

WOMEN IN BUSINESS LEADERSHIP BOOST ESG PERFORMANCE

EXISTING BODY OF EVIDENCE MAKES
COMPELLING CASE

Private Sector Opinion 42



Creating Markets, Creating Opportunities



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Women in Business Leadership Positions (WBLP)

The traditional business case

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Women in the workplace

100 Women: Do women on boards increase company profits?

2 October 2017

Reality Check



"Having women on company boards leads to better financial performance" came the headlines from report after report, highlighting a business statistic guaranteed to capture the imagination and prompt debate.

Search The Guardian International

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Companies with women on the board perform better, report finds

Study of UK, US and India finds companies suffer large opportunity cost of having male-only executive teams



▲ Carolyn McCall, one of a handful of female CEOs at top UK companies. Photograph: Fabrizio Bensch/Reuters

The New York Times

Women in Company Leadership Tied to Stronger Profits, Study Says

Mary T. Barra, chief of General Motors, after a speech at the International CES show last month. Alex Wong/Getty Images

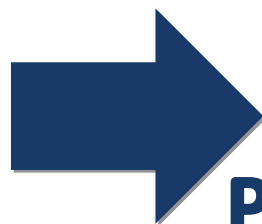
By Daniel Victor

Feb. 9, 2016

Companies pondering the incentives for increased gender diversity in their executive ranks may need to look no further than the bottom line.

Women in Business Leadership Positions (WBLP)

The traditional business case



**CORPORATE
FINANCIAL
PERFORMANCE
(CFP)**



Academy of Management Journal

Women on Boards and Firm Financial Performance:
A Meta-Analysis

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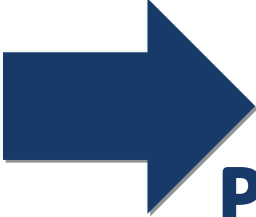
**Corinne Post
Kris Byron
(2015)**

**Combined results
140 studies
35 countries
90,070 firms**

**WoB positively related to accounting
returns (ROA, ROE)
Relationship stronger in countries
with stronger shareholder protection**

Women in Business Leadership Positions (WBLP)

The traditional business case



**CORPORATE
FINANCIAL
PERFORMANCE
(CFP)**



**Seung-Hwan
Jeong
David Harrison
(2017)**

**Combined results
146 studies
33 countries
46,000 firms**

**Women in C-level positions linked to
better long-term financial indicators**
**Performance accentuated in countries
in which managers have higher
discretion for decision-making**

MOTIVATIONS

Women in Business Leadership Positions

The traditional business case

PROS

- Economic value argument draws investors' attention
- Dozens of studies supporting the positive relationship between WBLP and financial performance
- Appeal for the rational / utilitarian side



CONS

- Focus on financial performance as the sole measure of business success
- The causality issue
- Mixed results: studies with neutral or even negative impact on CFP





The Glass-Cliff Hypothesis

- **Idea that badly performing firms are more likely to appoint women to their boards and C-suite**
- **If women are preferably placed in precarious leadership roles associated with a greater risk of failure**
 - The relationship between WBLP and CFP would be negatively biased...
 - ...and a negative link would be more likely to emerge



The Glass-Cliff Hypothesis

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- If women are preferably placed in precarious leadership roles associated with a greater risk of failure
 - The relationship between WBLP and CF
 - ...and a negative link would be more like
- Considerable scientific evidence on this:
 - Ryan and Haslam (2005): UK FTSE 100

“Think manager-think male” bias previously documented in the literature has been complemented with a sort of “think crisis-think female” mindset



The Glass-Cliff Hypothesis

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 - The relationship between WBLP and CFP would be negatively biased...
 - ...and a negative link would be more likely to be found
- Considerable scientific evidence on this topic
 - Ryan and Haslam (2005): UK FTSE 100
 - Ryan and Haslam (2008): experimental lab tests

Participants much more likely to select the female candidate for a leadership position when the company's performance was said to be declining than when it was said to be improving



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 - Ryan and Haslam (2008): experimental lab tests
 - Brady et al. (2011): 3,691 executives in 444 Fortune 500

Companies that had experienced a scandal in recent years were more likely to appoint female executives



