justice
for men & boys
(and the women who love them)

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Information Rights Unit
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Dear Sir / Madam,

Your ref: FOI2015/17435
Yesterday I received a response to the FoI requests contained in my letter of 19 June 2015, concerning the impact of 'increasing female representation in the boardroom' (FRITB) on corporate financial performance. I am deeply dissatisfied with the content of the ideologically-driven response, for reasons I shall outline in detail, and I am therefore asking for an internal review.

In previous documents submitted to DBIS, I've often employed the term 'GDITB'. It means 'increasing gender diversity in the boardroom' and should be taken as being synonymous with FRITB.

The final three pages of this document include the Abstracts of five longitudinal studies we've been presenting to DBIS for over three years, as they provide evidence of a causal link between FRITB and corporate financial decline. I also presented them to House of Commons and House of Lords inquiries in 2012, on behalf of our associated campaigning organization Campaign for Merit in Business.[1]

A copy of your marked-up response is attached, enabling you to more easily engage with our 14 points. The points are numbered on the document accordingly.

Point 1
A recurring problem I have had with DBIS has been a consummate failure on the part of your colleagues to officially recognize the significance of the studies we cite being *longitudinal* studies. The failure continues with your latest letter. Only longitudinal studies can provide evidence of causal links – in this case, between gender and corporate financial performance – while studies showing correlations only do *not* provide evidence of causal links.

All the key reports and studies of which I'm aware, widely cited by proponents of FRITB as evidencing a 'business case' for it – McKinsey, Credit Suisse, Catalyst, Reuters Thomson come to mind – make it perfectly clear that the correlations they report are not evidence of causation. There are far more credible

[1] http://c4mb.wordpress.com

explanations for those correlations than some mysterious 'female factor', for example that high-performing companies can more easily afford to indulge in social engineering on their boards. In some sectors, notably retail, increasing the number of women on boards can be good public relations for the company, but is has *nothing* to do with improving corporate performance.

The distinction between correlation and causation is so pivotal to our challenge of the government's policy direction in this area, that if you don't understand it, I would ask for this review to be conducted by someone who does.

Despite our continued requests, DBIS, in common with a large number of individual and institutional proponents of FRITB, has failed to provide us – and our associated campaigning organization, Campaign for Merit in Business - with details of longitudinal studies demonstrating a positive causal link between FRITB and enhanced corporate financial performance.

Our first FoI question was this:

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

An honest answer would have been:

> None.

Point 2

DBIS keeps presenting the ideologically-driven Davies Report (2011)[1] as providing evidence of the purported benefits of FRITB – a 'business case', if you will. *It does nothing of the kind, and repeating the lie doesn't make it true.* To illustrate this point, I refer you to the Executive Summary, specifically one key sentence:

> 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]

At the end of the Executive Summary, we find the following:

> [1] Women Matter, McKinsey, 2007
> [2]

The first superscript refers to a report we've tracked down for your reference.[2] The only substantive content on FRITB and corporate financial performance in the 28-page report is on pp. 12-14. We've been unable to reproduce the two graphics, but the associated text starts:

> … we conducted a second study, jointly with Amazone Euro Fund.

As you might anticipate from the name, Amazone Euro Fund[3] is an advocate of FRITB, and refers on its website to reports such as McKinsey's. A self-perpetuating circle of ideologically-driven nonsense. The report continues:

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[1] https://j4mb.files.wordpress.com/2015/08/150821-davies-report-2011.pdf
[2] http://tinyurl.com/oulne7q
[3] http://amazonefund.com/

> We selected the 89 European listed companies with the highest level of gender diversity in top management posts.

This statement begs at least two questions which should have been put to Amazone, and surely weren't:

- *Why* did you select companies using that curious criterion, one of many possible ones?
- How applicable are your findings to companies in general, *if at all*?

We can only assume the answer to the first question is, 'Because this selection best supports our narrative that FRITB leads to enhanced corporate performance.' The answer to the second question is anyone's guess, but in the absence of the answer that the findings are applicable to companies in general, *the results cannot be used to support a drive for FRITB*. The report continues:

> The companies were selected from all European listed companies with a stock market capitalization of over €150 million, on the basis of the following criteria: the number and proportion of women on the executive committee, their function (a CEO or CFO having greater weight on corporate decisions than a Communications Manager) and, to a lesser extent, the presence of more than two women on the board, or statistics on gender diversity in the annual report. McKinsey then analyzed the financial performance of these companies relative to the average for their sector. There can be no doubt that, on average, these companies outperform their sector in terms of return on equity (11.4% vs an average of 10.3%), operating result (EBIT 11.1% vs 5.8%) and stock price growth (64% vs 47% over the period 2005-7).
>
> What conclusions should we draw? These statistically significant studies show that companies with the highest proportion of women on their management committees are also the companies that have the best performance. *While the statistics 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.

