Gender Diversity: Beyond the 'She' Effect & Tokenism

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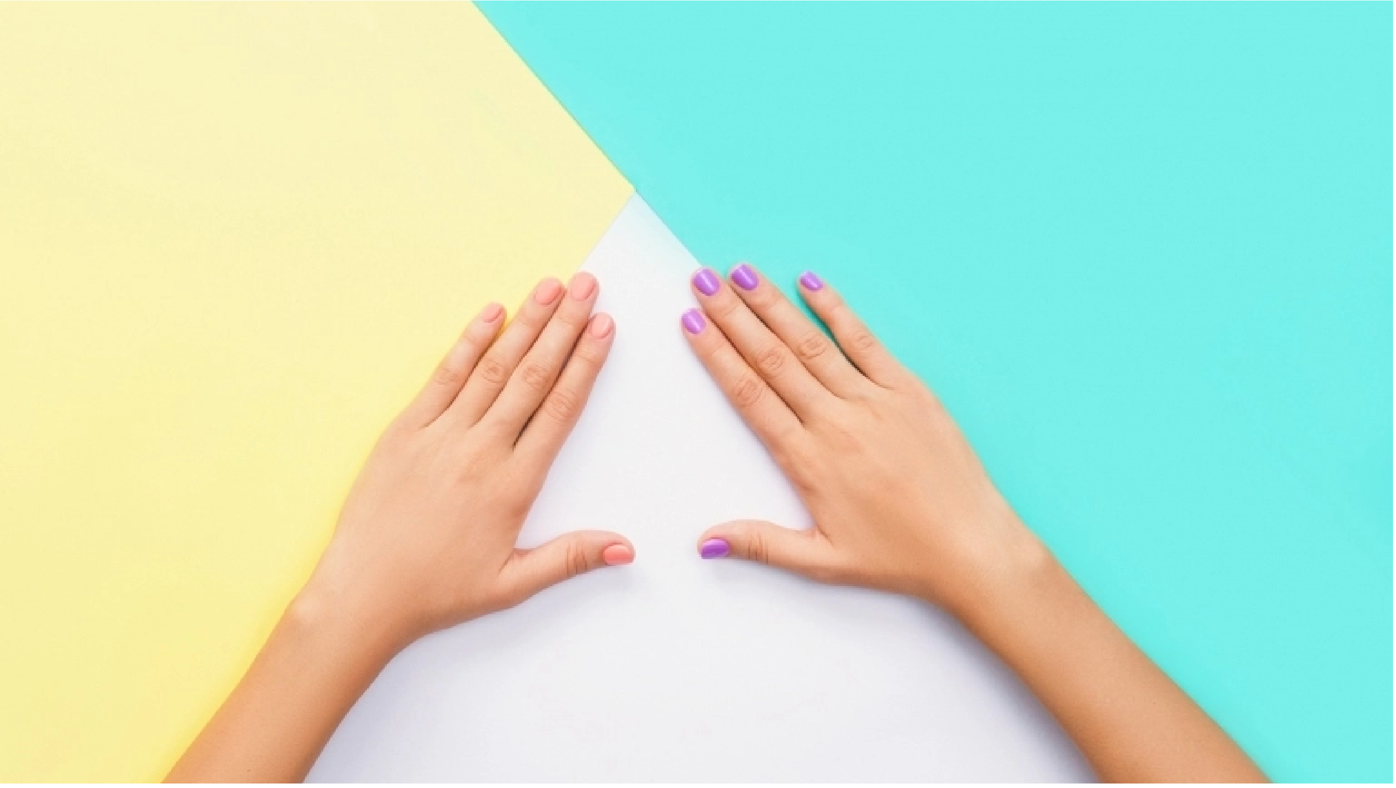

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What is Gender Diversity?

Apart from ensuring equality and ethical governance, gender balance in the workplace can provide a wider talent pool, a broader universe of perspectives, enriched collaboration, improved staff retention, better reflection of an organization's customers, enhanced reputation, reduction of litigation risk, and greater profitability. By extension, gender equality then upholds human rights, mitigates violence against women and girls, fosters economic growth, and sustains safer and healthier communities.

