The question about the firm value impact of board gender diversity has been persistent (and, sometimes, even controversial). The reason is that the extant empirical evidence in the academic literature has been mixed. My paper sheds new light on this important subject by highlighting how the within-board power and influence asymmetry modulates the impact of board gender diversity on firm risk-taking, financial performance, and value.

Introducing the key research questions: Although new, a perspective hinged on surmounting the above empirical challenges calls for a revisiting of the critical question: Does gender diversity really hurt firm value? Specifically, what really happens to the risk-taking culture and financial performance/value of publicly listed US firms when (i) an “effective” female director (i.e., a director in a non-leading role) is added to a homogenous male board? (ii) the influence/impact of the female subgroup of directors via greater numerical strength or more significant aggregate non-position on the board?

Methodology
I do three (3) fundamental things. First, I identify four (4) main empirical challenges that lead to the mixed evidence in the academic literature and their potential solutions as well as revisit the crucial research questions. Second, I formulate an intuitive set of hypotheses on the firm value impact of board gender diversity. And, third, I develop a novel empirical strategy to mitigate the empirical challenges by internalizing the potential solutions and dealing with endogeneity.

The four (4) main empirical challenges and potential solutions

Figure 1A and B. below, highlight the empirical challenges that lead to the mixed evidence in the academic literature, the principal issues, and their potential solutions.

Basic identification strategy: Conceptually, I seek to measure the counterfactual impact of the female gender in fixed subgroup power/influence conditions on the board. For example, given a board re-composition event structure (with creditable influence attributability), what will be the average counterfactual impact of the female gender if new director(s) is/are introduced to the board? Figure 2 schematizes the concept.

Proxy variables and interpretation:
First, I split the study hypotheses into three (3) directly testable sub-hypotheses (H1a, H2a, and H2b) as schematized in Figure 4A. Next, I structure quasi-temporal event counterfactual samples for the sub-hypotheses. Figures 4B, 482, and 483 respectively capture the summarization of the quasi-temporal event counterfactuals for H1a, H2a, and H2b.

Robustness
• Computational integrity: My OLS results [computed one variable at a time] are consistent with the stylized facts on the determinants of leverage as in Rajan and Zingales (1995).
• Interpretability: My results are consistent with Baker and Wurgler (2002), thus ruling out the possibility that the market timing theory might be at play.

Main endogeneity concerns: The endogeneity concern is director selections issues, namely: selection based on the comparability of risk preferences and the motive [alone] in selecting based on ability. I rule out both [see below].

Real-ex post causality analyses:
• Suppose one argues that the “reduction of excessive risk effects” in H2a and H2b are explained not by my power/influence hypotheses but by the underlying motive for some endogenous selection based on ability [e.g., financial expertise, etc.], then it must be that, on average. For H2a and H2b, female directors have some intrinsic ability to influence firm policy toward preventing excessive risk-taking and male directors have an intrinsic ability to influence firm policy toward inducing excessive risk-taking. However, by H1, the intrinsic ability of female directors to influence firm policy toward preventing excessive risk-taking does not manifest when female directors do not have significant power/influence on the board, validating my power/influence hypotheses.

Conclusion
Technical implication. This paper identifies and measures the cultural shift to diversity in corporate boards and how this cultural shift is manifested in women’s substrate role power and influence to mitigate the risk-taking culture and thereby increase firm value.

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