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Women on boards: The superheroes of tomorrow?☆

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ABSTRACT

Can female directors help save economies and the firms on whose boards they sit? Policy-makers seem to think so. Numerous countries have implemented boardroom gender policies because of business case arguments. While women may be the key to healthy economies, I argue that more research needs to be done to understand the benefits of board diversity. The literature faces three main challenges: data limitations, selection and causal inference. Recognizing and dealing with these challenges is important for developing informed research and policy. Negative stereotypes may be one reason women are underrepresented in management. It is not clear that promoting them on the basis of positive stereotypes does them, or society, a service.

Introduction

Boards hire and fire the CEO; they advise and monitor the CEO. They are to blame when things go wrong; they sometimes get credit when things go right. They are ultimately responsible for ensuring corporations create value for their stakeholders. So the burning question is: what makes a board effective?

For many years policy-makers and governance academics thought the answer to this question was "independence". An independent board is a board that exhibits enough collective independence of thought that it will question management when necessary. While independence is theoretically appealing, it is difficult to measure in practice. Most regulations and most research define an independent board as a board that is comprised primarily of members without measurable conflicts of interest with management. A director who has no family ties with the CEO, does not provide consulting or other services to the company and has not invited the CEO to his own board is typically considered independent.

The lack of evidence that conventional measures of board independence matter (Adams, Hermalin, & Weisbach, 2010; Hermalin & Weisbach, 2003) led many to argue that independent boards are ineffective if they are dominated by the "Old-Boys' Club". For example, the 2003 Higgs and Tyson reports, commissioned by the UK government in response to a series of corporate scandals in the early 2000s, argue that boards should cast a wider net when recruiting directors. Since women, by definition, are not part of the Old Boys' Club, it is natural to ask whether more gender diverse boards would be more effective and, if so, whether women are sufficiently represented on boards.

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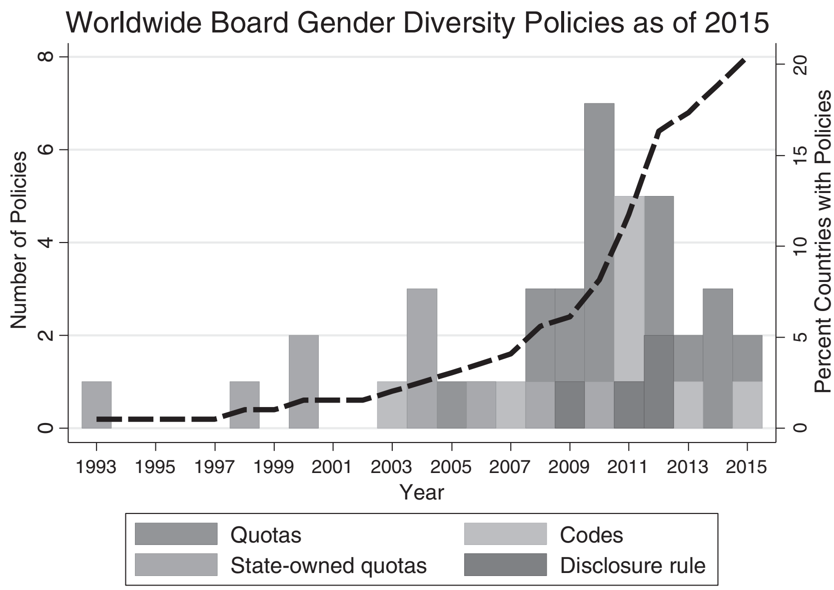

Fig. 1. Current boardroom diversity policies for listed companies. Fig. 1 is an updated version of Figure I in Adams and Kirchmaier (2015a). It displays the number of boardroom gender policies enacted in each year since 1993. The dashed line indicates the percentage of countries with boardroom gender policies. The number of countries used as the benchmark for calculating percentages is 196.

Policy-makers clearly believe that the answer to the first question is yes and the answer to the second question is no. As a result, board gender diversity has become a hot topic for policy-making. As Fig. 1 illustrates, between 2008 and 2015 32 countries implemented 42 boardroom diversity policies in the form of legal quotas for listed or state-owned firms (8 and 5 countries respectively), governance code amendments (26 countries), and disclosure requirements (4 countries).[1] In 2012, the European Union approved a draft law that sets an objective of 40% female nonexecutive directors on boards of listed firms across the 28 member states of the EU (European Commission, 2012a). If passed, the EU law will apply to 5000 out of the 7500 listed firms in the EU (European Commission, 2012b). Even though strong parliamentary support for the draft law suggests that it may be passed (European Commission, 2014), in March 2015 Germany preempted the passage of the EU law by adopting a bill mandating a 30% board gender quota for large listed firms.

Most policy-makers justify their intervention by appealing to the "business case" argument that firms with more women on boards perform better. For example, in its 2012 proposal for a directive on improving the gender balance among non-executive directors of listed firms, the European Commission states (European Commission, 2012a, p. 5): "The proposed Directive will lead to breaking down the barriers that women face when aiming for board positions and to improved corporate governance, as well as enhanced company performance."

The benefits of female directors are not supposed to be limited to the firms on whose boards they sit. The European Commission (2012a, p. 3) states: "The under-utilisation of the skills of highly qualified women's [sic] constitutes a loss of economic growth potential. Fully mobilising all available human resources will be a key element to addressing the EU's demographic challenges, competing successfully in a globalised economy and ensuring a comparative advantage vis-à-vis third countries." If the boards of listed firms in Europe become more gender diverse, the EU argues that it can achieve higher, sustainable rates of economic growth (European Commission, 2012b).

Can female directors really save the world—or at least the corporations on whose boards they sit? Some evidence suggests that the answer is yes. In making the "business case" argument, many boardroom diversity policies cite studies by Catalyst (2007), McKinsey (2007) and Credit Suisse (2012), among others, that show firms with more boardroom diversity perform better. For example, the European Commission (2012a) and the Australian Securities Exchange Corporate Governance Council (ASX, 2010) cite Catalyst (2007) in making their economic arguments for boardroom diversity policies. Catalyst (2007) shows that Fortune 500 firms in the top quartile of board gender diversity (measured by the percentage of women on the board) outperform the bottom quartile of Fortune 500 firms in terms of return on equity, return on sales and return on invested capital. Mckinsey (2007), also cited in the European Commission's (2012a) proposal, shows similar results for large European firms.

[1] As of 2015, Austria, Denmark, Greece, Finland, Iceland, Ireland, Israel, Kenya, Poland, Slovenia, South Africa, Switzerland and United Arab Emirates have quotas for state-owned firms. Belgium, France, Iceland, India, Italy, Malaysia, Netherlands, Norway, Spain and Germany have quotas for listed firms. Israel may also be considered to have a listed-firm quota although it is minimal. Albania, Austria, Belgium, Denmark, Finland, France, Germany, India, Italy, Japan, Jordan, Kenya, Malawi, Morocco, The Netherlands, Norway, Pakistan, Poland, Romania, Singapore, Slovenia, Spain, Sweden, Switzerland, Thailand, Trinidad and Tobago, Turkey and the UK have governance codes with specific recommendations for nominating committees to consider gender diversity. Australia, Denmark, New Zealand and the USA have disclosure requirements for listed firms.