

SENT BY POST

Mr M Buchanan

Email: mikebuchanan@hotmail.co.uk

Our Ref: COM375

07 September 2012

Text in red: comments from Mike Buchanan, 9 September 2012.

Dear Mr Buchanan

Subject: Complaint

Thank you for your detailed response. I should perhaps clarify that I haven't made a 'complaint'.

Thank you for your email to Baroness Prosser dated 24 August 2012, requesting evidence in regards to gender diverse boards.

For the record, the following is the full content of the email I sent to Baroness Prosser on 24 August 2012:

Baroness Prosser, good afternoon. My attention has been drawn to remarks you made in connection with a Cranfield report published by EHRC in May. Would you be so good as to supply us with evidence to back your claim that more gender diverse boards deliver superior performance? The only evidence we're aware of is that more gender-diverse boards deliver *inferior* performance (link below). Next Wednesday I'll be giving a talk at the Institute of Economic Affairs on the topic.

<http://www.iea.org.uk/blog/the-gender-diversity-delusion>

The Commission's Deputy Chair Baroness Prosser has asked me to reply to your email and question about gender diverse boards delivering superior performance.

We published our report 'Gender Diversity on Boards: the appointment process and the role of executive search firms' in May 2012 at an event hosted by the 30 % club, a business led initiative which aims to promote gender diversity in the Boardroom.

http://www.equalityhumanrights.com/uploaded_files/research/rr85_final.pdf

In the executive summary of our report we summarise the business case for gender diversity on boards as relating to four key dimensions: improving performance, accessing the widest talent pool, being more responsive to the market and achieving better corporate governance.

In the Commission's press release Baroness Prosser gave this quote:

"Research shows that diverse boards produce better performance. Many companies recognise this. We commissioned this report to support their efforts to improve the representation of women at board level. However, the often subjective way of making appointments ends up replicating existing boards rather than bringing in talented women who could bring real benefits to individual company performance and ultimately help Britain's economic recovery."

<http://www.equalityhumanrights.com/news/2012/may/headhunters-and-chairmen-encouraged-to-do-more-to-increase-female-non-execs-on-ftse-boards/>

'Research shows that diverse boards produce better performance.' We are unaware of any such research, and have asked dozens of organisations (e.g. 30% club, CBI, Professional Boards Forum...) and *hundreds* of supporters of more gender diverse boards (e.g. David Cameron, Vince Cable, Lynne Featherstone...) for evidence to back such claims, and have received none. Would you please direct us to the evidence that underpins Baroness Prosser's claim in the press release you cite?

The Davies report (Women on Boards 2011) further addresses the case for increasing the numbers of women on company boards. 'The issues debated here are as much about improving business performance as about promoting equal opportunities for women. There is a strong business case for balanced boards. Inclusive and diverse boards are more likely to be effective boards, better able to understand their customers and stakeholders and to benefit from fresh perspectives, new

ideas, vigorous challenge and broad experience. This in turn leads to better decision making.'

<http://www.bis.gov.uk/assets/biscore/business-law/docs/w/11-745-women-on-boards.pdf>

I refer you to my IEA article. The Davies report's analysis was deeply left-wing throughout – as we'd expect from a report from a *Labour* peer – and it provides no evidence of a causal relationship between more women on boards and enhanced performance.

The Credit Suisse Research Institute report in August 2012 'Gender diversity and corporate performance' comments that while it is difficult to demonstrate definitive proof, they found that companies with more one or more women on the board have delivered higher average returns on equity etc. Their research suggests that a specific consequence of greater board diversity for shareholders is one of reduced volatility – manifested as enhanced stability in corporate performance and in share price returns.

https://infocus.credit-suisse.com/data/product_documents/shop/360145/csri_gender_diversity_and_corporate_performance.pdf

We have yet to find a report of this nature which, upon inspection, substantiates claims such as the ones you make. From page 17 of the report:

'There is a significant body of research that supports the idea that there is *no causation* [my emphasis] between greater gender diversity and improved profitability and stock price performance. Instead the link may be the positive signal that is sent to the market by the appointment of more women: first because it may signal greater focus on corporate governance and second because it is a sign that the company is already doing well. [My comment: in plain English, strongly-performing companies can better afford social engineering initiatives such as 'improving' gender diversity on boards, they may also have PR benefits.]

Adams and Ferreira (2009) looked at the impact of greater gender diversity on 1,939 US stocks between 1996 and 2003. On the face of it, their data showed positive gender diversity effects. However, using two different techniques to handle reverse causation, they found statistically significant negative effects on profits and stock value following the appointment of women to the board. Farrell and Hersch looked at 300

Fortune 500 companies between 1990 and 1999 and showed that firms with strong profits (ROA) are more likely to appoint female directors but that female directors do not affect subsequent performance.'

While we do recognise that the empirical evidence about the causal link between women's presence at Board level and financial performance may not yet be conclusive...

On the contrary, the empirical evidence *is* conclusive, but it shows a *negative* link between more women on boards and financial performance. I refer you again to my IEA article.

...we are conscious that many business leaders are supporting the case for change because they believe diversity is beneficial to corporate effectiveness.'

Sir Roger Carr, president of CBI (and Chairman of Centrica plc) and supporter of the 30% club "While I don't believe we should correlate financial performance with female board membership, I remain utterly convinced that better decision-making does result from greater board diversity. It is evident that this message is starting to penetrate the FTSE 100, and in the past 12 months more chairs have openly stated their commitment to boardroom diversity. And I want to be very clear – the entry ticket into boardrooms remains merit – gender is added value. From my own experience, a mixed gender board is simply a better place to be – better atmospherics, improved dynamics – more representative of employees, customers or shareholders. It's just a lot healthier.'

If Sir Roger Carr were correct that more women on boards leads to better decision-making, why does this not lead to improved financial performance? Indeed, it clearly leads to a *decline* in financial performance. Logically, Sir Roger Carr's analysis **MUST** be flawed.

The Commission is encouraged by the progress made so far by the FTSE companies and we will continue to support the voluntary business led approach confident that appointments can be made on merit and that gender diversity can be increased at the same time.

The FTSE companies' business-led approach is clearly **NOT** 'voluntary', it's driven by the government's threats of legislated quotas if they don't have 25% female representation on their boards by 2015. The proportion of new FTSE director appointments who are women was 14% in 2010 and 44% to date in 2012. In 2012 all the female appointments have been non-executive directors, while all 18 executive director

appointments were men. FTSE100 companies are simply taking the lowest-risk approach to the quotas problem.

You have manifestly failed to address the central question I posed to Baroness Prosser in my original email:

'Would you be so good as to supply us with evidence to back your claim that more gender diverse boards deliver superior performance?'

I hereby make a request for that evidence under the Freedom of Information Act, and I look forward to hearing from you in due course. Thank you.

Mike Buchanan

CAMPAIGN FOR MERIT IN BUSINESS
PO Box 2220
Bath

<http://c4mb.wordpress.com>

mikebuchanan@hotmail.co.uk

Yours sincerely

John Sharman
Policy Manager

Equality and Human Rights Commission
3rd Floor Lancaster House
67 Newhall Street
Birmingham
B3 1NA

Email: complaints@equalityhumanrights.com

Tel: 0845 604 6610
Fax: 0121 234 7312
Text Phone: 0845 604 6620