracts that support overall diversity strategy. To that end, this study examines how diversity incentives and initiative specificity affect managers' promotion decisions, diversity motives, and employees' effort choices in a promotion setting.

CHAPTER III. HYPOTHESES DEVELOPMENT

Diversity initiatives often focus on increasing underrepresented groups' presence in higher-level organizational positions. Since managers often promote employees from within the organization to fill higher-level positions (Chan et al. 2023), I examine the effects of diversity incentives and initiative specificity in a promotion setting. I first hypothesize about the effects of diversity incentives and initiative specificity on managers' promotion decisions, followed by their effect on employees' effort choices before and after those decisions.

Managers' Promotion Decisions

Employees' pre-promotion efforts are important determinants of managers' promotion decisions (Grabner and Moers 2013; Chan 2018; Chan et al. 2023). Prior research suggests that managers use employees' efforts in lower-level positions to

identify their preferred promotion candidate and often promote employees who exert the highest pre-promotion efforts (Grabner and Moers 2013; Chan 2018). However, prior research also suggests that underrepresented employees do not receive the same credit for their previous efforts as do overrepresented employees (Bertrand and Mullainathan 2004). This lack of credit contributes to the feeling among individuals from underrepresented groups that they need to "work twice as hard to get half as far" as individuals from overrepresented groups (DeSante 2013). I posit that there are two reasons why diversity incentives could complement (i.e., interact with) target employees' pre-promotion efforts to increase the likelihood that managers will promote them.

First, diversity incentives could direct managers' attention to target employees as promotion candidates, thereby complementing target employees' pre-promotion efforts to increase their promotion chances. Prior research suggests that performance-based financial incentives direct attention toward a desired outcome (Manthei et al. 2023). For instance, Flammer et al. (2019) contend that CSR financial incentives improve company-level CSR performance by directing managers' attention to stakeholders that they previously neglected. Thus, as target employees' pre-promotion efforts increase relative to non-target employees' efforts, diversity incentives could increase the likelihood that managers promote target employees through an attention-directing effect.

Second, in addition to directing managers' attention to target employees as promotion candidates, diversity incentives could complement target employees' pre-promotion efforts by increasing managers' commitment to accomplishing the diversity initiative. According to expectancy theory, performance-based financial incentives increase individuals' commitment to attaining a desired outcome by increasing the

outcome's attractiveness and attainability (Vroom 1964; Bonner and Sprinkle 2002). An outcome is more attractive under performance-based financial incentives (versus fixed-amount or no incentives) because of the opportunity to earn money for achieving the outcome (Vroom 1964; Bonner and Sprinkle 2002). Further, performance-based financial incentives strengthen the link between performance and pay, which makes an outcome seem more attainable (e.g., Jorgenson, Dunnette, and Pritchard 1973; Locke, Shaw, Saari, and Latham 1981). Recent CSR research corroborates these findings with evidence that managers' CSR financial incentives improve company-level CSR performance (Maas 2018; Cohen, Kadach, Ormazabal, and Reichelstein 2023). Thus, in addition to directing attention to target employees as promotion candidates, diversity incentives may also increase managers' commitment to accomplishing the diversity initiative. I predict both effects will complement target employees' pre-promotion efforts to increase the likelihood that managers promote them.

This prediction has tension because diversity incentives may exhibit a main effect rather than the predicted interactive effect. Aside from increasing managers' motivation to accomplish diversity initiatives and directing attention to target employees as promotion candidates, diversity incentives signal companies' decision-making expectations and priorities for managers (Greening and Turban 2000; Bowen and Ostroff 2004; Leslie 2019). These effects could influence managers to promote target employees regardless of their pre-promotion efforts. However, Ng and Wiesner (2007) suggest that diversity policies do not replace the qualifications necessary for promotion. Instead, they complement underrepresented employees' pre-promotion job performance to increase

their promotion chances (Ng and Wiesner 2007). Following this reasoning, I predict an interactive rather than a main effect. I formally predict:

> **H1a**: *The positive effect of target employees' pre-promotion effort levels on the likelihood that managers promote them is more pronounced when managers receive diversity incentives than when they do not.*

Offering managers diversity incentives to accomplish quantitative (versus qualitative) initiatives may also complement target employees' pre-promotion efforts to increase their promotion chances. Expectancy theory suggests that the inherent ambiguity of qualitative initiatives could reduce managers' motivation to pursue the initiatives because they are less able to distinguish what constitutes acceptable performance and may question the link between their choices and the desired reward (Vroom 1964; Jorgenson et al. 1973; Latham and Locke 1991; Ittner, Larcker, and Meyer 2003). In contrast, companies that offer managers diversity incentives to achieve quantitative diversity initiatives establish clear promotion expectations and increase managers' confidence in earning available diversity incentives if they promote the requisite number of target employees (Vroom 1964; Latham and Locke 1991; Cerasoli, Nicklin, and Ford 2014). Consistent with this reasoning, prior research indicates that quantitative goals increase performance compared to qualitative goals by directing attention and increasing commitment to achieving the goal (Locke et al. 1981). Thus, when companies offer managers diversity incentives, quantitative (versus qualitative) initiatives may further strengthen the positive relationship between target employees' pre-promotion efforts and promotion chances by directing attention to target employees as promotion candidates and increasing managers' commitment to earning the diversity incentives. I formally predict:

H1b: *When managers receive diversity incentives, the positive effect of target employees' pre-promotion effort levels on the likelihood that managers promote them is more pronounced in the presence of a quantitative (versus qualitative) diversity initiative.*

Managers' Diversity Motives

While diversity incentives, particularly those tied to quantitative initiatives, may strengthen the relationship between target employees' pre-promotion efforts and their promotion chances, there may be a downside to such incentives within an organization. Specifically, diversity incentives may increase managers' extrinsic (versus intrinsic) motivation for such promotions (Deci, Olafsen, and Ryan 2017). Self-perception theory proposes that people analyze the reasons for their choices by considering their surrounding circumstances to determine whether such choices should be attributed internally or externally (Bem 1972). The "overjustification" effect, an extension of self-perception theory, suggests that individuals attribute their choices to an external incentive if it is salient, unambiguous, and sufficient to explain their behavior (Lepper et al. 1973). As a result, framing an activity as a means to obtain an external incentive can "crowd out" an individual's intrinsic motives for the activity. Many studies offer empirical support for such a crowding-out effect (e.g., Lepper et al. 1973; Deci, Koestner, and Ryan 1999; Frey and Jegen 2001; Cerasoli et al. 2014; Kuvaas, Buch, Weibel, Dysvik, and Nerstad 2017). Thus, when offered diversity incentives, managers may neglect their intrinsic motives as the cause of their decisions to promote target employees. Based on self-perception theory, I predict diversity incentives will increase managers' extrinsic motivation for promoting target employees, resulting in higher extrinsic motivation to accomplish the diversity initiative.

H2a: *Managers' extrinsic motivation to accomplish a diversity initiative is higher when they receive diversity incentives than when they do not.*

Concerning the moderating effect of initiative specificity on managers' diversity motives, I expect quantitative diversity initiatives to strengthen the relationship between diversity incentives and extrinsic motivation by increasing diversity incentives' saliency. Prior research shows that salient performance-based rewards are more conducive to extrinsic motivation than non-salient rewards (Lepper et al. 1973; Ross 1975; Cerasoli et al. 2014). Quantitative initiatives enhance diversity incentives' saliency by communicating to managers what is necessary to earn the incentives, which increases extrinsic motivation to perform (Cerasoli et al. 2014). Managers may feel more pressure to accomplish quantitative (relative to qualitative) initiatives, frustrating their desire for autonomy over their promotion decisions and reducing their intrinsic motivation to advance diversity (Deci et al. 1999, 2017). Consequently, I predict:

H2b: *The positive effect of diversity incentives on managers' extrinsic motivation to accomplish a diversity initiative is more pronounced when managers receive diversity incentives to accomplish a quantitative (versus qualitative) diversity initiative.*

Employee Effort Before Promotion Decision

In addition to the effects on managers' promotion decisions, diversity incentives may influence employees' pre-promotion efforts. Promotion opportunities are important implicit incentives that motivate effort, particularly for lower-level employees, because of the opportunity to earn greater pay and advance in the company hierarchy (Baker, Jensen, and Murphy 1988; Prendergast 1999; Ederhof 2011). Prior research indicates that employees value these opportunities and often exert additional effort before a promotion decision to increase their chance of selection (e.g., Campbell 2008; Chan 2018; Chan et

al. 2023). Employees' pre-promotion efforts depend on how probable they perceive their promotion chances and whether they believe they can enhance that probability by exerting additional effort (Vroom 1964; Baker et al. 1988; Campbell 2008; Ederhof 2011).

I posit that managers' diversity incentives may affect employees' pre-promotion efforts by changing these beliefs.[7] Since diversity incentives direct managers' attention to target employees as promotion candidates (Flammer et al. 2019; Manthei et al. 2023), target employees may believe their promotion chances increase when their managers receive diversity incentives. Economic and expectancy theories suggest that changes in employees' perceived promotion chances positively relate to changes in pre-promotion efforts. Specifically, economic theory suggests that as target employees' perceived promotion chances increase, the marginal return to pre-promotion efforts also increases, thus motivating increased effort (DeVaro 2006). Similarly, from a psychological perspective, expectancy theory suggests that increasing target employees' perceived promotion chances results in more confidence that pre-promotion efforts help attain the promotion, leading to increased effort (Vroom 1964).

Prior research supports these theories with evidence that making a moderately challenging goal (versus an easy or impossible goal) appear more attainable motivates effort. For example, Schotter and Weigelt (1992) show that giving preferential treatment to disadvantaged individuals (i.e., individuals with higher marginal cost-of-effort functions) in a rank-order tournament increases their perceived chances of winning, which leads to greater effort and lower drop-out rates. Similarly, Benoit (1999) finds that

[7] Prior research finds that managers' financial incentives attract subordinate employees' attention and influence their behavior (Christ and Vance 2018; Fisher et al. 2019; Brink et al. 2020).

members of socioeconomically disadvantaged groups are more likely to invest effort and financial resources into preparatory materials for admission or employment tests (e.g., the SAT) when an affirmative action policy is in place. In those instances, disadvantaged individuals are motivated by an increase in their perceived chances of qualifying for admission or employment (Benoit 1999). Based on this reasoning, I expect target employees to increase their pre-promotion efforts if managers' diversity incentives increase their perceived promotion chances.

This prediction has tension because target employees may not increase (or reduce) their pre-promotion efforts if they believe diversity incentives will help them attain promotion without increased effort. However, given the uncertainty in promotion settings and managers' decision-making, I do not expect target employees to become complacent under diversity incentives. Instead, following prior research (Schotter and Weigelt 1992; Benoit 1999), I expect target employees to increase their pre-promotion efforts to secure promotion. I predict:

> **H3a:** *Target employees' effort levels before a promotion decision are higher when managers receive diversity incentives than when they do not.*

Just as initiative specificity may moderate diversity incentives' effects on managers' promotion decisions, it may also moderate diversity incentives' effects on target employees' pre-promotion efforts. Specifically, managers' diversity incentives to achieve quantitative (versus qualitative) initiatives may further increase target employees' perceived promotion chances and pre-promotion efforts. By offering managers diversity incentives to achieve quantitative goals, companies establish clear promotion expectations for managers to earn the incentives (Vroom 1964; Latham and Locke 1991; Cerasoli et al. 2014). Consequently, target employees may believe managers

are more likely to pursue and accomplish diversity incentives tied to quantitative (versus qualitative) initiatives, thus increasing their perceived promotion chances. Economic and expectancy theories suggest that target employees' pre-promotion efforts will increase if quantitative initiatives increase their perceived promotion chances compared to qualitative initiatives (Vroom 1964; DeVaro 2006). Accordingly, I predict:

> **H3b**: *The positive effect of diversity incentives on target employees' effort levels before a promotion decision is more pronounced when managers receive diversity incentives to accomplish a quantitative (versus qualitative) diversity initiative.*

The effects of diversity incentives and initiative specificity on non-target employees' pre-promotion efforts are less clear than their effects on target employees' efforts. On the one hand, prior research suggests that non-target employees interpret diversity incentives as a zero-sum game (Norton and Sommers 2011; Wilkins and Kaiser 2014; Leslie 2019). That is, non-target employees may believe managers' diversity incentives improve target employees' promotion chances and decrease their own. Additionally, companies signal their decision-making expectations and priorities by offering managers diversity incentives (Greening and Turban 2000; Bowen and Ostroff 2004; Leslie 2019). Non-target employees may expect their managers to act according to company expectations, resulting in uncertainty about how pre-promotion effort increases their promotion chances. Such uncertainty could result in lower pre-promotion efforts when managers receive diversity incentives than when they do not.

Consistent with this notion, prior research finds that when people are uncertain about the likelihood of attaining a reward, they reduce their effort in pursuing it or give up entirely. In the previously cited Schotter and Weigelt (1992) study, individuals with higher marginal cost-of-effort functions drop out of rank-order tournaments in greater

numbers because the low probability of winning dissuades them. Similarly, Benoit (1999) finds that socioeconomically disadvantaged individuals may be discouraged from investing costly effort in preparing for admission or employment tests when there are no affirmative action policies because of the perceived futility of competing with non-disadvantaged colleagues. Other research indicates that tournament participants who believe they cannot catch up to the leader tend to reduce their effort or drop out (e.g., Casas-Arce and Martínez-Jerez 2009; Fershtman and Gneezy 2011).

On the other hand, when employees are uncertain about managers' promotion criteria, Chan (2018) demonstrates that employees expect their managers to promote them based on their controllable actions. These findings align with the equity rule in distributive fairness theory, which suggests that people perceive outcomes predicated on controllable factors (e.g., effort) as fair, whereas allocations based on uncontrollable factors (e.g., group membership) are unfair (Adams 1965; Gilliland 1993; Colquitt 2001). Employees' pre-promotion efforts are controllable, but their group membership as target or non-target employees is not. Thus, non-target employees may expect their managers to promote those who exert higher effort rather than those whose group membership makes them a targeted promotion candidate (Feather 2008). Based on this reasoning, non-target employees' pre-promotion efforts may be unaffected by managers' diversity incentives.

