Journal of Corporate Finance 45 (2017) 651–668

Contents lists available at ScienceDirect

Journal of Corporate Finance

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

The monitoring role of female directors over accounting quality☆

Juan Manuel García Lara [a], Beatriz García Osma [a], Araceli Mora [b,*], Mariano Scapin [c]

[a] Universidad Carlos III de Madrid, Calle Madrid 126, 28903 Getafe, Madrid, Spain
[b] Universidad de Valencia, Avda. Los Naranjos s/n, 46071, Valencia, Spain
[c] University of Bristol, The Priory Road Complex, Priory Road, Clifton BS8 1TU, UK

A R T I C L E I N F O

Article history:
Received 29 July 2016
Received in revised form 25 May 2017
Accepted 27 May 2017
Available online 31 May 2017

JEL classification:
M41
G34
J16
J71

Keywords:
Gender diversity
Board of directors
Accounting quality
Earnings management
Corporate governance

A B S T R A C T

Recent research in accounting suggests female directors exert more stringent monitoring over the financial reporting process than their male counterparts. However, an emerging literature in finance and economics provides mixed findings and questions whether females in leadership roles significantly differ from their male counterparts. Building on this literature, we re-examine the link between the presence of female directors, gender biases, and financial statements quality. Using a large sample of UK firms we find that a larger percentage of women among independent directors is significantly associated with lower earnings management practices. However, we show that this relation disappears if we focus on firms that do not discriminate against women in the access to directorships. Finally, we provide evidence that gender biases are associated with lower earnings quality. We interpret our results as consistent with (1) prior evidence that males and females do not differ substantially when performing the same role in highly specialized positions, and with (2) discrimination being an important factor explaining the association between female directors and accounting quality.

1. Introduction

The role and effectiveness of women in corporate boards has garnered increased attention. This growing interest stems from the acknowledgment that women have been historically underrepresented in high profile jobs. This is the case of corporate directorships (Bilimoria and Piderit, 1994; Westphal and Stern, 2006, 2007), positions in biomedical research (Wenneras and Wold, 1997), or in leading symphony orchestras (Goldin and Rouse, 2000).

Recent regulations echo the concern that discrimination may exist in accessing directorships, leading to inefficient utilization of the talent pool. Thus, they recommend increasing the number of female directors in corporate boards. A number of these

☆ We acknowledge helpful comments from Jeffry Netter (editor), an anonymous reviewer, Manuel Bagüés, Susana Gago, Ana Marques, Flora Muiño, Manuel Núñez, Fernando Penalva, Lluís Santamaria, Jordi Surroca, Josep Tribó, Laurence Van Lent and seminar participants at the AECA meeting, the European Accounting Association annual congress, the Workshop on Empirical Research in Financial Accounting, Universidad Pablo de Olavide, Universidad Autónoma de Barcelona, Universidad de Valencia, Universidad de Barcelona, ISCTE Business School (Lisboa) and Instituto de Empresa Business School (Madrid). We acknowledge financial assistance from the Spanish Ministry of Science and Innovation (ECO2010-19314; ECO2013-48328; ECO2013-48208-P; ECO2016-77579), the CAM-Fondo Social Europeo (S2015/HUM-3417 INNCOMCON-CM), the Cátedra ICJCE/AT1-UAM, the AECA Carlos Cubillo Chair in Accounting and Auditing, and the Fundación Ramón Areces.

* Corresponding author.
E-mail addresses: juanmanuel.garcia@uc3m.es (J.M. García Lara), bgosma@emp.uc3m.es (B. García Osma), araceli.mora@uv.es (A. Mora), m.scapin@bristol.ac.uk (M. Scapin).

http://dx.doi.org/10.1016/j.jcorpfin.2017.05.016

legislations explicitly argue that gender diversity improves board effectiveness. However, an emerging literature questions the view that female directors behave differently than their male counterparts (see, e.g., Adams and Funk, 2012; Sila et al., 2016), and asks for further research into the role of women on boards that can disentangle the confounding effect of discrimination.

Consistent with the existence of confounding factors, the evidence linking the presence of female directors with various measures of firm value, risk or performance is generally mixed (Ahern and Dittmar, 2012; Carter et al., 2003, 2010; Erhardt et al., 2003; Gul et al., 2011; Rose, 2007; Sila et al., 2016), with a number of studies indicating that female directors behave differently than their male counterparts particularly in terms of risk-aversion (e.g., Levi et al., 2014) or dividend payout policies (Chen et al., 2017), and suggesting lower performance in firms with greater board diversity (Adams and Ferreira, 2009). However, the literature studying gender diversity and financial reporting quality systematically reports positive consequences. We contribute to this area by developing and testing alternative explanations for this positive link between accounting quality and women on corporate boards, building on the advances in the recent literature in economics and finance.

