IMPACT OF WOMEN'S BOARD PRESENCE ON FIRM PERFORMANCE: AN EMPIRICAL ANALYSIS ON THE ITALIAN CAPITAL MARKET

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Abstract

This paper aims to empirically verify if the presence of women on the board of directors produces positive effects on performance results achieved by a sample of listed companies on the Italian stock market. Although many studies have investigated the relationship between women on board and corporate governance effectiveness, research results are inconclusive regarding their impact on corporate performance. After describing the most recent literature review on the topic, this article analyzes a set of board attributes in relation to the presence of women on the board for 26 Italian-listed companies for 2019 years. The empirical results show a positive correlation between the share of women on the board of directors and sampled companies' performance. This result is consistent what has been shown by recent corporate literature (Gupta et al., 2023; EmadEldeen et al., 2021; Magnanelli et al., 2021; Song et al., 2020). Therefore, the results confirm the importance of women's presence on the board of directors in influencing the financial performance of companies. This research, therefore, helps provide corporate governance guidance for board members, and professionals looking to refine strong performance.

Keywords: Board Diversity, Board of Directors, Corporate Governance, Firm Performance, Women on Board

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1. INTRODUCTION

Over the past 40 years, gender equality and equal opportunity issues in the workplace have become more prominent. However, despite the socio-political, ethical, and business reasons for female membership on corporate boards, women remain under-represented on corporate boards (Moraka, 2015).

In recent years there has been considerable debate both about the circumstances in which women are appointed to leadership positions and about the consequences of these appointments.

The topic of gender diversity has developed in the corporate sphere with reference to the boards of directors. Board diversity has received increasing

interest from practitioners and academics alike (Khalaf, 2022).

In the United States (US) the number of female board members has slowly increased over the years. Such an increase in female representation on boards falls in accordance with the notion that female directors create value for firms (Khalaf, 2022).

Furthermore, examination of the relationship between board gender corporate diversity and firm performance is also politically important because many countries are enacting legislation to increase the number of women on boards of directors (Gupta et al., 2023).

Data by the European Commission (EC) show a low representation of women on boards (Gennari, 2016). The European Institute for Gender Equality (EIGE, n.d.) shows how at the end of 2022 in large companies listed in the European Union the members of the boards of directors were composed for about 67% of men and with reference to the chairmen of the board of directors, the percentage of men rises to 91%. The proportion of male chief executive officers (CEOs) is very similar to that of board chairmen (92%).

The explanation for this low presence of women on boards of directors has been the subject of some studies. Gennari (2016) highlights that this gender imbalance is not due to a lack of skills but is associated with a social background and a corporate culture not inspired by the values of global corporate responsibility. Therefore, regulatory interventions can accelerate the awareness of gender balance in boards of directors but are insufficient if there is no corporate commitment on global corporate responsibility (including economic, social, and environmental aspects). Giovinco (2014) analyzing Spanish companies shows that the regulations have not had an effective impact on the level of Spanish women on boards of directors at executive level. Furthermore, another feature of the Spanish market that limits the presence of women in meeting rooms is the strong presence of families who control the market.

This evident gender imbalance has been brought to the attention of the European Union (EU) institutions for several years. The EU has been interested in the topic of best corporate governance practices for several years. In this context, gender equality in the composition of corporate bodies has been a point of attention (Recommendation 96/694/EC; COM(2010)78; COM(2010)491). Recently, after being stuck in the Council for a decade the European Parliament (EP) and EU countries have finally agreed on a bill to increase the presence of women on corporate boards. This agreement led to the enactment on November 23, 2022 by the Council and the European Parliament of the Directive (EU) 2022/2381 (the so-called "Women on Board" Directive) which *"aims to achieve a more balanced representation of women and men among the directors of listed companies by establishing effective measures that aim to accelerate progress towards gender balance, while allowing listed companies sufficient time to make the necessary arrangements for that purpose"* (European Commission, 2022, Article 1). In particular, the Directive defines two fundamental constraints in the composition of the board: 1) the members of the board of under-represented gender must hold at least 40% of the non-executive directorships; 2) board members of the underrepresented sex must hold at least 33% of all directorships, including both executive and non-executive directors.