Because of these opposing arguments, I make no directional prediction of diversity incentives' effects on non-target employees' pre-promotion efforts.

H3c (null form): *Non-target employees' effort levels before a promotion decision do not differ regardless of whether managers receive diversity incentives.*

The moderating effect of initiative specificity on non-target employees' pre-promotion efforts is equally unclear. Compared to qualitative diversity initiatives,

quantitative initiatives communicate companies' expectations for managers to promote target employees more clearly. Non-target employees may believe that managers are more likely to follow clear expectations set by quantitative initiatives than ambiguous expectations set by qualitative initiatives. Thus, non-target employees' uncertainty about how pre-promotion effort affects their promotion chances may amplify when managers receive diversity incentives to accomplish quantitative (versus qualitative) initiatives, resulting in lower pre-promotion efforts (Vroom 1964; DeVaro 2006).

Conversely, initiative specificity may have negligible effects on non-target employees' pre-promotion efforts based on the previously cited argument that non-target employees judge those who exert the most effort as deserving promotion (Feather 2008; Chan 2018). Thus, I state a null hypothesis regarding the effects of initiative specificity on non-target employees' pre-promotion efforts.

> **H3d (null form)**: *Non-target employees' effort levels before a promotion decision do not differ regardless of whether managers receive diversity incentives to accomplish a quantitative (versus qualitative) diversity initiative.*

Employee Effort After Promotion Decision

Finally, I examine employees' post-promotion efforts. Several factors may affect employees' post-promotion efforts. Non-promoted employees' post-promotion efforts may depend on their perceptions of distributive fairness (i.e., the fairness of the promotion decision). As previously discussed, distributive fairness is the perceived fairness of a reward allocation or outcome (Colquitt 2001). Employees view outcomes as fair when the outcomes adhere to a distribution rule (i.e., a rule that determines the distribution of rewards or outcomes) (Gilliland 1993). The most common distribution rule is based on equity, which states that people should receive rewards in proportion to their

inputs (Adams 1965; Gilliland 1993). Prior research suggests that non-promoted employees' efforts decline when they perceive lower levels of distributive fairness in a promotion decision (e.g., Chan 2018).

When managers receive diversity incentives, non-promoted employees' perceptions of distributive fairness may vary based on whether they belong to the group targeted by the initiative (Gilliland 1993, 1994; Heilman, McCullough, and Gilbert 1996; Elkins, Bozeman, and Phillips 2003; Harrison, Kravitz, Mayer, Leslie, and Lev-Arey 2006). Non-target employees may view promotion decisions under diversity incentives as unfair because they believe managers promote employees based on their group's societal experiences rather than job-related skills and abilities (e.g., Gilliland 1994; Bobocel, Son Hing, Davey, Stanley, and Zanna 1998; Leslie 2019). Thus, among non-promoted employees, non-target employees may respond more negatively to the missed promotion through decreased effort than target employees because non-target employees are more likely to question the distributive fairness of the promotion decision (Gilliland 1993, 1994; Heilman et al. 1996; Elkins et al. 2003; Harrison et al. 2006; Leslie 2019).

However, target employees not promoted under diversity incentives are also likely to exhibit distributive fairness concerns (Leslie 2019). According to the needs distribution rule (an alternative distribution rule to equity), rewards not allocated to disadvantaged individuals are more likely perceived as unfair when the disadvantaged individuals' needs are salient (Gilliland 1993). Since target employees' disadvantages are more salient when managers receive diversity incentives (Leslie 2019), they may respond as negatively as non-target employees to a missed promotion. Employees' efforts after a

missed promotion are further complicated by whether they see a non-target or target employee promoted, which may influence their fairness perceptions.

Regarding promoted employees' post-promotion efforts, prior research finds that favorable outcomes (e.g., promotion) enhance perceptions of distributive fairness (Greenberg 1987; Gilliland 1993, 1994; Heilman et al. 1996; Kaplan and Ferris 2001). Thus, promoted employees' perceptions of distributive fairness are likely higher than those of non-promoted employees, which could compel them to reciprocate their promotion with high effort (Chan et al. 2023). This reciprocation may be especially true for non-target employees promoted by a manager who could have received diversity incentives by promoting a target employee. Alternatively, promoted employees could reduce their effort if they rationalize their promotion as a reward for their past effort without obligation for further reciprocation (Chan et al. 2023). Diversity incentives could further undermine promoted target employees' perceived obligation to reciprocate because managers received payment for their promotion. Given the many different factors that can affect employees' efforts after a promotion decision, I leave this as an open empirical question:

> **RQ**: *How will target and non-target employees' effort levels change after a promotion decision when managers receive diversity incentives to accomplish a quantitative (versus qualitative) diversity initiative?*

CHAPTER IV. METHOD

Participants

I recruited students from a large U.S. public university to participate in this experiment.[8] I administered the experiment using LIONESS, a web-based platform for

[8] I obtained my university's Institutional Review Board approval before conducting the study.

hosting interactive experiments (Giamattei, Yahosseini, Gächter, and Molleman 2020). Overall, 221 students participated in one of 18 lab sessions lasting approximately 45 minutes. Participants received a show-up fee of $7 plus their payoffs from the experiment. In total, manager (employee) participants earned an average of $27.64 ($15.61).

Participants' mean (median) age is 21.39 (20) years, 51.6 percent identify as female, and 86.0 percent are undergraduate students. Manager (overrepresented employee) [underrepresented employee] participants report, on average, 4.02 (4.23) [3.84] years of work experience and 0.84 (0.80) [0.79] years of management experience.[9] Table 1 lists additional demographics.

Overview

I randomly assigned participants to an employee or manager role at the start of the experiment.[10] I divided employee participants into two groups characterized by their representation in higher-level positions – overrepresented "Orange Group" employees or underrepresented "Purple Group" employees.[11]

[9] There are no significant differences in participants' gender, ethnicity, student status, or work experience between conditions. However, participants assigned to the *No Diversity Incentive* condition are significantly older than participants assigned to the *Diversity Incentive* condition (untabulated, 22.14 years vs. 20.53 years, $p < 0.01$). Results are inferentially similar controlling for participants' age and other demographics.

[10] Following prior research (e.g., Maas, van Rinsum, and Towry 2012; Chan 2018; Chan et al. 2023), I use the terms "employee" and "manager" in the experiment task to denote different levels of the hierarchical setting.

[11] I counterbalanced the employee group (i.e., "Orange Group" or "Purple Group") labeled over- or underrepresented in higher-level positions in the experimental materials. For ease of exposition, I refer to "Orange Group" employees as overrepresented (i.e., non-target) employees and "Purple Group" employees as underrepresented (i.e., target) employees throughout the manuscript.

TABLE 1: PARTICIPANT DEMOGRAPHICS

		Manager	Target	Non-Target	Total	%
Gender	Male	35	35	33	103	46.6
	Female	46	36	32	114	51.6
	Non-binary	2	0	2	4	1.8
Ethnicity	Asian/Asian-American	21	4	14	39	17.6
	Black/African-American	2	2	4	8	3.6
	Hispanic/Latinx	5	1	2	8	3.6
	White/Caucasian	48	59	44	151	68.3
	Multiracial/Biracial	5	3	3	11	5.0
	Other	2	2	0	4	1.8
Student status	Undergraduate	66	67	57	190	86.0
	Graduate	16	4	10	30	13.6
	Not a student	1	0	0	1	0.5
Major of study	Business	52	57	52	161	72.9
	Non-Business	31	14	15	60	27.1
Employment status	Full-time	8	2	4	14	6.3
	Part-time	57	47	47	151	68.3
	Unemployed	18	22	16	56	25.3
Management experience	Yes	39	30	33	102	46.2
	No	44	41	34	119	53.8
Promotion experience	Yes	8	11	7	26	11.8
	No	75	60	60	195	88.2
Diversity initiative experience	Yes	43	40	37	120	54.3
	No	40	31	30	101	45.7

This table presents descriptive statistics by experimental role for the 221 individuals who participated in the experiment. "Target" refers to participants assigned to a target (i.e., underrepresented) employee role. "Non-Target" refers to participants assigned to a non-target (i.e., overrepresented) employee role. Business majors include economics, accounting, finance, and management. Non-business majors include law, natural sciences, engineering, humanities, and other social sciences. Promotion experience measures whether participants have ever evaluated other people for promotion. Diversity initiative experience measures whether participants have ever worked for a company with a diversity initiative.

The only differences among employees were their assigned group and effort choices. Employees' ability (i.e., effort cost) was the same. I did not specify managers' group to avoid confounding effects from in-group versus out-group preferences (Li 2020).

I used a 2×2 between-participant experiment to manipulate (1) managers' financial incentives to accomplish a diversity initiative (*Diversity Incentive* or *No Diversity Incentive*) and (2) the specificity of the diversity initiative (*Quantitative* or *Qualitative*). Additionally, I implemented a control condition that does not utilize a diversity incentive or initiative. Participants in the control condition were assigned roles as managers, underrepresented employees, or overrepresented employees. They proceeded through the experimental task like the other conditions but did not receive information about diversity initiatives or incentives. The control condition serves as a benchmark to examine the effects of diversity initiatives and incentives on managers' promotion decisions and employees' effort choices in a promotion setting. I present the experimental conditions in Appendix B.

One to two weeks before their lab session, participants completed an online survey to indicate their availability to participate in the study. The survey also asked various demographic and personality questions that prior research suggests could covary with participants' diversity motives and attitudes toward diversity incentives. Specifically, in the pre-experiment survey, participants answered the Self-Determination Scale (SDS; Sheldon, Ryan, and Reis 1996), Social Dominance Orientation (SDO) Short Scale (Ho, Sidanius, Kteily, Sheehy-Skeffington, Pratto, Henkel, Foels, and Stewart 2015), and Motivation to be Nonprejudiced Scale (MNPS; Legault et al. 2007). Including

participants' responses to these scales as covariates in my analyses produces results that are inferentially and statistically similar to those reported.

Upon arriving at their scheduled lab session, participants learned their role (i.e., manager, Orange Group employee, or Purple Group employee), read the experimental task instructions, and completed a series of short quizzes to ensure task comprehension. Participants then completed the experimental task described below. After participants finished the experiment, they completed post-experiment questions to measure managers' motivation source to pursue the diversity initiative (intrinsic or extrinsic) and participants' distributive fairness perceptions.

Experimental Task

I adapted the experimental task and parameters from Chan (2018) and Chan et al. (2023). The experiment consists of two stages, each with three work periods. At the beginning of stage one, I randomly assigned two employee participants – one from Orange Group and one from Purple Group – to work for a manager participant. Participants remained in the same groups for the study's duration. In total, the 221 participants formed 83 unique groups.[12]

All participants (except those in the control condition) received information that managers and employees work for a fictitious company with an initiative to increase

[12] I used computer-automated bots to complete the formation of three-member groups when there were not enough human participants in a session. I verbally informed participants about the use of bots before the session began. Bots provide random responses to prompts as they proceed through the task and are indiscernible to other human participants (Giamattei et al. 2020). In total, I used 28 bots across the 18 lab sessions. All bots occupied an employee role. The proportion of bots does not significantly differ between employee groups or *Incentive* and *Specific* conditions (untabulated chi-square analyses, all $p > 0.40$). Further, managers promote bot employees in similar proportion to human employees across conditions (untabulated chi-square, $p = 0.68$). Analyses and results presented in the paper are based on responses from human participants; bot observations are excluded.

Purple Group employee representation in higher-level positions.[13] The diversity initiative either lacks a specific goal (*Qualitative*) or states a specific numerical goal (*Quantitative*) to increase Purple Group employee representation in higher-level positions. Further, I informed all participants that managers would make a promotion decision at the end of stage one (after the third work period).

Participants earned points during the experimental task that converted to U.S. dollars at 160 points per U.S. dollar (Chan et al. 2023). Employees' task each period was to select an effort level. As shown in Panel A of Figure 1, employees selected an effort level ranging from 0 to 100 percent in five percent increments. Effort levels from 0 to 20 percent are costless to the employee. For each effort level above 20 percent, employees' cost of effort increases by five points. If an employee chooses the maximum effort of 100 percent, their effort cost is 80 points.

Employees' compensation for each stage one period is:

Lower-level Employees' Pay = Fixed Wage (200 points) – Cost of Effort (0 to 80 points)

Managers learned their employees' effort selections after each work period. Employees did not learn other employees' effort selections at any time, so relative performance information is unlikely to affect their effort choices.

Managers' compensation for each stage one period is the sum of their employees' chosen effort levels multiplied by a 400-point fixed multiplier:

Managers' Pay before Promotion Decision =
Lower-Level Employees' Effort (0 to 100%) × Fixed Multiplier (400 points)

[13] Diversity initiatives vary on several dimensions, including the group dimension they are based on (e.g., sexual orientation, age, ethnicity, or gender); whether they are based on actions toward a goal (i.e., inputs) or direct measurement of the goal itself (i.e., outputs); their time horizon (e.g., short-term or long-term); and their performance indicators (e.g., a few key performance indicators or a scorecard approach) (Nishii et al. 2018; O'Connor and Gosling 2022). In this study, I hold these attributes constant to isolate the effects of the experiment manipulations (i.e., diversity initiative specificity and managers' financial incentives to accomplish the initiative).

Panel A: Effort-Cost Table

Effort Level	0%	5%	10%	15%	20%	25%	30%	35%	40%	45%	50%	55%	60%	65%	70%	75%	80%	85%	90%	95%	100%
Cost of Effort to Employee	0	0	0	0	0	5	10	15	20	25	30	35	40	45	50	55	60	65	70	75	80

Panel B: Examples

Example #1: Lower-level Employee
All employees start in a lower-level position. Lower-level employees' fixed wage is 200 points, and their efforts contribute to managers' earnings at a 400-point multiplier. Assume a lower-level employee chooses an effort level of 20% in a given work period. Based on the effort-cost table, their cost of effort is 0 points.

