



DIRECTOR NOTES

The Effect of Gender Diversity on Board Decision-making

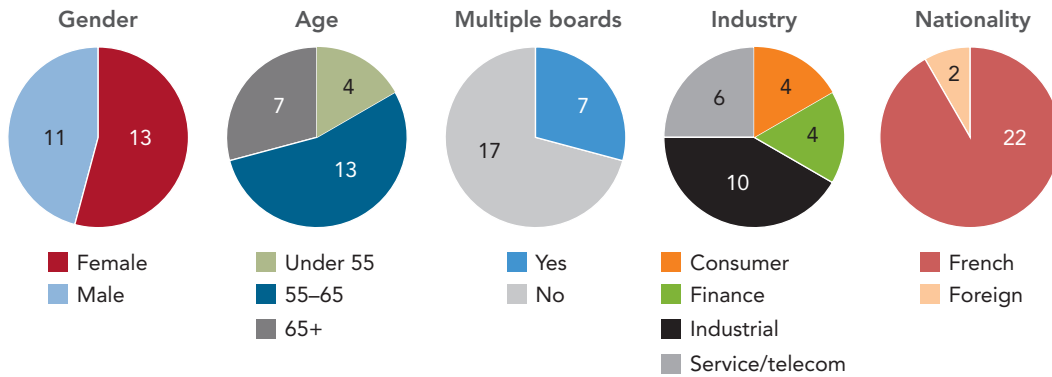
Interviews with Board Members and Stakeholders

By Darren Rosenblum and Daria Roithmayr

Corporate boardroom gender diversity is a hot topic. Advocates argue that gender diversity makes good business sense. In particular, they argue that women can add new and valuable perspectives to a decision-making process traditionally dominated by a relatively small circle of mostly males. This *Director Notes* investigates that argument by looking at some supporting evidence from interviews conducted with French corporate board members and stakeholders in connection with a preliminary qualitative study about the quota system adopted in France in 2011.

The French quota requires publicly traded companies to add women to their boards of directors. Interviewees reported that adding women to corporate boards pursuant to the quota did affect the boards' decision-making process. More notably, they reported that the real value of adding women to boards came not from the fact that they were women, but from the fact that they were more likely to be outsiders. They were also more likely to be foreigners, have expertise in more diverse business issues and functions than their male counterparts, and to have risen through the ranks outside the traditional elite networks.

DEMOGRAPHICS OF THOSE INTERVIEWED



Source: Darren Rosenblum, Pace University Law School, and Daria Roithmayr, University of Southern California, Gould School of Law.

Interviewees included 11 male and 13 female directors from 13 public companies in the CAC-40 index.¹ Other interviewees included two civil society leaders, two legislators, two recruiters, one coach, and one non-CAC-40 board member. The charts above illustrate the demographics of the subject pool.

In general, interview participants reported that adding women to corporate boards:

- affected the process of board decision-making (the procedures the group followed) because the newcomers were women.
- were more likely to care about stakeholders.
- improved the quality of participation by asking questions and introducing new points for discussion.
- reduced confrontationalism.
- improved attention to a more accurate measurement of risk faced by organizations.
- broke down the cronyism and group think prevalent on many boards that recruit from a narrow range of elite schools in the country.
- affected the substantive outcomes of corporate decision-making, not because the newcomers were women, but because they brought to the table outsider perspectives, as they were more likely to be foreign, to be non-CEOs, and to have attended a non-elite school. In the participants' view, gender played a secondary role relative to a candidate's experiences.

Firms were more likely to add outsider women because the pool of internal female candidates in France is limited, owing to the glass ceiling they face in senior management. The fact that France already restricted individuals to serve on no more than four boards further restricts the pool and prevents female board members from being "overloaded" with board positions. That is what happened in Norway during the early years of its quota implementation.

