Challenging Assumptions:

HOW EFFECTIVE ARE GENDER QUOTAS ON CORPORATE BOARDS?

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Introduction

Countries have pursued the goal of creating gender-equal societies by increasing female representation on corporate boards voluntarily or by mandate. The United States does not mandate gender diversity for corporations on a federal level, but some business entities such as the NASDAQ Stock Market, require gender and racial diversity. Even California attempted to impose gender and racial quotas, but lower courts overturned these mandates.[1]

The issue of quota mandates is not settled, nor will cultural pressure to increase diversity, equity and inclusion (DEI) through representation on boards and leadership abate. Often, legislation and regulation that affect for-profit entities spread to nonprofit organizations, resulting in a shift from their mission and increased costs that can divert resources away from the individuals and causes they serve.

With little data from the United States, Philanthropy Roundtable examined two other countries that have increased female board representation through mandates or voluntary action: Norway and Sweden. This policy brief summarizes the three key points from the research on gender board diversity efforts and its application for the charitable sector:

1. **A diverse board doesn't guarantee a bigger bottom line.** Empirical research is mixed at best on questions of board effectiveness and firm performance but offers no causal evidence linking the two.
2. **Board gender diversity fails to advance most women.** The only women who have measurably benefited from greater female representation on boards are the female board members themselves, so-called "golden skirts."
3. **Mandates are unnecessary and counterproductive.** Voluntary measures are as effective as government mandates, without the downsides of regulation.

1 Alec Schemmel, "California Court Upholds Ban on Race, Gender Quotas for Corporate Boards," *KMPH Fox 26 News*, December 20, 2022. https://kmph.com/news/local/california-court-upholds-ban-on-race-gender-quotas-for-corporate-boards (accessed September 12, 2023).

Overview

Boards of directors serve a critical governance role in corporations and noncorporate organizations including providing direction, strategy, oversight, and accountability. Board independence has long been recognized as key to effectiveness. Conventional wisdom holds that board members harboring conflicts of interest would not execute their monitoring role as effectively.

Diversity of board membership has gained steam as a signal of independence and thereby, effectiveness. The basic argument is that heterogeneity allows boards to engage in deeper conversations or debates and then develop a broader range of alternatives. Whereas members of homogeneous boards share similar opinions, which leads to conformity and the potential failure to challenge the thinking of management–a critical board function.

Diversity should be broadly defined to include both visible (race, ethnicity, gender, age, etc.) and less visible characteristics (religion, educational background, geographic background, occupation, worldview, etc.). Unfortunately, it is often reduced to observing one or two visible dimensions: gender and race. This approach overlooks the characteristics that can add insight, experience, and knowledge to a board even if the members share the same gender or ethnic background.

The private sector embraced women on corporate and noncorporate boards on economic and ethical grounds. The percentage of female directors of S&P 500 boards has grown 28 percent over the past five years and 77 percent over the past decade.[2] Policymakers are no longer waiting for the private sector to embrace greater female representation voluntarily but legislating it, despite whether empirical research validates the need for government action.

2 "2022 S&P 500 Board Diversity Snapshot," ***Spencer Stuart,*** June 2022 https://www.spencerstuart.com/-/media/2022/june/diversitysnapshot/sp500_board_diversity_snapshot_2022.pdf (accessed September 12, 2023).

Board Diversity and Firm Performance

The most substantive argument in favor of board diversity is that gender composition can improve a firm's financial performance. However, much of the large body of research examining the relationship between gender diversity on corporate boards and firm performance is inconclusive.

Some studies find that companies with board gender diversity enjoy a better firm performance by market and accounting measures[3], greater participation in philanthropy, and potentially increased innovation and problem-solving.[4] Other studies found that neither ethnicity nor gender had an impact on firms' financial performance, or conflicting results (both positive and negative relationships). One study pointed to a negative impact on firm performance if women are only selected out of societal pressure.[5]

The most compelling results are from two meta-analyses within the past few years. The first synthesized findings from 140 studies covering more than 90,000 firms from over 30 countries and the other examined data from 20 studies.[6] The conclusion was that a higher representation of females on corporate boards is "neither related to a decrease nor to an increase in firm financial performance."[7]

One economist theorizes that nonrigorous, non-peer-reviewed studies conducted by consulting firms, information providers, and financial institutions provide unsupported claims of causation that the media popularize.[8] When that claim of caution is rigorously tested, there is no definitive evidence that gender diversity on boards leads to improvements in company performance.

