

Gender Quotas in Italy: Effects on Corporate Performance

Authors : G. Bruno, A. Ciavarella, N. Linciano

Abstract : The proportion of women in boardroom has traditionally been low around the world. Over the last decades, several jurisdictions opted for active intervention, which triggered a tangible progress in female representation. In Europe, many countries have implemented boardroom diversity policies in the form of legal quotas (Norway, Italy, France, Germany) or governance code amendments (United Kingdom, Finland). Policy actions rest, among other things, on the assumption that gender balanced boards result in improved corporate governance and performance. The investigation of the relationship between female boardroom representation and firm value is therefore key on policy grounds. The evidence gathered so far, however, has not produced conclusive results also because empirical studies on the impact of voluntary female board representation had to tackle with endogeneity, due to either differences in unobservable characteristics across firms that may affect their gender policies and governance choices, or potential reverse causality. In this paper, we study the relationship between the presence of female directors and corporate performance in Italy, where the Law 120/2011 envisaging mandatory quotas has introduced an exogenous shock in board composition which may enable to overcome reverse causality. Our sample comprises Italian firms listed on the Italian Stock Exchange and the members of their board of directors over the period 2008-2016. The study relies on two different databases, both drawn from CONSOB, referring respectively to directors and companies' characteristics. On methodological grounds, information on directors is treated at the individual level, by matching each company with its directors every year. This allows identifying all time-invariant, possibly correlated, elements of latent heterogeneity that vary across firms and board members, such as the firm immaterial assets and the directors' skills and commitment. Moreover, we estimate dynamic panel data specifications, so accommodating non-instantaneous adjustments of firm performance and gender diversity to institutional and economic changes. In all cases, robust inference is carried out taking into account the bidimensional clustering of observations over companies and over directors. The study shows the existence of a U-shaped impact of the percentage of women in the boardroom on profitability, as measured by Return On Equity (ROE) and Return On Assets. Female representation yields a positive impact when it exceeds a certain threshold, ranging between about 18% and 21% of the board members, depending on the specification. Given the average board size, i.e., around ten members over the time period considered, this would imply that a significant effect of gender diversity on corporate performance starts to emerge when at least two women hold a seat. This evidence supports the idea underpinning the critical mass theory, i.e., the hypothesis that women may influence.

Keywords : gender diversity, quotas, firms performance, corporate governance

Conference Title : ICCG 2018 : International Conference on Corporate Governance

Conference Location : Prague, Czechia

Conference Dates : July 09-10, 2018