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Jobs for the Boys? Exploring gender biased director's selection

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HIGHLIGHTS

- A novel strategy to test for gender bias in boards based on changes after M&As.
- We isolate demand factors from supply ones for women's underrepresentation on boards.
- There is a gender gap when controlling for firm/deal, and personal features.
- Women are 1/3-2/3 less likely than men to be added to the new board.

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ABSTRACT

We use mergers and acquisitions to isolate demand from supply-side factors on board nominations. This event study allows considering target directors as appointed and discarded candidates to the merged board. Our results show empirical evidence consistent with bias against women.

1. Introduction

The proportion of female directors at large firms has increased steadily, although they are still underrepresented, comprising 19.9% in Fortune 500 companies (Catalyst, 2016). This low representation can be explained through different theories on both the supply and demand-side (Gabaldón et al., 2016). The crucial challenge for studies on gender bias in directors' recruitment (demand-side factors) is a partial observability problem, since they do not observe qualified candidates who were considered but not appointed, which is crucial to understanding whether a glass ceiling exists.

Farrell and Hersch (2005) and Gregory-Smith et al. (2014) found that firms are more likely to appoint female directors if another female director has recently left the board in the US and UK, respectively. Charléty et al. (2017) found the same pattern for central banks in OECD countries. Fernández-Mateo and Fernández (2016) found that women are less likely to be interviewed by search firms, but not less likely to be hired.

In this study, we adopt a novel empirical strategy to test for gender biases in recruitment, based on changes in board composition after mergers and acquisitions (M&As) deals. M&As are a suitable scenario for examining the role of gender bias in director recruitment because it is common practice to recruit some directors of the newly merged firm from the board of the target (Harford, 2003). This allows us to observe the characteristics of both those directors who were appointed along with those who were not. In this way, for each candidate from the target firm, we estimate the gender effect on the probability of being appointed to the board, while controlling for individual and merger/firm characteristics. As a result, we are able to isolate demand-side factors, excluding other supply-side barriers such as the availability of experienced women candidates.

On the demand side there are different explanations may lie behind biases in the recruitment of women on boards. Taste-based

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discrimination (Becker, 1957) is originated by preferences and cultural beliefs about gender that originates a preference for no may hiring women. On the other hand, statistical discrimination (Phelps, 1972) is a manifestation of a lack of information that leads to apply to specific female directors the average characteristics of their gender group. Some bias are unconscious as in the implicit discrimination (Bertrand et al., 2005) while another can come from opportunistic behaviors (Harbaugh and To, 2014). Others theories such as the Social Identity Theory (Tajfel, 1972), Social Categorization Theories (Turner et al., 1987) and Similar Attraction Theory (Schneider, 1987) also explain a lower demand of women for directorships.

On the supply-side, there are also other potential barriers for women to become members of the board of directors, i.e., gender differences in values/attitudes, identification with expected gender roles, and work-family conflict (Gabaldón et al., 2016). At the director level, and in our particular study, these factors should play a minor role. Since women candidates are already actual directors of the target company, they should have similar needs and values as their male counterparts (Adams and Funk, 2012); be similarly likely to aspire to top management positions (Powell and Butterfield, 2013); and their work-family conflict (if present) should not be aggravated by changing board positions, since they are not adding more seats. Thus, a lower probability for women to be appointed could be a signal of gender bias in the hiring process.

2. Sample and methods

The sample was obtained by merging two separate databases: Institutional Shareholders Services Directors (ISS) about boards' composition and Thomson Reuters M&A database. In order to match both databases, we selected deals between US firms (261,879), where both companies are listed (39,436), announced in 1996–2015 (25,335), and leading to the acquiring firm owning more than 50% of the target's equity (5,050). As a standard in the literature, we excluded privatizations, self-tenders, spin-offs, leveraged buyouts and recapitalizations (4,984 deals remain). Finally, we excluded deals not completed by the end of 2015 (4,958 deals remain). Next, we matched these observations with ISS. For each deal, we needed the target's board composition the year before the merger announcement and the acquirer's board composition both before the announcement and after the completion of the deal. Since ISS only contains director data for S&P500, S&PMidCap400 and S&PSmallCap600 firms, this restricts the sample to 257 deals and 2,309 directors. From each director, we obtained age, gender, ethnic background, tenure and position. Where ISS records are incomplete, we have used SEC proxy statements (form DEF-14A), as well as company publications and various online sources (e.g., Marquis Who'sWho, NNDB).

3. Results

Our dependent variable (Appointment) is a dummy variable that measures whether (value=1) or not (value=0) target firm directors are appointed to the board of the merged firm. As an independent variable, we use a gender dummy variable (female). We include three types of control variables for individual directors (provided by ISS records): personal information (age and ethnic minority groups), professional information (Tenure, Voting power, Number of other board positions, Independent, Attendance at board and committee meetings) and a group of dummies for major committee service on the target board. We also include deal/firm dummies in order to control for merger/firm characteristics (such as relative size, industry, deal type, institutional investor's ownership) that might affect the number of board directorships available for the target company and the appointment probability to the new board.

As our dependent variable (Appointment) is a dummy, we use two limited dependent variable regression models (logit and probit) to measure the probability of director appointment after an M&A in order to evaluate the possible presence of gender biases in the recruitment process (Table 1). Columns 1 and 4 estimate only the effects of female directors along with ethnic minority and if the director is over 65 years old (as well as firm/deal dummies). Columns 2 and 5 add the set of control variables related to professional characteristics. Finally, columns 3 and 6 include the dummies for major committee service on the target board. In all cases, Hosmer–Lemeshow and Pearson goodness-of-fit test confirm the models are correctly specified; (McFadden) Pseudo R-squared shows between 43%–44% improvements in the likelihood over an intercept model.

We observe that female directors have a lower probability of being appointed after an M&A (columns 1 and 4), which is consistent with biases in the recruitment of female directors. This effect remains significant, although marginally, after controlling for professional characteristics (models 2 and 5) and for major committee service (columns 3 and 6). Estimated coefficients are remarkably stable regardless of the model specification. The negative and highly significant coefficient of age over 65 indicates that directors close to or above retirement age are less likely to be appointed to the new board. Coefficients related to ethnicity are negative and of high magnitude for Hispanics and other minority groups and close to zero for African–Americans. However, in all cases, effects are not statistically significant.

Regarding the economic significance, we have quantified the change in the probability of retention produced by gender. In order to do so, for each director in the sample, we have computed the ratio between the estimated probability of retention from the full models (3 and 6 logit/probit models) over the probability of a counterfactual "director" in the same company/deal, with the same individual characteristics, but different gender. This ratio can be interpreted as the isolated gender effect (Table 2). As can be seen, female directors are, on average, between 35.4%–66.1% (depending on the model) as likely to be retained as compared to male directors.

4. Conclusions

This paper presents an empirical set up that allows for isolating demand-side factors (i.e., exclusionary practices) from alternative explanations based on supply-side factors (i.e., pipeline effects) that sometimes have been considered in the literature (Gabaldón et al., 2016) as sources of women's underrepresentation on corporate boards. We find that, even after controlling for firm/deal, personal and professional characteristics, there is a gender gap, since female candidates are between 1/3 and 2/3 less likely than their male counterparts to be added to the new board.

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