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Board Diversity and Financial Fragility: Evidence from European Banks

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ABSTRACT

In the wake of the recent debt crisis in Europe, we investigate the influence of board diversity on financial fragility and performance of European banks. Corporate governance codes in Europe recommend unitary and dual-board systems; therefore, we believe that the influence of board diversity may vary across governance mechanisms and that no other studies have addressed these variations and their influence on financial fragility across European countries. The results show that a critical mass of female representation on both the supervisory board and the board of directors may reduce banks' vulnerability to financial crisis. However, interestingly, we find evidence that female directors on the management board are not risk averse. We argue that the degree of risk taking for female directors may vary based on their roles (non-executive or executive) and that female and male executive directors may have the same risk taking behaviour. Our empirical results provide guidelines to the regulators in Europe with respect to the recently approved proposal by the European Parliament on female representation.

Keywords: *Corporate Governance, Corporate Finance, Board Diversity, Board Structure.*

JEL Classifications: *G30*

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