Their compensation for the work period: Fixed Wage (200) – Cost of Effort (0) = 200 points.

Their contribution to their manager's compensation for the work period: Effort Level (20%) x Multiplier (400) = 80 points.

Example #2: Higher-level (i.e., Promoted) Employee
Assume the lower-level employee from Example #1 has been promoted to the higher-level position. Their fixed wage increases to 400 points, and the multiplier determining their contribution to their manager's earnings increases to 800 points. After their promotion, they choose an effort level of 80% in a given work period. Based on the effort-cost table, their cost of effort is 60 points.

Their compensation for the work period: Fixed Wage (400) – Cost of Effort (60) = 340 points.

Their contribution to their manager's compensation for the work period: Effort Level (80%) x Multiplier (800) = 640 points.

FIGURE 1: EFFORT-COST TABLE

At the end of stage one, managers must promote either the Orange Group or Purple Group employee to a higher-level position. Compared to employees' original positions, this higher-level position pays a higher fixed wage (400 points vs. 200 points) and affects managers' earnings more (fixed multiplier of 800 points vs. 400 points). The incentive structure for the higher-level position is identical for all employees, and each employee can perform equally well in the higher-level position. These parameters incentivize employees to choose costly effort to attain promotion and managers to promote the individual they think will exert higher effort. Depending on the experimental condition (*Diversity Incentive* or *No Diversity Incentive*), managers can earn a 400-point bonus if they accomplish the diversity initiative by promoting the Purple Group employee to the higher-level position.[14]

Promoted employees remained in their higher-level positions for the remainder of the study. Higher-level employees' compensation for each work period after their promotion is:

Higher-level Employees' Pay = Fixed Wage (400 points) – Cost of Effort (0 to 80 points)

Managers' compensation for each work period after their promotion decision is:

Managers' Pay after Promotion Decision =
[Lower-Level Employee Effort (0 to 100%) × Fixed Multiplier (400 points)] +
[Higher-Level Employee Effort (0 to 100%) × Fixed Multiplier (800 points)]

After managers made their promotion decisions, employees selected their effort in each stage-two period to conclude the experimental task. Panel B of Figure 1 shows how

[14] The 400-point diversity incentive equates to $2.50 (400 points ÷ 160 point-per-dollar conversion rate), less than nine percent of manager participants' average payoff of $28.17 in the *Diversity Incentive* condition. Diversity incentives typically account for about five percent of managers' total pay in practice (Newbury et al. 2020; Bebchuk and Tallarita 2022).

lower-level and higher-level employees' effort selections affect their and managers' earnings.

Key Design Features

Several design choices warrant further discussion. First, I randomly assign employee participants to an over- or underrepresented group rather than use their actual gender or ethnicity to determine their roles. Random assignment enhances the experiment's internal validity and allows participants to occupy their roles and complete the experimental task anonymously during the in-person lab sessions. Further, I use "purple" and "orange" as group labels because they are neutral colors without racial or political connotations and do not communicate an implicit hierarchy. These design choices allow me to examine diversity incentives' effects without requiring participants to assume a potentially undesirable label as "underrepresented" because of their social or demographic characteristics.

Second, following prior experimental research (e.g., Christ and Vance 2018; Chan et al. 2023), employees perform an effort selection task rather than an actual effort task. This design choice holds constant participants' abilities and links their effort selections to their intentions, which are important to test the hypotheses (Chan et al. 2023). Further, employees' abilities (i.e., effort cost) remain the same between lower- and higher-level positions. These design choices isolate diversity incentives' effects on managers' promotion decisions and employees' effort choices while avoiding the confounding effects of differences in employees' abilities to perform the lower- and higher-level positions (Chan 2018).

Finally, I hold constant several characteristics of the information environment (e.g., no relative performance information; precise performance measurement system) for a clean test of diversity incentives' effects on managers' promotion decisions and employees' effort choices, as well as manage the number of participants required to power the analyses.

Dependent Measures

I measure employees' efforts and managers' promotion decisions using their choices during the experimental task. After participants finished the experiment, they completed a post-experiment questionnaire to measure managers' motivation source to pursue the diversity initiative and participants' fairness perceptions of the promotion outcome. I measure managers' motivation source to pursue the diversity initiative using modified versions of the intrinsic and extrinsic motivation scales from Kuvaas et al. (2017) and Bouchet, Linder, and Mottis (2022). Appendix C presents the items used to measure intrinsic and extrinsic motivation. I measure participants' fairness perceptions of the promotion outcome using a distributive fairness scale adapted from Colquitt (2001). I present this scale in Appendix D.

CHAPTER V. RESULTS

Manipulation and Comprehension Checks

After reading the experimental task instructions, participants answered a series of short quizzes to ensure comprehension before proceeding to the experimental task. Specifically, participants had to correctly answer questions about their assigned role (i.e., manager or employee), the employee group that is over- or underrepresented (i.e., Orange or Purple), the payment scheme for managers and employees, whether managers receive

bonus compensation for promoting underrepresented employees, and diversity initiative specificity. These short comprehension quizzes ensure that participants understand the instructions and task parameters before completing the experimental task.

To confirm the effectiveness of the initiative specificity manipulation, I asked participants in a post-experiment question how specific the firm's goal was to increase underrepresented employee representation in higher-level positions. Participants responded on a fully labeled seven-point scale with "1" labeled "Very Unspecific," "7" labeled "Very Specific," and the midpoint "4" labeled "About as Specific as Not." Participants in the *Quantitative* condition rate initiative specificity significantly higher than those in the *Qualitative* condition (untabulated, 5.32 vs. 4.13, $F_{1,184} = 22.99$, $p < 0.01$), supporting the manipulation's effectiveness.[15,16]

Summary Statistics

Table 2, Panel A and Figure 2 provide managers' promotion decisions across conditions. Overall, managers promote 53 target employees in 83 promotion decisions (63.86 percent of promotion decisions) across conditions. Nonparametric binomial tests indicate that the proportion of target employees promoted in non-control conditions (44 out of 68) is significantly greater than 50 percent (untabulated, $p = 0.02$).[17] In comparison, the proportion of target employees promoted in the control condition (9 out of 15) is not significantly different from 50 percent (untabulated, $p = 0.61$). However, a

[15] The average rating of initiative specificity in the *Quantitative* condition is significantly higher than the midpoint of 4 (untabulated, 5.32 vs. 4.00, $t_{91} = 8.39$, $p < 0.01$). In contrast, the average rating in the *Qualitative* condition is not statistically different from the midpoint (untabulated, 4.13 vs. 4.00, $t_{95} = 0.65$, $p = 0.52$). These results further support the manipulation's effectiveness. Additionally, I find no main effect of *Incentive* nor an interactive effect on perceived initiative specificity (untabulated, $p > 0.12$). Participants in the control condition do not rate initiative specificity because they do not see an initiative.

[16] All p-values are two-tailed unless stated otherwise.

[17] Non-control conditions are the four experimental conditions in Appendix B that receive the *Incentive* and *Specific* manipulations.

chi-square test indicates that managers promote target employees in similar proportions in the non-control and control conditions (untabulated, $p = 0.73$).

Table 2, Panel B and Figure 3 report employees' efforts across work periods and conditions. On average, employees from both groups across conditions choose costly effort (i.e., above the 20 percent costless-effort threshold) before and after the promotion decision. Consistent with Chan et al. (2023), employees' efforts increase as the promotion nears, peak immediately before the promotion decision (i.e., period three), and decrease afterward.

Test of Hypotheses

Managers' Promotion Decisions (H1a and H1b)

H1a predicts that diversity incentives will interact with target employees' pre-promotion efforts to increase the likelihood that managers promote them, and H1b predicts that quantitative diversity initiatives further amplify this likelihood. To test these hypotheses, I use logistic regression with *Incentive*, *Specific*, and *Effort Difference* as the independent variables. *Incentive* is a dichotomous variable coded (0) 1 for the (*No*) *Diversity Incentive* condition. *Specific* is a dichotomous variable coded (0) 1 for the (*Qualitative*) *Quantitative* condition. *Effort Difference* is a continuous variable representing the difference between target and non-target employees' average pre-promotion efforts; positive (negative) values indicate that the target employee chose higher (lower) average pre-promotion efforts than the non-target employee.[18]

[18] While H1a and H1b focus on how diversity incentives affect the relationship between target employees' pre-promotion efforts and promotion chances, I use the difference between target and non-target employees' pre-promotion efforts in my analyses because managers use non-target employees' efforts as a benchmark to assess target employees' efforts and identify their preferred promotion candidate (DeVaro 2006; Chan 2018; Chan et al. 2023). I find similar results using target employees' pre-promotion efforts as the independent variable in the logistic regression.

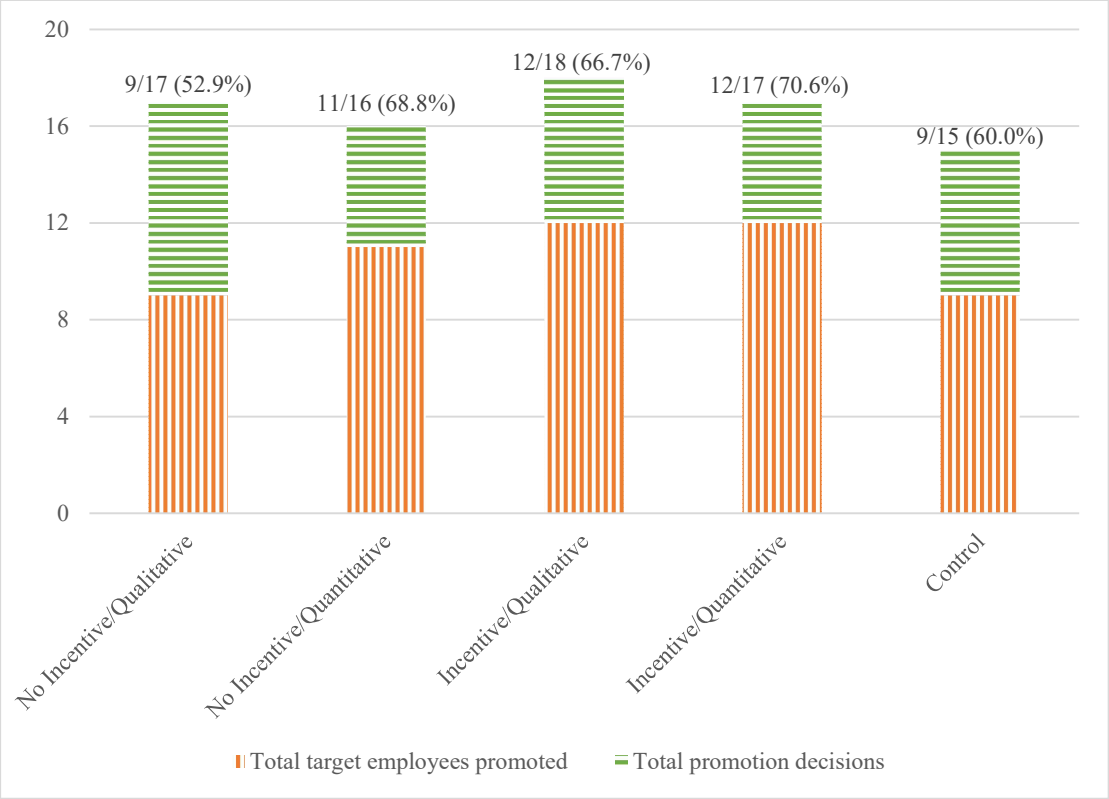


FIGURE 2: MANAGERS' PROMOTION DECISIONS

TABLE 2: SUMMARY STATISTICS

Panel A: Managers' promotion decisions across conditions

		Total target employees promoted	Total promotion decisions	Target employee promotions as a percentage of total promotion decisions
No Diversity Incentive	*Qualitative*	9	17	52.94%
	Quantitative	11	16	68.75%
	Total	20	33	60.61%
Diversity Incentive	*Qualitative*	12	18	66.67%
	Quantitative	12	17	70.59%
	Total	24	35	68.57%
Control Condition		9	15	60.00%
Total		53	83	63.86%

Panel B: Mean (standard deviation) [observations] employee effort by condition and group

