

The *truth* about ‘improving’ gender diversity in boardrooms

‘Improving’ gender diversity in boardrooms leads to a *decline* in corporate performance. Campaign for Merit in Business has publicly challenged dozens of organisations and hundreds of individuals to provide evidence of the causal link they claim (or infer) between increased female representation on boards and enhanced corporate performance, and *none has been provided*. The organisations include the 30% club, Equality and Human Rights Commission, Department for Business, Innovation and Skills, Professional Boards Forum, Institute of Equality and Diversity Practitioners... and many others. The individuals include David Cameron, Theresa May, and Vince Cable.

The Conservative-led coalition is driving a left-wing social engineering initiative through the threat of legislated minimum quotas for women on boards. The initiative will *inevitably* damage the business sector. Campaign for Merit in Business has publicised robust evidence showing that ‘improving’ gender diversity on boards leads to a *decline* in corporate performance, whether the ‘improved’ diversity results from quotas, the threat of quotas, or otherwise. Part of this evidence:

The Changing of the Boards: The Impact on Firm Valuation of Mandated Female Board Representation (2011)

Professor Kenneth R. Ahern (University of Southern California – Marshall School of Business), Professor Amy K. Dittmar (University of Michigan – Stephen M. Ross School of Business). The paper’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* [my emphasis].

Link to this paper: http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1364470

Women in the Boardroom and Their Impact on Governance and Performance (2008)

Professor Daniel Ferreira (London School of Economics), Renée B. Adams (University of New South Wales). The paper’s full Abstract:

We show that female directors have a significant impact on board inputs and firm outcomes. In a sample of US firms, we find that female directors have better attendance records than male directors, male directors have fewer attendance problems the more gender-diverse the board is, and women are more likely to join monitoring committees. These results suggest that gender-diverse boards allocate more effort to monitoring. Accordingly, we find that CEO turnover is more sensitive to stock performance and directors receive more equity-based compensation in firms with more gender-diverse boards. *However, the average effect of gender diversity on firm performance is negative* [my emphasis]. This negative effect is driven by companies with fewer takeover defences. Our results suggest that mandating gender quotas for directors can reduce firm value for well-governed firms.

Link to this paper: http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1733385

Governance and Politics: Regulating Independence and Diversity in the Board Room (2010)

Professor Øyvind Bøhren (Norwegian School of Management), Professor R Øystein Strøm (Oslo University). The paper's full Abstract:

This paper analyses the economic rationale for board regulation in place and for introducing new regulation in the future. We relate the value of the firm to the use of employee directors, board independence, directors with multiple seats, and to gender diversity. Our evidence shows that the firm creates more value for its owners when the board has no employee directors, when its directors have strong links to other boards, *and when gender diversity is low* [my emphasis]. We find no relationship between firm performance and board independence. These characteristics of value-creating boards support neither popular opinion nor the current politics of corporate governance.

Link to the paper: http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1733385

Executive board composition and bank risk taking (2012)

(Deutsche Bundesbank Discussion Paper, 03/2012)

Professor Allen N. Berger (University of South Carolina, Wharton Financial Institutions Center and Tilburg University), Professor Klaus Schaeck (Bangor University), Thomas Kick (Deutsche Bundesbank). The researchers studied 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.

Link to this paper:

http://www.bundesbank.de/Redaktion/EN/Downloads/Publications/Discussion_Paper_1/2012/2012_03_06_dkp_03.pdf?__blob=publicationFile

Please contact me if you'd like more information on this topic and/or the Campaign for Merit in Business, or if you're able to support our campaign in any way. Thank you for your interest.

Mike Buchanan
Chief Executive
Campaign for Merit in Business
PO Box 2220
Bath

<http://c4mb.wordpress.com>
mikebuchanan@hotmail.co.uk
07967 026163