

Shareholders rate women board members more highly than men

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Shareholders rate women board members more highly than men. Credit: Syda Productions /fotolia.com

Companies with women on their executive and supervisory boards are valued more highly by the stock markets. Investors rate the performance of the few women who climbed to the top of the career ladder in companies without a gender quota as being better than that of their male peers. Economists from the Technical University of Munich (TUM) and the University of Hong Kong used an unusual method to reach this conclusion. They studied the share price development of companies following the exit of top managers due to death or illness in a sample of around 50 countries.

Are companies more successful if they have several [women](#) serving on their boards? Or are successful firms more likely to appoint women to the top table? No scientific study has so far been able to determine exactly how the representation of women influences a company's success because few studies have been able to solve the cause and effect conundrum.

Daniel Urban from the Technical University of Munich and Thomas Schmid from the University of Hong Kong therefore decided to adopt an analysis method that seems a little unusual at first glance. It involved studying the [share price](#) movements of companies following the exit of executive or supervisory board members due to death or illness. They looked at around 3,000 cases in 51 countries where no gender quota requirements were in place during the selected period (1998 to 2010). "Our approach may seem a little morbid, but it allowed us to minimize the influence of other factors," explains Daniel Urban.

Sharpest share price decline if women are replaced by men

The study shows that share prices fell by two percent on average following the sudden departure of a woman director. In cases where a

woman was replaced by a man, there was an even bigger drop of three percent. Conversely, when the departing board member was a man, the share price remained steady. "Women who have reached the highest management level without the help of a mandatory gender quota therefore contribute more value to a firm than their male peers," claims Urban.

The second part of the analysis shows that shareholders do not value women per se more highly. Rather, they evidently judge the actual performance delivered by a firm's executive and supervisory boards. The researchers came to this conclusion by looking at the representation of women on the executive and supervisory boards of companies in the countries studied. The proportion was, for example, just three percent in Japan, eight percent in the USA, and 20 percent in the Philippines. In those countries where it was particularly hard for women to make it to the top, there was a bigger fall in the share price following their departure. "This effect reflects the harsh selection process, whereby women have to deliver significantly better performance than their male peers. So their departure then produces a correspondingly greater impact," says Urban.

Gender quotas prevent the best executives from being selected for the job

The economists came to two conclusions: "Firms need to improve their processes for selecting board members," recommends Urban. "Above all, they should apply the same standards for both men and women. By putting women managers on an equal footing, they could increase their firm's value."

The findings also indicate that gender quotas have a negative impact. Earlier studies had already shown that the introduction of a gender quota

in Norway for supervisory board members led to a decline in performance among the companies in question. "Our investigation shows that this by no means indicates that women generally make less competent supervisory [board members](#)," stresses Urban. "Rather, the quota has resulted in a situation where the best executives have not always been selected for the job."

More information: Thomas Schmid et al. Does it Matter Where You Work? International Evidence on Female Board Representation, *SSRN Electronic Journal* (2013). [DOI: 10.2139/ssrn.2344786](https://doi.org/10.2139/ssrn.2344786)

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