It really couldn't be clearer, could it? McKinsey are *not* claiming a causal link, and in citing this report as supporting FRITB Lord Davies is being disingenuous, to say the least.

The content of the final sentence after the text in italics is ideologically-driven nonsense, essentially saying there should be more women on boards although there's no evidence that corporate financial performance will improve as a result. In addition, it is surely assumed by the author of the report that evidence of a causal link between FRITB and corporate financial decline would not later be found – yet that evidence *was* later found, not least in the five longitudinal studies.

We turn to the second superscript, which manages to be both significant and comical. It relates to the extraordinary claim that 'gender-diverse boards have a positive impact on performance'. The fact that no evidence is provided to substantiate the claim tells us all we need to know.

Has any evidence been published since the Davies Report was published, to substantiate the claims with the two superscripts? Not to the best of our knowledge. In 2012 – representing Campaign for Merit in Business – I engaged with House of Commons and House of Lords inquiries, giving oral evidence to the former, a video of which is on our YouTube channel.[1]

Professor Susan Vinnicombe[2] heads the Cranfield International Centre for Women Leaders, and has been the foremost academic proponent for FRITB in the world for many years. If anyone should be aware of a causal link between FRITB and enhanced corporate performance, it would surely be her. So how did she

[1] https://www.youtube.com/watch?v=zwqTi6HN0pM
[2] http://tinyurl.com/pvgahht

respond to a direct question on the matter posed by Lord Fearn in the course of the House of Lords inquiry? We published a blog piece on the matter.[1] Lord Fearn asked:

> Is there a strong business case for improving the gender diversity of boards? If so, does it follow that there is also a strong business case for increased gender diversity on boards across the EU?

This is the key section in Professor Vinnicombe's response:

> Thirdly, there has been quite a push in the past – indeed, we ourselves have engaged in such research – to look at the relationship between having women on corporate boards and financial performance. We do not subscribe to this research. We have shared it with chairmen and they do not think that it makes sense. We agree that it does not make sense. You cannot correlate two or three women on a massive corporate board with a return on investment, return on equity, turnover or profits. We have dropped such research in the past five years and I am pleased to say that Catalyst, which claims to have done a ground-breaking study on this in the US, officially dropped this line of argument last September.

The term 'massive corporate board' is disingenuous. Extremely few corporate boards are 'massive'.

Our second FoI question was this:

> 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?

An honest answer would have been:

> There is no business case for FRITB.

Point 3
The text '… the case for greater diversity does not hinge only on the link with improved corporate performance…' is misleading, because (as I've demonstrated time and again, including above) Lord Davies's report signally failed to provide *any* evidence of a link with improved corporate performance.

Point 4
'… ensuring companies access the widest talent pool…'. This is an obvious allusion to the mythical 'glass ceiling', which doesn't exist now, and in my view – and others with long business careers – never did. The reasons for the historically low representation of women on major corporate boards are perfectly well understood, and have *nothing* to do with men discriminating against women. Women currently occupy 25% of FTSE100 board positions – the proportion having doubled since 2010, as a result of the threats of legislated gender quotas in the Davies Report – while we would expect women to occupy fewer than 5% of FTSE100 board positions on the basis of merit, as I shall now demonstrate:

> <u>Gender-typical work ethic</u>
> Dr Catherine Hakim is a world-renowned British sociologist, and in 2000 she published a paper on 'Preference Theory'.[2] She found that while four in seven British men are 'work-centred' – specifically with respect to paid employment – only one in seven British women is. All else being equal, then, we might expect about 20% of FTSE board directors to be women. But all else is *far* from equal.

[1] http://tinyurl.com/q3wkuv3
[2] http://tinyurl.com/noubb4a

> <u>Proportion of women in the private sector workforce</u>
> Around a third of private sector workers are women (two-thirds of public sector workers are women). Combining this with the work ethic issue, we'd expect fewer than 7% of FTSE100 board directors to be women, all else being equal. But all else is not equal.
>
> <u>Professional discipline</u>
> Men still dominate the upper reaches of the profession most likely to lead to board positions – and executive board positions, in particular – Finance. Combining this with the two previous issues, we'd expect fewer than 5% of FTSE100 board directors to be women.
>
> It's worth noting here that the vast majority of the women appointed to FTSE100 boards since the Davies Report have something in common with the vast majority of the existing female FTSE100 directors – they were appointed as non-executive directors. This alone is evidence of a 'competence gender gap' at the top of major companies, one resulting from the different life choices made by men and women.

