

Sorry, but there's no business case for gender quotas

30 August 2012, by Renee Adams



There's support across the globe for increased female participation at leadership levels. In Norway, it's a legislative requirement that at least 40% of the board members of listed companies are women. Spain, Italy, Belgium and The Netherlands also have mandated quotas. Firms and organisations in other countries, including Australia, are voluntarily adopting gender targets.

Of the many reasons put forward to promote gender diversity in workplaces, a call for general [fairness](#) is one of the more effective and is easily understood. But the debate becomes illogical when diversity advocates claim that company performance will automatically lift if there are more [women](#) involved in executive-level decisions.

In fact, it does women a disservice to raise such [unrealistic expectations](#). The findings of a range of diversity [research projects](#) that I have been involved with, using data from a number of countries and from different periods starting in 1996, make it evident that there is no actual business case for gender targets. Some

companies may do better with more women, but others may not.

If it really were clear that simply adding a woman to the board would increase shareholder value by a significant amount, you can be sure that firms would already be doing it. This is business, after all.

Of course, there is a fairly large literature arguing that such a business case exists. In essence, such claims point to a correlation between [firm performance](#) and gender diversity on the board. That correlation is always positive if you only look at it as a correlation. But what the literature completely ignores is the question of whether this [correlation](#) is causal. As soon as you try to address the causality question, you don't find this positive relationship anymore.

But the news is not all bad. Our research has revealed benefits that women bring to boards: notably conscientiousness, better [corporate governance](#) and performance accountability. Women also appear to be tougher monitors of management. The likelihood that a CEO will get fired if performance goes down is higher when more women are on the board.

Whether a tough board is always a good thing is contestable. If a board is constantly nitpicking and looking over the CEO's shoulder, the CEO is less likely to share much information with the board, which may be less than ideal for decision-making. In the female participation debate, nothing is black and white.

But we do know that women are more likely to turn up to board meetings than men, and that men show up for more meetings when there are more women on the board. Also, when it comes to directors' pay, women are more aligned with shareholders by having a greater portion of equity in their compensation. These are likely positives.

Also, contrary to their counterparts in the wider population, women on boards are less tradition-bound and less averse to risk than men. This encourages the idea that if women were able to have an effect on boardroom decisions so that their values were reflected, they could facilitate innovation. Another possible positive.

I'm a big advocate of diversity and value working in diverse groups. But at the same time, I don't believe who we work with should be mandated. Some senior managers may decide that they're happier working with men. Perhaps they enjoy going off to football games after board meetings and believe that women wouldn't enjoy that sort of bonding. Sometimes people just work better with particular types of people. If that means men and the company is operating well, then that's a perfectly valid approach, if regrettable from an equal opportunity point of view.

Yes, there are demonstrable effects and arguable benefits in promoting the participation of women. But it's foolish to claim that their input will automatically improve company performance, or that at the very least, won't make it any worse. It's simply not true – and has the unintended consequence of setting women up for a fall.

More information:

[papers.ssrn.com/sol3/cf_dev/Ab ...
th.cfm?per_id=248065](https://papers.ssrn.com/sol3/cf_dev/Abstract.cfm?per_id=248065)

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