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

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Quotas for women on boards – an anti-meritocratic way to cause corporate financial decline

Our political party is associated with a campaign launched in May 2012, **Campaign for Merit in Business**[1] – C4MB. We recently posed the following public challenge to Dr Jude Browne:[2]

> If the evidence shows that increasing female representation on boards leads to corporate financial decline, would that be a price worth paying?

No response has so far been forthcoming. C4MB campaigns against initiatives designed to drive up the representation of women on corporate boards. We've engaged with two parliamentary inquiries[3,4] and done much more besides, including giving numerous interviews on BBC radio and television.[5] Compelling evidence shows that one consequence of increasing the proportion of women on corporate boards is financial decline.[6] Abstracts of three of the studies we cite are overleaf. C4MB has publicly challenged[7] many prominent advocates of 'more women on boards' to refute our evidence base, or provide evidence of a causal link between more women on boards and improved financial performance. No responses to these challenges have ever been received. The leading academic advocate in the world for more women on boards, Professor Susan Vinnicombe, admitted to a House of Lords Inquiry in July 2012[8] that she and Catalyst (a leading feminist campaigning organization) had ceased claiming that placing more women on corporate boards could be expected to lead to improved financial performance.

C4MB believes the key explanation for corporate financial decline has been, and continues to be, the inexperience of the women being appointed to boards, rather than their gender. As evidence of this, virtually all the women currently being appointed to FTSE100 boards have something in common with the vast majority of the *existing* female directors – they're being appointed as non-executive directors.

The reasons why few women reach senior positions are perfectly well understood, and were outlined in a book written by Mike Buchanan, the leader of both J4MB and C4MB, *The Glass Ceiling Delusion* (2011). The most important reason is gender-typical differences in work orientation. The eminent sociologist Dr Catherine Hakim showed in her paper on Preference Theory (2000)[9] that while four in seven British men are 'work-centred', only one in seven British women is. All else being equal, we might expect a male:female ratio of 4:1 on FTSE100 boards, for this reason alone.

But all else is *not* equal. Two-thirds of private sector employees are men, and men have historically greatly outnumbered women in the senior levels of professions most likely to lead to major board positions, notably Finance. Combining all these factors would lead us to expect women to hold fewer than 5% of FTSE100 directorships. But women currently hold 19% of these positions, so are already *over*-represented – on the grounds of work orientation, representation in the private sector, and profession – by a factor of almost 4:1. One recommendation in the Turner Report (2011) was that if FTSE100 companies hadn't 'voluntarily' increased the proportion of women on their boards to 25% by 2015, the government should consider introducing legislated gender quotas. FTSE100 companies increased the proportion of newly-appointed directors who were women from 13% in 2010 (pre Turner Report) to 55% in 2012.

[1] http://c4mb.wordpress.com
[2] http://j4mb.wordpress.com/your-invitation-to-a-presentation-in-cambridge-29-october/
[3] http://c4mb.wordpress.com/2013/06/20/our-critique-of-the-house-of-commons-report-on-women-in-the-workplace
[4] http://c4mb.wordpress.com/2012/11/10/house-of-lords-inquirys-final-report-on-women-on-boards
[5] http://www.youtube.com/watch?v=o8KX6MRux1c
[6] http://c4mb.wordpress.com/improving-gender-diversity-on-boards-leads-to-a-decline-in-corporate-performance-the-evidence
[7] http://c4mb.wordpress.com/our-public-challenges-of-high-profile-proponents-of-improved-gender-diversity-in-boardrooms
[8] http://c4mb.wordpress.com/2012/07/20/a-remarkable-statement-by-a-leading-proponent-of-improved-gender-diversity-in-the-boardroom
[9] http://c4mb.wordpress.com/2012/07/19/dr-catherine-hakims-preference-theory

The evidence base – increasing female representation on boards causes financial performance decline

Longitudinal studies alone can demonstrate the causal impact of increasing female representation on boards on financial performance. Many non-longitudinal studies show correlations but all such studies – of which we're aware – state that correlation isn't proof of causation, nor does it even *imply* causation. They include studies published by Catalyst, McKinsey, Credit Suisse, and many others. On the C4MB website are links to five longitudinal studies showing increased female representation on boards leading to corporate financial declines. Abstracts of three of these studies are provided below.

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* [our emphasis].

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* [our 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.

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* [our emphasis]. In contrast, if board changes increase the representation of executives holding Ph.D. degrees, risk taking declines.

If you'd like any further information on **Campaign for Merit in Business** or **Justice for men & boys (and the women who love them)** feel free to contact me at any time. Thank you.

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