Why do Corporate Boards Need more Women?

More women in the boardroom sounds fair, but will it make a difference?

When it comes to increasing female board representation there continues to be a lot of talk with very little action. Governments have sought to hasten the glacial pace of voluntary change by emulating Norway and imposing gender quotas on publicly listed companies. Vocal opponents may be right to question the meritocracy of such moves, but to date there has been little consistent evidence demonstrating that board gender characteristics influence company performance one way or the other.

Since the 1970s academics have explored the issue of gender differences in leadership and governance roles and whether female and male directors differ systematically in terms of their underlying personality, characteristics, preferences, and cognitions. It's been suggested, for example, that men are more likely than women to engage in risk-taking behaviour. However, applying these findings specifically to board members is problematic due to the small number of survey-based studies in this area and suggestions that the effect on risk is heavily contingent on the task and context at hand.

The big question that has yet to be comprehensively addressed is what effect, if any, do female directors have on the board's actual decision-making process.

"In" and "out" groups prompt more thoughtful decisions

We sought to answer this question by drawing on social identity theory – the idea that collective phenomena cannot adequately be explained by individual differences or personality traits alone.

This theory suggests that individuals in a larger group self-categorise, and categorise others, into smaller subsets. Members will see their category as the in-group and people from another category as the out-group. This can create an "us and them" mentality where individual actions are seen as having mixed motives. In these intergroup situations, people are more likely to be competitive and less likely to cooperate, as individuals will favour in-group members. In response, out-group members – particularly those representing marginalised or minority categories, such as women on corporate boards – tend to become more active in demonstrating their distinctiveness during interactions.

All this suggests that boards with one or more female directors will have more contentious and comprehensive discussions when making decisions, and will be less likely to rapidly come to a consensus.

Furthermore, female and male directors are likely to have had different career experiences, and thus will often hold different opinions on the efficacy of many strategic options. In addition, research has shown that male directors engage in their duties more diligently and miss fewer meetings when there are female directors on the same board. Taken together, these findings make it highly likely that increasing the representation of women on a company's board will make board decision-making processes more thorough and comprehensive.

If this is true, then boards with one or more female members should be more active in exercising oversight and be more ready to block proposals that seem overly speculative.

More thought, less spending

This supposition was tested in the paper **Female Board Representation and Corporate Acquisition Intensity,** co-authored with Craig Crossland, Assistant Professor of Management at the University of Notre Dame, and Sterling Huang, Assistant Professor of Accounting at Singapore Management University. The paper examines how board gender characteristics influence a firm's mergers and acquisitions (M&A) behaviour - a strategic domain where the ramifications of a board's decision are highly uncertain.

Drawing on the social psychological processes discussed above, we expected that boards with one or more female directors would take longer to reach a decision to greenlight an acquisition (compared to all-male boards), and would be more likely to eventually shelve a proposed deal. In short, we expected that greater female board representation would be associated with fewer acquisitions.

Using the same logic, we expected that, among those firms that do engage in acquisitions, female board representation would be associated with smaller acquisitions, as larger deals are riskier for a firm's long-term health and pose more complex challenges.

To test these hypotheses we looked at 2,998 acquisitions undertaken by 1,542 firms in the U.S. S&P500 between 1998 and 2010. We assessed each board's approach to acquisitions by controlling for a list of firm-level, board-level and M&A deal-level factors. As expected, female board representation was negatively related to both "acquisitiveness" (the number of acquisitions made) and acquisition size. These findings were confirmed in a subsample of firms which experienced the death of a male director, resulting in an unplanned change in female director representation on the board. We found that after the male director's death, there was an increased influence of female directors on the same board and a simultaneous decrease in the number and size of acquisitions.

Economically, the difference between firms with low levels of female board representation (1 standard deviation below the mean) and firms with high levels of female board representation (1 standard deviation above the mean) was associated with an 18 percent decrease in acquisitiveness and a 12 percent decrease in acquisition size, equating to a reduction in US$97.2 million in M&A spending in a given year.

The bigger picture

The issue of female representation on public company boards has become an increasingly contentious topic in the business and general media.

But, it's not all window dressing or scholarly curiosity. As our research suggests, the issue of women on boards has substantial practical implications for firms. This isn't necessarily because women are smarter, wiser or more diligent, although that may be true. It's because diverse groups tend to make more thorough, more comprehensive decisions.

However, we also urge caution, as this may not always be an unequivocally good thing for firms. Comprehensive decision-making and oversight is undoubtedly vital in many situations, especially when managers' proposals are underdeveloped or self-serving. However, multi-category boards, where women and men find themselves in opposing camps, may also lead to reduced group cohesiveness and increased coordination costs, which could be harmful to a firm's long-term goals.

And, our findings also raise the question of what might happen if the percentage of female directors increased to above 50 percent. If our theory is correct, this might make decision-making processes incrementally less thorough and comprehensive, possibly resulting (eventually) in reduced competitiveness.

It's interesting to think about.

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