In Italy, the Gender Quotas Law was passed in 2011, which required publicly traded and publicly held companies to adjust their boards of directors so that one-third are composed of women. More recently, it can be observed that at the end of 2021, the presence of women on the administrative bodies of listed companies has reached an all-time high observed on the Italian market (41% of offices), because of the regulations aimed at reserving one share of the corporate body to the less represented gender (Law No. 120/2011 and Law No. 160/2019). At the end of 2021, the 131 companies that applied the gender quota envisaged by Law No. 160/2019, count an average of four women on their boards (almost 44% of the board) (Linciano et al., 2021).

In the Italian landscape, characterized by the presence of small to medium-sized firms with concentrated ownership in which the roles of owner, manager and top management tend to coincide, the board of directors has the important role of mitigating agency problems.

In fact, according to agency theory, managers tend to pursue their personal interests to the detriment of investors, and this is even more evident in small-to-medium family-owned firms where the manager acquires power through family status rather than knowledge or experience (Roffia et al., 2022).

In these cases, the presence of women on board is a relevant factor in having a gender-balanced and more controlled governance in terms of management and decision-making.

In fact, when the number of women on board exceeds the critical threshold of 30%, there are positive effects on the management of the company, which makes it possible, on the one hand, to reduce agency problems arising from the dominant role of the family manager and, on the other hand, to protect minorities. (Bannò et al., 2021).

In this topic, there is an evident lack of empirical studies on Italian companies. Therefore, the objective of this study is to analyze whether the share of women on the board of directors translates into improved performance of Italian listed companies.

The structure of this paper is as follows. Section 2 reviews the relevant literature. Section 3 analyses the methodology that has been used to conduct empirical research on the impact of women's board presence on performance of Italian-listed companies. In particular, this section shows the sources of the data analyzed, describes the statistical model of analysis and contains the descriptive sample analysis. Section 4 presents the findings of this study and discusses and links them with the results of previous studies. Section 5 provides the conclusion reached by the research and the possible developments of future research.

2. LITERATURE REVIEW

The corporate literature has tried to analyze, from different points of view, what is the role of corporate governance on the performance of the company. This line of business research includes

those studies that try to understand which are those aspects of the board that can be significant in terms of company performance. The topic of gender diversity of boards falls within the broader research area of corporate governance.

However, there are no unique results in the literature on the relationship between gender diversity on boards and company performance.

A part of business research has shown that gender diversity creates value for business. Specifically, women on boards appear to have positive effects on the level of corporate organization, the percentage of attendance at board meetings, and the monitoring of board performance (Carter et al., 2003; Adams & Ferreira, 2009; Huse et al., 2009; Kostyuk et al., 2016; Hogan & Olson, 2021; Khalaf, 2022; Haroon & Zaka, 2023).

However, despite the fact that the latest Finance Notebook "*Boardroom gender diversity and performance of listed companies in Italy*" published by CONSOB (Bruno et al., 2018), showed that the presence of women on boards of directors increases companies' profitability when the percentage of women exceeds a threshold ranging from 17% to 20% of the board, empirical research shows inconclusive results on the relationship between women directors and corporate performance, identifying positive, negative, or zero effects (Kirsch, 2018; Pletzer et al., 2015; Post & Byron, 2015; Joecks et al., 2013).

Agency theory suggests that gender diversity in the board of directors could contribute to better firm performance (Jensen & Meckling, 1976). In fact, shareholder value may depend on effective board monitoring (Hillman & Dalziel, 2003). From another perspective, board diversity is likely to increase board independence since different characteristics and backgrounds of members in a diversified board facilitate the capability of the board to question the original system, whereas common traits in a traditional board may not (Song et al., 2020).

Theories of role incongruence and gender stereotyping by investors suggest a negative relationship between the presence of women directors and market-based firm performance (Eagly & Karau, 2002; Haslam et al., 2010). The theory of role incongruence proposes that the perceived inconsistency between the female gender role and leadership roles leads to forms of prejudice against women. One consequence is that attitudes are less positive towards women than men leaders and potential leaders. The theory of gender stereotyping by investors confirms the assertion that women sit on the boards of companies perceived to be underperforming and that their presence on boards can lead to the devaluation of companies by investors (Haslam et al., 2010). However, the empirical findings also indicate that perceptions and investments are out of alignment with the realities underpinning corporate performance.