The aforementioned prior work in accounting generally argues that differences in behavior across male and female CEOs, CFOs, or directors exist, concluding that females are better monitors than males (Barua et al., 2010; Clatworthy and Peel, 2013; Krishnan and Parsons, 2008; Peni and Vahamaa, 2010; Srinidhi et al., 2011). The support for this prediction comes from different strands of literature that suggest that, in the general population, females differ from males. These strands of literature include behavioral studies (women being more risk averse, less overconfident, and exhibiting more independent thinking), ethics (women being more ethical), and organizational theory (women improving deliberations and promoting communication).[1]

Against this backdrop, an emerging literature asks the question of whether these differences found in the general population can be extrapolated to leadership positions. Some recent research appears to suggest so. For example, the work of Levi et al. (2010, 2014) suggests that firms with female CEOs and more female directors engage in less aggressive acquisitions, as measured by their lower propensity to initiate acquisition bids, and lower size of the bid premiums, while the work of Faccio et al. (2016) provides evidence that firms managed by female CEOs have less volatile earnings, lower leverage and engage in lower overall corporate risk-taking. In related research, Huang and Kisgen (2013) study financial and investment decisions and conclude that male CEOs undertake more acquisitions and issue more debt than female CEOs, concluding that male CEOs exhibit overconfidence in corporate decision-making relative to female CEOs.

In contrast to this literature that suggests gender differences also apply to leadership positions, the early work of Eagly and Johnson (1990) shows that women and men who perform the same organizational role tend to behave in a similar way. Croson and Gneezy (2009), in their literature review, argue that gender differences in preferences including risk taking and overconfidence do not apply to women in managerial positions and Gneezy et al. (2009) show that gender differences are driven by social aspects and not predetermined. In related work, Deaves et al. (2009) show that in the specialized fields of economics, finance and business, men are not more overconfident than females, and argue that women in these disciplines may be different from those in the general population.[2] The work of Sila et al. (2016), building on the arguments and findings in Deaves et al. (2009) also fails to find evidence of lower risk taking in firms with greater female board representation, while Bugeja et al. (2012) fail to find differences in CEO compensation across genders, which they interpret as consistent with women not being differently risk-averse or less willing to accept performance-based compensation relative to men. Finally, Adams and Funk (2012, p. 221) analyze whether '*women in leadership positions are different from "typical" women in the population*,' and conclude that women in leadership positions do not satisfy gender stereotypes. Indeed, they show that female directors are more risk loving than their male colleagues, a finding that contradicts common rhetoric on gender differences in risk-taking. This finding is revisited and confirmed by Adams and Ragunathan (2015), who study risk-taking in the banking industry during the crisis and show that, conditional on being in the finance industry, women are not more risk-averse than men.

Given the above discussion, gender differences may not apply to leadership roles. However, even if gender differences do not exist in leadership positions, we expect that discrimination against women *can* create an association between the monitoring role of the board and the presence of female directors. Albeit the literature in this area is scarce, there is prior evidence consistent with gender discrimination in accessing directorships (Bilimoria and Piderit, 1994; Farrel and Hersch, 2005). For example, Sila et al. (2016) show that female directors are more likely to be appointed if they replace another female, and less likely to be appointed to boards that have a greater pre-existent proportion of females. This is consistent with gender biases (as under no discrimination, these variables should not explain appointments). Consistent but indirect evidence is presented also by studies that systematically report the unexpectedly high number of firms with either no females or with a single female on their boards (see, e.g., Srinidhi et al., 2011; Gul et al., 2011). If better governed firms are less likely to discriminate, and higher quality boards positively influence financial statements quality,[3] gender biases may create a positive association between gender diversity and accounting quality.

Thus, we expect that absent discrimination, there should be no association between gender diversity in corporate boards and accounting quality. Second, we expect that if a gender effect exists, it is driven by discrimination against women. Our predictions are consistent with the previously discussed work that suggests that once the process of female directors' appointment is controlled for, male and female directors behave similarly in leadership roles.

[1] See, e.g., Agnew et al. (2003), Barber et al. (2001), Beyer (1990), Gneezy et al. (2003), Lundeberg et al. (1994), Nosek et al. (2009).

[2] Similarly, the work of Sapienza et al. (2009) suggests that inherent biological differences between males and females, such as testosterone levels, influence the likelihood of entering the finance field, but that among those with high testosterone, whether male or female, no observable differences exist in risk aversion. The more general evidence in Hyde et al. (2008) indicates that differences in math and science abilities between genders are trivial.

[3] See, e.g., Armstrong et al. (2014), Beekes et al. (2004), García Lara et al. (2009), Klein (2002), Peasnell et al. (2005), and Xie et al. (2003).