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3 Siri Terjesen, Eduardo Barbosa Couto, and Paulo Marais Francisco, "Does the Presence of Independent and Female Directors Impact Firm Performance? A Multi-country Study of Board Diversity," Journal of Management and Governance 20, (2016): https://doi.org/10.1007/s10997-014-9307-8

4 Beate Elstad and Gro Ladegard, "Women on Corporate Boards: Key Influencers or Tokens?" Journal of Management & Governance 16, no. 4 (2012): 595-615.

5 Mingzhu Wang and Elisabeth Kelan, "The Gender Quota and Female Leadership: Effects of the Norwegian Gender Quota on Board Chairs and CEOs," Journal of Business Ethics 117, no. 3 (2013): 449-466, https://econpapers.repec.org/article/kapjbuset/v_3a117_3ay_3a2013_3ai_3a3_3ap_3a449-466.htm.

6 Corinne Post and Kris Byron, "Women on Boards and Firm Financial Performance: A Meta-Analysis," The Academy of Management Journal 58, no. 5 (2015): 1546–71, http://www.jstor.org/stable/24758233.

7 Jan Luca Pletzer, Nikolova, Romina, Kedzior, Karina Karolina, and Sven Constantin Voelpel, "Does Gender Matter? Female Representation on Corporate Boards and Firm Financial Performance - A Meta-Analysis" PLOS ONE 10(6) (2015): e0130005, https://doi.org/10.1371/journal.pone.0130005.

8 Katherine Klein, "Does Gender Diversity on Boards Really Boost Company Performance?" Knowledge at Wharton, (2017), https://knowledge.wharton.upenn.edu/article/will-gender-diversity-boards-really-boost-company-performance.

Women's Uneven Advancement

Female board representation can lead to positive outcomes for some women. It boosts female representation at the leadership level,[9] leads to positive behaviors among female board members such as debating issues and collaborating, and holds their organizations to higher ethical standards.[10]

However, the argument that increasing the number of women on boards would lead to better outcomes for all women, especially younger women, does not bear out in the data. In Norway, labor market outcomes for women aged 16 to 64 changed little after mandates were instituted.11 Young women weren't particularly drawn to degrees that would lead to the C-suite track nor were there significant increases in women at the executive or managerial levels.

9 Diana Bilimoria, "The Relationship Between Women Corporate Directors and Women Corporate Officers," Journal of Managerial Issues 18, no. 1 (2006): 47-61, http://www.jstor.org/stable/40604524.

10 Yue Pan and John R. Sparks, "Predictors, Consequence, and Measurement of Ethical Judgments: Review and Meta Analysis," Journal of Business Research 65, no. 1 (2012): 84-91, https://isiarticles.com/bundles/Article/pre/pdf/1653.pdf.

11 Patrice Onwuka, "Improving Board Diversity: Lessons from Sweden and Norway," Philanthropy Roundtable, October 2022, https://www.philanthropyroundtable.org/wp-content/uploads/2022/10/Improving-Board-Diversity-Lessons-from-Sweden-and-Norway.pdf.

Mandates vs. Voluntary Action

Norway implemented gender mandates on its firms, and Sweden increased female board representation through voluntary actions. Empirical research on diversity efforts of corporate boards in each of those countries sheds light on two questions: Whether the presence of women increases corporate performance, and whether economic or nonfinancial benefits can only be achieved through mandatory diversity requirements rather than voluntary action or self-regulation.

Norway became the first country to regulate board gender composition. Although it is held up as evidence that quotas work in accelerating boardroom culture change, the economic impacts are not entirely positive. The quota prompted some firms to delist rather than comply. This resulted in fewer board positions reserved for women than what lawmakers expected.

Various studies of Norwegian companies demonstrated mixed results following the mandate in some cases with short-term losses. However, a study conducted twenty years after Norway's gender quota had been in place found no effect on firm profitability.[12] Two researchers concluded that the mere presence of women directors was not enough to influence the board's strategy, but the experiences and values women brought did improve board decision-making.[13] Also as noted above, the expected trickle-down effect to female workers outside of the boardroom did not materialize.