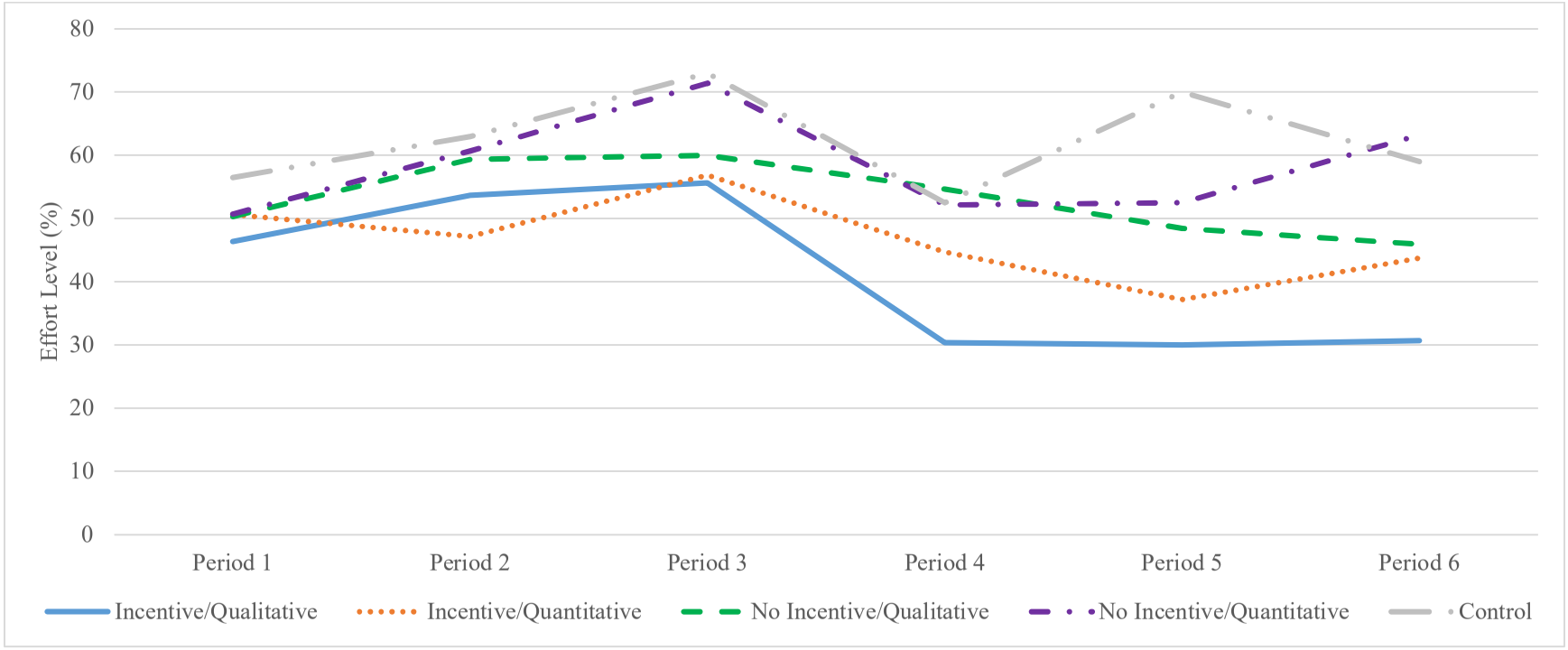
			Period 1	Period 2	Period 3	Period 4	Period 5	Period 6
No Diversity Incentive	*Qualitative*	Non-Target [16]	50.31% (30.63)	59.38% (28.80)	60.00% (33.32)	54.69% (31.33)	48.44% (27.85)	45.94% (31.00)
		Target [15]	59.33% (33.00)	60.67% (32.56)	65.33% (31.19)	54.00% (33.28)	54.67% (35.02)	55.33% (37.44)
	Quantitative	Non-Target [14]	50.71% (32.51)	60.71% (31.49)	71.43% (31.47)	52.14% (32.21)	52.50% (33.09)	63.21% (41.31)
		Target [13]	50.00% (26.46)	53.46% (28.75)	61.15% (25.59)	38.46% (28.97)	42.69% (32.76)	45.00% (29.51)
Diversity Incentive	*Qualitative*	Non-Target [15]	46.33% (20.48)	53.67% (26.49)	55.67% (30.70)	30.33% (19.13)	30.00% (16.04)	30.67% (19.45)
		Target [15]	50.67% (24.41)	59.00% (28.80)	61.33% (29.91)	53.33% (30.16)	50.00% (30.36)	45.33% (28.63)
	Quantitative	Non-Target [16]	50.63% (22.87)	47.19% (24.01)	56.88% (22.05)	44.69% (33.54)	37.19% (28.11)	43.75% (32.69)
		Target [16]	50.94% (26.78)	55.63% (24.96)	61.88% (26.89)	51.88% (31.62)	56.56% (32.80)	60.94% (35.88)
Control Condition		Non-Target [10]	56.50% (26.25)	63.00% (27.31)	73.00% (28.69)	52.50% (24.30)	70.00% (27.99)	59.00% (31.34)
		Target [8]	49.38% (21.12)	51.25% (17.47)	63.13% (21.37)	50.00% (36.94)	48.13% (31.84)	51.88% (37.22)

Panel C: Mean (std. dev.) [obs.] employee effort by condition, group, and promotion status

			Stage 1 (Periods 1-3)		Stage 2 (Periods 4-6)	
			Not Promoted	Promoted	Not Promoted	Promoted
No Diversity Incentive	*Qualitative*	Non-Target	48.70% (28.50) [16]	66.67% (24.38) [9]	50.00% (35.19) [9]	49.29% (15.33) [7]
		Target	43.33% (25.01) [15]	74.07% (29.56) [6]	51.67% (28.66) [9]	56.67% (36.07) [6]
	Quantitative	Non-Target	47.59% (29.01) [14]	85.00% (13.12) [9]	44.81% (35.87) [5]	76.00% (17.02) [9]
		Target	45.00% (21.65) [13]	59.26% (27.25) [4]	55.42% (36.17) [9]	36.11% (17.62) [4]
Diversity Incentive	*Qualitative*	Non-Target	45.15% (24.56) [15]	70.42% (17.13) [11]	26.06% (14.78) [4]	42.08% (19.60) [11]
		Target	36.25% (20.92) [15]	64.55% (24.43) [4]	27.50% (11.75) [11]	57.58% (28.82) [4]
	Quantitative	Non-Target	46.52% (14.03) [16]	62.67% (18.20) [11]	32.42% (26.06) [5]	62.67% (22.99) [11]
		Target	43.00% (13.71) [16]	62.12% (24.08) [5]	36.00% (24.85) [11]	65.76% (32.27) [5]
Control Condition		Non-Target	54.67% (30.67) [10]	73.67% (16.56) [5]	74.00% (22.56) [5]	47.00% (14.01) [5]
		Target	61.25% (9.75) [8]	47.92% (17.97) [4]	38.33% (35.43) [4]	61.67% (24.83) [4]

This table provides descriptive data. Panel A reports the frequency of target employee promotions across conditions. Panel B reports employee effort across work periods, conditions, and groups. Panel C reports employee effort across stages, conditions, groups, and promotion status.

Panel A: Non-Target (i.e., Overrepresented) Employees



Panel B: Target (i.e., Underrepresented) Employees

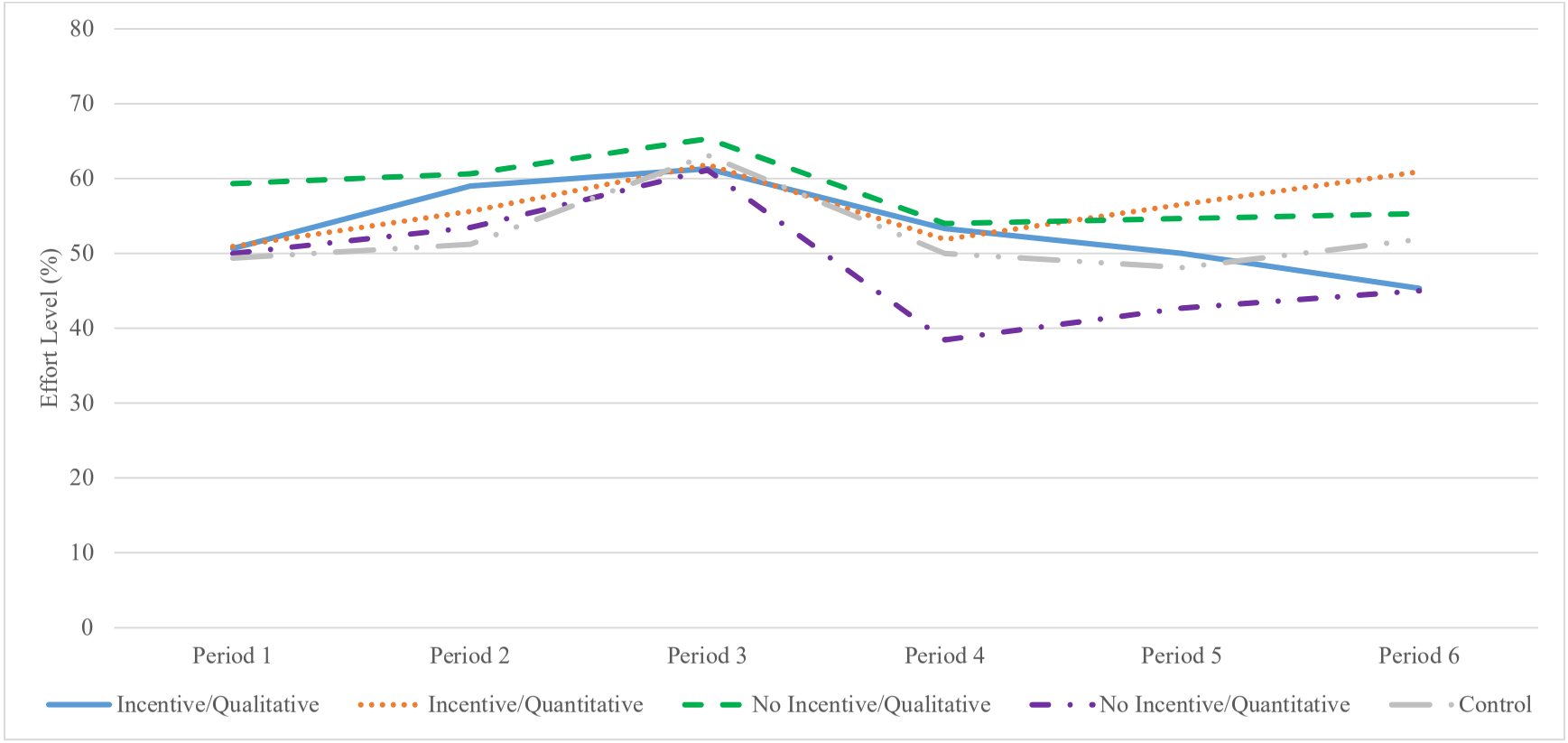


FIGURE 3: EMPLOYEE EFFORT ACROSS WORK PERIODS

Managers' promotion decisions are the dependent variable (coded [0] 1 if the manager promotes a [non]target employee). Table 3, Panel A and Figure 4 report the results.[19]

As an initial test of diversity incentives' effect on managers' promotion decisions, Model 1 in Table 3, Panel A uses *Incentive* as the only independent variable in the logistic regression and reports an insignificant coefficient ($p = 0.49$). Thus, diversity incentives do not have an overall effect on managers' promotion decisions.

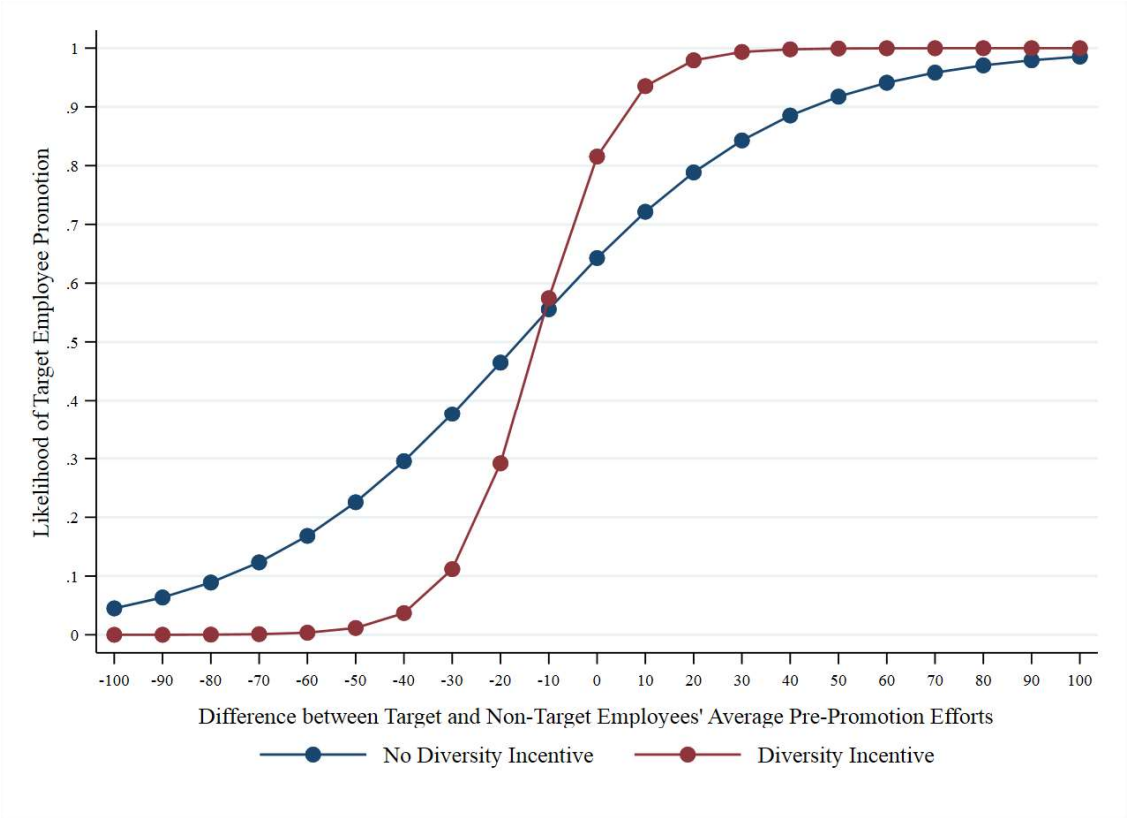


FIGURE 4: TARGET EMPLOYEE PROMOTIONS BASED ON PRE-PROMOTION EFFORT DIFFERENCES

[19] Results are similar when I control for managers' age, gender, ethnicity, MNPS, SDS, and SDO scores.