Furthermore, it is plausible to think that the success of a company based on meeting the needs of different stakeholders can be significantly accomplished by a diverse board with different backgrounds and capabilities.

The recent literature on gender diversity of boards highlights the fact that different dimensions of company performance (financial performance, social performance, environmental performance, sustainability reporting) are influenced by the presence of gender diversity in boards (Singh et al., 2021). In recent decades many researchers have devoted their study to how more female directors could affect corporate value. Board diversity has become a major issue within corporate governance where numerous studies seek to explore the impact of diversity on corporate performance. However, empirical studies that have analyzed the impact of female directors on firm financial performance have provided conflicting results (Gallucci et al., 2015; Morrone et al., 2022). It should be highlighted that a substantial part of the literature has shown that gender diversity creates business value. Women on boards of directors seem to have positive effects on at least these aspects: on the level of corporate organization, on the percentage of attendance at board meetings and on the monitoring of board performance (Carter et al., 2003; Adams & Ferreira, 2009; Huse et al., 2009).

However, as regards the evaluation of the impact of the board's gender diversity on the company's performance, it should be highlighted that the most recent empirical studies have led to conflicting results.

A part of the recent literature has demonstrated that gender diversity in boards of directors has a statistically significant positive impact on company performance, measured with financial market indicators such as Tobin's Q or accounting, especially return on assets (Abbadi et al., 2021; García-Meca et al., 2015; Gupta et al., 2023; Ionascu et al., 2018; Jonty & Mokoaleli-Mokoteli, 2015; EmadEldeen et al., 2021; Magnanelli et al., 2021, Martín & Herrera, 2018) and more rarely the profit margin calculated as net profit divided by total turnover (Pasaribu, 2017) or return on equity (Belhaj & Mateus, 2016). Therefore, according to these studies, companies should consider increasing the number of women on boards of directors to ensure better corporate performance.

In fact, these studies could also justify the definition of gender quotas at the regulatory level. On this aspect, Storvik and Gulbrandsen (2016) analyze the effects of gender quota legislation on boards introduced for the first time in Norway. The results showed that female directors report less ability to influence board decision-making than male directors and that women, to a lesser extent, feel part of the inner circle on boards. Thus, the definition of gender quotas on boards may show tendencies towards gender hierarchies and segregation.

Another part of the recent literature has shown that the gender diversity of the boards of directors does not represent an aspect that can affect company results, either positively or negatively (Gallucci et al., 2015; Marinova et al., 2016; Morrone et al., 2022; Rose, 2007). These latest studies mainly consider Tobin's Q, market-to-book value, and return on assets as performance measures.

Instead, a minority of the empirical literature has found a negative effect of gender diversity on company performance (Kabir et al., in press; Rompotis, 2020).

The importance of the performance metric was highlighted by Bennouri et al. (2018), who, using a sample of French companies, they find that the presence of women on boards determines a different effect on company performance depending on how this is measured. In fact,

the relationship is positive if the performance variable is of an accounting type (return on assets, return on equity) while it is negative if it is a market variable (Tobin's Q). However, this latter negative relationship becomes positive if the model considers other attributes of female directors that capture their monitoring skills and contribution to board human capital (demographic and relationship attributes of the board).

Unlike the studies which take financial performance into consideration, other studies analyze the impact of gender diversity on the board on a different meaning of performance. For example, Al-Amarneh et al. (2017) investigated the impact of gender diversity in the board of directors on dividend policy in the context of Jordanian commercial banks. The authors found strong and solid evidence indicating that diverse boards tend to pay higher cash dividends to shareholders. Furthermore, in the context of the international financial crisis, diversified boards of directors have been more conservative and have retained most of the profits and paid less dividends due to the risk aversion of female directors. Van der Zahn (2006), unlike previous studies that analyze the impact of diversity on boards mainly on corporate financial performance, focuses on the impact of diversity (gender and ethnicity) on the performance of intellectual capital. Empirical findings indicate a positive association between the proportion of female and non-white directors on the board of directors and a firm's intellectual capital performance.

