Gender diversity in corporate boards: Mechanisms and Effects

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Trade-off or win-win?

- Part of "justice and fundamental rights" policies, gender equality has become the agenda of policy makers in the EU and other countries:
  - equal economic independence for women and men
  - closing the gender pay gap
  - advancing gender balance in decision making
  - ending gender based violence
  - promoting gender equality beyond the EU
- Pioneered by Norway in 2002, many countries since then have encouraged female representation in corporate boards through formal or informal regulation.
- But is it value improving?
  Is it a trade-off between equality vs value or a win-win?

Gender regulation across the EU

Member State	Share of women on boards(*), EU-28 average 23.3%	Quotas in place	Other national measures in place
Austria	20.1%	Yes: only state-owned companies (35 % for supervisory boards by 2018).	Self-regulation: The Corporate Governance Code of 2009 recommends representation of both genders in appointments to supervisory boards.
Belgium	**26.6%**	Yes: 33% for executives and non-executives in state-owned and listed companies-by 2017 and in listed SMEs-by 2019.	Self-regulation: The Corporate Governance Code of 2009 recommends that the composition of a board is determined on the basis of gender diversity.
Bulgaria	17.9%	No	No
Croatia	22.2%	No	No
Cyprus	10.9%	No	No
Czech Republic	8.8%	No	No
Denmark	**27.0%**	No	Boards in state-owned companies should 'as far as possible' have an equal gender balance; a man and a woman nominated for every vacancy (executives and non-executives). From 2013 - obligation to all companies (listed and non-listed) to self-regulate and set their own targets. A company can be fined if it hasn't set any target figures or hasn't submitted any reporting.
Estonia	8.2%	No	No
Finland	**29.9%**	No	State-owned companies are required to have an 'equitable proportion of women and men'. The Corporate Governance Code for listed companies contains recommendation that 'boards shall consist of both sexes'.

Gender regulation across the EU

Member State	Share of women on boards(*), EU-28 average 23.3%	Quotas in place	Other national measures in place
France	37.1%	Yes: from 2011 - 40 % by 2017. Applicable to non-executive directors in large listed and non-listed companies	The AFEP-MEDEF Corporate Code recommendation containing same quotas as in the Law of 2011, applicable to all board members.
Germany	27.2%	Yes: from 2016 - 30 % for supervisory boards of the listed companies that are submitted to parity co-determination (the roughly 110 biggest listed companies).	Other companies that are either listed or fall under parity co-determination have to set individual quantitative objectives of women on boards with regard to non-executive and executive board members and senior managers below board level and deadlines to achieve them.
Greece	9.4%	Yes, 33 % - only companies fully or partially owned by the State. Applicable to all board positions (executives and non-executives).	Soft positive action measures in public sector.
Hungary	11.2%	No	Soft positive action measures in public sector.
Ireland	16.0%	No	A policy target of 40 % female participation on all state boards and committees. Soft positive action measures in public sector employment.
Italy	30.0%	Yes: 33 % by 2015 for listed companies and state-owned companies. Applicable to management boards and supervisory boards (i.e. executives and non-executives).	Yes
Latvia	27.7%	No	Soft positive action measures in the public sector

Gender regulation across the EU

Member State	Share of women on boards(*). EU-28 average: 23.3%	Quotas in place	Other national measures in place
Lithuania	13.0%	No	No
Luxembourg	12.9%	No	Soft positive action measures. The Corporate Code of 2009 recommends the board to have an appropriate representation of both genders. The rule is applicable to all board members.
Malta	5.0%	No	No
Netherlands	**28.1%**	Target of 30% in the executive boards and supervisory boards of large companies - "comply or explain" mechanism, no sanctions. Measure to expire in 2016.	Self-regulation: diversity clauses in the Dutch Corporate Governance Code of 2009, applicable to both executives and non-executives. Voluntary Charter with targets for more women in management.
Poland	19.9%	No	The executive ordinance of Minister of State Treasury obliges state-owned companies to 'choose adequately prepared members of supervisory boards, taking into account the balanced participation of women and men'. The Code of good practices attached to that ordinance establishes a target of 30% for 2015 and a priority rule for equally qualified women. No sanctions are envisaged.
Portugal	14.2%	No	A government resolution of 2015 encourages listed companies to attain 30% of the under-represented sex at their administrative bodies by 2018.
Romania	10.1%	No	Soft positive action measures in public sector employment.
Slovakia	14.3%	No	No

