Study finds increasing number of female board members reduces profitability but lowers risk

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Increasing the number of female board members from one to two reduces a company's profitability by up to 12 per cent, according to a study. Photo / 123RF

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Increasing the number of female board members reduces a company's profitability by up to 12 per cent, new research suggests.

But firms with more gender-balanced boards tend to take fewer risks, which may "positively affect their long-term success and survival", according to the analysis.

In the study, published in the journal Leadership Quarterly, researchers from Germany, Norway and the US analysed the performance of publicly traded companies in Norway after the introduction of a mandatory 40 per cent quota in 2003.

Using companies in Finland, Sweden, and Denmark as control groups, the researchers concluded that financial performance "decreases as a result of the Norwegian gender-balancing quota".

"We find clear evidence that treated firms' performance is adversely affected," they wrote.

"When we choose post-2003 years as the treatment years, we find a significant negative effect on accounting-based performance as measured by both return on assets and operating income divided by assets. The coefficients for market-based performance are negative as well."

According to the researchers, "An increase from one to two female board members on a board with four directors reduces that firm's operating income to assets by 12 per cent. This value equals twice the size of the standard deviation in the OI/A."

They argue the results "show that the business case for a more gender-balanced representation on corporate boards is not as easy to argue for as the proponents of more gender-balanced representation often assert".

"While fostering women's representation in the boardroom for equal opportunity reasons is beyond dispute, the evaluation of the quota's economic effects is rather ambiguous and less clear than the advocates and adversaries of gender-balancing quotas typically argue," they wrote.

But it does not "undoubtedly hint that a more gender-balanced board performs worse". "Rather, we find evidence for a more gender-balanced board to perform differently than a less gender-balanced board," they wrote.

"Firms that are affected by the Norwegian gender-balancing quota score lower in terms of accounting-based performance, and they are characterised by less risk — which might positively affect firms' long-term success and survival."

In a separate study published in the Social Science Research Network, the paper's two lead authors, economists Jan Riepe and Philip Yang from Germany's University of Tübingen, concluded the overall effect is actually positive.

They argue that more women in the boardroom reduce risk, which is good for the value of a company's debt.

"In their earlier study, Riepe and Yang … found a negative effect on corporate profits and equity value — at least in the short term," the University of Tübingen said in a media release.

"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."

The 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," it said.

"After adjusting the results, they no longer found any significant correlation between women in management bodies and negative company performance."