Recent studies have tried to understand whether the company's business sector could influence the relationship between the presence of women on boards and company performance. For example, Song et al. (2020) analyzed the relationship between board diversity and corporate performance in the hospitality industry, demonstrating that gender diversity shows a positive and significant effect on corporate performance.

The analysis of the relationship between board gender diversity and corporate performance would require a more detailed investigation. For example, a recent study highlights the importance of distinguishing between family and non-family female board members. Indeed, as the number of female household managers increases, conflicts with non-family subgroups become more prevalent, compromising business performance. However, the boarding of non-family women appears to be an effective way to improve company performance when there is a significant share of female directors (García-Meca & Santana-Martín, 2023).

Rather than analyzing the impact of board gender diversity on performance, a minority of studies have tried to examine whether better participation of women on the board of directors has any relationship with sustainability disclosure. Modiba and Ngwakwe (2017) revealed a positive relationship between the number of women on boards of directors and corporate disclosure on social investment and energy consumption. Therefore, women on the board of directors can influence the dissemination of sustainability such as energy and social investments.

Other studies have specifically investigated the possible role of CEO gender in corporate performance. For example, Baloyi and Ngwakwe (2017) have shown that there is no significant relationship between gender of the CEO and company performance (net income, share price). Therefore, the research recommends that gender may not necessarily influence performance.

There are still few studies that deal with the matter of the relationship between different genders on the board and corporate risk. Santen and Donker (2009) analyze the relationship between board diversity by gender and nationality and financial distress (negative performance) of a company, but the results reveal no relationship between a director's gender and financial distress. More recently, Adusei (2020) shows that female representation on boards increases risk-taking by microfinance institutions. However, when women on boards interact with the depth of a microfinance institution's outreach performance, its positive impact on that institution's risk is observed.

Perhaps the diversity of the results of empirical studies could also lie in the type of statistical model adopted, often a linear function. In this respect, Owen and Temesvary (2018) analyzing the US bank holding companies argue that the inconclusive results of previous research are because there is a non-linear, U-shaped relationship between gender diversity on boards of directors and various measures of bank performance. The results of the statistical analysis suggest increasing the expansion of gender diversity in the boards of directors of banks but on the condition that these banks are well capitalized.

In the end, regarding the evolution of the theoretical foundation of board diversity, we note how the literature on board diversity reveals that agency theory no longer dominates board diversity research and has given way to institutional theory, which considers the effect of social structure on organizational outcomes. Furthermore, the more recent literature focuses more on the consequences than on the determinants of board diversity. (Boshanna, 2021).

3. RESEARCH METHODOLOGY

3.1. Data sources

To capture the relationship that exists between company performance and the presence of women on the board, we developed a statistical analysis considering a sample of 26 companies listed on the Italian stock market.

Data were collected from governance reports published by the companies themselves, as well as through the use of "Aida" software, offered by Bureau van Dijk, and the BordEx database.

In order to capture the governance characteristics of the sampled companies, seven variables were identified: 1) the *time in role* variable, describing the number of years in which the individual held the role of director, 2) the *age* variable i.e., the age of the director, 3) the variable *total number of private boards of directors,* in which the individual participated, 4) the variable *total number of quoted current boards of directors,* in which the individual participated, 5) the variable *number of executive directors on the board*, 6) the variable *number of supervisory directors on*

the board, and finally 7) the variable *number of non-executive directors*.

In light of the literature review, the firm's performance is described by the return on assets (ROA) performance index (Abbadi et al., 2021; Bennouri et al., 2018; García-Meca et al., 2015; Jonty & Mokoaleli-Mokoteli, 2015; Kabir et al., in press; EmadEldeen et al., 2021; Magnanelli et al., 2021; Martín & Herrera, 2018; Morrone et al., 2022). ROA data was obtained from "Aida" software, offered by Bureau van Dijk.

The year of observation of the variables in the model is 2019 as it is the year that has the most recent data on the BoardEx database.

3.2. Model of analysis

A quantile regression model on the median was chosen to study the relationship between the presence of women on the board and firm performance.