¹ The CAC 40, the most widely-used indicator of the Paris market, reflects the performance of the 40 largest equities listed in France, measured by free-float market-capitalization and liquidity. Bloomberg Markets, (<https://www.bloomberg.com/quote/CAC:IND>)

France's Corporate Board Quota

The French corporate board quota compels more than 2,000 publicly traded companies to achieve a minimum of 40 percent of either sex on their boards by 2017. France is not the first country to opt for this type of solution to the slow progress of diversity in the boardroom.^a In fact; Norway pioneered the concept in 2003, requiring a floor of 40 percent for either sex. Norwegian firms later achieved universal compliance by 2008.

Since France's adoption, several other European countries have also introduced a gender quota. Countries with a large population of public companies such as Germany, Italy, Belgium and Holland have adopted comply-or-explain legislation. Likewise, the European Union Parliament adopted a quota in 2013. Even in the United States, where the notion of quotas is often anathema to libertarian notions of regulation and business choice, the corporate sector has noted the European move, and is taking the need for greater gender diversity more seriously. Worldwide, corporate diversity regimes run the spectrum, from strict standards compelled by regulatory action to voluntary standards.

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APPROACHES TO CORPORATE DIVERSITY

Regulated
and
fixed



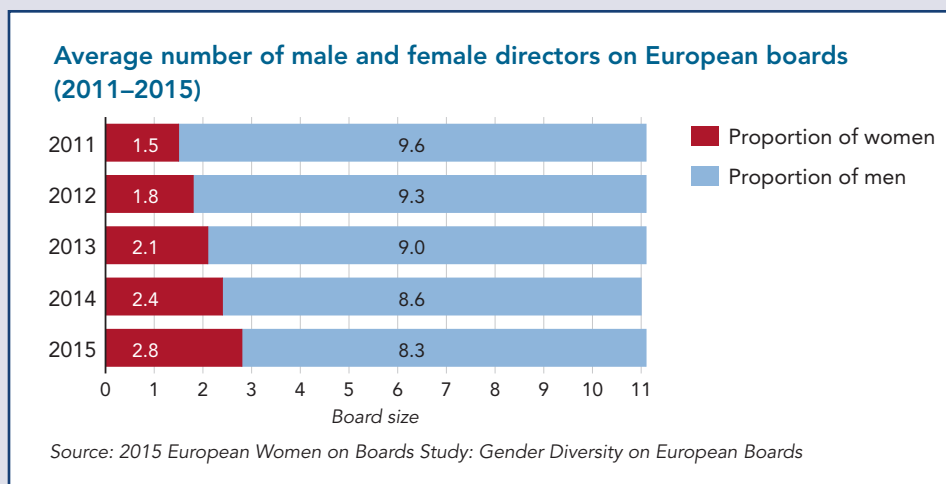
Voluntary
and
fluid

- Mandatory gender quotas (Norway, France, Germany, Belgium, Italy)
- Voluntary gender quotas (Spain, UK)
- "Comply or Explain" – Regulated mandatory reporting of diversity (Netherlands, Canada)
- Regulated voluntary reporting of diversity (US)
- Industry approaches: "Name & Shame" or "Name & Praise"
- Individual firm efforts

^a Aaron Dhir, *Challenging Boardroom Homogeneity: Corporate Law, Governance and Diversity* (2015); see, e.g., Nicola Clark, *Getting Women Into Boardrooms*, by Law, *NY Times* (Jan. 27, 2010), (http://www.nytimes.com/2010/01/28/world/europe/28iht-quota.html?pagewanted=all&_r=0), archived at (<http://perma.cc/FEA3-M89M>), explaining that Norway adopted a quota in 2003.

France's Corporate Board Quota *(continued)*

Background on the French legislation France adopted its corporate board quota 10 years after enacting a law in 2000 (the so-called Parity law) that required political parties to name women to half of all candidate slots, and three years after Norway implemented its pioneer corporate board quota. The government rejected private industry efforts to forestall legislation with voluntary regulation.



Source: *European Women on Boards*, April 2016, (<http://european.ewob-network.eu/wp-content/uploads/2016/04/EWoB-quant-report-WEB-spreads.pdf>).