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 - Cook and Glass (2013): all CEO transitions of Fortune 500 over a 15-year period

**Occupational minorities
(white women and
men/women of color)
more likely to be
promoted CEO of weakly
performing firms**



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When firm performance declined during the tenure of occupational minority CEOs, they were likely to be replaced by white men: The “savior effect”

Tokenism and Critical-Mass Theory



■ Tokenism

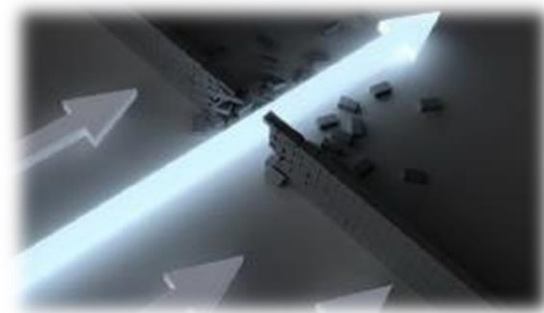
- Minorities are marginalized when their presence in a group is too small
- Invisibility or hypervisibility leads to discomfort, isolation and self-doubt

Tokens

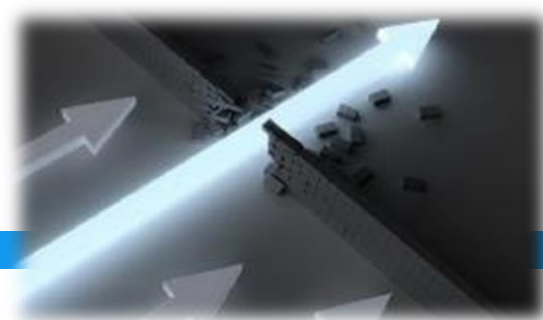
- **Member not treated as individual, but as representative of the category (mere symbols)**
- **Subject to stereotyping, which creates significant barriers to influence group decisions (also in the context of C-level and boards)**

■ Critical-Mass Theory

- Idea that members of a minority group are no longer a token when a certain threshold is exceeded
- Most researchers suggest 3 members (20%–40%) as the tipping point (critical) to properly influence the group
- At least 3 women would be necessary to allow the whole group to benefit from the resources women can bring



(cont.) Critical-Mass Theory



- **Scientific Evidence**

- Konrad et al. (2008): Interviews with 50 female directors of Fortune 1000

“The stage with one woman is the invisibility phase. The stage with two women is the conspiracy phase: if the women sit next to each other, if they go to the ladies room together, the guys wonder what the women are up to. Three women are mainstream – it is normal to have women in the room and those questions go away.”

With 3 women or more, the boardroom working-style changed substantially, influencing for the better the dynamics and processes among board members

(cont.) Critical-Mass Theory



- **Scientific Evidence**

- Konrad et al. (2008): Interviews with 50 female directors of Fortune 1000
- Torchia et al. (2011): 317 Norwegian companies

Going from 1 or 2 women (a few tokens) to at least 3 women (consistent minority) enhances the level of firm innovation

(cont.) Critical-Mass Theory



- **Scientific Evidence**

- Konrad et al. (2008): Interviews with 50 female directors of Fortune 1000
- Torchia et al. (2011): 317 Norwegian companies
- Joecks et al. (2013): 151 German companies for 5 years

Only after a “critical mass” of about 30 % women has been reached – WoB associated with higher firm performance

(cont.) Critical-Mass Theory

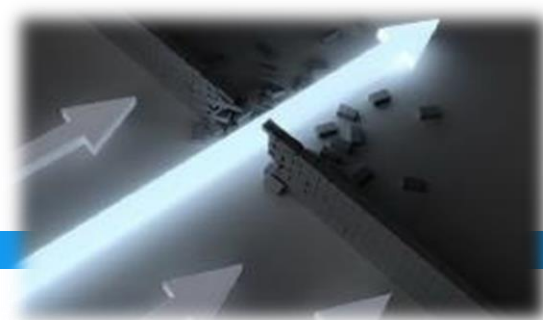


■ Scientific Evidence

- Konrad et al. (2008): Interviews with 50 female directors of Fortune 1000
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- Joecks et al. (2013): 151 German companies for 5 years
- Schwartz-Ziv (2017): Minutes of board meetings of companies with substantial Israeli government investment

Boards with at least 3 directors of each gender are at least 79% more active at board meetings as well as more likely to replace underperforming CEOs

(cont.) Critical-Mass Theory



■ Scientific Evidence

- Konrad et al. (2008): Interviews with 50 female directors of Fortune 1000
- Torchia et al. (2011): 317 Norwegian companies
- Joecks et al. (2013): 151 German companies for 5 years
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The business case for adding WBLP would be probably much stronger when this threshold is crossed.