Point 5
'… ensuring companies… are as responsive as possible to the markets they serve…'. This is a bit of ideologically-inspired nonsense, suggesting usually that as women are major buyers of goods, they will bring a mysterious 'X factor' to company boards, notably those of retailers. The idea that because women spend more time (and money) than men shopping, they should be preferenced for FTSE100 board positions, is comical. Let's see where this bizzare logic takes us. Because women very rarely work 'at the coal face' in extractive industries, should they be excluded from the boards of FTSE companies operating in that sector? Or because women (as private citizens) rarely buy military aircraft and associated weapons systems – hopefully, anyway – should they be excluded from the board of British Aerospace PLC?

Point 6
'… ensuring companies… look to improve corporate governance.' The corporate governance that FRITB seeks to 'improve' is FRITB, a circular argument – 'We need to appoint more women onto our board, because improving corporate governance requires that we appoint more women onto our board.'

Point 7
The academic literature is self-evidently NOT 'mixed'. You cannot (with any integrity, anyway) compare non-longitudinal studies showing correlation with longitudinal studies showing causation, then state the literature is 'mixed'. The former studies are literally *worthless* in proving or disproving causal links.

Point 8
'… it is not possible to determine if increasing diversity is causing changes in performance levels or if other factors are affecting this.' Yes, it *is* possible, and the five longitudinal studies we cite do precisely that.

We turn to your critiques of those five longitudinal studies, which we've been presenting to DBIS since 2012. You fail to recognize the critical point that these are *longitudinal* studies, providing evidence of causal links. It is immediately apparent that your approach is deeply ideological, not rational. You have no wish to engage constructively with the studies, and fail to critique two of them, implicitly accepting their validity. Of the three studies you critique, you do what you can to dismiss some elements, while not taking other elements on board, notably those showing a causal link between FRITB and corporate financial decline.

Point 9
Some of your conclusions are at odds with those stated in the Abstract of study #5. For example, you state:

> 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.

The Abstract contains this:

> 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].

From the 'Non-technical summary' of the report:

> We construct a unique dataset for the entire population of German bank executive teams for the period 1994 – 2010. Exploiting this dataset, we examine how the age, gender, and education composition of banks' executive boards affect bank risk taking. *In our first test, we empirically establish that age, gender, and education affect the observed volatility of bank profits* [my emphasis]…
>
> We obtain the following key results. First, we show that younger executive teams increase risk-taking. *Second, board changes that result in a higher proportion of female executives also lead to a more risky conduct of business* [my emphasis].

You write, '… 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 of gender'. This raises two questions:

- gender might be a less important issue than age, but does that justify dismissing gender as an issue, and if so, why, other than on ideological grounds?
- might the appointment of more women in itself be leading to younger and less experienced boards, leading to more risk-taking?

The answer to the second question is a categorical 'Yes'. From p.32 of the report, in the Results section:

> First, we focus on possible differences in terms of job experience, captured by the number of years an individual served over an entire career as an executive at any institution. Table IX indicates that the new female board members are significantly less experienced, providing some suggestion that lack of expertise drives the increase in risk taking. A similar argument is provided by Ahern and Dittmar (2010) [Note: study #1] who focus on the relationship between firm value and board structure in Norway. They find that the introduction of a gender quota in 2003 had adverse effects on firm values *because the appointed female directors lacked experience and were younger on average* [My emphasis].

Points 10, 11, 12
This refers to study #2. In point 10, you state:

> … it is not possible to isolate gender in the statistical model presented.

The study's Abstract includes this:

> 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].

Point 11 is irrelevant – what does it matter, in the context of our exchange, if factors other than gender have a stronger impact on company performance? We are focusing on gender impacts here, and it is evident they exist, and argue against FRITB. As for point 12, 'the gender effect was only significant for larger firms', need I point out that the focus of the government's current drive for FRITB is limited to FTSE 100 companies? And we know the government's longer-term goal is gender parity on FTSE350 boards.[1]

[1] https://j4mb.wordpress.com/2014/03/04/why-you-should-sell-any-ftse350-shares-you-own-now/

Point 13

You misrepresent the findings of study #4. You write:

> The authors concluded that there was no evidence of a correlation between diversity and performance.

The authors wrote in the study's Abstract:

> The average effect of gender diversity on performance is negative.