Gender regulation across the EU

Member State	Share of women on boards(*), EU-28 average: 23.3%	Quotas in place	Other national measures in place
Slovenia	**23.9%**	No	Regulation on state-owned companies: A principle of 40% representation of each sex applies to the nomination or appointment of government representatives to management and supervisory boards of state-owned enterprises (executives and non-executives). No sanctions apply if the principle is not respected.
Spain	20.2%	Yes: 40 % (both executives and non-executives) by 2015 (but no sanctions, thus rather a recommendation by nature) in state-owned companies with 250 or more employees. New possible models under discussion	Soft positive action measures in public sector employment.
Sweden	**36.1%**	No	Self-regulation: The Corporate Governance Code of 2004 has a voluntary goal of parity for listed companies – "comply or explain" mechanism.
United Kingdom	**27.1%**	No	Self-regulation – from 2012 on the basis of principles of UK Corporate Governance Code (following the Lord Davies' recommendation). The recommended target for listed companies in FTSE 100: 25%, by 2015 is applicable to all board members. FTSE 350 companies recommended setting their own aspirational targets to be achieved by 2013 and 2015.

Source: European Commission (2016)

Why women matter?

- Some of the many mechanisms discussed in the literature:
  - $+/?$ women may be better monitors, more independent, attend meetings (Adams and Ferreira, 2009), have a more diverse skill set (Kim and Starks, 2016)
  - $-/?$ but also excessively risk averse (Adams and Ferreira, 2009), be employee-oriented leaders (Matsa and Miller, 2013)
  - ? *if* boards matter at all
- Even theoretically, the effect is ambiguous. But it is important to know.

Regulation

- On top, changes happen in a (formally or informally) *mandated* setting:
  - imposing a constraint can do harm per se
    (e.g. if not enough qualified women around, e.g. with CEO experience, Fahlenbrach et al, 2010)
    - Underlying cause of the limited supply can be much deeper:
    e.g. gender stereotyping among school teachers makes girls perform worse in math and select into less demanding schools (Carlana, 2019)
  + or shift to a new better equilibrium
    (e.g. search across a larger pool, as in Ferreira et al, 2018, overcoming the "old boys" network, Agarwal et al 2016)
    - Positive effects on large firms who can "steal" top-performing women from smaller firms

What do we know empirically?

- "There is a fascination in the management and economics literature with estimating the impact of female directors on firm performance and profitability." (Ferreira, 2014)
- Correlation vs causation?
  - Firms with more women have larger market values and ROA

BUT This does not mean that more women *lead to* high MV and ROA

Firms self-select into diferent board structures based on certain reasons, and these per se can affect value

→ Explore situations when more women are appointed not due to more random reasons

What do we know empirically?

- Early quota-based studies:
  - Large negative effects on Tobin's Q, market value, and ROA (Ahern and Dittmar, 2012, Matsa and Miller, 2013, for Norway)
- Recent quota-based studies: a bit closer to causal
  - Zero effects on Q (Eckbo et al, 2019, for Norway); Positive for Q, but negative for ROA (Kuzmina and Melentyeva, 2020, for the UK)
  - Indirect evidence on member characteristics: similar age, experience

BUT None of the quota-based studies can credibly distinguish between having to have more women in the board and just having to change the board

- Extrapolation from other setups: randomized experiments
  - Diverse student teams perform best (Hoogendoorn et al, 2013)

Conclusion

- Gender equality vs value is probably not a trade-off, even when narrowly defined profits are considered
  - Most robust evidence: zero to positive effects of women
  - \+ Heterogeneity among countries and firms
  - Unanswered questions:
    - Diversity per se vs traits
    - Generalizability to non-board contexts
- Limited supply of qualified women can be an issue in realizing positive effects of women on value

→ need to reduce constraints that women may face from the very childhood

- Quotas have this additional indirect effect