We need to enhance the debate from the mere presence of WBLP to the importance of having women (at least) as a consolidated minority group comprised of 3 individuals.

OUR APPROACH

WBLP

The PSO Approach – What did we do?

WHAT?

- **We broadened the business case on WBLP by connecting it with ESG standards**
 - Because there is also a strong rationale linking ESG standards to enhanced CFP...
 - ...we also show that WBLP leads to better CFP not only directly, but also indirectly via better corporate social performance (CSP)
- **Advantages:**
 - The impact of WBLP on CSP is much less controversial due to the intuition that women *care* more
 - Our story allows for a clear approach to convince business leaders under stakeholder pressure...
 - ...as well as with institutional investors willing to show *effective stewardship*
 - For the development banks, it reinforces the bridge between gender initiatives and ESG standards

WBLP

The PSO Approach – How did we do?



- **We searched for scientific evidence connecting WBLP to improved ESG standards...**
- ...Through an extensive analysis of 184 papers from peer-reviewed journals published in the past 10 years (2008-2017)

We ended up with 70 recent papers from top journals corroborating our claim

RESULTS

The PSO Approach – Findings

A wealth of evidence connecting WBLP to better ESG



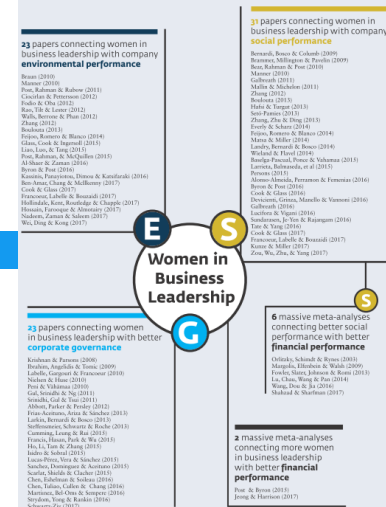
The PSO Approach – Findings

23 papers connecting WBLP with company environmental performance

- Braun (2010)
- Manner (2010)
- Post, Rahman & Rubow (2011)
- Ciocirlan & Petterson (2012)
- Fodio & Oba (2012)
- Rao, Tilt & Lester (2012)
- Walls, Berrone & Phan (2012)
- Zhang (2012)
- Boulouta (2013)
- Feijoo, Romero & Blanco (2014)
- Glass, Cook & Ingersoll (2015)
- Liao, Luo & Tang (2015)



- Post, Rahman & McQuillen (2015)
- Al-Shaer & Zaman (2016)
- Byron & Post (2016)
- Kassinis, Panayiotou, Dimou & Katsifaraki (2016)
- Ben-Amar, Chang & McIlkenny (2017)
- Cook & Glass (2017)
- Francoeur, Labelle & Bouzaidi (2017)
- Hollindale, Kent, Routledge & Chapple (2017)
- Hossain, Farooque & Almotairy (2017)
- Nadeem, Zaman & Saleem (2017)
- Wei, Ding & Kong (2017)



Examples of our findings

Impact on Environmental Practices



- Ben-Amar, W., Chang, M., McIlkenny, P. (2017)

Board Gender Diversity and Corporate Response to Sustainability Initiatives: Evidence from the Carbon Disclosure Project

- 541 firm-year observations
- Canada
- 5 years (2004-2008)

Female boardroom participation is positively related to the voluntary disclosure of climate change information

WoB increases the firm's decision to voluntarily respond to major stakeholders' demands for increased reporting on greenhouse gas (GHG) emission levels and climate change-related risks