Point 14

It is patently absurd to suggest that because the driver of FRITB in Norway was legislated gender quotas, and in the UK it was the threat of them – which led directly to the proportion of women on FTSE100 boards increasing from 12.5% in 2010, to 25.0% in 2015 – the Norwegian findings are 'not appropriate in the UK context'. If FRITB had been shown to *improve* corporate performance in Norway, would you have considered the fact 'not appropriate in the UK context'? Surely not. You are unconsciously revealing that you know perfectly well the 'Norwegian findings' do not support FRITB.

Two of the studies (#4 - United States, #5 - Germany) relate to organizations where the increases in FRITB were not the consequence of legislated quotas, so by your logic they *should* be comparable. And they found exactly the same as the studies of Norwegian companies – FRITB leads to corporate financial decline.

While some minor elements in the five studies may be challenged, they *overwhelmingly* demonstrate a causal link between FRITB and corporate financial decline. There is no business case for FRITB, the driver of which has always been an ideological one, since long before the Davies Report. It is scandalous that a Conservative government continues to drive an anti-meritocratic anti-business social engineering exercise not even mooted by the Labour administrations of 1997-2010.

It has been widely trailed that in October a further report will be published, this time threatening FTSE100 companies into appointing more women into the senior executive levels beneath the board, in an effort to solve the mythical 'pipeline problem'. Will the report be explaining why the drive for FRITB is so important, that corporate financial decline is a price worth paying? And if not, why not?

I shall be posting a copy of this letter and associated documents on the websites of Justice for Men & Boys, and Campaign for Merit in Business, and I look forward to your response shortly. Thank you.

Yours sincerely,

Mike Buchanan
PARTY LEADER

Increasing female representation in the boardroom leads to a decline in corporate performance: the evidence

Date: 12 November 2012

When asked for the evidence behind our assertion that increasing female representation in the boardroom ('FRITB') leads to declines in corporate financial performance, we respond:

1. Leading proponents of FRITB no longer claim a positive causal link with enhanced corporate performance. Examples include Professor Susan Vinnicombe (Cranfield) and Catalyst (the American feminist campaigning organisation which was the source of some studies *still* cited by some proponents of FRITB). Even a strongly pro-FRITB report from a House of Lords inquiry into 'Women on Boards' (published 9 November 2012) concluded, 'We did not find proven the argument that there is a causal link between more gender diversity on boards and stronger financial performance'.
2. We've challenged dozens of organisations which are proponents of FRITB, and hundreds of individuals, to supply robust evidence of a positive link. They've collectively provided us with *nothing*.
3. We've given considerable publicity to five studies showing the negative impact of FRITB on corporate performance, and challenged many proponents of FRITB to refute the studies, or highlight any weaknesses in them. They've failed to do so.

It is with some confidence, then, that we state the evidence behind our assertion that FRITB leads to a decline in corporate performance is *overwhelming*. Details of the five studies we cite are detailed below. The first three studies relate to the impact of the imposition of quotas on Norwegian publicly-listed companies.

1. The Changing of the Boards: The Impact on Firm Valuation of Mandated Female Board Representation (2011)[1]

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].

[1] http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1364470

2. **Governance and Politics: Regulating Independence and Diversity in the Board Room** (2010)[1]

Professor Øyvind Bøhren (Norwegian School of Management)**,** Professor R Øystein Strøm (Oslo and Akershus University College). 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.

3. **A Female Style in Corporate Leadership? Evidence from Quotas** (2011)[2]

Professor David A Matsa (Northwestern University, Kellogg School of Management), Professor Amalia R Miller (University of Virginia). The paper's full Abstract:

> This paper studies the impact of gender quotas for corporate board seats on corporate policy decisions. We examine the introduction of Norway's 2006 quota, comparing affected firms to other Scandinavian companies, public and private, that were unaffected by the rule. Based on differences-in-differences and triple-difference models, we find that firms affected by the quota undertook fewer workforce reductions than comparison firms, increasing relative labor costs and employment levels *and reducing short-term profits* [my emphasis]. The effects are strongest among firms that had no female board members before the quota was introduced and present even for boards with older and more experienced members. The boards appear to be affecting corporate strategy in part by selecting like-minded executives.

4. **Women in the Boardroom and Their Impact on Governance and Performance** (2008)[3]

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.

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[1] http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1733385
[2] http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1636047
[3] http://personal.lse.ac.uk/FERREIRD/gender.pdf

5. Executive board composition and bank risk taking (2012)[1]
(Deutsche Bundesbank Discussion Paper, 03/2012)

Professor Allen N. Berger (University of South Carolina, Wharton Financial Institutions Center and Tilburg University), Thomas Kick (Deutsche Bundesbank), Professor Klaus Schaeck (Bangor University). The researchers studied German banks over 1994-2010. The paper'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.

[1] http://tinyurl.com/m72hskz