ARTICLE IN PRESS
GLOFIN-00331; No of Pages 14

Global Finance Journal xxx (2015) xxx–xxx

Contents lists available at ScienceDirect

Global Finance Journal

journal homepage: www.elsevier.com/locate/gfj

Female directors in bank boardrooms and their influence on performance and risk-taking☆

Mohamed Azzim Gulamhussen [a], Sílvia Fonte Santa [b,*]

[a] Vlerick Business School, Belgium
[b] Banco de Portugal Edifício Adamastor Rua Castilho, 24-2.°, 1269-179, Lisbon, Portugal

ARTICLE INFO

Available online xxxx

JEL classification:
G20
G30
G38
J16

Keywords:
Banks
Board of directors
Government policy and regulation
Gender diversity

ABSTRACT

We assess the role of women in bank boardrooms in a sample of 461 large banks from OECD countries. After controlling for bank and country specific effects, we find that the presence and percentage of female directors in boardrooms have a positive influence on performance. We also find a negative relation between the presence of women in boardrooms and risk-taking. These relations hold for the supervisory board, and with some exceptions for the audit committee. For a sub-sample of 134 listed banks we find that markets positively value the presence of women on the board, supervisory board and audit committee.

1. Introduction

The appointment of female directors to boardrooms is attracting considerable attention in the media (see amongst others Manzoni, Strebel, & Barsoux, 2010; Tuhus-Dubrow, 2009; Kellaway, 2011; Light, 2011). It is also significantly influencing policy debates: proposals advocating corporate governance reforms for example recommend increasing the presence of women in boardrooms.[1] A report in this vein by the Catalyst (2004), a not-for-profit organization that seeks to promote women in business, analyzes 353 Fortune 500 companies

☆ We acknowledge financial support from "Fundação para a Ciência e Tecnologia" (PTDC/EGE-ECO/114977/2009). We benefitted significantly from the comments and suggestions made by the anonymous reviewers and the Editor. The views expressed in this paper are of the authors and do not necessarily represent those of the institutions to which the authors are affiliated.
* Corresponding author. Tel.: +351 211 597 022; fax: +351 213 128 477.
E-mail address: ssantos@bportugal.pt (S.F. Santa)
[1] Norway mandated a 40% quota for women in boardrooms in 2005. Subsequently Sweden also adopted this measure and Spain introduced a quota of 40% to be reached by 2015. In January 2010 the lower house of parliament in France approved a law which will force companies to have at least 40% of women in their boardrooms by 2016. The U.K. is the most recent addition to this list of countries. It wants to see all boards of big companies composed of 25% female directors by 2015. Other countries are contemplating similar measures.

http://dx.doi.org/10.1016/j.gfj.2015.11.002
1044-0283/

Please cite this article as: Gulamhussen, M.A., & Santa, S.F., Female directors in bank boardrooms and their influence on performance and risk-..., *Global Finance Journal* (2015), http://dx.doi.org/10.1016/j.gfj.2015.11.002

and concludes that firms with a higher representation of women on the board achieved a better average financial performance from 1996 to 2000 than the group of companies with a smaller percentage of women on the board. Nevertheless, this study does not demonstrate causality between the participation of women in boardrooms and financial performance. The Higgs (2003); Tyson (2003); EPWN (2004) and the Heidrick and Struggles (2005) reports show that women hold few non-executive positions, leading to the recommendation that boards draw more from professional groups with a higher representation of women so as to tap into a wider talent pool and increase board diversity. However, the extent to which these recommendations apply to the particular case of banking is not very clear.

Researchers across the accounting (Horngren, Bhimani, Foster, & Datar, 2005), economics (Tirole, 2001) and management (Jensen & Meckling, 1976) disciplines agree that boards are critical to strategic and financial decision-making in firms. In accounting, boards not only play the classical role of monitoring, but they also influence firms' strategic orientation, cost and risk management (Bhimani, 2009). In economics, boards play an important role both as inside monitors (non-independent) and through their advisory role as outsiders (independent) (Adams & Ferreira, 2007). In management, boards monitor from the agency perspective but also bring in resources through their advice, counseling and industry connections (Pfeffer, 1972). Across the three disciplines, the main arguments for this dual role stem from the fact that information required in the monitoring process can also be relevant for advising and counseling purposes. In addition, board composition is pertinent because of the diversity of skills required to manage companies: directors' characteristics in terms of education, experience, profession, gender and ethnicity can influence the competence to monitor and advise, counsel and provide outside connections and ultimately influence shareholder value or protect the interests of executives.

The empirical assessment of the participation of women in boardrooms in non-financial firms is advancing at a fast pace but the observed statistical link between the presence of women in boardrooms and performance is mixed and weak. For example, on one hand, Adams and Ferreira (2009); Campbell and Mínguez-Vera (2008); Carter, Simkins, and Simpson (2003) and Erhardt, Werbel, and Shrader (2003) document a positive relation between the presence of women in boardrooms and market perception proxied by Tobin's Q and accounting performance (ROA, in the case of Adams and Ferreira (2009) and Erhardt et al. (2003)). Shrader, Blackburn, and Iles (1997), on the other hand, document a negative relation between the presence of women and accounting performance (ROA and ROE); and Farrell and Hersch (2005) and Rose (2007) find no significant relation between the presence of women in boardrooms and market perception.

Not only are the findings in sectors other than banking inconclusive, but Adams and Mehran (2003) argue that banks differ from non-financial firms, and that conclusions drawn for other sectors cannot be generalized to banks. Unlike non-financial firms, banks call for distinctive regulatory treatment and this generates novel challenges for corporate governance that justify focused attention (see also Gulamhussen & Guerreiro, 2009). The Basel Committee on Banking Supervision (BCBS) for example argues that the need to safeguard the correct functioning of the financial system as a whole makes corporate governance in banking critical and essential to achieving and maintaining public trust as well as confidence in the financial system (Basel Committee on Banking Supervision, 2005: par 8). Since banks play a central role in the governance of other firms, either as equity or debt holders, well-managed banks are likely to ensure that decision-making of the firms in which they have a vested interest is of a high quality, thus complementing and facilitating regulation and supervision; this justifies the Committee's interest in enforcing reliable corporate governance mechanisms (Basel Committee on Banking Supervision, 2006: par. 1).

Following the failures and lapses that triggered the financial crisis, the BCBS revised the guidelines relating to corporate governance. The qualification and composition of the board are one of the areas reinforced in the revised set of principles. These principles indicate the need to promote diversity in boardrooms in order to guarantee objective and independent judgment by directors (Basel Committee on Banking Supervision, 2010: par. 38). Women correspond closely to the notion of the independent director advocated in corporate governance theory since they do not belong to the informal social networks that consist primarily of men (see, among others, Mallin, 2010; Medland, 2004; Monks & Minow, 2008). Although women are associated with board diversity and independence, the Committee's corporate governance principles do not set any specific quantitative quota with regards to the participation of women in boardrooms, leaving banks to determine the optimal composition of boards.

A focused study on banking can shed important light on the role of women in boardrooms and their influence on performance and risk-taking, a critical component in the financial services industry due to

Please cite this article as: Gulamhussen, M.A., & Santa, S.F., Female directors in bank boardrooms and their influence on performance and risk-..., *Global Finance Journal* (2015), http://dx.doi.org/10.1016/j.gfj.2015.11.002