Quotas are wrong way to increase female representation on boards

LSE research influenced debate on lack of women in company boardrooms and the UK Government decision to reject quotas

What was the problem?

Given that more than half of the British population is female it has been a longstanding cause for concern that so few women are appointed to company boardrooms as executive or non-executives directors.

Figures show that only a fifth of directors are women while just 7% are executives. Critics charge that not only is this an unequal and unfair representation of the workforce, but also that it translates into the exclusion of a significant pool of skilled contributors. This exclusion is considered particularly egregious given that it is occurring at the senior levels where strategic (as opposed to operational) decisions are made.

A number of approaches for increasing the diversity of those serving as executive and non-executive directors have been proposed over the last decade, including: voluntary initiatives by companies; “comply or explain” – corporate governance codes that set a target and insist companies provide an explanation should they miss it; and legal requirements setting specific quotas in terms of percentage of board membership held by women.

What did we do?

LSE Professor of Finance Daniel Ferreira and Research Associate Renée Adams found that female directors had a significant positive impact on how company boards were run. In particular, their study of US businesses found that women directors turned up to more meetings than men, and that having more women on the board made it more likely that the male directors would attend.

They also found that firms that had more gender-diverse boards allocated more effort towards monitoring the senior executives. As a result, chief executive officers in those firms tended to have less managerial power and their pay and career tended to be based more on the performance of the share price.

However, they found that not all firms benefitted equally. Companies that had fewer defences against hostile takeovers by other companies benefitted less from the extra governance that came with a gender-diverse board. In fact, they found such firms could suffer from ‘over-monitoring’ which added costs with little benefit. They concluded that setting quotas for female

directors failed to take account of the different forms of corporate governance between firms and that, for that reason, it would be preferable for companies to regulate their own diversity levels.

What happened?

Ferreira was invited to give oral evidence to the House of Commons Treasury Select Committee inquiry on "Women in the City". The committee's final report in April 2010, which cited the LSE evidence, concluded that it did not consider a legal requirement for boards to contain a particular proportion of women to be "appropriate". The report emphasised both the benefits and costs of increased monitoring by boards.

> "Dr Ferreira noted that while quotas can achieve gains in the long run, they are associated with costs in the short run."
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> **Report by the House of Commons Treasury Committee, *Women in the City*, April 2010**

When the Coalition Government came to power in May 2010, it pledged to promote gender equality on the boards of listed companies. It has since decided not to impose gender quotas and instead endorsed a self-regulation regime.

LSE's research was cited in a report by Credit Suisse on gender diversity and performance that compared practices across countries. Ferreira was invited to discuss the issue of gender diversity with practitioners and regulators at many events, such as the 2010 International Corporate Governance Network Conference in Toronto.

The European Commission cited LSE's work in a 2012 staff working document on the costs and benefits of improving gender balance. It found that "binding measures will entail comparatively larger costs and administrative burdens". The Organisation for Economic Cooperation and Development cited LSE's research in its 2012 Entrepreneurship at a Glance report.

The research received extensive coverage in the British and international press as the issue of gender diversity was being debated in the UK and across the European Union. It was cited in The Financial Times and The Economist and discussed in a Wall Street Journal blogpost.

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