Increasing gender diversity on boards leads to a decline in corporate performance: the evidence

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

1. Leading proponents of GDITB no longer claim a positive causal link with enhanced corporate performance. Examples include Professor Susan Vinnicombe (Cranfield) and Catalyst (the American campaigning organisation which was the source of some studies *still* cited by some proponents of GDITB). Even a strongly pro-GDITB 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 GDITB, and hundreds of individuals, to supply robust evidence of a positive causal link. They've supplied *nothing*.
3. We've given considerable publicity to six studies showing the negative impact of GDITB on corporate performance, and challenged many proponents of GDITB to refute the studies, or highlight any weaknesses in them. They've failed to do so.

The evidence behind our assertion that GDITB leads to a decline in corporate performance is *overwhelming*. Details of the six studies we cite are detailed below. The first four studies relate to the impact of the imposition of quotas on Norwegian publicly-listed companies.

1. Women directors, firm performance, and firm risk: A causal perspective (2019)

Philip Yang, Jan Riepe, Katharina Moser, Kerstin Pull (Tuebingen University, Germany), Siri Terjesen (Norwegian School of Economics, Bergen). The paper's full Abstract:

> Norway was the first of ten countries to legislate gender quotas for boards of publicly traded firms. There is considerable debate and mixed evidence concerning the implications of female board representation. In this paper, we explain the main sources of biases in the existing literature on the effects of women directors on firm performance and review methods to account for these biases. We address the endogeneity problem by using a difference-in-differences approach to study the effects of women directors on firm performance with specific consideration of the common trend assumption, and we explicitly distinguish between accounting-based (i.e., operating income divided by assets, return on assets) and market-based (i.e., market-to-book ratio and Tobin's Q) performance measures in the Norwegian setting. The control group are firms from Finland, Sweden, and Denmark. We further extend the analysis of causal effects of women directors to firm risk. Our results imply a negative effect of mandated female representation on firm performance and on firm risk.

Link to this paper is here.

2. 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 is here.

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

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.

Link to this paper is here.

4. A Female Style in Corporate Leadership? Evidence from Quotas (2011)

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.

Link to this paper is here.

5. 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 is here.

6. 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), 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.

Link to this paper is here.

This briefing paper was prepared by Campaign for Merit in Business, a British organisation, currently the only one in the world campaigning against ideologically-driven initiatives to increase female representation on corporate boards, on account of the strong evidence of a causal link between this policy direction and corporate financial decline.

Its leader is Mike Buchanan, a men's rights advocate, writer, and publisher, and a former business executive. He also leads the only political party in the English-speaking world campaigning for an end to state assaults on the human rights of men and boys on many fronts, which was launched in February 2013:

Justice for Men & Boys
(and the women who love them)
http://j4mb.org.uk