Interviewees' responses are grouped into three categories of findings:

- Effects of gender diversity on the process of board decision-making.
- Effects of gender diversity on the substantive decisions that the boards made.
- Effect of outsider perspectives on the process and substantive decisions of boards.

Effects of Gender Diversity on the Board Process

Interview subjects made a number of observations about the way in which women improved the quality of participation: by asking questions and introducing new points for discussion, and by being less confrontational with other members.

Improved quality of participation Interviewees reported that adding significant numbers of women to corporate boards affected the level at which members participated and the quality of the boards' collective reasoning. In the interviewees' view, women appeared to be more likely to raise new discussion points, and to openly debate difficult subjects. Several board members stated that women reserved their comments to introduce fresh perspectives to the discussion, in contrast to men who were more likely to repeat earlier arguments.

“That was the best meeting we ever had. We fought about nothing and tried to discuss things calmly.”

— Interviewee

Interviewees also noted that women board members were more “detail-oriented” and more “methodical,” challenging the status quo more often than male board members. Similarly, results showed that women were more likely to ask questions designed to elicit additional information. Specifically, in the interviewees' experience, in contrast to men, who were afraid to appear ignorant, women were more inclined to ask simple

or basic questions and showed fewer concerns about being judged. For example, one of the women added to a board opined about a suggested policy change: “I’m not sure that I understand why they’re proposing to do this.”

Reduced confrontationalism Subjects also reported gender differences in the tone of board interactions. Interviewees suggested that the presence of more women appeared to be more conducive to cordial exchange. One interviewee noted that after her first meeting—the first with a woman present—the men had said to her: “That was the best meeting we ever had. We fought about nothing and tried to discuss things calmly.” Others agreed that women had a “civilizing” effect on male behavior in meetings. As one (male) board member said: “[M]en, once they’re in the presence of women, adopt a civil behavior that is not what they allow themselves when they are among men.”

Stakeholder perspectives Research from Norway indicates that boards with more women may be more reluctant to reduce the workforce.² Building on this earlier research, we asked interviewees in France whether more gender-diverse boards were more likely to consider the interests of labor or other stakeholders while making a business decision.

² Matsa & Miller, *supra* note 4, at 137 n.5.

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— Interviewee

Some study interviewees said they believed women might be more sensitive to stakeholder interests and more empathetic. One participant said that women were more likely to try to imagine what the consequences might be for the stakeholders. In explaining this sensitivity, some interviewees relied on stereotypes: one male board member commented that women were more likely to consider stakeholders because they “have to take care of children.”

In contrast, other interviewees said that women were more likely to bring the interests of different stakeholders to the table because they were more likely to have represented or worked for such stakeholders. One female board member stated:

“What does resonate is that because of the diversity of experience that some women bring, there’s maybe more sense to different stakeholders because they have experience of dealing with government, like in my case, or more experience in dealing with different types of organizations. If you know about how different parts of society work, you see more opportunities to respond to stakeholder concerns.”

Effects of Gender Diversity on the Substance of Board Decisions

Beyond process, interviewees also were asked whether adding women to the boards to comply with the quota had shifted the board's substantive decisions. As a general matter, when asked whether gender diversity affected the actual outcomes of decisions made by the board of directors, almost all interviewees resisted the premise of the question, saying that sex could not make a substantive difference. To overcome such initial resistance and elicit responses, interviewees were prompted with questions about substantive decision-making on specific topics—including the adoption of family-friendly corporate policies and risk aversion. In answering these questions, interviewees acknowledged the possibility that women board members had in fact affected substantive board decision-making, but attributed those effects not to their gender but to their outsider status. Each of these topics is discussed below.

