Press Release

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Women on corporate boards are good for business

University of Tübingen study finds women in the boardroom reduce risk and are good for the value of a company's debt

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Companies with a high proportion of female executives are better able to reduce their risks and ensure sustainable success - that's the conclusion reached by University of Tübingen economists Jan Riepe and Philip Yang in a new study. This became especially clear when they examined the effect of more female executives on the value of the company as a whole, instead of just the effect on the value of equity or stock market value. To demonstrate this, Riepe and Yang used the market prices of corporate bonds to analyze the interaction between the proportion of female executives in supervisory bodies, corporate risk, and the value of corporate debt. They were able to show that corporate bonds increase in value when the proportion of women in these bodies increases. With these findings, they also replicated two older studies on the subject and arrived at a new, positive result with regard to the quota of women. The study is available in the *Social Science Research Network*.

Are women in executive positions "good for business?"

Norway introduced a mandatory gender quota for more women in executive bodies in 2006. In 2018, California became the first US state to adopt a similar regulation. The effect is hotly debated. Proponents of gender quota laws often argue that gender diversity is good for the whole economy as well as for companies. German Family Minister Franziska Giffey has said that women in top management positions were "good for business". At first glance, however, studies do not seem to support this assertion. Some of these studies found that gender quotas have a negative impact on company profits. In their earlier study "Women Directors, Firm Performance and Firm Risk: A causal perspective," Riepe and Yang, together with co-authors, also found a negative effect on corporate profits and equity value - at least in the short term. At the same time, however, the researchers had shown that the greater the proportion of women on the supervisory board, the lower the company's risk. This strengthens the position of lenders, who are often more interested in a lower risk than in short-term higher profits. Riepe and Yang's new study now focuses on the interaction between corporate risk and corporate debt valuation, two important components of corporate performance. On the basis of data from US companies, the researchers found a positive correlation between more women on management boards and the value of corporate bonds. The positive effects on the value of corporate debt had been indicated by their previous study.

Apparent negative effects due to measurement bias

In a second step, the researchers evaluated the empirical literature. They found that studies showing a link between women on boards and negative performance all neglected the positive impact of more women on the value of corporate debt. The negative changes in market value from lower risk are taken selectively, and the positive effects on the value of corporate debt are ignored, as only the book value of debt is considered. This neglect of the changing value of corporate debt significantly distorts the results. It’s called the book value bias of debt. The book value bias can easily lead to incorrect statistical conclusions. With this in mind, the researchers replicated two major studies. After adjusting the results, they no longer found any significant correlation between women in management bodies and negative company performance.

"The measurable negative effect on a company’s stock market value is very weak. Because an increase in the proportion of women on the supervisory board reduces corporate risk, we can assume a positive rather than a negative effect on corporate performance," says Riepe. "Overall, we found that a large part of the correlation studies have found between women on management boards and negative market capitalization was due to these distortions. However, the risk-reducing effect on the company’s long-term success remains."

Publication:
Empirical Studies on Gender Diverse Boards: Be Aware of the Value Bias in Corporate Debt, Jan Riepe und Philip Yang, https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3329966

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