

Campaign for Merit in Business
PO Box 2220
Bath
United Kingdom

Email: mikebuchanan@hotmail.co.uk

Web: <http://c4mb.wordpress.com>

E-mailed to: Viviane.Reding@ec.europa.eu

Viviane Reding
European Commission Vice-President in charge of Justice, Fundamental Rights and Citizenship
B-1049 Brussels
Belgium

10 September 2012

Dear Ms Reding,

'Improved' gender diversity in the boardroom

I'm writing to invite you to provide evidence of the positive link you've claimed exists between 'improving' gender diversity in the boardroom, and enhanced corporate performance. The only evidence we have of a link is a *negative* one, as I outlined in an article for the Institute of Economic Affairs website (attached).

We've challenged dozens of organisations and hundreds of individuals (including the prime minister, David Cameron, and the business secretary, Vince Cable) to provide evidence of a positive causal link, and no evidence has been supplied to us. Even the Equality and Human Rights Commission ('EHRC') has failed to provide evidence, so yesterday we submitted a Freedom of Information Act request to the EHRC, seeking their evidence. Today we submitted a Freedom of Information request to the Department for Business, Innovation and Skills, again seeking evidence.

If you're unable to supply evidence of a causal link by the end of September, you'll have conceded that no such evidence exists. *Nobody* could then be in any doubt that 'improving' gender diversity in the boardroom is nothing more than a left-wing social engineering exercise which will inevitably lead to the decline of the business sector's profitability, with all the damaging consequences that will have for corporation tax revenues, business sector employment etc.

Yours sincerely,

Mike Buchanan

The gender diversity delusion

(Article published online by the IEA, 24 April 2012)

(For the blog and associated links: <http://www.iea.org.uk/blog/the-gender-diversity-delusion>)

It's frequently and confidently asserted (and inferred) by proponents of 'improved' gender diversity in the boardroom – henceforth 'GDITB' – that there exists a demonstrable and positive causal link between GDITB and improved corporate performance. What's the evidence for such a link? A 2007 McKinsey report, 'Women Matter', is frequently cited by proponents. It's available online and we find the following statement in it:

The statistically significant studies show that companies with a higher proportion of women on their management committees are also the companies that have the best performance. *While these studies do not demonstrate a causal link* [my emphasis] they do, however, give us a factual snapshot that can only argue in favour of greater gender diversity.

In 2010 David Cameron appointed the Labour peer Lord Davies of Abersoch to report on GDITB. The outcome was the Davies Report 'Women on Boards' published in February 2011. In the Executive Summary we find a confident reference to the McKinsey report, and then a clear inference of a causal relationship between GDITB and corporate performance:

Evidence suggests that companies with a strong female representation at board and top management level perform better than those without¹ and that gender-diverse boards have a positive impact on performance.²

¹ 'Women Matter', McKinsey & Company, 2007

²

The report shows the superscript – ² – at the base of the page but no reference source for the assertion is provided.

Only two independent studies show a causal relationship between GDITB and corporate performance, and in both cases it's a *negative* one. The first study was carried out by two academics at the University of Michigan, Kenneth Ahern and Amy Dittmar, and the latest draft was published in May 2011. The report's full Abstract:

In 2003, a new law required that 40 percent of Norwegian firms' directors be women – at the time only nine percent of directors were women. We use the pre-quota cross-sectional variation in female board representation to instrument for exogenous changes to corporate boards following the quota. We find that the constraint imposed by the quota caused a significant drop in the stock price at the announcement of the law and a large decline in Tobin's Q over the following years, consistent with the idea that firms choose boards to maximize value. The quota led to younger and less experienced boards, increases in leverage and acquisitions, and deterioration in operating performance, consistent with less capable boards.

Proponents of GDITB have claimed that the negative effect of legislated quotas on Norwegian businesses reflects only the effect of inexperienced directors, rather than any gender effect. So what do we find when organisations *voluntarily* 'improve' GDITB, appointing more female directors on the grounds of perceived merit? We turn to a discussion paper prepared for Deutsche Bundesbank earlier this year, titled 'Executive board composition and bank risk taking'. The researchers studied German banks over 1994-2010. The report's full Abstract:

Little is known about how socio-economic characteristics of executive teams affect corporate governance in banking. Exploiting a unique dataset, we show how age, gender, and education composition of executive teams affect risk taking of financial institutions. First, we establish that age, gender, and education jointly affect the variability of bank performance. Second, we use difference-in-difference estimations that focus exclusively on mandatory executive retirements and find that younger executive teams increase risk taking, *as do board changes that result in a higher proportion of female executives* [my emphasis]. In contrast, if board changes increase the representation of executives holding Ph.D. degrees, risk taking declines.

The British business community is, I contend, suffering from a collective delusion about GDITB. The multiple explanations for this delusion merit another article in themselves.

© Mike Buchanan, 2012