WOMEN ON CORPORATE BOARDS AND FIRM PERFORMANCE: EVIDENCE FROM SPAIN

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INTRODUCTION

Despite Spain was the second country in the world to implement legislative actions that fostered the incorporation of more women in the boardroom, its reported proportion remains below the European average. This study examines the impact of female board members on firm performance by focusing on Spanish companies. We provide new insights and contribute to literature on this topic by analyzing a different sample, period and set of variables.

THEORETICAL PERSPECTIVES

***Female on board and financial performance*:**

- **Resource dependency.** Different corporate directors are selected in order to maximize access to critical resources and connections *(Ferreira, 2010).*
- **Human capital.** Explores how education, skills, and experience of employees can affect organizations *(Carter et al., 2010).*
- **Agency.** Austere monitors align the interests of two parties *(Adams and Ferreira, 2009).*
- **Social psychology.** Miscellaneous thinking can boost decision-making *(Carter et al., 2010).*

Female on board and risk-taking:

- *Faccio et al. (2016)* advocate **firm risk, women self-selection and biological or environmental factors** as the main channels for this linkage.

REVIEW OF LITERATURE

*Previous empirical evidence investigating the **gender diversity-performance relationship** is mixed across countries:*

- **Positive effect**. *Smith et al. (2005)* find that a higher fraction of women at top executive levels in Danish companies is likely to boost financial outcomes. *Laffarga et al. (2015)* support gender quotas by also documenting a positive relationship between female on board and financial results in a Spanish context.
- **Negative effect.** In the US, *Adams and Ferreira (2009)* argue too much monitoring can reduce shareholder value when companies have few takeover defenses. *Ahern and Dittmar (2012)* provide evidence of a negative association from a Norwegian point of view, given the lower job experience of women in their sample.
- **No effect**. *Carter et al. (2010)* in the US conclude that appointing women and ethnic minorities to corporate boards does not imply any significant effect on performance. *Rose (2007)* finds no substantial linkage between educational, ethnical and gender-diverse boards and firm performance when examining only listed Danish firms.

*The same trend is found when it comes to the **gender diversity-risk-taking relationship:***

- **Risk-averse**. *Faccio et al. (2016)* demonstrate female CEOs are usually associated with less risky firms in their large sample of European companies. In Spain, *Hernández et al. (2015)* show debt financing diminishes as the presence of females increases.
- **Risk-lovers**. *Adams and Funk (2012)* document women directors in Sweden are slightly more risk-loving than both other women in the general population and male directors. *Adams and Ragunathan (2013)* find that female-led banks in the US take more risks.

EMPIRICAL ANALYSIS

- **Sample**. 36 firms listed on the Mercado Continuo Español's stock market, downloaded from Datastream.
- **Period**. 2011-2015.
- **Trends.** Female on board are usually found in **sectors operating close to end customers**, and they seem to be concentrated on companies with **small boards**.

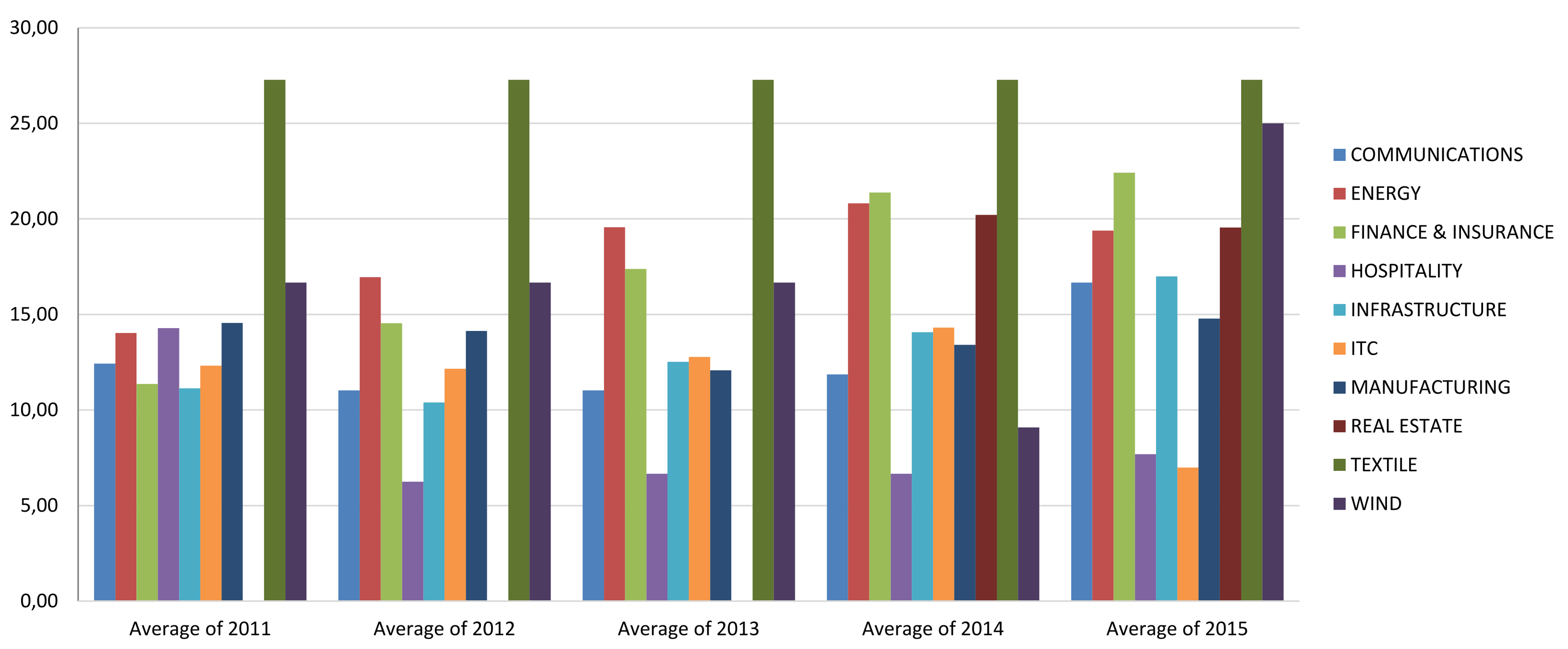
Models. OLS: $Y_{it}=\beta_0+\beta_1X_{it}+\beta_2Z_{it}+\varepsilon_{it}$; Panel data: $Y_{it}=\beta_0+\beta_1X_{it}+\beta_2Z_{it}+\eta_i+\varepsilon_{it}$