TABLE 3: TESTS OF H1A THROUGH H2B

Panel A: Logistic regression examining promotion determinants (H1a and H1b)

	Model 1	Model 2	Model 3	Model 4
Constant	0.43 (1.21) p = 0.23	0.59 (1.34) p = 0.18	0.12 (0.24) p = 0.81	−0.11 (−0.17) p = 0.86
Incentive	0.35 (0.69) p = 0.49	0.90 (1.08) p = 0.28	0.58 (0.83) p = 0.41	6.09 (1.11) p = 0.27
Specific			0.67 (0.92) p = 0.36	1.63 (1.47) p = 0.14
Effort Difference		0.04 (2.70) p < 0.01		0.06 (1.96) p = 0.05
Incentive × *Specific*			−0.49 (−0.47) p = 0.64	−6.45 (−1.15) p = 0.25
Incentive × *Effort Difference*		0.08 (1.88) **p = 0.03**		0.37 (1.02) p = 0.31
Specific × *Effort Difference*				−0.02 (−0.59) p = 0.56
Incentive × *Specific* × *Effort Difference*				−0.33 (−0.90) **p = 0.18**
Logistic Regression χ^2	$\chi^2 = 0.47$, p = 0.49	$\chi^2 = 34.51$, p < 0.01	$\chi^2 = 1.40$, p = 0.71	$\chi^2 = 41.86$, p < 0.01
Area under ROC Curve	*Incentive*: 0.54	*Incentive*: 0.54 *Effort Difference*: 0.88	*Incentive*: 0.54 *Specific*: 0.55	*Incentive*: 0.54 *Specific*: 0.55 *Effort Difference*: 0.88

Panel B: Determinants of managers' promotion decisions

		"My firm's initiative to increase underrepresented employee representation in higher-level positions influenced my promotion decision."	"I promoted the employee for their effort levels in Periods 1 through 3."	"I wanted my promotion decision to appear fair to my employees."
No Diversity Incentive	*Qualitative* [17]	4.18 (1.85)	6.59 (1.46)	5.29 (1.80)
	Quantitative [16]	4.38 (2.13)	6.06 (1.57)	5.13 (1.67)
Diversity Incentive	*Qualitative* [18]	4.50 (1.82)	6.11 (1.68)	4.56 (1.58)
	Quantitative [17]	4.82 (1.70)	6.41 (1.28)	6.12 (1.05)
Control Condition	[15]	N/A	6.13 (1.55)	5.27 (1.75)

Panel C: Managers' motivation to accomplish the diversity initiative

		Intrinsic Motivation	Extrinsic Motivation
No Diversity Incentive	*Qualitative* [17]	26.53 (4.02)	10.94 (5.93)
	Quantitative [16]	25.13 (5.75)	14.31 (6.72)
Diversity Incentive	*Qualitative* [18]	24.56 (6.44)	15.50 (6.05)
	Quantitative [17]	24.94 (4.48)	15.65 (6.70)
	Cronbach's alpha	0.79	0.88

Panel D: ANOVA examining managers' extrinsic motivation (H2a and H2b)

	df	MS	F	t-stat	p-value
Incentive	1	147.36	3.65	1.91	**0.03**
Specific	1	52.52	1.30	1.14	0.26
Incentive × *Specific*	1	44.11	1.09	1.04	**0.15**
Error	64	40.32			

This table provides tests of H1a through H2b. Panel A reports coefficients (z-scores) from a logistic regression using managers' promotion decisions as the dependent variable (coded [0] 1 if the manager promotes a [non-]target employee). The independent variables are *Incentive*, *Specific*, and *Effort Difference*. *Incentive* is a dichotomous variable coded (0) 1 for the (*No*) *Diversity Incentive* condition. *Specific* is a dichotomous variable coded (0) 1 for the (*Qualitative*) *Quantitative* condition. *Effort Difference* is a continuous variable representing the difference between target and non-target employees' average pre-promotion efforts; positive (negative) values indicate that the target employee chose higher (lower) average pre-promotion efforts than the non-target employee. Panel B reports the mean (standard deviation) [observations] of managers' responses to post-experiment questions. Underlined emphasis comes from the original experimental materials. Panel C reports managers' responses to the intrinsic and extrinsic motivation scales presented in Appendix C. Panel D reports ANOVA results examining the effects of *Incentive* and *Specific* on managers' extrinsic motivation to accomplish the diversity initiative. Bold p-values are one-tailed in line with directional hypotheses.

Model 2 tests H1a using *Incentive*, *Effort Difference*, and the *Incentive* × *Effort Difference* interaction term as independent variables. Consistent with H1a, Model 2 reports a significant positive coefficient on the *Incentive* × *Effort Difference* interaction term (coef. = 0.08, z = 1.88, one-tailed p = 0.03), suggesting diversity incentives complement target employees' pre-promotion efforts to increase their promotion chances.[20] Exponentiating the coefficient on the *Incentive* × *Effort Difference* interaction term produces an odds ratio of 1.09, suggesting that as target employees' pre-promotion efforts increase relative to those of non-target employees, the odds of promoting a target employee are approximately 9 percent higher when managers receive diversity incentives than when they do not.

Before testing H1b, Model 3 examines the interaction between diversity incentives and initiative specificity using *Incentive*, *Specific*, and the *Incentive* × *Specific* interaction term as independent variables. All coefficients in Model 3 are insignificant ($p > 0.35$).

Model 4 tests H1b using *Incentive*, *Specific*, *Effort Difference*, and the interaction terms as independent variables. The three-way interaction is insignificant (one-tailed p = 0.18), failing to support H1b. The results from Models 3 and 4 suggest that initiative specificity does not affect managers' promotion decisions.

Figure 4 provides a visual representation of the *Incentive* × *Effort Difference* interaction using the adjusted predictions (i.e., predictive margins) from Model 2. The y-axis is the likelihood that managers promote a target employee; the x-axis is the difference between target and non-target employees' average pre-promotion efforts.

[20] Model 2 in Table 3, Panel A also reports an insignificant coefficient on *Incentive* (coef. = 0.90, z = 1.08, p = 0.28) and a significant coefficient on *Effort Difference* (coef. = 0.04, z = 2.70, $p < 0.01$).

Conditional marginal effects suggest that when target employees choose an average of 0 to 20 percent *less* pre-promotion effort than non-target employees, managers are equally likely to promote the target employee regardless of whether they receive diversity incentives (untabulated, $p > 0.34$). However, when target employees choose an average of 10 to 30 percent *more* pre-promotion effort than non-target employees, managers are more likely to promote the target employee when they receive diversity incentives than when they do not (untabulated, $p < 0.10$). These results support the theory behind H1a that diversity incentives direct managers' attention to target employees as promotion candidates and complement their pre-promotion efforts to increase their promotion chances.

Notably, the results illustrated in Figure 4 suggest that when target employees choose 30 to 50 percent less pre-promotion effort than non-target employees, diversity incentives may potentially backfire by reducing the likelihood that managers promote target employees (untabulated, conditional marginal effects $p < 0.10$). These results align with prior research showing that diversity policies can unintentionally negate diversity goal progress by reducing perceptions of target employees' competence and job performance (Leslie 2019). Managers may interpret diversity incentives as a signal that target employees need help to get promoted and negatively evaluate target employees exerting drastically less pre-promotion effort than non-target employees. These results should be interpreted cautiously because managers' promotion decisions in the experiment do not entirely align with the predictive margins illustrated in Figure 4. Specifically, out of 15 instances where managers promote the employee who *did not* choose the highest pre-promotion effort, they promote the target employee 13 times. The

rate managers promote target employees who do not choose the highest pre-promotion effort does not vary by condition (untabulated, $p = 0.30$).

Examining managers' responses to post-experiment questions provides further insight into the factors determining their promotion decisions. Managers' responses to post-experiment questions in Table 3, Panel B indicate that they base promotion decisions primarily on employee effort (6.29 average rating vs. 4.00 scale midpoint, $t_{67} = 12.72$, $p < 0.01$).[21] Managers indicate that employees' pre-promotion efforts influence their promotion decisions more than their company's diversity initiative (6.29 for pre-promotion efforts vs. 4.47 for diversity initiative, paired $t_{67} = 5.61$, $p < 0.01$).[22] Further, managers' responses in the *Diversity Incentive* condition are not statistically different from the scale midpoint when asked whether the diversity incentives influenced their promotion decisions (untabulated, 4.40 average rating vs. 4.00 scale midpoint, $t_{34} = 1.22$, $p = 0.23$).[23]

Consistent with prior research (e.g., Chan 2018), managers indicate that employees' fairness perceptions influenced their promotion decisions (5.26 average rating vs. 4.00 scale midpoint, $t_{67} = 6.45$, $p < 0.01$), especially in conditions where employees are most likely to question fairness. Managers agree more with wanting their promotion decisions to appear fair when they receive diversity incentives tied to a

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[21] Participants respond to post-experiment questions on a fully labeled seven-point scale with "1" labeled "Strongly Disagree," "7" labeled "Strongly Agree," and the midpoint "4" labeled "Neither Agree nor Disagree."

[22] A logistic regression using employees' promotion status as the dependent variable (coded [0] 1 if the employee is [not] promoted) and their average pre-promotion effort as the independent variable provides further support that employees' likelihood of promotion increases with higher effort (untabulated, coef. = 0.04, $z = 4.32$, $p < 0.01$).

[23] Thirty out of 35 managers in the *Diversity Incentive* condition state that their promotion decisions would be the same if they did not receive bonus compensation. Similarly, 27 out of 33 managers in the *No Diversity Incentive* condition state that their promotion decisions would be the same if they received bonus compensation. These proportions do not vary by condition (untabulated chi-square, $p > 0.33$).

quantitative initiative (6.12 average rating in the *Diversity Incentive/Quantitative* condition, *Incentive* × *Specific* interaction p = 0.03).

Managers' responses to post-experiment questions suggest that employees' pre-promotion efforts and fairness perceptions are the primary determinants of their promotion decisions. Consistent with H1a, diversity incentives interact with target employees' pre-promotion efforts to increase their promotion chances. Specifically, as target employees' pre-promotion efforts increase relative to non-target employees' efforts, diversity incentives increase the likelihood that managers promote target employees.

Managers' Diversity Motives (H2a and H2b)

H2a predicts that managers' extrinsic motivation to accomplish a diversity initiative is higher when they receive diversity incentives, and H2b predicts that a quantitative diversity initiative amplifies this effect. I use extrinsic (intrinsic) motivation scales adapted from Kuvaas et al. (2017) and Bouchet et al. (2022) to measure managers' extrinsic (intrinsic) motivation to accomplish a diversity initiative (see Appendix C). Table 3, Panel C presents managers' motivation to accomplish a diversity initiative across conditions.[24]

[24] I add managers' responses to the extrinsic (intrinsic) motivation scale items to measure their extrinsic (intrinsic) motivation to accomplish a diversity initiative. The extrinsic (intrinsic) motivation scale has a 0.88 (0.79) Cronbach's alpha. Nunnally (1978) suggests that self-report scales with internal consistencies of 0.70 are acceptable for research purposes. Additionally, a principal component analysis using varimax rotation produces a two-factor solution that accounts for 64.70 percent of the variance in the nine motivation scale items. Using a cutoff of 0.40, the four extrinsic motivation scale items load on the first factor, while the five intrinsic motivation scale items load on the second factor. None of the scale items load on both factors, suggesting that the intrinsic and extrinsic motivation scales measure two distinct constructs. These analyses suggest that adding managers' responses to the extrinsic (intrinsic) motivation scale items is appropriate to measure their extrinsic (intrinsic) motivation.

To test H2a and H2b, I conduct an ANOVA using *Incentive* and *Specific* as explanatory factors. Table 3, Panel D reports the results using managers' extrinsic motivation to accomplish a diversity initiative as the dependent variable. In support of H2a, the *Incentive* main effect is statistically significant, indicating that managers' extrinsic motivation to advance diversity is higher when they receive diversity incentives than when they do not (15.57 vs. 12.58, $F_{1,64} = 3.65$, one-tailed $p = 0.03$). However, managers' extrinsic motivation does not vary with initiative specificity, evidenced by the insignificant *Incentive* × *Specific* interaction ($F_{1,64} = 1.09$, one-tailed $p = 0.15$). Thus, H2b is not supported. Figure 5 illustrates the results for the second set of hypotheses.[25]

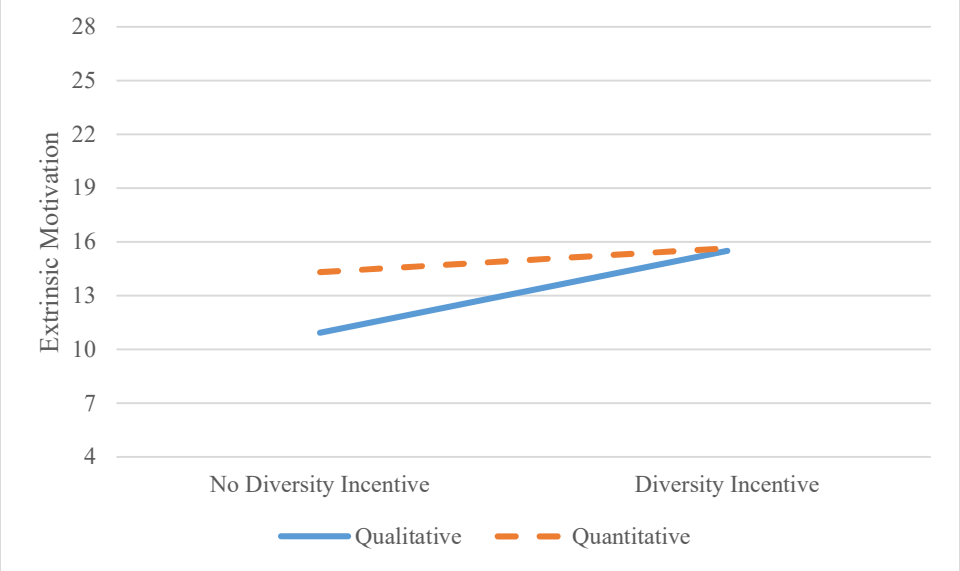


FIGURE 5: MANAGERS' EXTRINSIC MOTIVATION TO ADVANCE DIVERSITY

Untabulated analyses also indicate that the difference between managers' intrinsic and extrinsic motivation is significantly less in the *Diversity Incentive* condition than in the *No Diversity Incentive* condition (9.17 vs. 13.27, $t_{66} = 2.10$, $p = 0.04$). These results

[25] These results are robust to controlling for pre-promotion effort differences between target and nontarget employees, as well as participants' age, gender, ethnicity, SDS, SDO, and MNPS scores.

suggest that framing a diversity initiative as a means to earn extra compensation may "crowd out" managers' intrinsic diversity motives (Lepper et al. 1973; Deci et al. 1999; Cerasoli et al. 2014). These results may inform companies' decisions about which policies most improve underrepresented employees' workplace experiences, as prior research suggests that increasing managers' extrinsic diversity motives may fail to address existing biases contributing to disparities in higher-level employee representation (Legault et al. 2007, 2011; Dobbin and Kalev 2022).

