Media Contacts: David Godsell, dgodsell@illinois.edu
Clara Xiaoling Chen, cxchen@illinois.edu
Dave (Young Il) Baik, baik7@illinois.edu
David Twiddy, david.twiddy@aaahq.org 941-556-4115

December 13, 2023

Global Study Finds Board Gender Diversity Tied to Investment Efficiency

FOR IMMEDIATE RELEASE

Lakewood Ranch, Fla. A new study finds that when companies increase the number of women on their boards of directors as the result of government intervention, the investment efficiency of those companies increases. And the more stringent the gender diversity requirements are, the greater the improvements in efficiency, according to a new study published by the American Accounting Association.

"We wanted to focus on interventions in which national governments encouraged or required companies to increase the number of women who serve on their boards of directors, because that allows us to focus specifically on the impact that board gender diversity has," says David Godsell, corresponding author of the study and assistant professor of accountancy at the University of Illinois.

"If you look solely at correlations between board gender diversity (BGD) and company performance, it can be difficult to ascertain the extent to which performance is tied to the diversity of the board," Godsell says. "But by looking at instances where all of the companies in a given nation felt compelled to add women to their boards, we are effectively controlling for competing explanations."

For this study, the researchers looked at 83 BGD interventions in 59 countries, between 1999 and 2021. Altogether, they collected data on 35,857 companies. Specifically, the researchers looked at how each company's investment efficiency changed when an intervention took effect, and compared that to the concurrent change in efficiency for similar companies unaffected by the intervention.

"Investing too much in projects – from capital expenditures to R&D to acquisitions – can be inefficient; investing too little can also be inefficient," says Clara Chen, co-author of the study and Lillian and Morrie Moss Distinguished Professor in Accountancy at the University of Illinois. "We found that increased BGD helps companies move toward the 'Goldilocks' level of investment – just right."

"We also found the results were more pronounced when BGD interventions were mandatory, strongly enforced, and resulted in a larger percentage of the board's seats being held by women," says Dave (Young Il) Baik, co-author of the study and a Ph.D. student at Illinois.

While the U.S. has not conducted BGD interventions at the national level, several states have – including New York, Illinois and California.

"In a supplemental analysis, we tested our predictions using the state-level interventions in the U.S. and the results still hold for these interventions," says Chen. "Therefore, our results are generalizable to the U.S. and provide useful input to policymakers regarding such interventions both around the world and within the U.S.

"The findings make clear that improving BGD is simply good for business," says Chen.

"Another benefit of this work is that we created a resource cataloging details related to 83 board gender diversity interventions in 59 countries," says Godsell. "While we focused on investment efficiency, this resource can be used to explore a host of research questions regarding the effect of BGD on firm outcomes."

The paper, "Board Gender Diversity and Investment Efficiency: Global Evidence from 83 Country-Level Interventions," is published in *The Accounting Review*.

xxx