Examples of our findings

Impact on Environmental Practices



- Wei F., Ding B., and Kong Y. (2017)

Female Directors and Corporate Social Responsibility: Evidence from the Environmental Investment of Chinese Listed Companies

- 100 companies
- China
- 8 years (2008-2015)

Boards with at least 3 female directors have a significant and positive impact on the scale of their companies' corporate environmental impact

The impact is not the same when there are only 1 or 2 female directors on the board

The results are particularly strong for state-owned enterprises and enterprises from heavily-polluting industries

The PSO Approach – Findings

23 papers connecting WBLP with company environmental performance

More WoB is positively correlated with:

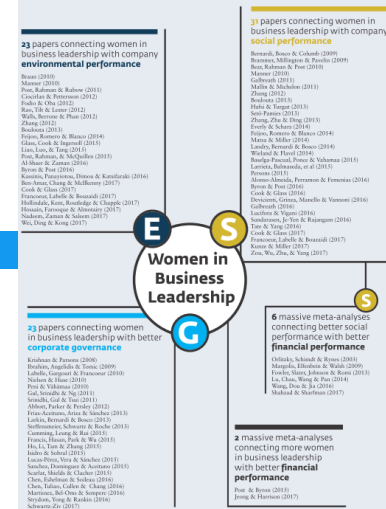
- Better sustainability practices
- Higher firm rankings on environmental performance
- Increased corporate environmental investments
- Reduction in environmentally-related problems and community concerns
- Quality and extent of sustainability reporting

Female entrepreneurs are more engaged with environmental issues:

- Stronger commitment to green approaches
- More attentive to triple bottom line

More WBLP is positively correlated with:

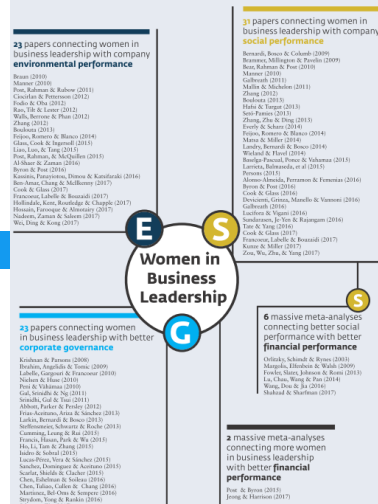
- ✓ Improved environmental performance
- ✓ More extensive environmental reporting
- ✓ More effective pursuit of environmentally friendly strategies and initiatives



The PSO Approach – Findings

31 papers connecting WBLP with company social performance

- Bernardi, Bosco & Columb (2009)
- Brammer, Millington & Pavelin (2009)
- Bear, Rahman & Post (2010)
- Manner (2010)
- Galbreath (2011)
- Mallin & Michelon (2011)
- Zhang (2012)
- Boulouta (2013)
- Hafsi & Turgut (2013)
- Setó-Pamies (2013)
- Zhang, Zhu & Ding (2013)
- Everly & Scharz (2014)
- Feijoo, Romero & Blanco (2014)
- Matsu & Miller (2014)
- Landry, Bernardi & Bosco (2014)
- Wieland & Flavel (2014)
- Baselga-Pascual, Ponce & Vahamaa (2015)
- Larrieta, Balmaseda, Fernández de Bobadilla, Alonso-Almeida & Intxaurburu-Clemente (2015)
- Persons (2015)
- Alonso-Almeida, Perramon & Femenias (2016)
- Byron & Post (2016)
- Book & Glass (2016)
- Devicienti, Grinza, Manello & Vannoni (2016)
- Galbreath (2016)
- Lucifora & Vigani (2016)
- Sundarasan, Je-Yen & Rajangam (2016)
- Tate & Yang (2016)
- Cook & Glass (2017)
- Francoeur, Labelle & Bouzaidi (2017)
- Kunze & Miller (2017)
- Zou, Wu, Zhu & Yang (2017)



Examples of our findings

Impact on Social Practices



- Baselga-Pascual, L., Trujillo-Ponce, A., Vahamaa, E., & Vahamaa, S. (2015)

Ethical Reputation of Financial Institutions: Do Board Characteristics Matter?