Employee Effort Before Promotion Decision (H3a through H3d)

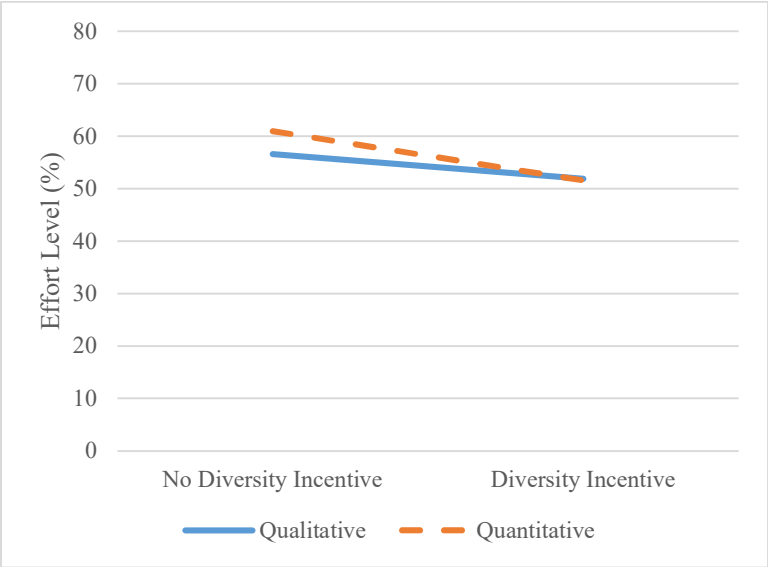
The third set of hypotheses focuses on employees' pre-promotion efforts. H3a predicts that target employees' pre-promotion efforts are higher when managers receive diversity incentives than when they do not, and H3b predicts that quantitative diversity initiatives amplify this difference. To test these hypotheses, I conduct an ANOVA using *Incentive* and *Specific* as explanatory factors. Table 4, Panel A reports the results using target employees' average effort over the first three periods as the dependent variable. The main effect of *Incentive* and the *Incentive* × *Specific* interaction are not statistically significant ($F_{1,55} < 0.20$, one-tailed $p > 0.32$), failing to support H3a and H3b.

H3c is a null hypothesis that states non-target employees' pre-promotion efforts do not differ regardless of whether managers receive diversity incentives. Similarly, H3d states that non-target employees' pre-promotion efforts do not differ regardless of whether managers receive diversity incentives to accomplish a quantitative or qualitative diversity initiative. Table 4, Panel B reports ANOVA results using non-target employees' average effort over the first three periods as the dependent variable. Similar to the results for H3a and H3b, the main effect of *Incentive* and the *Incentive* × *Specific* interaction are

not statistically significant ($F_{1,57} < 1.19$, $p > 0.27$), failing to reject the null hypotheses.

Figure 6 illustrates the results for the third set of hypotheses.[26]

Panel A: Average non-target employee effort before first promotion (periods 1-3)



Panel B: Average target employee effort before first promotion (periods 1-3)

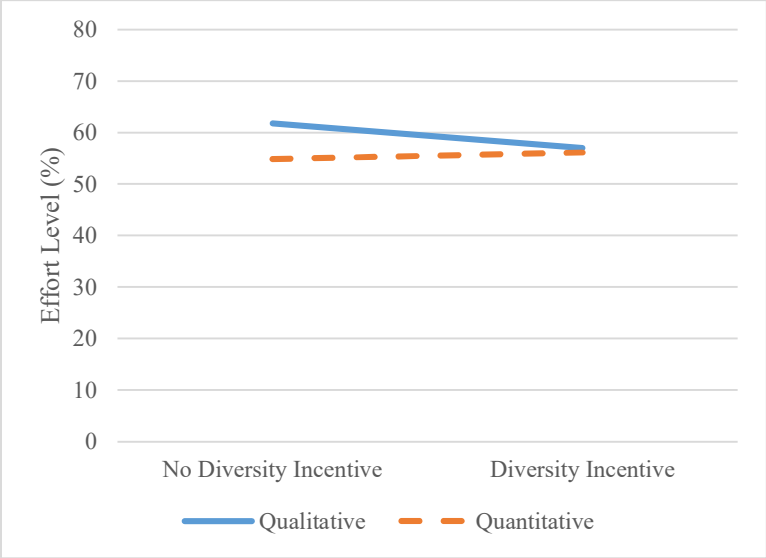


FIGURE 6: EMPLOYEE EFFORT BEFORE PROMOTIONS

[26] Untabulated analyses indicate that employees' pre-promotion efforts in non-control conditions are statistically similar to pre-promotion efforts in the control condition. Results for H3a through H3d are similar when I control for participants' age, gender, ethnicity, MNPS, SDS, and SDO scores. Further, results are similar if I conduct a multivariate general linear model using employees' efforts from periods one, two, and three as dependent variables.

TABLE 4: TESTS OF H3A THROUGH H3D

Panel A: ANOVA examining target employee pre-promotion efforts (H3a and H3b)

	df	MS	F	t-stat	p-value
Incentive	1	45.01	0.06	0.24	**0.40**
Specific	1	220.78	0.31	0.56	0.58
Incentive × *Specific*	1	134.28	0.19	0.44	**0.33**
Error	55	706.65			

Panel B: ANOVA examining non-target employee pre-promotion efforts (H3c and H3d)

	df	MS	F	p-value
Incentive	1	751.75	1.18	0.28
Specific	1	62.76	0.10	0.75
Incentive × *Specific*	1	84.54	0.13	0.72
Error	57	635.63		

Panel C: Determinants of employees' pre-promotion efforts

			"I thought there was a high probability that I would be promoted."	"I wanted to increase my chances of being promoted by my manager."	"I wanted my manager to know that I chose high effort levels."
No Diversity Incentive	*Qualitative*	Non-Target [16]	4.69 (1.78)	5.56 (1.59)	5.25 (2.02)
		Target [15]	5.80 (1.32)	6.07 (0.88)	5.33 (1.92)
	Quantitative	Non-Target [14]	4.07 (2.34)	5.29 (2.16)	5.07 (1.90)
		Target [13]	5.69 (1.55)	6.15 (0.99)	5.69 (1.38)
Diversity Incentive	*Qualitative*	Non-Target [15]	3.27 (1.91)	5.87 (1.36)	5.47 (1.64)
		Target [15]	5.87 (1.30)	5.93 (1.34)	5.33 (2.23)
	Quantitative	Non-Target [16]	3.44 (2.07)	6.00 (0.89)	5.75 (1.61)
		Target [16]	5.69 (1.35)	5.88 (1.03)	5.56 (1.26)
Control Condition		Non-Target [10]	5.90 (1.10)	6.40 (0.84)	6.20 (0.79)
		Target [8]	5.00 (1.41)	6.25 (0.71)	5.38 (1.06)

This table provides tests of H3a through H3d. Panel A (B) reports ANOVA results examining the effects of *Incentive* and *Specific* on average (non-)target employee effort before the first promotion (i.e., periods 1-3). *Incentive* is a dichotomous variable coded (0) 1 for the (*No*) *Diversity Incentive* condition. *Specific* is a dichotomous variable coded (0) 1 for the (*Qualitative*) *Quantitative* condition. Bold p-values are one-tailed in line with directional hypotheses. Panel C reports the mean (standard deviation) [observations] of employees' responses to post-experiment questions. Underlined emphasis comes from the original experimental materials. Participants respond to post-experiment questions on a fully labeled seven-point scale with "1" labeled "Strongly Disagree," "7" labeled "Strongly Agree," and the midpoint "4" labeled "Neither Agree nor Disagree."

In developing the third set of hypotheses, I posit that diversity incentives affect employees' pre-promotion efforts by changing their perceived promotion chances and the extent to which they believe pre-promotion efforts improve those chances. Examining employees' responses to post-experiment questions in Table 4, Panel C reveals that to be partially true. To establish a baseline, employees from both groups in the control condition rate their probability of promotion similarly (5.00 for target employees vs. 5.90 for non-target employees, $t_{16} = 1.52$, $p = 0.15$). Target employees in non-control conditions rate their probability of promotion similar to those in the control condition (5.76 in non-control conditions vs. 5.00 in the control condition, $t_{65} = 1.50$, $p = 0.14$). Further, among target employees in non-control conditions, perceived promotion chances do not vary with managers' diversity incentives (5.75 in *No Diversity Incentive* vs. 5.77 in *Diversity Incentive,* $t_{57} = 0.07$, $p = 0.95$) or initiative specificity (5.83 in *Qualitative* vs. 5.69 in *Quantitative*, $t_{57} = 0.41$, $p = 0.69$).

Non-target employees, on the other hand, are less confident of their promotion chances in non-control conditions (3.87 in non-control conditions vs. 5.90 in the control condition, $t_{69} = 3.05$, $p < 0.01$). While non-target employees' perceived promotion chances do not vary with initiative specificity (4.00 in *Qualitative* vs. 3.73 in *Quantitative*, $t_{59} = 0.50$, $p = 0.62$), they are lower when managers receive diversity incentives (4.40 in *No Diversity Incentive* vs. 3.35 in *Diversity Incentive*, $t_{59} = 2.04$, $p = 0.05$). These results suggest that managers' diversity incentives reduce non-target employees' *ex-ante* perceived promotion chances.

Although managers' diversity incentives affect target and non-target employees' perceived promotion chances differently, employees from both groups hold similar beliefs on how pre-promotion effort can improve their promotion chances. Target and non-target employees across conditions indicate choosing pre-promotion efforts to increase their promotion

chances (5.84 average rating vs. 4.00 scale midpoint, $t_{119} = 15.26$, $p < 0.01$) and capture their managers' attention (5.43 average rating vs. 4.00 scale midpoint, $t_{119} = 9.06$, $p < 0.01$). These responses do not differ between employee groups or control and non-control conditions.

Employees' responses to post-experiment questions suggest that they expect managers to promote them based on their controllable actions (i.e., effort) instead of uncontrollable factors (i.e., group membership), consistent with distributive fairness theory (Adams 1965; Gilliland 1993). Although managers' diversity incentives reduce non-target employees' perceived promotion chances, diversity incentives and initiative specificity do not affect employees' pre-promotion efforts because employees consistently believe that effort will improve their promotion chances. These results may be sensitive to the parameters utilized in the experimental task because employees know that managers receive a precise signal of their effort choices. Future research could examine whether performance measurement precision interacts with diversity incentives to influence employees' effort choices in a promotion setting.

Employee Effort After Promotion Decision (RQ)

I now examine the research question on employees' post-promotion efforts. Table 5, Panel A reports ANOVA results using employees' average effort in the final stage as the dependent variable.[27] Consistent with Chan et al. (2023), promoted employees choose higher effort in the final three work periods than non-promoted employees (Model 1, 55.71 percent for promoted employees vs. 39.29 percent for non-promoted employees, $F_{1,118} = 10.39$, $p < 0.01$). Employees' post-promotion efforts do not vary based on their group membership (Model 2, *Group* main effect: $F_{1,116} = 0.08$, $p = 0.77$; *Promoted* × *Group*: $F_{1,116} = 0.61$, $p = 0.44$) or

[27] The analyses in Table 5, Panel A exclude employees in the control condition. Untabulated analyses indicate that promoted and non-promoted employees choose similar post-promotion efforts in non-control and control conditions.

initiative specificity (Model 4, *Specific* main effect: $F_{1,116} = 0.36$, $p = 0.55$; *Promoted* × *Specific*: $F_{1,116} = 0.09$, $p = 0.76$).

There is a significant interaction between employees' promotion status and managers' diversity incentives on post-promotion effort (Model 3, $F_{1,116} = 7.22$, $p = 0.01$). Untabulated simple effect tests suggest that non-promoted employees in the *Diversity Incentive* condition drive this interaction by choosing the lowest post-promotion effort among employees in all conditions (30.11 percent average post-promotion effort).[28] Based on responses to post-experiment questions, these employees are least concerned that their managers know they chose high post-promotion effort. Conversely, promoted employees in the *Diversity Incentive* condition are most concerned that their managers know they chose high post-promotion effort (untabulated; *Promoted* main effect: $F_{1,116} = 5.98$, $p = 0.02$; *Promoted* × *Incentive*: $F_{1,116} = 5.67$, $p = 0.02$). These results align with prior research showing that employees reciprocate a promotion with high post-promotion effort (Chan et al. 2023) and suggest that managers' diversity incentives amplify employees' concern for affirming their managers' promotion decisions.[29]

[28] Untabulated ANOVAs produce no significant three-way or four-way interactions among the factors listed in Table 5, Panel A (all $p > 0.18$).

[29] Target employees promoted in the *Diversity Incentive* condition show the greatest concern that their managers know they chose high post-promotion effort (untabulated, 5.32 average response, *Promoted* × *Incentive* × *Group*: $p = 0.01$). I do not find evidence that employees' pre-promotion efforts interact with their group membership, promotion status, or managers' diversity incentives to determine their post-promotion efforts. Further, results are similar controlling for participants' age, gender, ethnicity, MNPS, SDS, and SDO scores.