Sweden diverged from Norway and other European nations by not imposing a gender quota for its corporate boards. Yet, Norway is recognized as a model for gender equality as it boasts gender-balanced assemblies and strong female representation in the public sector. Some credit the fear of mandates with spurring companies to add women to their boards. Sweden has the third-highest female representation on corporate boards with 38percent of board members being women.[14]

However, increased female representation on boards did not lead to an increase in female CEOs, either in the short or long runs. When women CEOs were recruited to sit on boards, their executive chairs were filled by men.[15] Gender diverse boards also had no effect on firms' financial performance.[16]

12 Anne Stranden, "Does Imposing Women's Quotas for Corporate Boards Pay Off?" ScienceNorway.no, April 2022, https://sciencenorway.no/economy-gender-gender-and-society/does-imposing-womens-quotas-for-corporate-boards-pay-off/2003246.

13 Sabina Nielsen and Morten Huse, "Women Directors' Contribution to Board Decision-making and Strategic Involvement: The Role of Equality Perception," European Management Review, (December 2010), https://doi.org/10.1057/emr.2009.27.

14 "Gender 2021 Gender Diversity Index Report of Women on Boards and in Corporate Leadership: Sweden," European Women on Boards, (2021), https://europeanwomenonboards.eu/wp-content/uploads/2022/01/Sweden-Country-report-2021-GDI.pdf.

15 Joakim Jansson and Bjorn Tyrefors. "Anticipation Effects of a Boardroom Gender Quota Law: Evidence from a Credible Threat in Sweden," Research Institute of Industrial Economics, IFN Working Paper 1165 (2017). https://www.su.se/polopoly_fs/1.417924.1545051044!/menu/standard/file/boards_quotas.pdf.

16 Marcus Alm and Jonathan Winberg, "How Does Gender Diversity on Corporate Boards Affect the Firm Financial Performance?: An Empirical Investigation of Swedish OMX-listed Firms," Göteborgs Universitet: Student Essay Series, (January 2016): 222, https://gupea.ub.gu.se/bitstream/handle/2077/41620/gupea_2077_41620_1.pdf?sequence=1&isAllowed=y.

Conclusion

Contrary to conventional wisdom, gender diversity at the board level does not necessarily lead to better corporate performance or guarantee better outcomes for women along the professional ladder. Even positive non-economic outcomes do not necessarily warrant public interventions such as mandates, especially if the same outcomes can be achieved through voluntary means.

Mandates can also pose hardships on those serving citizens with the least means. Nonprofit organizations are mission-driven, and diversity requirements may not lead to recruiting individuals who best help achieve their missions or incur added recruitment costs despite having constrained budgets.

Gender mandates for corporate boards should not be adopted based on false assumptions about economic payoffs or ethics, especially as companies are already embracing greater gender diversity on their own.

For more on this topic, read Philanthropy Roundtable's research paper: "**Improving Board Diversity: Lessons from Sweden and Norway**."

About the Author

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Patrice has worked in policy, advocacy and communications roles in Washington, D.C. for more than a decade on issues related to the economy, employment, technology and philanthropy. She is a frequent guest on Fox News, Fox Business and PBS programs. Her opinions have appeared in The Washington Post, USA Today, Barron's, CNBC, Bloomberg and other national outlets. She hosts a column on Newsmax.com and is a contributor to the Washington Examiner and The Hill. Patrice immigrated to the U.S. from the Caribbean. She holds a bachelor's degree from Tufts University and a master's from Boston College.

About True Diversity

Philanthropy Roundtable's True Diversity initiative provides an equality-based and holistic framework for embracing diversity. It values every person as a unique individual and empowers charitable organizations with the freedom and flexibility to advance their missions and help those in need. Learn more at **TrueDiversity.org**.

About Philanthropy Roundtable

Philanthropy Roundtable is a nonprofit organization dedicated to building and sustaining a vibrant American philanthropic movement that strengthens our free society. To achieve this vision, the Roundtable pursues a mission to foster excellence in philanthropy, protect philanthropic freedom and help donors to advance liberty, opportunity and personal responsibility.

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