- 220 firm-year observations (43 of the largest banks in the world)
- 13 countries (e.g. Australia, Canada, Germany, France, Japan, Spain, UK, USA)
- 6 years (2005-2010)

Strong evidence that the ethical reputation of financial institutions is positively associated with board gender diversity

Adding more women on boards increases oversight by the board which, in turn, improves the reputation of financial institutions

Examples of our findings

Impact on Social Practices



- Sundaraen, S., Je-Yen, T., and Rajangam, N. (2016)

Board Composition and CSR in an Emerging Market

- 450 companies
- Malaysia
- 2 years (2011-2012)

The presence of WoB of these firms is the only variable that positively affects the level and degree of their CSR initiatives

Other efforts at diversifying boards (non-executive and independent directors) may have a negative impact on the company's CSR initiatives

The PSO Approach – Findings



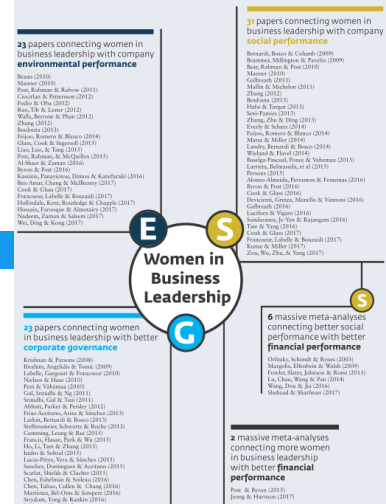
31 papers connecting WBLP with company social performance

More WoB is positively correlated with:

- ✓ Improved CSR practices in emerging market companies
- ✓ Stronger commitment to CSR initiatives and practices
- ✓ Overall social performance
- ✓ Better community engagement
- ✓ Stronger worker relations, positive business culture, and better work-life balance
- ✓ Improved human rights
- ✓ Ethical conduct and reputation

More WBLP shows a stronger emphasis on workplace environment, workforce issues, and worker satisfaction, including:

- ✓ Gender-equitable hiring practices
- ✓ Gender-equitable opportunities for promotion
- ✓ Equal pay for equal work
- ✓ Male and female talent development
- ✓ Women-friendly policies



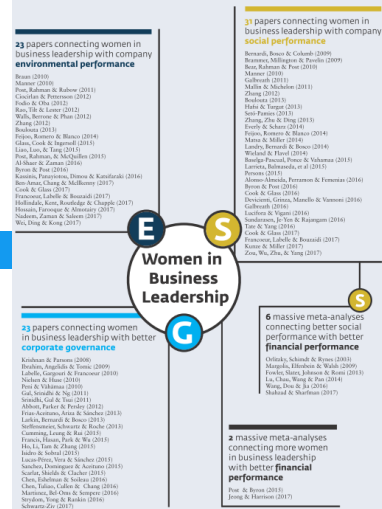
The PSO Approach – Findings

23 papers connecting WBLP with better corporate governance

- Krishnan & Parsons (2008)
- Ibrahim, Angelidis & Tomic (2009)
- Labelle, Gargouri & Francoeur (2010)
- Nielsen & Huse (2010)
- Peni & Vähämaa (2010)
- Gul, Srinidhi & Ng (2011)
- Srinidhi, Gul & Tsui (2011)
- Abbott, Parker & Persley (2012)
- Frias-Aceituno, Ariza & Sánchez (2013)
- Larkin, Bernardi & Bosco (2013)
- Steffensmeier, Schwartz & Roche (2013)
- Cumming, Leung & Rui (2015)



- Francis, Hasan, Park & Wu (2015)
- Ho, Li, Tam & Zhang (2015)
- Sanchez, Dominguez & Aceituno (2015)
- Isidro & Sobral (2015)
- Lucas-Pérez, Vera & Sánchez (2015)
- Scarlat, Shields & Clacher (2015)
- Chen, Eshelman & Soileau (2016)
- Chen, Tuliao, Cullen & Chang (2016)
- Martinez, Bel-Oms & Sempere (2016)
- Strydom, Yong & Rankin (2016)
- Schwartz-Ziv (2017)



Examples of our findings

Impact on Governance Practices



- Cumming, D. J., Leung, T. K., & Rui, O. M. (2015)