TABLE 5: TESTS OF RQ

Panel A: ANOVA examining employee post-promotion efforts

	(1)	(2)	(3)	(4)
Promoted	$F_{1,118} = 10.39$ $p < 0.01$	$F_{1,116} = 8.44$ $p < 0.01$	$F_{1,116} = 10.23$ $p < 0.01$	$F_{1,116} = 10.28$ $p < 0.01$
Group		$F_{1,116} = 0.08$ $p = 0.77$		
Promoted × Group		$F_{1,116} = 0.61$ $p = 0.44$		
Incentive			$F_{1,116} = 1.48$ $p = 0.23$	
Promoted × Incentive			$F_{1,116} = 7.22$ $p = 0.01$	
Specific				$F_{1,116} = 0.36$ $p = 0.55$
Promoted × Specific				$F_{1,116} = 0.09$ $p = 0.76$

Panel B: Employee distributive fairness perceptions by condition, group, and promotion status

			Distributive Fairness	
			Not Promoted	Promoted
No Diversity Incentive	*Qualitative*	Non-Target	28.22 (7.87)	32.86 (7.60)
		[16]	[9]	[7]
		Target	22.50 (9.85)	37.33 (2.69)
		[15]	[6]	[9]
	Quantitative	Non-Target	23.89 (10.29)	33.40 (6.35)
		[14]	[9]	[5]
		Target	19.75 (9.18)	33.67 (5.85)
		[13]	[4]	[9]
Diversity Incentive	*Qualitative*	Non-Target	24.73 (8.16)	35.00 (1.41)
		[15]	[11]	[4]
		Target	16.75 (7.14)	34.91 (3.39)
		[15]	[4]	[11]
	Quantitative	Non-Target	21.27 (6.92)	27.60 (7.09)
		[16]	[11]	[5]
		Target	23.60 (9.13)	34.82 (5.17)
		[16]	[5]	[11]
Control Condition		Non-Target	19.00 (6.63)	33.20 (5.59)
		[10]	[5]	[5]
		Target	20.00 (6.68)	26.25 (8.06)
		[8]	[4]	[4]
Cronbach's alpha			0.90	

Panel C: ANOVA examining employee distributive fairness perceptions

	(1)	(2)	(3)	(4)
Promoted	$F_{1,118} = 69.23$ $p < 0.01$	$F_{1,116} = 64.83$ $p < 0.01$	$F_{1,116} = 68.23$ $p < 0.01$	$F_{1,116} = 69.51$ $p < 0.01$
Group		$F_{1,116} = 0.02$ $p = 0.89$		
Promoted × *Group*		$F_{1,116} = 5.50$ $p = 0.02$		
Incentive			$F_{1,116} = 1.26$ $p = 0.27$	
Promoted × *Incentive*			$F_{1,116} = 0.24$ $p = 0.63$	
Specific				$F_{1,116} = 2.52$ $p = 0.12$
Promoted × *Specific*				$F_{1,116} < 0.01$ $p = 0.96$

This table provides tests of the research question examining employee effort after the promotion decision. Panel A reports ANOVA results using average employee effort in the final three work periods as the dependent variable. Panel B reports summary statistics of employees' distributive fairness perceptions. Appendix D presents the distributive fairness scale adapted from Colquitt (2001). I add employees' responses to the distributive fairness scale items to measure perceptions of distributive fairness. Panel C reports ANOVA results using employees' distributive fairness perceptions as the dependent variable. Analyses in Panel A and C exclude employee participants in control conditions. In Model 1, the independent variable is *Promoted*, a dichotomous variable coded (0) 1 if the employee is (not) promoted. In Model 2, the independent variables are *Promoted* and *Group*. *Group* is a dichotomous variable coded (0) 1 for (non-)target employees. In Model 3, the independent variables are *Promoted* and *Incentive*. *Incentive* is a dichotomous variable coded (0) 1 for the (*No*) *Diversity Incentive* condition. In Model 4, the independent variables are *Promoted* and *Specific*. *Specific* is a dichotomous variable coded (0) 1 for the (*Qualitative*) *Quantitative* condition. All p-values are two-tailed.

Employees' distributive fairness perceptions clarify their post-promotion efforts.[30] Table 5, Panel B reports summary statistics of employees' distributive fairness perceptions. Table 5, Panel C reports ANOVA results using employees' distributive fairness ratings as the dependent variable.[31] Promoted employees perceive the promotion outcome as fairer than non-promoted employees (Model 1, $F_{1,118} = 69.23$, $p < 0.01$), consistent with prior research showing that favorable outcomes enhance perceptions of distributive fairness (Greenberg 1987; Gilliland 1993, 1994; Heilman et al. 1996; Kaplan and Ferris 2001). Further, promoted employees indicate more agreement that managers' promotion decisions are based strictly on effort (untabulated, 4.57 for promoted employees vs. 3.78 for non-promoted employees, $F_{1,118} = 5.35$, $p = 0.02$).

Unlike employees' post-promotion efforts, their distributive fairness perceptions do not vary based on managers' diversity incentives (Model 3, *Incentive* main effect: $F_{1,116} = 1.26$, $p = 0.27$; *Promoted* × *Incentive*: $F_{1,116} = 0.24$, $p = 0.63$) or initiative specificity (Model 4, *Specific* main effect: $F_{1,116} = 2.52$, $p = 0.12$; *Promoted* × *Specific*: $F_{1,116} < 0.01$, $p = 0.96$). However, the difference between promoted and non-promoted employees' distributive fairness perceptions varies based on group membership (Model 2, *Group* main effect: $F_{1,116} = 0.02$, $p = 0.89$; *Promoted* × *Group*: $F_{1,116} = 5.50$, $p = 0.02$). Among non-promoted employees, target employees rate distributive fairness lower (20.83 for target employees vs. 23.78 for non-target employees). Conversely, among

[30] Appendix D presents the distributive fairness scale adapted from Colquitt (2001). I add employees' responses to the distributive fairness scale items to measure their perceptions of distributive fairness. The scale has a 0.90 Cronbach's alpha, indicating good internal consistency (Nunnally 1978). A principal component analysis using varimax rotation produces a one-factor solution that accounts for 68.06 percent of the variance in the six scale items. These analyses suggest that adding employees' responses to the scale items is appropriate to measure their perceptions of distributive fairness.

[31] The analyses in Table 5, Panel C exclude employees in the control condition. Untabulated analyses indicate that promoted and non-promoted employees rate distributive fairness similarly in non-control and control conditions.

those promoted, target employees rate distributive fairness higher (34.34 for target employees vs. 32.35 for non-target employees). One interpretation of these results is that a diversity initiative highlights the disadvantages experienced by target employees, regardless of the initiative's specificity or attached financial incentives (Nishii et al. 2018; Leslie 2019). According to the needs distribution rule in the distributive fairness literature, rewards (not) allocated to disadvantaged individuals are more likely perceived as (un)fair when the disadvantaged individuals' needs are salient (Gilliland 1993).[32]

Collectively, results from these analyses are consistent with prior research (e.g., Chan et al. 2023) and suggest that promoted employees want to reciprocate their managers' promotion decisions and that favorable outcomes enhance perceptions of distributive fairness (Greenberg 1987; Gilliland 1993, 1994; Heilman et al. 1996; Kaplan and Ferris 2001).

Supplemental Analyses

In supplemental analyses, I examine broader organizational outcomes associated with diversity initiatives and incentives. First, I examine whether diversity incentives affect the combined pre- and post-promotion efforts of the promoted and non-promoted employees within each dyad (hereafter, "total dyad effort"). Second, I ask participants in post-experiment questions about their attitudes toward diversity initiatives and incentives,

[32] To further clarify employees' distributive fairness perceptions, I ask employees in the *Diversity Incentive* condition to rate their agreement with whether their managers wanted to earn the bonus compensation for accomplishing the company's initiative. The average response is significantly above the scale midpoint labeled "Neither Agree nor Disagree" (untabulated; 5.61 average response vs. 4.00 scale midpoint, t_{61} = 6.71, $p < 0.01$). Among non-promoted employees, non-target employees more strongly agree that their managers wanted to earn the bonus compensation (6.68 for non-target employees vs. 2.56 for target employees). Conversely, among those promoted, target employees more strongly agree that their managers wanted to earn the bonus compensation (6.27 for target employees vs. 4.44 for non-target employees). The interaction between employees' group membership and promotion status is statistically significant ($F_{1,58}$ = 74.99, $p < 0.01$). Employees in the *No Diversity Incentive* and control conditions do not see this question.

job satisfaction, and turnover intentions. Results from the supplementary analyses, discussed in more detail below, indicate that total dyad effort is lower when managers receive diversity incentives than when they do not. I also find that participants believe the initiative is needed, and managers' diversity incentives should approximate nearly 20 percent of their salaries. Finally, I find that promoted employees and managers indicate high job satisfaction and low turnover intentions regardless of managers' diversity incentives.

Total Dyad Effort and Managers' Payoffs by Condition

I examine whether diversity incentives affect total dyad effort. This analysis is based on dyads with two human employees; dyads that consist of one or two bot employees are excluded from this analysis. In untabulated analyses, I find that average total dyad effort is directionally lower when managers receive diversity incentives than when they do not (597.50 average total dyad effort in *Diversity Incentive* vs. 644.82 in *No Diversity Incentive*, $t_{56} = 0.94$, $p = 0.35$), which is consistent with employees choosing similar pre-promotion efforts across conditions but non-promoted employees choosing lower post-promotion efforts in the *Diversity Incentive* condition.[33] While total dyad effort is directionally lower in the *Diversity Incentive* condition, managers' payoff is highest in the *Diversity Incentive* condition when they promote target employees, due primarily to the 400-point diversity incentive (untabulated; 3,591.43 average points in *Diversity Incentive* condition when managers promote target employees vs. 3,131.48 average points otherwise; $F_{1,54} = 2.81$, $p = 0.10$). Importantly, these results are sensitive to the parameters of my study. In settings where managers oversee a team of several

[33] In untabulated analyses, I find that total dyad effort does not vary between *Specific* conditions, nor does it vary based on whether the manager promotes the target or non-target employee ($p > 0.13$).

employees, total team effort may noticeably decline when managers are offered diversity incentives and must pass over several employees for promotion due to limited higher-level positions.

Attitudes Toward Diversity Initiative

As part of the post-experiment questions, participants in non-control conditions indicated their attitudes toward the diversity initiative.[34] On average, participants believe the initiative is more needed than not (untabulated, 4.71 average response vs. 4.00 scale midpoint labeled "About as Needed as Not," $t_{187} = 6.36$, $p < 0.01$). Participants' beliefs about the initiative do not vary across experimental conditions (untabulated, $F_{3,184} = 0.40$, $p = 0.75$). Managers favor the diversity initiative more than employees (untabulated, 4.96 vs. 4.57, $t_{186} = 1.69$, $p = 0.09$).

Among employee participants, target employees believe the diversity initiative is more needed than non-target employees (untabulated, 5.10 vs. 4.05, $t_{118} = 3.91$, $p < 0.01$). This difference does not vary by promotion status or experimental condition (untabulated, $p > 0.80$). On average, older employees and employees lower in Social Dominance Orientation (SDO) show greater support for the diversity initiative (untabulated, $t > 2.01$, $p < 0.05$). SDO measures individuals' preferences for group-based hierarchy and inequality (Ho et al. 2015). Further, among employees, minority participants (i.e., those that self-report as a non-white ethnicity) favor the diversity initiative more than white participants (untabulated, 5.00 vs. 4.42, $t_{118} = 1.77$, $p = 0.08$). Among managers, participants' responses do not vary by ethnicity (untabulated, 4.96 for minority participants vs. 4.95 for white participants, $t_{66} = 0.04$, $p = 0.97$).

[34] Participants in the control condition do not see this question.

Attitudes Toward Diversity Incentive Size

I also asked participants to indicate the bonus managers should receive for accomplishing a diversity initiative. Participants responded on a scale from zero to 100 with "0" labeled "Bonus=0," "100" labeled "Bonus=managers' salary," and the midpoint "50" labeled "Bonus=1/2 managers' salary." On average, participants assigned a weight of 19.82 (SD = 22.46), indicating they believe diversity incentives should approximate 19.8 percent of managers' salaries.[35] Participant responses do not vary based on age or gender (untabulated, $p > 0.21$).

Employees' promotion status, group membership, and managers' diversity incentives interact to influence employees' attitudes toward diversity incentive size (untabulated, *Promoted* × *Group* × *Incentive*: $F_{1,112} = 4.76$, $p = 0.03$). Among employees in the *No Diversity Incentive* condition, non-promoted target employees believe diversity incentives should receive greater weight in managers' compensation than non-promoted non-target employees (33.00 percent weight vs. 15.56 percent). Conversely, the promoted target employees believe diversity incentives should receive less weight in managers' compensation than promoted non-target employees (10.56 percent weight vs. 15.83 percent). This pattern flips in the *Diversity Incentive* condition, such that promoted target employees believe diversity incentives should receive greater weight in managers' compensation than promoted non-target employees (25.00 percent weight vs. 14.44 percent). Conversely, the non-promoted target employees believe diversity incentives should receive less weight in managers' compensation than non-promoted non-target

[35] For comparison, the experiment's diversity incentive is less than nine percent of manager participants' average payoff in the *Diversity Incentive* condition. Diversity incentives typically account for about five percent of managers' total pay in practice (Newbury et al. 2020; Bebchuk and Tallarita 2022).

employees (13.33 percent weight vs. 16.82 percent). These results suggest that employees' promotion status, group membership, and managers' diversity incentives shape employees' perceptions of managers' compensation priorities.

Additionally, employees who are externally motivated to regulate prejudice (as measured by their MNPS scores) believe diversity incentives should receive greater weight in managers' compensation (untabulated, $t = 2.86$, $p < 0.01$). Further, among employees, minority participants assign a higher percentage to diversity incentives than white participants (untabulated, 24.67 vs. 15.78, $t_{118} = 1.95$, $p = 0.05$).

Among managers, those in the *Diversity Incentive* condition believe diversity incentives should receive greater weight in their compensation than managers in the *No Diversity Incentive* condition (untabulated, 23.14 vs. 13.64, $t_{66} = 1.93$, $p = 0.05$). Like minority employee participants, minority manager participants assign a higher percentage to diversity incentives than white manager participants (untabulated, 25.36 vs. 13.75, $t_{66} = 2.35$, $p = 0.02$). Unlike employee responses, managers' responses do not vary based on their MNPS scores. However, managers higher in SDO believe diversity incentives should receive greater weight in their compensation (untabulated, $t = 2.70$, $p < 0.01$). Like employees who are externally motivated to regulate prejudice, managers higher in SDO may believe external motivators are necessary to accomplish diversity initiatives.

