

Dare we mandate a gender balance quota?

Not here, not now... or, yes, it is time — right here and now.

Let the market rule

Politics is impatient, but don't jeopardize the public interest.

BY FRED SMITH

SUPPORT FOR DIVERSITY ON corporate boards has become customary. But voluntary change is no longer viewed as adequate. In 2003, Norway enacted a law mandating 40% of corporate board members be women.

Including women in politics has long been a Nordic tradition — Gro Harlem Brundtland became the first (and youngest) Norwegian Prime Minister way back in 1981. But there are important differences between politics and business.

Governments need diversity to legitimize their ability to exert coercive power, but firms have only the power granted them by consumers. Whether women or men, Catholics or Protestants, engineers or accountants, would strengthen a board's ability is best determined by consumers via competition.

Corporations are specialized entities organized to meet specialized human needs. Corporate boards seek to ensure that top managers effectively coordinate the firm's employees to achieve that task. As John Micklethwait and Adrian Wooldridge document in *The Company*, modern corporations

have been extremely effective in aligning the self-interest of employees to advance human welfare.

Not surprisingly, proponents see the Norwegian law as a "great success." But, a recent University of Michigan study notes that the law has reduced corporate performance. The reasons are unclear, but underperformance cannot be eliminated by the stroke of a pen.

Technological and institutional innovations have reduced the biological pressures for differentiated sex roles, with great success (note how the proportion of women in MBA and legal programs has exploded in recent decades). But politics is impatient. Still, the Norwegian experience suggests that forcing women into the boardroom poorly serves the public interest. It is far better to strengthen competition and allow the market to determine what firms do — and with whom they select to do it.



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