Women on boards: The superheroes of tomorrow?

Renée Adams
University of Oxford
Some context

Why superheroes?
‘Indeed, there is a clear business case for greater gender diversity on corporate boards both from the microeconomic perspective-i.e. in terms of individual companies’ performance-as well as from a macroeconomic perspective-i.e. in terms of higher, sustainable rates of economic growth.’

European Commission, 2012
Why superheroes?

Microeconomic benefits:

• Improved company performance
• Mirroring the market
• Enhanced quality of decision-making
• Improved corporate governance and ethics
• Better use of the talent pool

Macroeconomic benefits:

• Creates incentives for women to stay in the workforce thereby helping to create stronger economies.
• Can help achieve higher, sustainable rates of economic growth
Four questions

- Can women on boards be superheroes?
- Are women on boards superheroes?
- If not, why not?
- Can current policies help?
Can female directors save the world?

Is she?

See you at the board meeting!
Characteristics of a superhero?

Human values according to Schwartz

- Benevolence
- Universalism
- Self-direction
- Hedonism
- Stimulation
- Achievement
- Conformity
- Power
- Tradition
- Security
Director values: men minus women

Adams and Funk (2012)
Director values

Adams and Funk (2012)
Female directors = superheroes?

SUPERHEROES

- More
  - Achievement
  - Benevolence
  - Hedonism
  - Universalism
  - Self-direction
  - Stimulation

- Less
  - Conformity
  - Power
  - Security
  - Tradition
  - Risk-aversion

FEMALE DIRECTORS

- More than male directors
  - Benevolence
  - Hedonism
  - Universalism
  - Self-direction
  - Stimulation

- Less than male directors
  - Conformity
  - Power
  - Security
  - Tradition
  - Risk-aversion
  - Achievement (but not by much)
In Finance…

- …where risk-taking is more important…

Adams and Ragunathan (2019)
‘The inclusion of more women in decision-making roles has been a notable outcome of the 2008 financial crisis and the recognition of the downside risk management focus of women.’

Credit Suisse (2016)
‘The inclusion of more women in decision-making roles has been a notable outcome of the 2008 financial crisis and the recognition of the downside risk management focus of women.’

Credit Suisse (2016)
Some perspective

achievement
benevolence
conformity
hedonism
power
risk
security
selfdirection
stimulation
tradition
universalism

differences in values

dep_indep
men_women
Some perspective

The diagram illustrates differences in values for various concepts, comparing dep_indep_men and men_women:

- Achievement: dep_indep_men has a slight positive value, while men_women has a small negative value.
- Benevolence: Both groups show similar values with dep_indep_men being slightly lower.
- Conformity: Dep_indep_men has a moderate negative value, whereas men_women has a higher positive value.
- Hedonism: Dep_indep_men has a negative value, whereas men_women has a positive value.
- Power: Both groups show positive values, with dep_indep_men being slightly lower.
- Risk: Dep_indep_men has a negative value, whereas men_women has a positive value.
- Security: Both groups show positive values, with dep_indep_men being slightly higher.
- Self-direction: Both groups show negative values, with dep_indep_men being slightly lower.
- Stimulation: Both groups show positive values, with dep_indep_men being slightly lower.
- Tradition: Dep_indep_men has a negative value, whereas men_women has a positive value.
- Universalism: Dep_indep_men has a slight positive value, while men_women has a moderate positive value.
Independent directors = superheroes?

**SUPERHEROES**

- More
  - Achievement
  - Benevolence
  - Hedonism
  - Universalism
  - Self-direction
  - Stimulation

- Less
  - Conformity
  - Power
  - Security
  - Tradition
  - Risk-aversion

**Independent DIRECTORS**

- More than dep directors
  - Achievement
  - Benevolence
  - Hedonism
  - Universalism
  - Self-direction
  - Stimulation
  - Tradition
  - Risk-aversion

- Less than dep directors
  - Conformity
  - Power
  - Security

The magnitudes of differences are much smaller than the differences between men and women.
YES!

- Female directors exhibit more “superhero” values than male directors.
- They may exhibit these characteristics even more in Finance where risk-taking is more important.
- Relative to men they look more like superheroes than independent directors do relative to dependent directors.
Do female directors save the world?

See you at the board meeting!
How many women are there?
Let’s look at what surveys tell us

- Catalyst: data on board diversity for Fortune 500 firms
- The European Union’s gender balance in decision-making database: data on board diversity for the largest 50 members of the primary blue-chip index in each EU country that are registered in the country
- Credit Suisse reports: proprietary data on 3,400 companies their research analysts cover globally
Let’s also look at our data

Adams and Kirchmaier (2018):

- Boardex data on unregulated firms in 24 OECD countries from 2001 to 2016

- Representative:
  - Firms in a country can only enter the sample if the sum of their market capitalizations is at least 70% of the total market capitalization of that country in that year
  - A country has to enter the sample in at least three years
Comparison to Catalyst data

Diversity in the US

- Catalyst
- Boardex
Comparison to EU data

Diversity in 16 EU countries

- EU
- Boardex alternative
- Boardex
Comparison to EU data: the UK

Diversity in United Kingdom

reportyear

EU diversity measure
Boardex
Comparison to Credit Suisse data
What explains the difference?
What explains the difference?

