Chapter 17
Executive Women and Firm Economic Value

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ABSTRACT

This study analyses the relationship between gender diversity on the board of directors' executive roles and the firm economic value. Based on a sample of Portuguese non-financial listed firms, between 2010 and 2018, results show that executive female contribute to decrease the firm economic value-added, and CEO gender diversity to decrease market value added, while no impact is found to traditional performance measures. Since the presence of women on the board of Portuguese firms is still scarce, female presence is not seen as relevant to add value to firms. These results are pioneer since previous studies found no impact of female presence on boards on value added measures. Moreover, findings show the relevance of value-added measures to analyze performance and singularities compared to profitability measures.

INTRODUCTION

Research on the gender diversity effects on firm performance has around four decades. According to Zahra and Pearce (1989)'s literature review, only two studies on the relationship of the board of directors' demographic characteristics and firm performance were published to that date. While Provan (1980) document a non-significant association between the fraction of male directors on board and firm performance, Zahra and Stanton (1988) also report similar effects regarding board ethnical diversity. Since Provan (1980)'s findings research on board gender diversity and firm performance was almost two decades in hibernation, until Burke and Mattis' edition of the *Women on Corporate Boards of Directors: International Challenges and Opportunities*, published in 2000.

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Following Burke and Mattis (2000)'s suggestions and Burke (2000)'s findings of a positive association between the presence of women on the board of directors and firms' assets, revenues and profit margins, Erhardt, Werbel and Shrader (2003) analyze how the fraction of white and non-white women in the executive boards of U.S. firms interact with firm performance. The authors conclude for the incremental effect of board diversity on firms' return on assets (ROA) and return on investment (ROI). In a similar study, Carter, Simkins and Simpson (2003) find that U.S. boards with higher diversity in terms of gender and race are promoters of higher values of Tobin's Q. In opposition, and still within the U.S. context, Adams and Ferreira (2009) document that firms, on average, perform worse when they have female directors on the board. However, the authors document that this effect is contingent to the protection of shareholders rights. The detrimental effect of gender diversity is captured in firms where there are stronger shareholders' rights, but when shareholders' rights are weaker, the impact of female representation on board become positive.

Outside the U.S. context, Rose (2007) investigates the association between female board representation and performance of firms listed on the Copenhagen Stock Exchange. The author concludes for a non-association of board gender diversity and firm performance measured by Tobin's Q. In the author's perspective, this absence of diversity effects on firm performance, when compared to the results obtained in the U.S. context, may the explained due to the socialization process between female and male directors, which leads to the adoption of the behaviors from traditional board members.

Strøm, D'Espallier and Mersland (2014) investigate the effect of female leadership in the performance of microfinance institutions (MFI), over 73 countries, and conclude that MFI with female directors on the CEO and Chairperson positions present better financial performance when compared to those managed by males. The theoretical reasoning presented by the authors to support these findings is related to the customers' profile and with internal governance mechanisms. That is, firms with female leaders perform better because most customers are women and, as such, female directors are more aware and are more sensitive to the customers' needs. In addition, firms managed by female present weaker corporate governance mechanisms, which means that they have less oversight. Also using a multi-country sample, Terjesen, Couto and Francisco (2016) document women directors' effectiveness on firm performance using accounting and market measures.

Research on the female board representation impact on firm performance measured by indicators of added value, such as economic added value (EVA), cash value added (CVA) and market value added (MVA) is rare. According to our literature review, only three studies address this specific issue. Al Mamun, Yasser, Entebang, Nathan and Rahman (2013) analyze the relationship between board gender diversity on the EVA of a subsample of Pakistani listed firms. The authors conclude for an insignificant effect of gender diversity on firm performance. Later, Yasser, Al Mamun and Seamer (2017) and Yasser, Al Mamun and Rodrigs (2017) using all Pakistani listed firms reach to the same conclusion, that is, female directors have no direct impact on EVA.

Based on a sample of 35 Portuguese non-financial listed firms, between 2010 and 2018, our results demonstrate that executive woman contributes to a decrease of firm economic value added, and CEO gender diversity to a decrease in market value added. Portugal is a small-size country, with civil law and low protection of investors. Moreover, female representativeness on board is still scarce, which can explain results due to the difficulties of woman to be accepted and recognized by the market.

The contributions of the research are twofold: Firstly, we analyze the female executive effects on firm value added with other measure than the CEO gender dummy used by Al Mamun *et al.* (2013), namely, the fraction of female executive directors over total executive directors. With this alternative measure,

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