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Singapore Management University

Paul B. McGuinness
CUHK Business School

THE ECONOMIC BENEFITS OF WOMEN ON IPO FIRM BOARDS

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By Prof. Paul B. McGuinness, Department of Finance, CUHK Business School

The gender composition of corporate boards is currently a hotly-debated topic, with regulators, lobby groups and social commentators all active in the push for greater female board representation. The literature suggests that female empowerment offers potential corporate advantage, due to the enhanced monitoring, mentoring and other synergies wrought by gender-diversity. My recent article in the Journal of Business Ethics, entitled “IPO Firm Performance and Its Link with Board Officer Gender, Family-Ties and Other Demographics” [1], delves into and sheds new light on this central issue. The study considers how female board presence and family linkage shape long-run stock and financial returns in IPO firms listing on Hong Kong Exchanges and Clearing Limited’s (HKEX) Main Board. The purpose of the present discussion is threefold. First, to profile my study’s principal findings. Second, to extend its ambit by assessing policy implications. Third, to consider recent regulatory developments.

As well as examining the under-researched area of IPOs and board demographics, my study distinguishes between the influence of family and state on the board gender-firm performance relation. Issuers subdivide neatly into three groups: Non-state firms with family-connected directors; non-state issuers devoid of such connection; and state-sponsored entities. I define a family-connected board where family-association links two or more directors. In multivariate terms, my study reveals more resilient performance in firms that invite greater gender-mix *and* exclude family-ties between directors. This uplift in returns (or "gender premium") disappears when family-association links two or more directors. The absence of family-ties between directors *and* the presence of women thus combine as a strong positive in supporting firm performance. The dominance of family firms in Asia and the global pressure for gender-inclusivity give powerful resonance and prescriptive value to this finding.

Measurement of board members' common family-affiliations

Listing provisions on HKEX require that prospectus documents report all material family-ties between directors as well as officers' key demographics. Such disclosure enables deeper scrutiny of family influence, inviting assessment beyond simple ownership characteristics. For example, some closely-held firms may only have one family-based board member, with no family connection to other directors. Despite strong family ownership, such a firm has a non-family-connected board in terms of my definition. Many other family-owned firms house boards with two or more officials linked by family association. At the margin, there are IPO entities in my study with as many as five or six family-connected directors.

Do family-connections between directors offset or simply re-direct female board influence?

Women likely face constraints where family-connection links two or more board members. Findings also support a selection effect, in which women unsponsored by family-affiliation, ascend to boards on account of their strong bona fides and industry expertise. These findings are instructive given the paucity of information on how family-ties, officer gender and IPO performance interact [2].

My study's multivariate analysis also demonstrates that firms containing boards with spousal-connection register relatively weak post-IPO performance. Such an outcome is consistent with a board spousal-tie limiting information channels. Indeed, a spousal-team may act in inhibiting or blocking the synergies and resources on offer from other board officers.

Why do women, especially in boards free of *intra*-board family-connection, offer value?

The hypotheses section of my paper offers detailed critique of how gender diversity promotes competitive advantage. Team theory, for instance, stresses cognitive benefits in decision-making and strategy areas [3]. Other studies show women to be better monitors, mentors and drivers of positive change. While offering consistency with such arguments, my results reveal that the presence, number and type of *intra*-board family-ties matter in mediating a possible "gender premium" effect.

Why focus on IPO firms in addressing the "gender premium" effect?

First, the complete absence of information on pre-IPO equity value means that governance and board demographics potentially take-on even more importance in guiding investment decisions. Second, unlike seasoned firms, IPO entities are likely to be free of a confounding "Glass Cliff" effect [4]. This effect asserts that female leaders receive a higher probability than men of being assigned leadership roles in underperforming entities. Women, if appointed to top-level positions, may thus face more exacting and taxing business conditions than men. As IPO firms typically list on rising earnings, a "Glass Cliff" effect seems less plausible and relevant in the case of newly-listed firms.

Self-selection issues could arise in other ways. My study thus compares financial performance *before* and *after* IPO. For entities with female board presence that exclude board family-ties, average pre-IPO profit growth appears substantially below rates for many other issuers. However, such entities' post-IPO profit growth is stronger than many others. This area reaffirms the "gender premium" effect.

The importance of state support and ownership

My paper also reports that state-controlled H-share and Red-Chip firm boards are largely free of family-connected directors. These state-sponsored entities account for around 20% of the study sample. Political-ties are clearly much more important in such cases. I find more resilient post-IPO returns in many H- and Red-Chip firms. Why does state support help stabilize and support post-listing returns? My study asserts that many, if not most, state-backed entities listing on HKEX are of high strategic-political importance. Such firms often enjoy oligopolistic positions in their respective business markets. Many also benefit from asset enhancement and capital injection in the run-up to offshore listing, not to mention preferential terms and access to bank funding and external capital post-IPO. Performance effects for state-sponsored IPOs on HKEX are thus likely to be quite different to those for mainland A-share IPOs [5], where a wider range of state-issuer types is evident. Additionally, the offshore domicile of Red Chip companies means such companies are unable to countenance A-share listing. By way of contrast, a sub-set of H-issuers also possess a mainland A-share cross-listing.

