Gender diversity on bank boards

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*The views expressed in this paper are solely those of the authors and shall not be interpreted as reflecting the views of the Board of Governors of the Federal Reserve System.
Agenda

Why are we studying this issue?
What did we find?
How did we find it?
What are the details of our findings?
What are the implications of these findings?
How are women recruited to boards?
Why are we studying this issue?
Women are underrepresented in leadership positions

Commercial Banking Industry 2015

- Executive and Senior-Level Officials and Managers: 30.80%
- Mid-Level Officials and Managers: 48.00%
- All Employees: 56.70%

Source: Catalyst.org
Female share of boards is growing

Average Female Share of Bank Boards: 2000 - 2018

Source: Boardex and Authors' Calculations
At smaller banks, the female share is slightly lower

At banks outside the top 5% of total assets, in 2018

- Median female share of board is approximately 16.6%
- 18% of bank boards have no women

Source: Boardex and author’s calculations
Why and how does gender diversity matter?

Characteristics of the female board members

• Contribute specific functional (task-related) expertise (Kim and Starks, 2016)
• Women who get elected to boards are chosen due to exceptional performance (Schmid And Urban, 2016)
• Better monitors (Adams and Ferreira, 2009)
Why and how does gender diversity matter?

Gender diversity is a board characteristic

• An indicator of more meritocratic selection of board members (Besley et al., 2017)
• Increases the diversity of opinions and problem-solving creativity
• May lead to conflict within the board (Berger et al., 2014)
What did we find?
Preview of Results

Impact of gender diversity on performance depends on bank and board traits:

- Better managed banks are more likely to reap positive benefits from greater gender diversity. We assume higher capital ratios proxy for quality of management.
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- There is a threshold effect: the share of women on bank boards must reach around 13 to 17 percent before performance benefits accrue.
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- More gender diverse boards have higher regulatory compliance, suggesting that diversity leads to better monitoring.
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- There is a threshold effect: the share of women on bank boards must reach around 13 to 17 percent before performance benefits accrue.

- More gender diverse boards have higher regulatory compliance, suggesting that diversity leads to better monitoring.

- The positive impact of gender diversity was especially large during the financial crisis, suggesting that diversity leads to better strategic advice.
How did we reach these conclusions?
Measuring bank performance

We use a newly compiled dataset on the gender composition and demographic characteristics of 87 U.S. bank holding companies over 1999-2015

Bank performance measures:
• Efficiency: Revenue to Expense Ratio
• Profitability: Return on Assets
• Risk-adjusted profitability: Sharpe Ratio
• Market-based assessment: Annual Stock Price Growth
What are the details of the findings?
Once a threshold level of diversity is achieved, increasing the share of women on the board improves performance.
The value of the threshold is similar across different performance measures.

Threshold for Positive Effects of Increased Gender Diversity
At Well-Capitalized Banks

<table>
<thead>
<tr>
<th>Performance Measure</th>
<th>Female Share of Board</th>
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<tbody>
<tr>
<td>Revenue/Expense</td>
<td>17</td>
</tr>
<tr>
<td>ROA</td>
<td>13</td>
</tr>
<tr>
<td>Sharpe Ratio</td>
<td>20</td>
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</tbody>
</table>
Why is there a threshold?

- The share of women on the board affects the way in which women contribute (Karpowitz and Mendelberg, 2014)
Why is there a threshold?

• The share of women on the board affects the way in which women contribute (Karpowitz and Mendelberg, 2014)

• The share of women on the board affects the way others view the contribution (Joshi, 2009)
Why does capitalization matter?

• Proxy for quality of management (Mehran and Thakor, 2011; Bhat and Desai, 2016)

• Quality management minimizes potential for conflict and maximizes benefit (Alesina and LaFerrara, 2005; Chattopadhyay and Duflo, 2004)
Other board characteristics

• Banks with boards whose members have served on many boards fare better

• Supports the idea that diversity of experience is positive for bank performance
Gender diversity and regulatory enforcement

- Greater gender diversity is associated with fewer Federal Reserve enforcement actions
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- The type of enforcement actions which decline is related to financial health
Gender diversity and regulatory enforcement

- Greater gender diversity is associated with fewer Federal Reserve enforcement actions
- The type of enforcement actions which decline are related to financial health
- No evidence that enforcement actions related to illegal activity are reduced
Board gender diversity and the financial crisis

• Increased gender diversity is especially impactful during the crisis

• This result, combined with results on regulatory actions, suggests that increased gender diversity improves both decision-making and board oversight.
What are the implications of these findings?
Implications and contributions

• Banks’ continued (voluntary) expansion of board gender diversity is likely to bring overall performance benefits, provided that the banks are well managed

• Context matters
How are women recruited to boards?
Women are less likely to be in men’s networks

• The median male board member has an outside connection to 62 percent of the other male board members
Women are less likely to be in men’s networks

- The median male board member has an outside connection to 62 percent of the other male board members

- The median female board member has an outside connection to 22 percent of the other female board members
Women are less likely to be in men’s networks

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- The median female board member has an outside connection to 22 percent of the other female board members.

- The median male board member has an outside connection to 0 female board members.
Gender of Connections among Bank Board Members
554 Banks
1999-2018

<table>
<thead>
<tr>
<th>Type of Connections</th>
<th>Percent of all Connections</th>
</tr>
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<tbody>
<tr>
<td>Female-Female</td>
<td>1.56</td>
</tr>
<tr>
<td>Male-Female</td>
<td>12.35</td>
</tr>
<tr>
<td>Male-Male</td>
<td>86.09</td>
</tr>
</tbody>
</table>
Characterizing female networks

- Male board members have deeper connections to other board members
Characterizing female networks

- Male board members have deeper connections to other board members
- Female board members are less likely to be connected to the CEO
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- Female board members are more likely to serve at big banks
Networks and gender composition

- Stronger female-female networks are associated with a higher percentage of women on the board
- No evidence that male-male networks have an impact on the percentage of women on the board
- Female networks are less important at big banks
Conclusion

- The impact of gender diversity is context dependent
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• Banks’ continued voluntary expansion of board gender diversity is likely to bring overall performance benefits, provided that the banks are well managed (capitalized)
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• Broadening recruitment strategies beyond use of social networks may be effective in increasing diversity of the board.