Risk aversion Some behavioral research suggests that women tend to be more cautious and risk averse than men.³ For the purpose of this report, interviewees were asked whether they observed women members (or boards with women members) making more risk-averse decisions or playing a risk management oversight role on audit committees. Most board members interviewed did not agree with this observation. One male board member, for example, argued that even if women are generally proved to be more risk-averse, such difference would not have much impact on the substance of board decisions “because [it is] management [that] elaborates the strategy.” A few interviewees agreed with the assumption that sex might play some role in risk aversion because they perceived that women insisted on a more accurate measurement of risk. One female participant stated the idea as follows: “[W]e will take risks if we have carefully measured them. [I]t’s not a refusal of risks; it is a different manner of analyzing [so] that we do not lose touch with reality. For me that is more the feminine attitude.”

Adoption of family-friendly corporate policies In line with earlier research,⁴ some subjects opined on whether female board members had persuaded corporate boards to adopt family-friendly policies. Some interviewees responded that women might be inclined to adopt more family-friendly policies because they tended to be younger and thus more likely to have recently experienced the challenges of parenting and the pursuit of a professional career.

³ See Ferrary, *supra* note 103.

⁴ Lissa L. Broome et al., *Does Critical Mass Matter? Views From The Boardroom*, 34 *Seattle U. L. Rev.* 1049, 1080 (2011).

In general, board member interviewees acknowledged that there were post-quota differences in risk aversion and sensitivity to stakeholders due to the hiring of female board members. As the next section discusses at length, the interviewees attributed these differences not to gender but to the new directors' outsider status. Interviewees made one exception to this "outsider status" hypothesis: they acknowledged that women's willingness to adopt family or women-friendly policies was likely due to their gender.

The State of Research

In the last decade, in particular, a vast body of empirical research has explored the link between the diversity of corporate board and C-suites and the performance of the firm (whether in the form of higher profits, return on equity, share prices or other financial or accounting standards). When reviewed collectively, this body of research supports a wide range of conclusions. Let us take a closer look.

Research focusing specifically on gender diversity A widely cited 2011 study by Catalyst Inc. documented a positive correlation between the level of gender diversity on a firm's board and the firm's returns on investment and equity.^a Likewise, McKinsey also published a study in 2007, the Women Matter study, which argued that firms that included women in management perform better.^b A 2012 study by Credit Suisse documents a correlation between the inclusion of at least one woman on the board and share price.^c

Research on diversity of thought and perspective Consistent with the findings described in this issue of *Director Notes*, other studies suggest that a correlation exists between diversity of perspective (resulting from diverse life experiences and training) and improved performance. One of these studies argues that for substantive tasks that involve the need to explore alternative options, diverse outsider perspectives can help to generate creative problem solving.^d Another study suggests that board members should explore five key variables when making any important decision. This study finds that most CEOs focus only on two variables—alternative options and outcomes—when making decisions on boards. The study suggests that diverse board members are more likely to ask questions about the other three variables: questions about process, about the evidence for or against such options and outcomes, and about the risks that attend those options.^e

(Text continues on next page.)

^a *The Bottom Line: Corporate Performance And Women's Representation On Boards* (2004-2008) (<http://www.catalyst.org/knowledge/bottom-line-corporate-performance-and-womens-representation-boards-20042008>)

^b *Women Matter*, McKinsey & Company, (www.mckinsey.com/features/women_matter), last visited August 9, 2014, archived at (<http://perma.cc/XD8Z-JDLV>).

^c *Does Gender Diversity Improve Performance*, Credit Suisse Research Institute, July, 31, 2012. Retrieved from (<https://www.credit-suisse.com/us/en/about-us/research/research-institute/news-and-videos/articles/news-and-expertise/2012/07/en/does-gender-diversity-improve-performance.html>)

^d Scott E. Page, *The Difference: How the Power of Diversity Creates Better Groups, Firms, Schools, and Societies*, 2007. (https://books.google.com/books/about/The_Difference.html?id=FAFVHnJ7uK0C)

^e Juliet Bourke, *Which Two Heads are Better Than One?*, Australian Institute of Company Directors, 2016; (<http://www.companydirectors.com.au/director-resource-centre/publications/book-store/which-two-heads-are-better-than-one>).

