

How to Attract Women to the Top: Female Board Quotas and Leadership Roles

María Gutiérrez (Universidad Carlos III & ECGI)

Maribel Sáez (Universidad Autónoma de Madrid & ECGI)

September 2024

EXTENDED ABSTRACT

Introduction

Since the beginning of the 21st century, both regulators and institutional shareholders have been advocating for increased gender diversity on corporate boards, where women have traditionally held a disproportionately small number of seats. Following Norway's introduction of mandatory board quotas for women in 2003, many other European countries and U.S. states, such as California, have implemented similar regulations. Furthermore, large institutional investors in the private sector have expressed dissatisfaction with the low representation of women on corporate boards (Gormley et al. 2023). Although women remain a minority, their representation has significantly increased (Kim and Starks, 2016). The European Commission's Gender Equality Index, which tracks the percentage of women on the boards of the 50 largest companies in each EU country, reports an increase in female board representation from 9% in 2003 to 30.5% in 2023. However, the proportion of female directors chairing or sitting on key board committees remains well below the percentage of female board members overall (Casares et al. 2020).

This underrepresentation is puzzling, given that female directors are already part of the pool from which board committees are selected. Two primary explanations for this phenomenon are tokenism and reduced commitment. Tokenism, characterized by negative stereotypes (Bourez, 2005; Branson, 2008), suggests that female board members are included only as a regulatory or market requirement, but are not viewed by the majority of the board as suited for leadership positions. Reduced commitment, on the other hand, may arise if boards face difficulties in attracting qualified female directors and, as a result, accommodate these women by assigning them to roles with lower workloads, such as avoiding high-commitment committees (Adams et al. 2018; Adams, et al. 2016).

Research Question and Context

In this paper, we aim to disentangle these two explanations by examining the specific characteristics of Spanish boards of directors. We analyze the boards of listed firms over a specified period to assess whether the underrepresentation of women in leadership positions is driven by tokenism or reduced commitment. Spanish boards classify directors into four categories: Executives, Independents, Proprietary Directors, and Others. While new independent directors are nominated by the board or the nominations committee, proprietary directors are directly appointed by the shareholder they represent. This dynamic suggests that proprietary directors are unlikely to exhibit reduced commitment, as they serve at the behest of the shareholders whose interests they protect. However,

given that nominations for both board membership and leadership positions remain within the prerogative of the board or the nominations committee, the tokenism hypothesis could still hold for female proprietary directors.

Moreover, during the sample period, Spanish listed firms faced increased pressure to change their board composition by adding both more independents and more women. The 2014 Companies Law Reform made the presence of at least four independent directors on the board compulsory. And the 2020 Corporate Governance Code introduced a “comply or explain” requirement of a minimum ration of females sitting on the board of 40%. Thus, tokenism (interpreted as a lack of trust in the capabilities of quota-appointed directors) may affect not only women but also male independent directors.

Sample

The sample used is an incomplete panel that combines data for Spanish listed companies and their directors for the period 2007-2022 and has over 11,300 director-firm-year observations. To construct this sample, we use data from the Annual Corporate Governance Report and the Annual Remuneration Report that Spanish listed companies must submit annually to the Spanish securities regulator (CNMV) and we complement these data with directors’ personal data coming from NRG Metrics and with firms’ financial information from the annual accounts using Osiris.

Methodology

We use a triple-difference (difference-in-difference-in-difference) regression to assess the causal impact of gender on leadership roles in Spanish boards. Specifically, we separate the sample in two period, before and after the enactment of the 2020 female quota. We then measure, for each year the percentage of committee members and leaders across four groups: male independents, female independents, male proprietary directors, and female proprietary directors. Second, we compute the difference in these percentages between the independent and proprietary categories for the women group and for the men group. Finally, we compute the difference between these two differences: the independent-proprietary gap for females and the independent-proprietary gap for males before and after the introduction of the quota. This final difference can be interpreted as the effect of accommodation and reduced commitment among independent female directors.

