New research shows the more women on a company's board, the more market value is lost

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A company with a gender-diverse board of directors is interpreted as revealing a preference for diversity and a weaker commitment to shareholder value, according to new research in the INFORMS journal *Organization Science*.

The study examines investor responses to board diversity and finds that one additional woman on the board results in a 2.3% decrease in the company's market value on average, which could amount to hundreds of millions of dollars.

Authors Isabelle Solal and Kaisa Snellman, both of INSEAD, looked at 14 years of panel data from U.S. public firms and saw that firms with more female directors were penalized.

"Firms that increase board diversity suffer a decrease in market value and the effect is amplified for firms that have received higher ratings for their diversity practices across the organization," said Solal.

The paper, "Women Don't Mean Business? Gender Penalty in Board Composition," suggests that investors respond to the presence of female leaders not simply on their own merit, but as broader cues of firm preferences.

"If investors believe that female board members have been appointed to satisfy a preference for diversity, then by increasing board diversity, a firm unintentionally signals a weaker commitment to shareholder value than a firm with a nondiverse board," said Snellman.

Some reports by consulting firms and financial institutions have shown a positive correlation between firm value and gender-diverse boards, but recent studies based on long-term data show a negative effect on female board representation. The explanation is found in how investors interpret the decision.

"Our results imply that when additional information on the firm's preferences is available, the market relies on that information in order to lessen the uncertainty surrounding the board diversity cue. Additional information may come from observing other choices the firm makes, notably in terms of diversity policies," continued Snellman.

The researchers argue that fostering awareness is the first step in addressing and eliminating damaging assumptions. They suggest firms should carefully frame female appointments and reassure shareholders of corporate goals.

The paper suggests that over time, just as greater exposure to female leaders has been shown to reduce stereotype bias, the increase in female board appointments should likewise decrease the perception that firms select directors for any reason other than their qualifications.

"There is strong evidence that diverse and inclusive teams make better decisions, faster, leading to improved outcomes. Society and businesses are making slow but steady progress in breaking down barriers and embracing the rich value that comes with greater diversity and inclusion, but this important research is another reminder that we still have a long way to go," said Pinar Keskinocak, INFORMS 2020 president.

More information: Isabelle Solal et al. Women Don't Mean Business? Gender Penalty in Board Composition, *Organization Science* (2019). DOI: 10.1287/orsc.2019.1301

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