Turnover Intentions and Job Satisfaction

Finally, I asked participants about their job satisfaction and turnover intentions to capture broader organizational outcomes associated with diversity initiatives and incentives. I asked participants to imagine that several competing companies have offered them jobs with similar responsibilities and pay. I then asked participants two questions

adapted from Hom and Griffeth (1991) to measure their turnover intentions: (1) "I would take a job at a competing firm," and (2) "I would remain at my job in my current firm." I asked a question adapted from Hackman and Oldham (1975) to measure their job satisfaction: "Overall, I like working for my firm."[36]

Among employees, promoted employees indicate greater job satisfaction (4.94 vs. 3.72) and lower turnover intentions (7.60 vs. 9.72) than non-promoted employees (untabulated, $t_{136} > 4.77$, $p < 0.01$). Employees' job satisfaction and turnover intentions do not vary by age, gender, group membership, or experiment condition. Among employees, minority participants indicate higher job satisfaction than white participants when not promoted (untabulated, 4.35 average response for non-promoted minority participants vs. 3.51 average response for non-promoted white participants, $t_{66} = 2.01$, $p = 0.05$). However, they express lower job satisfaction when promoted (untabulated, 4.56 vs. 5.08, *Minority* × *Promoted*: $F_{1,134} = 6.34$, $p = 0.01$). This same pattern occurs for employees' turnover intentions (untabulated, *Minority* × *Promoted*: $F_{1,134} = 3.11$, $p = 0.08$).

Managers' job satisfaction (turnover intentions) is greater (are lower) than the scale midpoint across conditions (untabulated, job satisfaction: 5.36 average rating vs. 4.00 scale midpoint, $t_{82} = 5.36$, $p < 0.01$; turnover intentions: 7.01 average rating vs. 8.00 scale midpoint, $t_{82} = 3.72$, $p < 0.01$). Managers' job satisfaction and turnover intentions do not vary by gender, ethnicity, age, or experiment condition.

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[36] Participants respond to the turnover intentions and job satisfaction questions on a fully labeled seven-point scale with "1" labeled "Strongly Disagree," "7" labeled "Strongly Agree," and the midpoint "4" labeled "Neither Agree nor Disagree." Thus, participants' job satisfaction ranges from 1 to 7, with higher values indicating greater job satisfaction. For participants' turnover intentions, I reverse-code the second question and add participants' responses to the two questions to measure their turnover intentions. Thus, participants' turnover intentions range from 2 to 14, with higher values indicating greater turnover intentions.

CHAPTER VI. CONCLUSION

Disparities in employee representation persist in higher-level organizational positions despite more attention in recent years to workforce diversity and its associated benefits (Dobbins and Kalev 2022). Companies have begun integrating diversity initiatives into their managers' compensation packages to correct these disparities. However, limited research examines the effects of financially incentivizing managers to advance workforce diversity. This study examines whether diversity incentives affect managers' promotion decisions, diversity motives, and employees' effort choices in a promotion setting.

The results suggest that, while managers base promotion decisions primarily on employees' pre-promotion efforts, diversity incentives interact with target employees' pre-promotion efforts to increase their promotion chances. Specifically, as target employees' pre-promotion efforts increase relative to non-target employees' efforts, diversity incentives increase the likelihood that managers promote target employees. Diversity incentives also increase managers' extrinsic diversity motives. According to prior research, increasing managers' extrinsic diversity motives may adversely affect their prejudice regulation in the workplace (Legault et al. 2007, 2011; Dobbin and Kalev 2022). Initiative specificity does not affect managers' promotion decisions or extrinsic diversity motives.

I also find that employees choose similar pre-promotion efforts regardless of group membership or managers' diversity incentives. After all promotion opportunities are exhausted, promoted employees choose higher effort than non-promoted employees, especially when managers receive diversity incentives. Promotion status also influences

employees' fairness perceptions, consistent with prior research showing that favorable outcomes enhance perceptions of distributive fairness (Greenberg 1987; Gilliland 1993, 1994; Heilman et al. 1996).

This study is subject to limitations that open avenues for future research. First, I hold constant several characteristics of the information environment to cleanly test my hypotheses. The results from my study may generalize to more dynamic information environments, but future research can examine whether this is the case. For example, Chan (2018) finds that managers are more likely to promote the best performer in lower-level positions when employees receive relative performance information (RPI) than when they do not. I find that managers' diversity incentives increase target employees' promotion chances when they are the best performers in a lower-level position (i.e., when they choose higher pre-promotion efforts than their non-target colleagues). Thus, employees' RPI may amplify the likelihood that managers promote high-performing target employees under diversity incentives.

Second, my experiment contains limited periods, so I do not measure diversity incentives' long-term effects on managers' promotion decisions and employees' promotion incentives. An extended timeframe may diminish diversity incentives' attention-directing effect and reduce their efficacy in increasing target employee promotions (Manthei et al. 2023). Further, diversity incentives may affect target and non-target employees' promotion incentives differently over the long term as employees gain more exposure to managers' promotion decisions under diversity incentives. Alternatively, the results from my study may generalize to a longer timeframe if employees do not learn managers' promotion criteria under diversity incentives for

reasons like employee turnover and time between promotion decisions. Future research could clarify diversity incentives' long-term effects on manager and employee decision-making in a promotion setting.

Third, I randomly assign employee participants to an over- or underrepresented group rather than use their actual demographics to determine their roles. This design choice (1) enhances the experiment's internal validity, (2) preserves participants' anonymity during the in-person lab sessions, and (3) informs how companies can use diversity incentives to reduce representation disparities based on visible (e.g., ethnicity, gender) or invisible (e.g., sexual orientation) attributes. Future field experiments could examine diversity incentives' effects when employees' demographic or social attributes determine their over- or underrepresented status.

Finally, employees' ability (i.e., effort cost) remains the same between lower- and higher-level positions to avoid the confounding effects of how managers perceive each employee's ability to perform in each position. Future research could examine how diversity incentives affect managers' promotion decisions when employees' abilities to perform their current positions differ from those required to perform the post-promotion position.

Despite its limitations, this study contributes to accounting research and practice. First, this study extends the literature that examines how managers' incentives influence subordinate employees' behavior (Christ and Vance 2018; Fisher et al. 2019; Brink et al. 2020). Specifically, this study clarifies how incentives interact at different hierarchical levels within a company. Results suggest that managers' contractual financial incentives

to achieve specific promotion outcomes do not dampen employees' promotion incentives in the short term.

This study also adds to the growing literature examining how to advance diversity within higher-level organizational positions. Recent research suggests that closing representation disparities at the top of corporate hierarchies requires creating more diversity in lower-level promotions (Rider, Swaminathan, Wade, and Schwab 2023). Results from this study suggest that diversity incentives could help achieve this goal by complementing target employees' pre-promotion efforts to increase their promotion chances. However, diversity incentives also increase managers' extrinsic (relative to their intrinsic) diversity motives, which prior research suggests may adversely affect their workplace prejudice regulation (Legault et al. 2007, 2011). Collectively, these results inform companies about the potential costs and benefits of using diversity incentives to advance workforce diversity in higher-level organizational positions.

APPENDIX A: EXAMPLES OF DIVERSITY INCENTIVES UNDER QUANTITATIVE AND QUALITATIVE INITIATIVES

Quantitative	BlackRock, Inc., 2021 Proxy Statement	Twenty percent of named executive officers' total incentive awards depend on BlackRock's progress toward meeting its organizational priorities, including diversity and inclusion. BlackRock states that Larry Fink, Chairman and CEO, exceeded expectations in this regard by "[overseeing] progress toward our **senior women leadership target of 30%, increasing 80 basis points from 2019 to 29.7% representation in senior roles at the end of 2020**."
	Starbucks Corporation, 2021 Proxy Statement	"With respect to the fiscal 2021 Leadership Stock Plan (LSP) design, we will hold our senior leaders collectively accountable for meeting a 3-year representation target. This representation target focuses on improvement in Black, Indigenous and LatinX representation at the manager level and above, with **a 3-year target of improving Black, Indigenous and LatinX representation by more than 5% by 2023**. The representation metric will operate as a modifier to the payout of the fiscal 2021 Leadership Stock Plan (LSP) performance-based restricted stock units (PRSU) award…"
	Prudential Financial, Inc., 2022 Proxy Statement	"Prudential is committed to improving diverse representation at leadership levels and improving the lived experience of our Black colleagues. For 2021-2023, our Inclusion and Diversity Modifier is determined by averaging factors…for each of three goals: 1) **Increase the diverse representation among the leaders in our top ~600 U.S. positions by 10%. As part of this, increase representation of Black/LatinX employees by at least 25%. 2) Increase the representation of people of color in U.S. positions one level below Vice President by 8%. As part of this, increase representation of Black/LatinX employees by at least 25%. 3) Close the gap in the employee engagement quotient (EQ) scores of our Black employees relative to other employees**."
Qualitative	Citigroup, Inc., 2022 Proxy Statement	"The Compensation Committee sets scorecard goals for each named executive officer early in the annual compensation cycle. The goals fall into four categories…: Risk and Control; Financial; Client and Franchise; and Leadership. …**Leadership goals include: Leadership values, including diversity and other human capital management goals**."
	The Walt Disney Company, 2022 Proxy Statement	"The Compensation Committee developed Other Performance Factors for the fiscal 2021 annual bonus in December 2020. For fiscal 2021, the Other Performance Factors further emphasized the importance of one of our priority ESG issues, diversity and inclusion, which had the highest weighting among the Other Performance Factors. The Committee established the following factors…: **Meaningful progress building an inclusive culture through increased representation, recruitment, retention and/or promotion of underrepresented groups globally; advance inclusive content by increasing underrepresented groups in creative hiring and exploring culturally diverse and authentic themes, characters and narratives; demonstrate transparency and accountability**."
	Bank of America, 2021 Proxy Statement	"The Committee considers various factors that collectively indicate successful management of our business, including…Shareholder returns, ESG and **human capital metrics, including diversity and inclusion**."

This appendix presents examples of diversity incentives under quantitative and qualitative diversity initiatives. Bold formatting is not part of the original copy but is added for emphasis.

APPENDIX B: EXPERIMENTAL CONDITIONS

Your firm has publicly communicated and implemented an initiative to increase Purple Group employee representation in higher-level positions.

The initiative reinforces the firm's commitment to advancing diversity, equity, and inclusion among all employee groups. Further, the initiative advances the firm's values of respecting, supporting, and nurturing diverse talents from all employee groups.

Diversity Incentive/Qualitative: The firm awards managers 400 points of bonus compensation if they help meet its goal of increasing Purple Group employees' representation in higher-level positions.

Diversity Incentive/Quantitative: The firm awards managers 400 points of bonus compensation if they help meet its goal of increasing Purple Group employees' representation in higher-level positions by one (1) employee each promotion cycle.

No Diversity Incentive/Qualitative: The firm encourages managers to help meet its goal of increasing Purple Group employees' representation in higher-level positions.

No Diversity Incentive/Quantitative: The firm encourages managers to help meet its goal of increasing Purple Group employees' representation in higher-level positions by one (1) employee each promotion cycle.

This appendix presents the experimental conditions. Participants in the control group do not see these conditions. I counterbalance the employee group (i.e., "Orange Group" or "Purple Group") labeled over or underrepresented in higher-level positions in the experimental materials. For ease of exposition, I refer to "Orange Group" employees as overrepresented and "Purple Group" employees as underrepresented in higher-level positions throughout the manuscript. Bold emphasis comes from the original experimental materials.

APPENDIX C: INTRINSIC AND EXTRINSIC MOTIVATION SCALES

Please rate your agreement with the following statements regarding **your motivation to accomplish the firm's initiative** by selecting a number from 1 to 7 on the scale below.

1	2	3	4	5	6	7
Strongly Disagree	**Disagree**	**Slightly Disagree**	**Neither Agree nor Disagree**	**Slightly Agree**	**Agree**	**Strongly Agree**

Intrinsic Motivation:

1. I believe the firm's initiative is a good thing to do.
2. The firm's initiative reflects my own personal values and beliefs.
3. Advancing diversity is a driving force for me to pursue the firm's initiative.
4. I consider it important to make efforts to advance diversity.
5. Pursuing the firm's initiative is enjoyable and makes me excited.

Extrinsic Motivation:

6. I should get extra pay if I am supposed to pursue the firm's initiative.
7. I pursue the firm's initiative because it will help maximize my personal income.
8. External incentives like bonus compensation are essential for me to pursue the firm's initiative.
9. I would have been more willing to pursue the firm's initiative if I had been offered better bonus compensation.

This appendix presents the intrinsic and extrinsic motivation scales adapted from Kuvaas et al. (2017) and Bouchet et al. (2022). Participants assigned a manager role in non-control conditions respond to these scales; manager participants in the control condition do not respond to these scales. I add manager participants' responses to items 1-5 (6-9) to measure their intrinsic (extrinsic) motivation to accomplish the diversity initiative. Managers' intrinsic (extrinsic) motivation ranges from 5 to 35 (4 to 28), with higher scores indicating greater intrinsic (extrinsic) motivation to accomplish the diversity initiative. Bold emphasis comes from the original experimental materials.

APPENDIX D: DISTRIBUTIVE FAIRNESS SCALE

1	2	3	4	5	6	7
Strongly Disagree	**Disagree**	**Slightly Disagree**	**Neither Agree nor Disagree**	**Slightly Agree**	**Agree**	**Strongly Agree**

The following items refer to your (manager's) **promotion decision**. To what extent:

1. Is your (manager's) promotion decision appropriate for the effort you chose?
2. Does your (manager's) promotion decision reflect what (you) your employees have contributed to the firm?
3. Is your (manager's) promotion decision justified, given (your) your employees' effort choices?
4. Is your (manager's) promotion decision appropriate, given Purple Group employees are under-represented in higher-level positions?
5. Do you feel that your (manager's) promotion decision is fair?
6. Are you satisfied with your (manager's) promotion decision?

This appendix presents the distributive fairness scale adapted from Colquitt (2001). All participants respond to this scale. Scale items differ based on participants' experimental roles, indicated by parentheses. I add participants' responses to the scale items to measure distributive fairness perceptions. Participants' distributive fairness perceptions range from 7 to 42, with higher scores indicating greater perceived distributive fairness. I counterbalance the employee group (i.e., "Orange Group" or "Purple Group") labeled over or underrepresented in higher-level positions in the experimental materials. For ease of exposition, I refer to "Orange Group" employees as overrepresented and "Purple Group" employees as underrepresented in higher-level positions throughout the manuscript. Bold and underlined emphases come from the original experimental materials.

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