Commentary in red: added by Mike Buchanan 22 September 2012

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Ref No: 12/1299

17 September 2012

Dear Mr Buchanan

Thank you for your email of 10 September, where you requested details of the evidence base supporting the government's claims of a *causal* link between the proportion of women on corporate boards and enhanced corporate financial performance and for your letters to Secretary of State, Vince Cable, dated 29 May and 21 July.

The economic impact of increasing the number of women on corporate boards is difficult to evidence conclusively.
On the contrary, it *isn't*. You are aware of the University of Michigan and Deutsche Bundesbank studies. There are links to these studies in an article I wrote in April 2012 (attached), which was published online by the Institute of Economic Affairs:

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

Lord Davies' report *Women on Boards*, published in November 2011, set out our evidence base to date, I believe you stated in our phone conversation on 20.9.12 that the evidence base in question was contained in the original Davies report of February 2011. Could you please confirm this point in writing? and asserted that "the correlation between strong business performance and women's participation in management is striking."
Anyone with even a basic grasp of statistics understands that correlation should not be taken to imply or even infer causation. Many of the individuals and organisations which previously argued for the existence of a causal link between 'improved' gender diversity on boards and enhanced corporate performance, no longer do so. Notable examples include Professor Susan Vinnicombe and her team at Cranfield, and Catalyst, an American campaigning organisation.

Lord Davies' report contains no evidence of a causal link. My IEA article points to a startling omission concerning this matter, in the Executive Summary. The Davies report had a clear ideologically left-wing bias throughout, as we might expect from a Labour peer working with Susan Vinnicombe (among others).

Since Lord Davies' report there has been an increasing consensus in the business world around the business benefits that can be realised through greater boardroom diversity.

There's been no such consensus. There's been an unholy alliance between numerous ideologically-driven individuals and organisations. Dissenting voices haven't been given an opportunity to present the robust case <u>against</u> 'improving' gender diversity on boards. The unholy alliance includes:

- politicians, most notably David Cameron and Vince Cable
- civil servants including those at DBIS, EHRC…
- academics (particularly sociologists and social psychologists)
- Professor Susan Vinnicombe and her colleagues at Cranfield
- business organisations which should represent their members' interests, but don't in this area, most notably the CBI
- recruitment agencies, consultancies, and training organisations which make money from the initiative
- a small but influential band of business people, mainly men, such as Sir Roger Carr, chairman of Centrica. Many of the most prominent of these individuals, FTSE100 chairmen, are members of Helena Morrissey's 30% club
- journalists who enthusiastically report even the most ridiculous claims made of the supposed benefits of more women in boardrooms, as if they were factual

The department endeavours to keep up to date with new studies including the study conducted by the University of Michigan cited in your letter. This study considered the impact of quota legislation in Norway and found that "placing restrictions on the composition of a board will reduce value." This may be for example because quotas have led firms to recruit women board members that were less experienced than the existing directors and may not have the same monitoring or advising capabilities. This underlines the case for using a voluntary, business-led approach to driving change in this area.
The business-led approach is decidedly NOT voluntary. Under continuing government threats of legislated quotas for women in boardrooms if FTSE100 companies don't have a minimum of 25% female representation on their boards by 2015, the companies have been taking the obvious (lowest risk) solution to the problem, by appointing women as non-executive directors. In 2010 13% of new FTSE100 directors were women, while over March – August 2012 it was 55%, in excess of a quadrupling of the proportion. In 2012 all the new female directors have been women, while all 18 new executive directors have been men.

You cite the statement from the Michigan study, that 'placing restrictions on the composition of a board will reduce value.' I take it you agree with that reasonable statement? Then how can you justify the ongoing threat of quotas? If quotas are wrong in principle, how can the *threat* of them be right?

While the appointment of female non-executive directors might be the FTSE100 companies' lowest risk option, it was also the one taken by publicly-listed Norwegian companies in response to quotas. And we know from the University of Michigan study how damaging that was.

Government has been quite clear that recruiting the best person for the job is crucial for business success and firmly believes that appointments must be made on merit. Companies must be left to appoint people on merit using their own judgement as to what constitutes merit, not what others think constitutes merit. The threat of quotas is clearly forcing companies to recruit far more female directors than they would if left unthreatened.

Lord Davies' report is equally clear that the case for greater diversity does not hinge only on the link with improved corporate performance You seem to be implying the Davies report has evidence of such a link, when it patently doesn't. The FoI request I sent asked for evidence of this link, and you haven't supplied any but also on ensuring companies access the widest talent pool, are as responsive as possible to the markets they serve and look to improve corporate governance.
Surely companies are in the best position to make such judgements?

If you are dissatisfied with the handling of your request, you have the right to ask for an internal review. Internal review requests should be submitted within two months of the date of receipt of the response to your original letter and should be addressed to: foi.requests@bis.gsi.gov.uk
I am dissatisfied with the handling of my request, because you've failed to provide a shred of evidence for the causal link. You haven't even challenged the University of Michigan study which shows a causal link between increasing female representation on boards, and a *decline* in corporate performance. Given the evidence of this study (among others) we're left with an inescapable conclusion. 'Improving' gender diversity in boardrooms is a left-wing social engineering exercise which can only lead to the decline of the British business sector.

Please remember to quote the reference number above in any future communications.

If you are not content with the outcome of the internal review, you have the right to apply directly to the Information Commissioner for a decision. The Information Commissioner can be contacted at: Information Commissioner's Office, Wycliffe House, Water Lane, Wilmslow, Cheshire, SK9 5AF

Yours sincerely,

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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 without[1] 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.