The world is changing. Countries such as Norway, Spain, Finland, Iceland, Kenya, France, Italy, and Belgium have enacted compulsory gender quotas for corporate boards. Amongst them, some have preferred dynamic and progressive benchmarks. For example, France has imposed a 30% minimum of either gender by 2027 and 40% by 2030 covering both boards and leadership pipelines of corporates employing over 1,000 people. In Australia, "the Australian Institute of Company Directors (AICD) and the 30% Club Australia encourage all incorporated entities to support a board diversity model of '40:40:20', where boards have at least 40% of either gender as good practice. Following on, influential corporates also have been advocating for gender diverse boards in their clients. For example, Goldman Sachs, one of the largest global investment banks, would not underwrite initial public offerings (IPOs) in the United States and Europe if the entity going public does not have at least one diverse board member.

Collectively, these policy initiatives and societal pressure have resulted in change and advancement in gender diversity in boards. For example, the Gender Diversity Progress Report published on 2 July 2021 by AICD notes that director appointments across the Australian Stock Exchange (ASX) listed firms in 2021 have been largely gender-equal with 'women comprising 48% of ASX 200 appointments, 46.7% in the ASX 300 and 46.5% across the All Ords'. This signifies the highest sustained rate of female appointments since the AICD and 30% Club Australia started monitoring the yearly change in this variable in 2015.The same report notes that the proportion of females in the ASX 200 boards has reached 33.6% at the end of May 2021 in comparison to just 8.3% in 2010.

Improving Gender Diversity in the Workplace

While progress has been made on gender diversity in corporate boards, it is imperative to examine how shareholders and stock markets react to the appointment of women to top management positions. This is so because directors must be remunerated financially for their services and as such, shareholders are interested in directors who have the required skills and experience to create value for the firm. Evidence from Norway, the first country to pass a gender quota on boards by regulators, reveals a sustained negative response following a material drop in share price at the announcement of the law. Similar negative market reactions have been observed for firms in California following the passage of Senate Bill No. 826 into law.

With regard to stock market reactions to the actual appointment of women on boards, evidence is mixed and inconclusive. While some find positive market responses, others present negative and insignificant evidence. For example, the appointment of female chief executive officers (CEOs) generate higher negative stock market wealth effects than male CEOs in the US. The market also reacts negatively to the appointment of females to top management positions such as chairperson, CEO, president , chief operating officer, chief marketing officer and chief financial officer in industries dominated by men despite positive results for industries dominated by women. Interestingly, female CEO appointments that get more media attention receive negative market reaction, but the reverse holds for the appointment of male CEOs. From a cross-country perspective, an international study reports insignificant stock market reactions and wealth effects surrounding the appointment of female CEOs and chief financial officers (CFOs).

Investors and the Value of Gender Diversity

The question that arises is, if indeed investors value gender diversity and stock prices reflect relevant information, why is there no consistent positive stock market reactions following the appointment of women to top executive positions? Put differently, if stock price fluctuations following the announcement of leadership changes reflect market's perception of that entity's prospects under the new leadership, why do markets often exhibit a negative bias towards female appointments? The answer seems to lie in the form and substance of these appointments and subsequent announcements. For example, there is evidence that female CEO announcements had more descriptors related with gender than reports announcing male CEOs. There is also evidence that regulatory gender quota has led to younger and less experienced boards.

Thus, by extension, it is essential that women appointments are not exclusively made to fulfil quotas or for fulfilling tokenism. There is also a clear need to communicate the specific skills and experience and the value proposition the new appointee brings to the strategic apex of the firm. For example, when a company appoints a female leader with legal and regulatory expertise/experience, it should clearly communicate how that will lower the corporate litigation risk and increase firm value. When companies appoint a female leader with finance/accounting expertise, it should let shareholders know how the new appointee can improve audit quality, internal control, earning management, compliance, and risk mitigation. When a female leader with extensive experience in business combinations is appointed, the announcement should clearly communicate how the new leader expects to grow the firm and create value through strategic mergers and acquisitions.

Conclusion

After all, people are not homogenous and based on the skills and experience that one has, their contribution to firm performance may differ. It is, therefore, not surprising that mixed results are obtained for gender diversity and firm performance because most studies focus on gender either as an indicator for females or number of female representation on the board and not the skills and experience of female directors/CEOs, which captures their ability to improve firm performance. Consequently, the decision makers dedicated to the advancement of women into senior leadership positions should consider these specific attributes and communicate their benefit to shareholders. Indeed, one feels more valued when their skills, experience, and capabilities are highlighted as justification for their appointment instead of their gender.

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