Improved corporate governance with women

Fri 04 September

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Research shows that women in boards improve governance, but not firm performance. The media focused on the bad news (no increased performance). Instead, we should be focusing on the good news (improved governance).

Monitoring and female directors

Researchers from the London School of Economics[i] recently concluded that the presence of women in boards intensifies the monitoring of the executive directors by non-executive directors.

However, this does not always lead to better company results; sometimes it even results in the opposite. The good news is that governance improves when women are appointed to the Board.

As if counterevidence has been finally found to the argument that more diversity leads to higher company performance, the popular media jumped on the bad news ('no increase of company performance', 'more frequently dismissal of CEO's'), at the expense of the good news (improvement of governance).[ii]

More effective monitoring

The research showed that boards that include women are more effective in carrying out their monitoring tasks. They were also more likely to take concrete actions, including such tasks as dismissing CEOs due to disappointing results.

In addition, these boards interfered more with decision-making and – due to the behavior of the females on the board (who were better prepared and attended more often) – the presence of all board members increased.

So why this does not always lead to higher results?

Monitoring and performance

The researchers found a positive relationship between the presence of women and business performance in previously poorly governed companies – and a negative relationship with firm performance in a previously well governed company.

This implies an optimum in the degree of supervising the management of a company. The explanation given is that *excessive* monitoring of management, due to the women on the board, could harm the company's results.

Too much supervision?

Regardless of the diversity issue, the optimal degree of independent board members is a well-known topic in international scientific research on the ideal composition of the board.

With too little supervision, management might tend to pursue its own interests (Agency theory). This can be prevented by appointing more independent non-executive directors (read: women).

With too much supervision, management can be hindered in its work by the non-executive directors through, for example, the delay of decision-making (Stewardship theory). Therefore only few independent directors should be appointed.

Diversity, monitoring and performance

Apparently, and unfortunately, people in the debate on diversity still look for numerical "proof" of the contribution of diversity to firm performance. More important should be the outcome of the aforementioned study on the contribution that diversity has on effective and optimal supervision. In the end, this is the only way to a *sustainable* improvement of firm performance.

[i] Adams, R.B. and D. Ferreira (2009), Women in the boardroom and their impact on governance and performance, Journal of Financial Economics, forthcoming October 2009.

[ii] 'Women directors 'hounding' CEO's into falling profitability', www.management-issues.com, August 7th, 2009; 'Vrouwelijk bestuurslid jaagt CEO weg', www.managersonline.nl, August 14th, 2009.