Swiss banks and insurers aim to increase the number of women in the highest echelon of their companies. Is this in the interest of shareholders? A study suggests: No it isn’t.

The study provides food-for-thought to the promoters of gender equality in boards and executive committees at Swiss banks and insurers: Gender Penalty in Board Composition, a study compiled by Isabelle Solal and Kaisa Snellman at Insead in France, concluded that share prices of companies declined when they appointed women to their supervisory boards.

Does this mean that Swiss banks UBS and Credit Suisse, whose share prices have not excelled in recent years, have gone too far down the path of reaching diversity targets?

What About Performance?

The study seems to contradict common wisdom, according to which companies that enforce a higher gender equality in top management achieve a better performance.

Christine Lagarde, head of the European Central Bank and erstwhile head of the International Monetary Fund, famously claimed that if Lehman Brothers had been the Lehman Sisters, the world would be a different one.

The Effect on the Share Price

The gut feeling is that the Swiss financial market has recently increased the number of women in top jobs. Even so, the average percentage of women in executive positions at Swiss banks is only 11 percent, according to a survey by finews.com in 2018. On the boards, with 21 percent the percentage was slightly better.

The two Insead scientists dug deep into the data jungle to find out how the change in female representation affected the performance of the companies. They looked into the share price development of 1,600 U.S. firms over the course of 14 years, according to a report by the Financial Times (behind paywall). Their conclusion: companies that appointed a women to the board faced a 6 percent drop of their valuation in comparison with their peers over a two-year period.

The Glass Cliff Effect?

Their conclusion was aggravated by the observation that those companies which promoted gender diversity openly and that created an environment in which staff were able to improve
their work-life-balance fared even worse.

Solal and Snellman didn’t provide a conclusive reason for the negative performance effect of a bigger representation of women in top jobs. One possible explanation is that women are only promoted into top jobs once a company is in dire straits, the so-called Glass Cliff Effect.

**Profitability Isn’t Affected**

The data provided by Solal and Snellman didn’t however support the hypothesis contained in the Glass Cliff Effect. The profitability of the companies that hired women for board positions didn’t change in any significant manner.

Which means that hiring women for top jobs has no effect on profitability. Hence, the study authors concluded that the change in share price performance must be a function of a perception by investors.

**The Perception Bias**

They seem to conclude that once a company hires women for top jobs, they likely will put a higher emphasis on social and community issues instead of simply boosting shareholder value.

The perception bias suggests that the number of women in top jobs will have to increase even at a faster pace to render the gender issue obsolete.