



Department for Business Innovation & Skills

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Our ref: FOI2015/17435

21 August 2015

Dear Mr Buchanan,

Thank you for your letter of 19 June 2015 where you enclosed your letter of 15 May 2015 and also requested the following information:

- 1. What evidence, if any, does the government have (from longitudinal studies) of a causal link between FRITB and enhanced corporate financial performance?*
- 2. Given that the government's threats of legislated gender quotas inevitably forces companies to appoint women in preference to men they'd prefer to appoint, what is the business case for FRITB?*
- 3. In 2012 I presented to House of Commons and House of Lords inquiries details of five longitudinal studies showing a causal link between FRITB and corporate financial decline. Do you and/or your officials find any flaws in these studies' methodologies, or conclusions? If so, what are they?*

Under the Freedom of Information Act 2000 ('the Act'), you have the right to:

- know whether we hold the information you require
- be provided with that information (subject to any exemptions under the Act which may apply).

A response to your letter of 15 May 2015 was sent to you on 16 June 2015 and has been attached for your information.

- 1. What evidence, if any, does the government have (from longitudinal studies) of a causal link between FRITB and enhanced corporate financial performance?*

2. *Given that the government's threats of legislated gender quotas inevitably forces companies to appoint women in preference to men they'd prefer to appoint, what is the business case for FRITB?*

In response to your first two questions I can confirm that the Department holds the information you have requested. However, the information is already in the public domain and is therefore exempt under Section 21 of the Act as we are not required to provide information which is already reasonably accessible to you. As previously mentioned in the letters sent to you on 17 September 2012, 09 October 2012, 21 February 2013 and 24 February 2014, the original evidence base was considered by Lord Davies and is contained within his *Women on Boards* report, published in February 2011. This can be found at:

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/31480/11-745-women-on-boards.pdf. A list of the reports was also sent to you in the letter from Mr Richard Carter on 09 October 2012.

Lord Davies' report is clear that the case for greater diversity does not hinge only on the link with improved corporate performance 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.

3. *In 2012 I presented to House of Commons and House of Lords inquiries details of five longitudinal studies showing a causal link between FRITB and corporate financial decline. Do you and/or your officials find any flaws in these studies' methodologies, or conclusions? If so, what are they?*

We acknowledge that the academic literature is mixed in findings regarding the impact of gender diversity on company performance – while we accept that some studies have found evidence to support the hypothesis that an increase in gender diversity can be associated with a reduction in performance, there are other studies that have shown the opposite.

We would never argue that there is a causal link in either direction (i.e. gender diversity causes an increase or decrease in company performance) given that all studies assessed have looked at the correlation between different variables. We could therefore only ever say that there is a link (if the findings are statistically significant) as, in studies of correlation, it is not possible to determine if increased diversity is causing changes in performance levels or if other factors are affecting this.

With regard to the specific papers referred to in your letter, there are some flaws in the methodologies and the appropriateness in using them in the UK context. These are summarised below –

- In the 'Executive Board composition and bank risk taking' report, the main finding that gender composition in the executive board is associated with higher risk levels is only statistically significant at the 10% level – a level not normally accepted in the academic literature (significance at the 5% level or below is usually required as evidence of significance). We would therefore not accept this finding as evidence that an increase in the proportion of women on the executive team is associated with an increase in risk-taking. In addition, the effect of gender appears to be driven by age – that is, there is a stronger relationship between risk taking and a lower age of the executive board than that of gender. The report also notes that any change in risk-taking for the more gender diverse group is 'economically marginal' and therefore had limited or no impact on the economic performance of the company (compared to the effect of age where there was a significant effect found on economic performance).

- In the 'Governance and Politics: Regulating Independence and Diversity in the Board Room' report, it is not possible to isolate gender in the statistical model presented. Therefore it is not clear if the effect on company performance is driven by other variables in the equation also shown to have an effect e.g. board size, employee directors and network – all of which had a stronger relationship with firm value than gender. This was supported by the finding that controlling for firm size, the gender effect was only significant for larger firms. It therefore appears that other variables may be more important in driving any change in firm value than gender.
- The findings presented in the paper 'Women in the boardroom and their impact on governance and performance' were mixed. The study found a positive relationship between female directors and 'greater participation in decision-making (through attendance and committee assignments), by tougher monitoring of the CEO and by more alignment with the interests of shareholders' (page 304). However, there was no evidence of an association between this and the company's economic performance - the study found a weak correlation between the fraction of female directors, Tobin's Q and Return on Assets that changed direction when accounting for other variables. The authors concluded that there was no evidence of a correlation between diversity and performance. The report concluded that it was not possible to account for other factors/variables (not included in the equation) that may be playing a part in influencing the relationship between diversity and performance and that any correlation was therefore not a robust result.
- Three of the five studies assess the impact of quotas on company performance in Scandinavia. These findings are not directly comparable to the UK as we do not have mandatory quotas – we would therefore not consider these findings to be appropriate in the UK context.

Appeals procedure

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 request and should be addressed to the Information Rights Unit:

Information Rights Unit
 Department for Business, Innovation & Skills
 1 Victoria Street
 London
 SW1H 0ET
 Email: FOI.Requests@bis.gsi.gov.uk

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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