- Catalyst: at most 500 of the *largest* firms in the USA
  - Our sample: between 1,734 and 4,503 firms
- EU: is for at most 50 of the *largest* firms (also in UK), generally less than 500
  - Our sample: between 664 and 1,706 for the UK alone
- Credit Suisse: requires analyst coverage and only 3,400 companies *globally*
- Women are more likely to sit on the boards of large firms!
Do female directors save the world?

How can they?

- There are even fewer of them than people think!
- Marginal impact on the boards of large companies?
‘Indeed, there is a clear business case for greater gender diversity on corporate boards both from the microeconomic perspective - i.e. in terms of individual companies’ performance-as well as from a macroeconomic perspective -i.e. in terms of higher, sustainable rates of economic growth.’

European Commission, 2012
Return on Equity by Women’s Representation on the Board

Companies with more WBD outperform those with the least by 53%.

2007

- Bottom Quartile WBD: 9.1%
- Top Quartile WBD: 13.9%

2 Correlation does not prove or imply causation.
Let’s take a closer look

Data from Adams and Ferreira (JFE, 2009)

<table>
<thead>
<tr>
<th>VARIABLES</th>
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<th>II</th>
<th>III</th>
<th>IV</th>
<th>V</th>
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<tbody>
<tr>
<td>Fraction Female Directors</td>
<td>24.519***</td>
<td>6.242</td>
<td>3.617</td>
<td>-23.953***</td>
<td>-8.837</td>
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<td>Log(Sales)</td>
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<td>[10.471]</td>
<td>[3.247]</td>
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<td>[5.936]</td>
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<tr>
<td>Board Size</td>
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<td></td>
<td></td>
<td>-0.658***</td>
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<td></td>
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<td>[-3.467]</td>
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<td>Fraction Independent Directors</td>
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<td></td>
<td>5.526**</td>
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<td># Business Segments</td>
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<td>-0.160*</td>
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<td></td>
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<td>[-1.938]</td>
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<td>Constant</td>
<td>6.781***</td>
<td>-14.384***</td>
<td>-5.800</td>
<td>-12.629*</td>
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<td>Observations</td>
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<td>Adjusted R-squared</td>
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<td>0.0589</td>
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<td>0.00763</td>
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Dependent variable: ROE
Do female directors save the world?

- Female directors have more characteristics of superheroes than male directors, BUT they do not save the world (according to the “business case” metric)
  - The evidence for the “business case” is simply not robust!

- Recognizing this is important! It tells us that there is a problem that we need to understand: why don’t female directors save the world?
Why are female directors not saving the world?

Is she?

See you at the board meeting!
Current way of framing the issue

- HR directors and nominating committees are to blame: FIRM-LEVEL factors

- Life is not that simple

- Societal factors such as female fulltime labour force participation, culture and education matter
Board diversity in STEM&F fields

**FIGURE 1.** AVERAGE PERCENTAGE OF WOMEN ON THE BOARD IN STEM&F AND OTHER SECTORS

*Adams and Kirchmaier (2016)*
Why are female directors not saving the world?

To understand firms, we must understand institutions
Can *current* policies help?

See you at the board meeting!
Boardroom gender policies

Number and Percentage of countries enacting gender policies

Year

Number and Percentage of countries enacting gender policies

Number Percent
women to work and on an equal basis with men. In business, there is an ever increasing body of evidence showing that companies with a good balance between the sexes at senior level tend to perform better than those that do not. But it is not just a question of

7 Examples of studies linking corporate performance to the representation of women on boards include:

European Commission (2010)
Policies and research

FT50 journals:

- Excluding Journal of Business Ethics (60.92% of papers about women on boards)
- Only 4 papers prior to 1990 including one JBE
Three problems

- Policies are informed by “research”, not research
  - Wishful thinking is not a basis for good policymaking. It obscures the source of the problems that need addressing
- Policies are frontrunning the research, so little chance of being informed policies
- Doing good science in this area is hard
More research is needed to separate truth from fiction!!

Fiction:
- We are making a lot of progress!
- Women on boards are more risk-averse and less overconfident than men
- Women on boards are just like men on boards
- There is a business case for female directors

Scientific "truths":
- There are fewer women on boards than people say there are
- Women on boards may not be as they are typically portrayed. For example, they may be risk-loving!
- Women on boards can be very different from men on boards
- The business case can fail. We need to understand why.
Conclusion

- Women may not *always* be superheroes
- But, there is no reason they cannot be superheroes more often
- Informed policies may help
Can *current* policies help?

We need more research!

Policymakers and academics need to engage!
References


- **Barriers to Boardrooms** (June 22, 2015). With Tom Kirchmaier. Available at SSRN: https://ssrn.com/abstract=2192918


- **Beyond the Glass Ceiling: Does Gender Matter?** 2012, with Patricia Funk, *Management Science*, 58 (2), pp. 219-235