This model was considered the most suitable because the dependent variable Y_i, which describes the performance of the firms in the sample by means of the ROA financial ratio, is not normally distributed and a logarithmic transformation could not be performed because for some firms the figure takes on a negative value.

In addition, quantile regression on the median (i.e., 50th percentile) is more robust to outliers.

Considering the variables described in the previous section, a new independent variable X_1 called *woman* was constructed, which estimates the percentage value of women holding board positions in the sampled firms. This variable represents a proxy of gender diversity on the board of directors adopted by several recent studies (Gupta et al. 2023; Kabir et al., in press; Khalaf, 2022).

The second independent variable in the model X_2 is *the total number of quoted current boards of directors* because this variable, which describes the attendance of directors at board meetings, is particularly significant when one wants to assess the influence of the board on firm performance, following the guidelines of governance best practices.

Therefore, the linear regression model assumes the following equation:

$$Y_i = B_0 + B_1 X_1 + B_2 X_2 \tag{1}$$

where,

Y_i = is the company performance measured by the ROA for the year 2019;

X_1 = is the total number of quoted current board;

X_2 = is the number of women of total board members.

3.3. Descriptive statistics

Considering the variables chosen to describe the characteristics of the board of the sampled firms, a descriptive statistical analysis was conducted from which it was found that the *time in role* variable is bimodally distributed because there are two different populations in the database, one consisting of firms that belong to the financial sector and the other representing firms that belong to other sectors.

As for the *age* variable, an average value of around 57 years was estimated.

Figure 1. The distribution of *time in role* variable

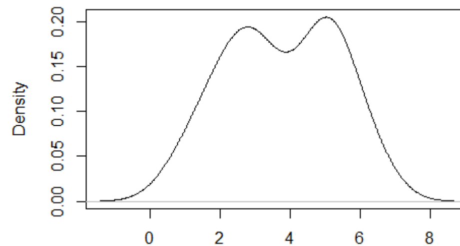

Table 1. The value of *age* variable

Min.	*1st Qu.*	*Median*	*3rd Qu.*	*Max.*
50,12	54,37	58	59,83	64,33

The variable *total number of private boards of directors* is distributed non-normally and is bimodal. The lowest value taken by the variable is 1.5, and the highest value is 5.

Figure 2. The distribution of *total number of private boards of directors* variable

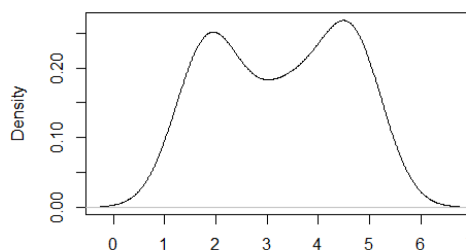

Table 2. The value of *total number of private boards of directors* variable

Min.	*1st Qu.*	*Median*	*Mean*	*3rd Qu.*	*Max.*
1,5	1,938	3,3	3,27	4,592	5

The variable *total number of quoted current boards of directors* is found to be normally distributed and takes a minimum value of 1,059 and a maximum value of 2,462.

Table 3. The value of *total number of quoted current boards of directors* variable

Min.	*1st Qu.*	*Median*	*Mean*	*3rd Qu.*	*Max.*
1,059	1,351	1,667	1,697	1,878	2,462

The variable *number of executive directors on the board* is not normally distributed and takes values in the range between 9 and 19, the most frequent modes are 9 and 15 representing 51.85% of the distribution.

The variable *number of supervisory directors on the board* distributes normally and takes values between 5 and 18 (extremes included), and the most frequent mode is 8 representing 33.33% of the distribution.

Finally, the variable *number of non-executive directors* is normally distributed assuming values between 3 and 14 (extremes included) presenting a fashion of 8.

4. RESULTS AND DISCUSSIONS

The Eq. (2) below presents the obtained regression results:

$$ROA_{2019} = -12{,}4395 + 5{,}08 * total\ number\ of\ quoted\ current\ board\ of\ directors + 16{,}53 * woman \quad (2)$$

Both coefficients in the model are significant at an alpha value of 10%.

