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Quotas on boards don't deliver for women in business

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Progressives regularly denounce "trickle-down economics" when it comes to cutting taxes. Yet many have their own theory for economic outcomes cascading from the top. The idea that government mandates for minimum female representation on company boards would filter down to better opportunities for other women in business has been an article of faith for nearly a decade.

During that time, countries such as Norway, Belgium, France and Italy have set explicit quotas for women on boards, backed up by the threat of company dissolution, fines, bans or other sanctions for failure to comply.

Germany and the Netherlands have introduced softer laws without binding punishments. In the UK, the 2011 Davies review set ambitions for a voluntary business-led approach with the guideline of aiming for 25pc representation for women on FTSE 100 boards by 2015 – a target that was met. But many lament that trend not accelerating quickly enough for their liking, calling for an EU-wide target of 40pc female board members.

The key justification for such an action has always been the purported wider benefits to women in business. The under-representation of women at board level was thought to discourage networks conducive to nurturing female talent, and lead to less influence over human-resource policies that would otherwise be more female-friendly on company policies for childcare and work-life balance.

Mandated quotas for females on boards, it was hoped, would change that. They would have the added benefit of encouraging the promotion of women further down the line, training them for leadership and potentially future board roles. The happy result? Supposedly, the reduction of pay and other gender-related opportunity gaps. Well, at least, that was the theory.

But increasingly evidence shows that while mandated quotas unsurprisingly boost female board participation, the broader benefits are difficult to ascertain. The argument that quotas improve opportunities for all women amounts to motivated reasoning.

In 2003, for example, Norway passed a law mandating 40pc representation of both genders on the boards of publicly limited companies. The stated aims of the move were to improve female representation in top company positions and to reduce gender pay gaps.

To start with, the law encouraged companies to delist. A new paper by economists Marianne Bertrand, Sandra E Black, Sissel Jensen and Adriana Lleras-Muney finds that of 536 companies that were public in 2003, only 179 remained so by 2008. Companies with lower proportions of women on the board initially were more likely to change their corporate structure to avoid the legislation.

Within those that did remain public companies, there was (unsurprisingly) a convergence to the 40pc threshold. What is more, companies appeared to be able to find women “well qualified” according to most human capital metrics, despite the concerns of opponents of the law about a dearth of talent. As a result, gender pay gaps on boards fell significantly.

Yet there is little to no evidence of the broader benefits that were speculated. Using an extensive, rich labour market database, those same economists found little evidence of more women in top positions, no narrowing of gender wage gaps among top earners outside of the boardroom and no evidence of changing work environments in affected firms.

Despite the great fanfare with which it was announced, the reform appeared to have little “role model effect” either. It did not increase enrolment by women in business education, nor did it appear to lead to a gender convergence in earnings between the graduates of those programmes. Although students were aware of the law and female students thought it would benefit them in terms of promotion prospects, there has been little indication so far it is actually affecting major life decisions, such as when to marry and have children.

All this chimes with data from elsewhere that suggests board quotas have little impact other than directly to those new women appointed. What about the potential for more diverse boards to improve company performance? Often proponents of quotas draw on literature showing more female representation leads to better firm outcomes. But these studies do not distinguish between organic decisions on board membership and the effects of mandates.

The overall results have been mixed. Once one controls for experience and other factors, some studies suggest the proportion of female members on a board is largely unrelated to firm market value. This implies that it is experience levels, not gender, which can change performance, for better or worse.

One reason why more women might be expected to improve performance is if their presence affects the process and substance of decision making. Yet a Pace Law School study based on interviews of board members before and after France’s 2011 quota legislation found its introduction only affected the former. The legislation led to more outsiders being placed on to boards, which altered how decisions were made. But the board did not perceive that the actual decisions eventually taken, such as whether to approve layoffs, changed much at all.

This is important. When new interventions are proposed, it is tempting to exaggerate the benefits by implying broader gains than to those directly affected. Certainly, we see this with discussion of paying living wages (where proponents say they benefit affected workers without bringing job losses, while also raising firm productivity and generating demand in the economy) and with renewables subsidies (where advocates say they reduce carbon emissions and generate green jobs).

After a decade of experiments, mainly in Europe, the evidence of mandated board quotas is becoming clear. If the goal is to simply get more women on boards, the policy is unsurprisingly effective. But where the grander promises of empowerment are concerned, compulsion looks unlikely to deliver the broader benefits to women previously promised.

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