Gender diversity and securities fraud

- 1,422 frauds committed at 742 companies
- China
- 10 years (2001-2010)

**There is strong evidence that more
WoB mitigates securities fraud**

**The optimal percentage of WoB in order to
minimize securities fraud is 50%**

Examples of our findings

Impact on Governance Practices



- **Chen, Eshelman & Soileau (2016)**

Board Gender Diversity and Internal Control Weaknesses

- 4,267 firm-year observations
- USA
- 10 years (2004-2013)

Firms with greater WoB are less likely to have internal control weaknesses

Results are not driven by females on the audit committee. Instead, WoB reduce internal control weaknesses regardless of whether they sit on the audit committee or not

The PSO Approach – Findings

23 papers connecting WBLP with better corporate governance

Correlated with ethics and compliance:

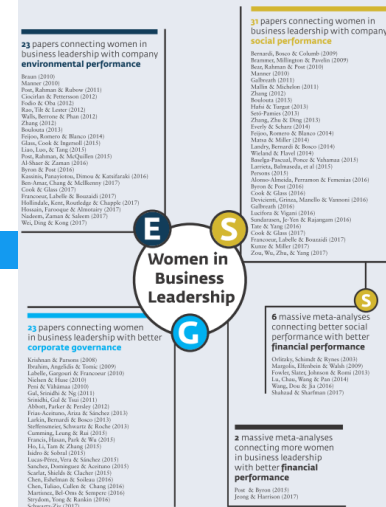
- Tighter internal controls
- Increased ethical and social compliance
- Reduced incidence of fraud, insider trading, etc.

Correlated with board effectiveness:

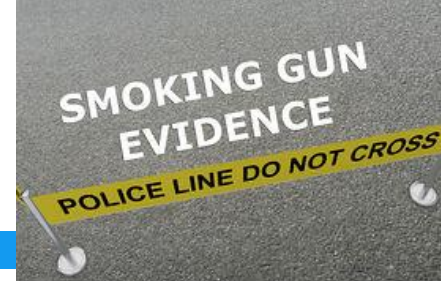
- Stronger control over companies' strategic direction
- More active board meetings
- Reduced levels of conflict
- Greater emphasis on board development
- Increased willingness to replace underperforming CEOs

Gender-diverse boards influence the nature, extent, and monitoring of reporting:

- ✓ Reduced risk of financial restatement
- ✓ More conservative approach to earnings statements
- ✓ Increased transparency and disclosure



Addressing the Skeptics



- How can we respond to the need of a “smoking gun” evidence raised by skeptics?
 - Same argument used to doubt other critical issues, such as the impact of fossil fuels on climate change
 - Although there is no undisputed proof for the business case on WoB... (it is the same for sustainability, CSR and CG business cases!)... this doesn't mean the results of the abundant research on this field are useless
- **Three main responses should be given in concert for doubters:**
 1. Researchers make use of several econometric procedures to mitigate causality concerns
 2. Meta-analysis studies pooling the results of hundreds of papers generally confirm the business case
 3. We can make a solid case that more WoB leads to better performance by combining:

Quantitative results + Qualitative examples + Conceptual arguments

WRAP UP

Conclusion and gaps to be filled (1/3)

Massive empirical evidence shows:



Enhance firm value



Ensure business sustainability and...



Balanced decisions will maintain healthy long-term relationships



More WBLP is more likely to make companies care more about implications of their decisions

Conclusion and gaps to be filled (2/3)

Vast majority of studies are about:

Quantitative analysis

- To be filled by qualitative works

- Interviews
- Survey questionnaires
- In-depth case analyses

Women on boards

- To be filled by more works exploring impacts of women in senior management

C-level positions

Listed companies

- To be filled by studies focusing on small and medium-sized firms

Unlisted firms

Developed countries

- To be filled by studies focusing on developing countries

Emerging markets

Relevance of development finance institutions

- Portfolio of unlisted companies in emerging markets
- Strong ESG standards requirement of investee companies



Thank you!

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Q&A Session

For informations about the *Women on Boards and in Business Leadership Program* from the IFC, please visit www.ifc.org/corporategovernance/gender