Specifically, for each unit increase in the variable *total number of quoted current board of directors,* there is a 5,08 point increase in the median *ROA*, and for each 1% change in women on the board the median performance increases by 16,53 points.

Finally, for estimating standard errors it was assumed that the standard errors are not identically distributed (NID), so it was not necessary to perform residual analysis.

The regression results are shown in the table below (Table 4).

Table 4. The quantile regression model

Variable	*Coefficient*	*S.E.*	*T-statistic*	*p-value*
Const	-12.4395	5,37549	-2,314	0,0299**
Total number of quoted current boards of directors	5,08489	2,60368	1,953	0,0631*
Woman	16,5315	8,10096	2,041	0,0529*
Median dependent variable	2,170000			
S.D. dependent variable	6,910556			
Sums of the absolute residuals	96,21007			
Residual sums squared	1000,128			
Log-likelihood	-78,04120			
Akaike's criterion	162,0824			
Schwarz's criterion	165,8567			
Hannan-Quinn	163,1693			

*Note: Model: Quantile estimates, using observations 1–26; Dependent variable: ROA_{2019}; Tau = 0,5; Robust standard errors (sandwich); S.D. = standard deviation; S.E. = standard error; * indicates significance at the ten percent level, ** indicates significance at the five percent level.*

Thus, the relationship between the share of women on boards and performance is significant as the coefficient on diversity is positive and significant at the 10% level. The results from Table 4 suggest that as gender diversity on a board of directors increases, a firm expects to perform better in term of return on assets.

The regression model studied appears significant even though the sample size is not large. The outputs of the analysis model confirm the existence of a significant relationship between the analyzed variables.

These results have also the time limit of the considered sample. This research can provide initial indications that can be developed by analyzing the data over several years. In that case, the analysis model could be that of panel data with or without fixed effects.

Furthermore, to determine the robustness of the results obtained from our analysis and to make a greater contribution to the existing literature, it might be useful to perform a sensitivity analysis on the model by including a different profitability index such as return on equity (ROE), return on investment (ROI) or return on sales (ROS) as the dependent variable in order to examine how the results obtained from our model might vary as these indices change. In addition, the results obtained from our study could be supplemented with a panel-type regression, that is, considering a larger observation period.

5. CONCLUSION

Using previous research and literature, this study examines the impact of women's board presence on the performance of companies listed on the Italian capital market. Previous literature has shown conflicting results on the role of female participation

in corporate boards and on firm performance. In fact, some papers find that more women on boards improve financial performance, while others find no or no adverse effects.

This study demonstrates the relevance of the role of women on the board in improving performance in the early years. The results of the empirical analysis demonstrate that as the share of women who hold managerial positions in the companies' sampled increases, the performance of the companies increases.

The research findings have several relevant implications in the business literature.

First, empirical research has also shown that board member engagement is important for improving corporate performance. This increase in companies' performance is also related to the participation of directors in board meetings which represents a proxy of the influence of the board on corporate performance and which could represent a corporate governance best practice.

Second, considering both results of the analysis together, it can be stated that the participation of women represents an important element in guaranteeing better company performance. Considering the two results of the analysis jointly, it is possible to deduce that the participation of women represents an important element in guaranteeing a better corporate performance expressed in terms of ROA. This result is in line with recent corporate literature (Gupta et al., 2023; EmadEldeen et al., 2021; Magnanelli et al., 2021; Song et al., 2020).

Three, the results do not seem to justify governance policies that limit women's participation on boards. It stands to reason that one of the main reasons why the top position continues to elude women is the lack of gender sensitivity in male-dominated companies (Pandey, 2016).

This research of the limitations that must be considered to correctly evaluate the results. The major limitation concerns the sample size of the analysis. The results of this research need to be developed by future analyzes as they are based on a small sample of companies listed on the Italian stock market and related to a single year. Therefore, it is desirable that future studies on the subject extend the analysis to a larger sample relating to a sufficiently long historical series of data. The second limitation concerns the limited number of analysis variables. Control variables should also be introduced.

The results of this research could make it possible to define precise guidelines not only for good governance but also for industrial policy for the development of the entrepreneurial sector.

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