The State of Research (continued)

Research on US voluntary efforts to increase gender diversity A recent publication from The Conference Board’s Committee for Economic Development (CED) cited McKinsey research showing that companies with leadership teams in the top quartile of gender diversity were 15 percent more likely to have financial returns above industry norms.^f The CED points to a Fortune 500 company that has had at least 50 percent female board representation for many years, most likely because the company’s customers are primarily women. The CED study also points to obstacles that prevent women from gaining seats on boards: adding women to boards is a focus for only a minority of directors, unconscious bias leads male directors to name other men to boards, and some boards have very little turnover. The CED recommends appointing a woman to every other vacant board seat while also keeping existing female board seats. The committee posits that if firms were to do so, women would hold one-third of Fortune 500 board seats within the next five years.

On the other hand, other studies dispute these conclusions and suggest that gender diversity on boards can generate negative outcomes.

More than just one factor Some scholars argue that corporate board performance is affected by a multitude of factors—notably, the variation of board-executive relations and exogenous economic conditions—that transcend the gender of board members.

Suboptimal board argument Other research has suggested that a mandated path to board diversity can be counterproductive and lead to the appointment of less experienced female board members, which in turn would negatively affect performance.^g

Persistent skepticism in the director community Qualitative research suggests that there is reason to be skeptical about the business case for gender diversity. For instance, an interview-based study published in 2010 revealed board members could not produce concrete examples of how and when diversity matters; in fact, according to this review, even boards that had reached a critical mass of women did not exhibit any gender-specific impact and several of them had not even made the relatively simple decision to adopt family-friendly work policies.^h

^f *Every Other One: A Status Update on Women on Boards*, The Conference Board’s Committee on Economic Development, November 2016. (https://www.ced.org/pdf/Women_on_Boards_Report_-_Nov_2016.pdf).

^g Kenneth Ahern & Amy Dittmar, *The Changing of the Boards: The Impact on Firm Valuation of Mandated Female Board Representation*, 127 Q. J. Econ. 137, 168 (2012) (finding that stock prices and Tobin’s Q dropped after the imposition of the quota).

^h John M. Conley et al., *Narratives of Diversity in the Corporate Boardroom: What Corporate Insiders Say About Why Diversity Matters*, *Discourse Perspectives on Organizational Commc’n* (2010); see also Lissa L. Broome et al., *Dangerous Categories: Narratives of Corporate Board Diversity*, 89 N.C. L. Rev. 759 (2011). See also David A. Matsa and Amalia R. Miller, *A Female Style in Corporate Leadership? Evidence From Quotas*, 5 *Amer. Econ. J.: Applied Economics* 136 (2013) (fewer workforce reductions lead to increased labor costs after Norway quota); Renee Adams and Daniel Ferreira, *Women in the boardroom and their impact on governance and performance*, 94 *J. Fin. Econ.* 291 (2009) (boards with more women monitor firms more and reduce takeover defenses in well-governed firms).

Effects of Outsider Perspectives on the Board

In answering questions about the previously described topics, interviewees acknowledged that the quota might have the effect of changing the board's substantive decision-making. However, interviewees often attributed this effect not to the newly added board members' gender, but rather to the fact that those board members were more likely to be outsiders, bringing experiences and perspectives that differed from those of their male counterparts. More specifically, they noted that newly added women were more likely to belong to a younger generation of professionals, less likely to come from the *Grandes Ecoles* elite networks in France, more likely to be foreign, and more likely to have extensive experience in non-traditional areas of knowledge for boards (such as labor or the environment).

Without discounting the importance of improving gender diversity on the board, several interviewees emphasized that being a newcomer mattered more to the ability of a director to influence board dynamics than his or her sex. Several male and female interviewees specifically noted that outsider status mattered more than the sex of the new person. A female board member opined that having someone new had "a great effect," and this "is true whether it is a man or a woman." Interviewees reported that newcomers came to meetings highly prepared, which in turn encouraged more preparation by incumbent members.