Y= Tobin's Q or ROA *ε= error varying over time* *t= time(years)*

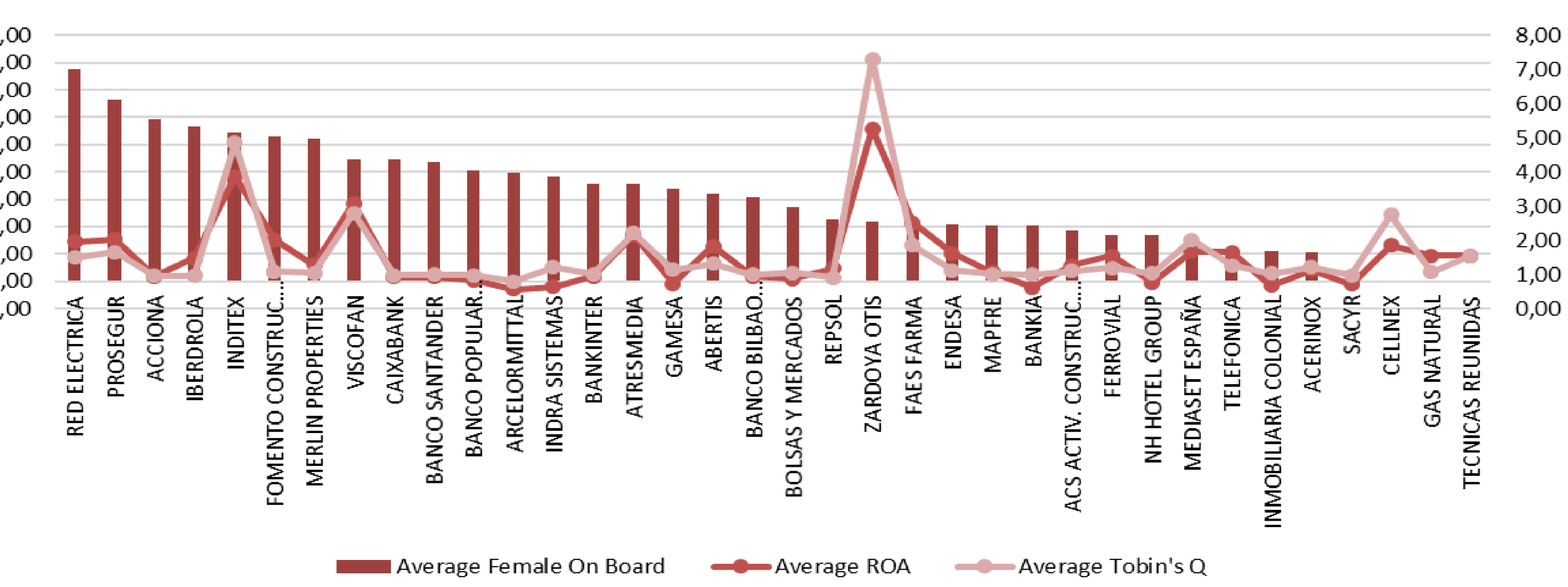
X= Female on Board *η= error fixed over time* *i= firm*

Z= Firm Size, Women Employees, Independent Board Members, Board Size, Board Specific Skills

Evolution of Female on Board by Sectors



Female on Board and Financial Performance



RESULTS

Tobin's Q

- \+ **Female on Board:** insignificant when controlling for year dummies
- \+ **Board Specific Skills:** when including industry dummies
- − **Firm Size**
- − **Independent Board Members** and **Board Size**: just in OLS regressions (lack of variation over time)
- ● **Women Employees**

ROA

- \+ **Female on Board** in all panel regressions
- \+ **Board Specific Skills:** when including industry dummies
- − **Firm Size**
- ● **Independent Board Members**
- ● **Board Size**
- ● **Women Employees**

Robustness check

- Excluding Women Employees and Board Specific Skills, as in *Adams and Ferreira, 2009.*

! **Omitted variable problem (Board specific skills) :** no significant association between Female on Board and Tobin's Q , just positive and significant with ROA at 10% level.

CONCLUSIONS

Empirical evidence suggests that:

- There is a **positively significant relationship between women on corporate boards and firm performance.**
  - Holds in all panel regressions with ROA.
  - In general also with Tobin's Q.
- **All control variables must be considered**.

Future research should address the following points:

- Find a **larger sample**: to verify robustness of results by analyzing a subsample.
- Include **additional corporate governance variables**: board members' level of education, corporate risk-taking, director tenure, board and committee meeting attendance, women managers and board cultural diversity among others.
- **Reverse causality concern**: mitigated by applying 2SLS and IV regressions.

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