Family influence and private owners' support of female board presence

In relation to my study, women account for only 5.1% of board members in state-backed HKEX-listed IPO firms. Female representation is much higher in non-state firms, accounting for around 11.2% of all board positions. This palpable difference highlights the private sector's primacy over the state in the promotion of gender-diverse boards in China [6]. The study also reveals that family-connections between directors matter. For non-state firms with two or more board family-connected officers, women account for 13.4% of all directors. In contrast, non-state firms without *intra*-board family-ties accommodate a smaller proportion of women (8.9% of all board directors on average).

Where do we go from here?

A number of initiatives now figure to encourage female board presence in publicly-listed firms in Hong Kong [7]. However, very recent accounts [8], for the broader range of publicly-listed entities (i.e., non-IPO firms), indicate only limited improvement in gender board mix in recent years. Old attitudes and resistance to change act as important roadblocks. At a basic and instructive level, further investor education and guidance in highlighting the benefits of gender mix would help in surmounting some of these obstacles.

Hong Kong lags well behind a number of Scandinavian and Western European countries in regard to female board representation rates [9]. However, it does considerably better when drawing comparison with other Asian markets [8]. Nonetheless, around 45% of firms in my Hong Kong IPO study adopt all-male boards. Other jurisdictions, notably India, have tried to remedy such occurrence by demanding all listed companies appoint at least one female board member. Reports suggest that many firms in India have responded by promoting the female relative of an incumbent officer to the board [10]. As my study suggests, such practice is unlikely to boost performance [11]. Ideally, women elevated to boards through quota should be unencumbered by obvious family connection to other directors, especially where such connection limits a new entrant's resources and inputs.

Whether Hong Kong will embrace quota provisions in the coming years remains to be seen, and if pursued would constitute a radically new path for the economy in its pursuit of greater diversity. There is also debate as to whether formal gender quotas improve firm performance. Ahern and Dittmar (2012), for instance, identify weakening Tobin's Q levels for Norwegian firms in the years immediately following the country's imposition of a 40% female gender board quota [12]. Among other things, they ascribe such a result to the policy's effect in reducing board experience levels.

As an important qualification, the market impact of any quota policy likely reflects its specific remit and design, as well as the institutional, regulatory and social structure of the locale in question. Terjesen, Aguilera and Lorenz (2015: 235) identify ten jurisdictions where gender board quotas apply [9]. Judgement as to the efficacy of quotas requires further research. Their long-run effects on firm performance may well depend on the extent to which quota arrangements shape overall board expertise levels.

Finally, and to conclude, my study supports a growing view that gender bias imposes sizeable economic cost on society and corporate stakeholders more specifically. My paper quantifies such cost for IPO firms (in relation to long-run multivariate return effects). It also offers prescription for family-owned firms in regard to the composition of executive director teams.

Notes:

[1] McGuinness, Paul B. (2016). "IPO Firm Performance and Its Link with Board Officer Gender, Family-Ties and Other Demographics". Journal of Business Ethics.

[2] My paper reports that few studies investigate the interaction between board gender and family influence. However, family influence may boost female board participation, as in Spain [see Campbell and Minguez-Vera (2008: Journal of Business Ethics, 3, 435-451) and in Italy [Bianco, Ciavarella & Signoretti (2015: Corporate Governance: An International Review, 23/2, 129-144)]. Sarkar and Selarka (2015: SSRN 2730551) report on family and board gender effects in relation to the performance of Indian manufacturing firms.

[3] See, in particular, Woolley, Chabris, Pentland, Hashmi & Malone (2010: Science, 330, 686–688).

[4] This is a term brought into vogue and investigated in Ryan and Haslam (2005: British Journal of Management, 16, 81–90; & 2007: Academy of Management Review, 32, 549-572).

[5] Fan, Wong & Zhang (2007: Journal of Financial Economics, 84, 330-357) assess "onshore" Chinese A-share IPO firms. They demonstrate that the "political-connections" of board officers shape performance.

[6] Lam, McGuinness & Vieito (2013: Pacific-Basin Finance Journal, 21, 1136-1159) report on CEO gender effects in mainland Chinese A-listed entities. The paper was featured in Chinese Business Knowledge@CUHK earlier.

[7] HKEX strongly encourages diversity at board-level. A specific directive on this matter came into effect in 2013 (see Update No. 108, "Amendments to Main Board Listing Rules", HKEX, September 2013).

[8] See Page 8 of "The CS Gender 3000: The Reward for Change", Credit Suisse Research Institute, September 2016.

[9] See Page 234 of Terjesen, Aguilera & Lorenz (2015: Journal of Business Ethics, 128, 233-251) for detailed country comparison.

[10] See Bhalla, N., "Indian firms mock gender diversity …" (Reuters, 2 April 2015).

[11] Sarkar and Selarka (2015: op. cit.) reveal that Indian firms' affiliated-directors do not add corporate value.

[12] See Ahern and Dittmar (2012: The Quarterly Journal of Economics, 127, 137-197).

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