A lifesaving reason to have more women on boards: ensuring consumer safety

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In a study published online yesterday focused on the medical products industry—which includes medical devices, pharmaceuticals and biologics—a group of researchers found that, compared to firms with all-male boards, firms with female directors announced high-severity product recalls 28 days sooner. This is a 35% reduction in the time between when a firm was first made aware of the defect and when the firm decided to recall the defective product.

The study, from faculty at Lehigh University, University of Notre Dame, Indiana University and Auburn University, is the first to examine the impact of female board representation on operations management, specifically in product recall decision-making. It was published in *Manufacturing and Service Operations Management*.

According to co-author Corinne Post, a professor of management at Lehigh University, the U.S. Food and Drug Administration (FDA) classifies recalls into three categories of severity: class 1 (high severity), class 2 (moderate severity), and class 3 (low severity). A class 1, high-severity recall is one where the product defects are the most serious, even life-threatening. "For the types of recalls classified as high-severity, how quickly they are recalled can truly be a matter of life or death," says Post.

The researchers found that the number of women on boards also had an impact on the high-severity recall outcomes. When boards had just one female director, seriously defective products were not recalled more

quickly than with all-male boards. It was only when there were at least two female directors on the board that the timeliness of severe product recalls increased.

"When there were three female directors, the recall decision moved along even faster," adds Post.

The authors write that low-severity, or "...class 3 recalls, which are associated with nonharmful issues such as labeling or packaging nonconformities, have significant discretion in whether or not they are ever initiated by firms and represent an ideal context to examine how changes in board gender composition influences the firm's tendency to either take accountability for, or overlook, product quality problems that contain significant initiation discretion."

The researchers report that for low severity recalls, for which executives have much greater discretion than high-severity ones, boards with female directors announced 120% more recalls, compared to boards that had no female directors. That is equivalent to 12 additional recalls per firm.

"In this case, the addition of just one female director caused a change in how these decisions were made," says Post. "The number of recalls of this type announced continue to increase as firms add each additional female director."

The team notes that more research is needed to determine why the presence of women on boards is associated with such different product recall decisions. Though they assert that underlying the link between board composition and product recalls is an understanding that boards are established specifically to set the tone for how managers make critical firm decisions.

"We hypothesize that boards with more women might set a tone for

stricter abidance by FDA rules and may also have higher aversion to risk when it comes to possible product harm," says Post. "Boards that include women may also be more responsive to a diverse set of stakeholders, including at-risk customers."

The study entitled, "The Influence of Female Directors on Product Recall Decisions," was published online today in *Manufacturing and Service Operations Management*. (Co-authors: Kaitlin D. Wowak, University of Notre Dame; George P. Ball, Indiana University; and, David J. Ketchen Jr., Auburn University.)

A tale of two product recall approaches

To arrive at their results, Post and her colleagues analyzed data obtained through a Freedom of Information Act (FOIA) request, as well as recall timing data provided by a senior FDA leader. In total, they analyzed 4,271 medical product recalls from 2002 to 2013 across 92 FDA-regulated, publicly traded firms. In addition to their empirical research, the team interviewed two managers: a VP of quality and a director of manufacturing, at two FDA-regulated Fortune 500 medical product firms?both involved with monitoring quality issues. When a product quality issue arises, usually a recall committee is formed. Committee findings are shared with the board, which provides feedback.

"In other words," the authors write, "boards do not make the recall decisions, but instead they set the tone and expectations for how managers are to make these decisions."

The paper provides a glimpse into how the process unfolds at one firm, where the default position is to recall in the absence of compelling reasons not to: "The VP of quality mentioned that at her firm, the recall decision focuses keenly on customer harm and that managerial recall committees are only allowed three days to prove that a recall is not

warranted once a product quality issue comes to their attention. If unable to do so in three days, a recall is initiated. The default at this firm is to recall and to do so quickly. This expectation for quick and deliberate action prioritizing customer safety was established by the firm's board. In fact, it is the female directors on the board at this firm who are particularly concerned with customer safety."

By contrast, the researchers write that the manufacturing director they spoke with indicated that at his firm the default position is to err toward inaction unless the committee finds evidence that makes a recall the only viable option:

"There, managerial recall committees have the burden of proving that a recall is absolutely necessary and if unable to do so, no recall is initiated. Recall committees can take as long as they deem appropriate and the deliberations center on cost-benefit analyses more than customer safety. This cost-benefit prioritization is driven by the board. In this firm, the male directors often inquire about who is going to be fired and how quickly they will be fired following a recall announcement."

A call to action for greater board diversity

"Our data analysis combined with the information gleaned from our interviews, show that there is a difference in very real and important consumer safety outcomes between firms who have added more women to their boards and those who have not," says Post.

CEOs and ESG (environmental, social and governance) analysts may be especially interested in these results, adds Post, as they seek to understand how board diversity might correlate with socially responsible corporate decision-making.

"My colleagues and I join with recent calls for all directors and all

boards to look beyond the bottom-line," says Post. "Being responsive to their firm's stakeholders, especially when defects in their products may harm or kill, is not only good business but could save lives."

More information: Kaitlin D. Wowak et al, The Influence of Female Directors on Product Recall Decisions, *Manufacturing & Service Operations Management* (2020). DOI: 10.1287/msom.2019.0841

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