Our triple-difference regression model is summarized in equation (1):

$$\begin{aligned}
 \text{Committee Memberships / Chairs}_{i,j,t} = & \alpha_i + \beta_1 \text{Female}_i + \beta_2 \text{Independent}_{i,j,t} + \\
 & + \beta_3 \text{Female}_i \times \text{Independent}_{i,j,t} + \gamma_0 \text{Post}_t + \gamma_1 \text{Post}_t \times \text{Female}_i + \gamma_2 \text{Post}_t \times \text{Independent}_{i,j,t} + \\
 & + \gamma_3 \text{Post}_t \times \text{Female}_i \times \text{Independent}_{i,j,t} + \delta \text{DirectorControls}_{i,j,t} + \phi \text{FirmControls}_{j,t} + \xi_{i,t} \quad (1)
 \end{aligned}$$

Committee Memberships, represents our dependent variables which are dummies taking values zero or one if a director *i* is a member of a particular committee in firm *j* during year *t*. Alternative estimations use dummies for membership of different committees,

chairing of different committees or continuous variables for number of committees where the director seats or chairs.

Our key dependent variables are three indicator variables: *Post*, *Female*, and *Independent*. *Post* takes the value of one after the introduction of the 40% female quota in year 2020 and zero before. *Female* takes value one if the director is a female and zero otherwise. *Independent* takes value one if the director is an independent director and zero if it is a proprietary director.

Controls denote an extensive set of director and firms control variables taken from previous studies to capture director and firm characteristics that may have an impact on committee membership, including age and education of the director and board composition of the firm.

The triple difference is key in obtaining a causal interpretation of the results. We interact our *Post* variable with the *Female* and *Independent* variables to take advantage of the fact that the quota introduced in year 2020 may have induced firms to offer lower workloads (i.e. less committee service) to independent female directors as a way to facilitate meeting the minimum 40% quota, while allowing the other groups (male independents and both male and female proprietary directors) to serve as control groups. Consequently, the γ s in equation (1) above enable us to construct “differenced” estimates. For example, to calculate the full effect of the passage of the quota on independent females, we can sum γ_0 , γ_1 , γ_2 , and γ_3 . Coefficient γ_1 estimates the average differential change in committee membership from the pre- to the post-quota period for proprietary directors comparing females to males. The sum of γ_1 and γ_3 provides the difference in effects between female and male independents. Similarly, the sum of γ_2 and γ_3 estimates the effect on the independent to proprietary difference for female directors. Finally, γ_3 taken alone provides an estimate of the “triple difference,” which describes the effect of the passage of the quota on the independent-proprietary difference in committee membership for females relative to the independent-proprietary difference in the membership committee of males.

It is also important to notice that our differencing strategy implies that any alternative explanation for our findings must rely on variation that affected only independent females and happened to coincide with the passage of the quota requirements.

Preliminary Findings

Our preliminary results reveal a significant gender gap in committee participation and leadership roles. Notably, this gap is much larger for independent directors than for proprietary directors, suggesting that Spanish firms are sourcing independent directors from a smaller pool of female talent, leading to lower levels of commitment from these women in their board roles. Interestingly, we also find evidence of tokenism, particularly among independent directors (both male and female), which suggests that independent directors may be viewed less favorably for leadership positions regardless of gender.

References

- Adams, Akyol, and Verwijmeren, 2018, “Director Skill Sets”, *Journal of Financial Economics* 130, 641-642.

- Adams, Eagly, and Heilman, 2016, “Women on Boards: The Superheroes of Tomorrow?” *The Leadership Quarterly* 27, 371-386.
- Bourez, 2005, *Women@work No. 2: Women on boards, moving beyond tokenism*. EuropeanPWN.
- Branson, 2008, *No Seat at the table: How corporate governance and law keep women out of the boardroom*. NYU Press.
- Casares, Souther and Yore, 2020, “At the table but cannot break through the glass ceiling: Board leadership positions elude diverse directors”, *Journal of Financial Economics* 137, 3, 787-814.
- Gormley, Gupta, Matsa, Mortal, and Yang, 2023, “The Big Three and board gender diversity: The effectiveness of shareholder voice”, *Journal of Financial Economics*, 149, 2, 323-348.
- Kim, and Starks, 2016, “Gender diversity on corporate boards: Do women contribute unique skills?”, *The American Economic Review* 106, 267-271.