Different professional experience Interviewees discussed the general benefit of bringing in women with a broader range of experience than that of predominantly males within the CEO-model of board recruitment. In particular, they suggested that boards explicitly recognized the value of women's expertise in a wide range of professional fields, including corporate social responsibility and communications, which are increasingly important to business strategy but have traditionally been outside of the purview of boards of directors. Many interviewees suggested that firms have used a *d'une pierre deux coups* ("two birds with one stone") kind of opportunistic reasoning. For example, a union representative on one board observed that, when looking for women to comply with the quota, boards often used the opportunity to simultaneously add women and broaden the range of knowledge of the group.

Different educational background Traditionally, the *Grandes Ecoles* network of elite graduate schools produces a disproportionate share of the future leaders of French and multinational organizations. But many view the practice of recruiting managers from this relatively uniform pool of graduates as prone to problems of groupthink and complacency, which may undermine entrepreneurship and business leadership. Interviewees noted that in France's highly traditional corporate culture, a caste of bourgeois men exercise control over a "Franco-Français" network of cross-managed firms that involves mutual stakeholdings and interlocking directorships—the *Ecole Polytechnique*, especially, is the alma mater of a large number of men running these firms. As these board members seek to fill empty seats, their tendency is to limit the search to alumnae of the *Grandes Ecoles*, whom they know share their own worldview and approach to doing business.

Accordingly, interviewees routinely praised the gender quota as a mechanism to break this pattern. As one female board member stated, the sheer number of the women needed to fill the board slots will force the boards to expand beyond the very limited *Grandes Ecoles* pool. Interviewees noted that “by the sole game of numbers, by the number of women that must be found for the board terms,” they will have to go beyond elite school alumni.

Different nationalities Furthermore, many interviewees viewed the possibility of hiring foreign women to meet the quota requirement as an opportunity to globalize the top leadership and oversight structure of the firm. Given the international footprint of top French firms, choosing new directors with a diverse national knowledge could aid in decision-making. One recruiter said: “All the big bosses of the CAC-40 tell you, above all give me foreigners.” Another board member highlighted that the quota was an opportunity for his board to expand its global reach to reflect their markets.

Different ages Given the perceived lack of depth in the French pool of experienced women, some interviewees thought that the need to meet the quota requirements would force recruiters to bring in more junior women. One board chair stated that the quota would, as a demographic matter, force boards to include younger women: “One will have to name women who are not 60 or 65 but who will be 45 It will automatically renew the profiles, and we will have younger people with different experiences.” Interviewees thought that including younger board members might sensitize the board to younger customers and workers who drive business models for many firms.

Finally, board members also noted that male recruiting would eventually be affected by the quota system: boards are likely to insist that the men they choose to keep on the board have recent executive experience. One senior male board member admitted that the departure of more senior men, who happen to hold more “retrograde” attitudes on women, might lead to more women-inclusive attitudes on the board, generally.

Conclusion

Findings from a series of interviews about the impact of a director gender quota system in France with corporate directors and other key professionals suggest that collective decision-making on boards might be substantively improved by the addition of:

- Foreign members, who can share alternative business cultures and the sensitivity to different societal matters.
- Members with non-traditional areas of expertise for boards facing new challenges in a rapidly evolving economy and consumer market—including labor relations, human rights and worldwide procurement practices, environmental standards.
- Younger members, with less experience, who can ask basic questions and help the board to avoid the traps of unchallenged assumptions.
- Members with an educational background outside the traditional credentialing networks of elite graduate schools, who may question the status quo and avoid complacency and self.

Although interview findings are merely suggestive and should be corroborated by further research, they offer important food for thought to a business audience and may help to stimulate a discussion on future board composition. More generally, scholars should conduct research to determine whether gender diversity (or any other kind of) quota might produce improvements in substantive decision-making less because of some identity-based perspective that is biologically or socially based, and more because the structural differences that accompany recruiting a different group of people will inevitably diversify the mental models and perspectives of decision-makers at the table.

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ABOUT DIRECTOR NOTES

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