Journal of Financial Economics 94 (2009) 291–309

Contents lists available at ScienceDirect

Journal of Financial Economics

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

Women in the boardroom and their impact on governance and performance ☆

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ARTICLE INFO

Article history:
Received 13 May 2008
Received in revised form
10 September 2008
Accepted 6 October 2008
Available online 4 August 2009

JEL classification:
G30
G34
J16

Keywords:
Board of directors
Board effectiveness
Gender
Diversity

ABSTRACT

We show that female directors have a significant impact on board inputs and firm outcomes. In a sample of US firms, we find that female directors have better attendance records than male directors, male directors have fewer attendance problems the more gender-diverse the board is, and women are more likely to join monitoring committees. These results suggest that gender-diverse boards allocate more effort to monitoring. Accordingly, we find that chief executive officer turnover is more sensitive to stock performance and directors receive more equity-based compensation in firms with more gender-diverse boards. However, the average effect of gender diversity on firm performance is negative. This negative effect is driven by companies with fewer takeover defenses. Our results suggest that mandating gender quotas for directors can reduce firm value for well-governed firms.

1. Introduction

Women hold few corporate board seats. In the US, women held 14.8% of Fortune 500 board seats in 2007 (Catalyst, 2007). The percentage of female directors in Australia, Canada, Japan, and Europe is estimated to be 8.7%, 10.6%, 0.4%, and 8.0%, respectively (Equal Opportunity for Women in the Workplace Agency—EOWA, 2006; and European Professional Women's Network—EPWN, 2004). Furthermore, the majority of firms with female directors in the samples in EOWA (2006) and EPWN (2004) have only one female director, a fact that is often regarded as evidence of tokenism (Branson, 2006; Bourez, 2005, and Corporate Women Directors International—CWDI, 2007). For example, in the top 200 companies in Europe, 62% of companies have at least one female director in 2004, but only 28% have more than one (EPWN, 2004). In Australia, 50% of ASX200 companies have at least one female director in 2006, but only 13.5% have more than one (EOWA, 2006). In our data, 65% of firms have at least one female director in 2003, but only 25% have more than one.

☆ We thank Stacey Kole (the referee), Francesca Cornelli, Paola Sapienza, Annette Vissing-Jorgensen, and seminar participants at Edith Cowan University, the University of Cologne, University of Exeter, University of Illinois at Urbana-Champaign, University of Frankfurt, University of Mannheim, University of Melbourne, University of New South Wales, Northwestern University, the Norwegian School of Management, the Norwegian School of Economics and Business, SOAS-University of London, University of Technology at Sydney, University of Western Australia, the Zurich Workshop and Lecture Series in Law and Economics, and participants at the 2006 European Winter Finance Conference for helpful comments on previous versions of this paper.

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doi:10.1016/j.jfineco.2008.10.007

This situation is likely to change because boards around the world are under increasing pressure to choose female directors. Many proposals for governance reform explicitly stress the importance of gender diversity in the boardroom. In the UK, the Higgs (2003) report, commissioned by the British Department of Trade and Industry, argues that diversity could enhance board effectiveness and specifically recommends that firms draw more actively from professional groups in which women are better represented (see also the subsequent Tyson, 2003 report). If companies do not voluntarily reserve a minimum of 25% of their board seats for female directors, Sweden has threatened to make gender diversity a legal requirement (Medland, 2004). The most extreme promotion of gender diversity occurs in Norway, where since January 2008 all listed companies must abide by a 40% gender quota for female directors or face dissolution.[1] Although it is still too early to assess the consequences of Norway's unique experiment, Spain has followed Norway's lead by enacting a law requiring companies to increase the share of female directors to 40% by 2015.

Most of these legislative initiatives are based on the view that the presence of women on boards could affect the governance of companies in significant ways. One argument is that boards could enhance their effectiveness by tapping broader talent pools for their directors. The Higgs review, for example, points out that, although approximately 30% of managers in the UK corporate sector are female, women hold only 6% of nonexecutive director positions. Another argument is that, because they do not belong to the "old boys club," female directors could more closely correspond to the concept of the independent director emphasized in theory.

In this paper, we provide new evidence that is relevant to this debate by investigating the hypothesis that gender diversity in the boardroom affects governance in meaningful ways. In particular, we ask the following questions. First, do measures of board inputs (director attendance and committee assignments) vary with gender diversity? Second, does the gender composition of the board affect measures of governance, such as chief executive officer (CEO) turnover and compensation? Finally, does the effect of gender diversity on governance matter sufficiently to affect corporate performance?

The answers to these questions are interesting for several reasons. They can help us understand the effect group composition has on board effectiveness and the likely success or failure of governance proposals advocating greater diversity. They can also shed light on whether tokenism prevents female directors from having an impact on corporate outcomes.

We find that gender diversity in boards has significant effects on board inputs. Women appear to behave differently than men with respect to our measure of attendance behavior. Specifically, women are less likely to have attendance problems than men. Furthermore, the greater the fraction of women on the board is, the better is the attendance behavior of male directors. Holding other director characteristics constant, female directors are also more likely to sit on monitoring-related committees than male directors. In particular, women are more likely to be assigned to audit, nominating, and corporate governance committees, although they are less likely to sit on compensation committees than men are.

Women also appear to have a significant impact on board governance. We find direct evidence that more diverse boards are more likely to hold CEOs accountable for poor stock price performance; CEO turnover is more sensitive to stock return performance in firms with relatively more women on boards. In our data, this effect is stronger and more robust than the previously shown effects of board independence on CEO turnover (Weisbach, 1988). We also find that directors on gender-diverse boards receive relatively more equity-based compensation. We do not find a statistically reliable relation between gender diversity and the level and composition of CEO pay, which is consistent with our findings that female board members are under-represented on compensation committees and thus have less involvement in setting CEO pay.

The evidence on the relation between gender diversity on boards and firm performance is more difficult to interpret. Although the correlation between gender diversity and either firm value or operating performance appears to be positive at first inspection, this correlation disappears once we apply reasonable procedures to tackle omitted variables and reverse causality problems. Our results suggest that, on average, firms perform worse the greater is the gender diversity of the board. This result is consistent with the argument that too much board monitoring can decrease shareholder value (Almazan and Suarez, 2003; Adams and Ferreira, 2007). Thus, it is possible that gender diversity only increases value when additional board monitoring would enhance firm value. To investigate this hypothesis, we examine whether gender diversity affects performance differentially in firms with different levels of shareholder rights, defined using the Investor Responsibility Research Center (IRRC) governance data as in Gompers, Ishii and Metrick (2003). Consistent with this hypothesis, we find that gender diversity has beneficial effects in companies with weak shareholder rights, where additional board monitoring could enhance firm value, but detrimental effects in companies with strong shareholder rights.

Despite the importance of gender diversity in the policy debate, relatively little research links diversity and corporate governance (for a survey of this literature, see Fields and Keys, 2003). Carter, Simkins and Simpson (2003) find a positive relation between gender and ethnic diversity of the board and corporate performance, as proxied by Tobin's q.[2] Farrell and Hersch (2005) find that gender systematically impacts the selection of directors to the board. They argue that their evidence is consistent

[1] The law was imposed in 2006 and firms were given two years to adjust. As of February 2008, 93% of the public companies complied with the requirements, according to Statistics Norway. In April 2008, the Norwegian government announced full compliance.

[2] Adler (2001) finds similar results, although the focus of this study is more broadly on the gender diversity of senior management.