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## **Does Having More Women on the Board Impact Firms' Acquisition Behavior?**

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### **Research Questions**

Is there a difference between how women and men behave as board directors when they are deciding whether to acquire other firms? And do boards with larger representations of women act differently when they consider buying other firms and deciding how much to pay?

Women and men may differ in ways that are manifested in certain behavioural differences. For example, at the risk of generalizing, men may tend to be somewhat more assertive than women in certain situations. That said, identifying clear gender differences in economic behaviour has proved elusive. For instance, some research indicates that women directors are less prone to financial risk-taking and more reliable in terms of their obligations than their male colleagues. On the other hand, there has been no convincing evidence to date illustrating actual behaviour differences between men and women serving as board members.

Board behaviour is important to understand since they are associated with key firm outcomes, such as the decision to acquire another firm and figure out how much to pay in the

process. Indeed, a better understanding of mergers and acquisitions (M&A) would give us a better grasp of their economic impact and help us tease apart why so many fail or do not add shareholder value. Moreover, the extent to which the presence of women on the board of directors influences major outcomes for firms may be critical, especially since women are slowly but surely increasing their presence on corporate boards.

One reason why good insights about the impact of board gender composition are lacking is that short-term outcomes or day-to-day activities really do not reveal the true impact of the board. Instead, it may be better to focus on major decisions with long-term consequences that permit clearer evaluations of the board's behaviour and decision-making. Of course, bidding to acquire other firms is an example of such "major decisions."

Indeed, acquisitions involve board-level discussions where individual directors play significant roles. This is exactly what Maurice Levi and Kai Li from the University of British Columbia along with Feng Zhang from the University of Utah wanted to study. They used M&A information to discover whether female board representation is associated with differences in firms' acquisitions behaviour. In particular, Levi and his colleagues investigated whether the fraction of female directors on a board is related to a firm's propensity to bid for other firms as well as the premiums it offers to pay. M&A accounted for nearly US\$4 trillion of economic activity worldwide in 2014, meaning that these board outcomes are of prime importance.

Levi and his colleagues expected that larger proportion of female directors on a firm's board would be associated with lower firm acquisitiveness (i.e., a weaker propensity to acquire other firms). They saw this expectation in line with other research suggesting that women are sometimes less overconfident than men in business settings. Overconfidence, which can play a major role in bidding behaviour, has two dimensions: 1) certainty about the

precision of one's views about the future; and 2) the belief that future outcomes will be favourable. Women generally score lower than men on both dimensions—they tend to be less certain of the future and less optimistic about future outcomes. According to Levi and his colleagues, this should result in women viewing the same acquisition as less attractive than would their male counterparts. In turn, this would render boards with more women, everything else being equal, less likely to initiate acquisition bids. Levi and his colleagues also hypothesized that the larger the representation of women on a bidding board, the lower the premium of the bid. This expectation was also based on the potential gender gap in overconfidence. In short, women directors would tend to attach lower value to firms targeted for acquisition than would their male counterparts.

### **Study Design & Method**

To answer their questions, Levi and his colleagues collected data on board composition and bidding behaviour from all 1500 firms in the Standard & Poor's index over a 12 year period (1997 to 2009). On average, nearly 10% of the directors on these boards were women. Other studies reported a lower figure, suggesting that female board representation has been slowly rising. Overall, from 1997-2009 the firms studied made nearly 20,000 acquisition bids, with 5,301 resulting in actual deals. Levi and his colleagues took into account firm and board size, along with various aspects of firm's performance and financial situation, such as sales growth, return on assets, and the degree of leverage. This means that their conclusions were generalizable to firms of all sizes and financial circumstances.

### **Key Findings**

The results confirmed that boards with higher percentage of women members tended to make fewer acquisition bids. In particular, every 10% increase in female board membership (which roughly corresponds to one additional woman director) was associated with a 7.5%

decrease in the number of bids. Levi and his colleagues performed additional analyses to account for two other factors that could have contaminated their results: 1) firm maturity (i.e., older, more mature firms may be more cautious and less likely to initiate acquisitions); and 2) CEO aggressiveness or the so called “testosterone” effect (i.e., younger male CEOs who may be itching to “make their mark” and more prone to initiate acquisitions). However, neither of these factors altered the findings in any way. Firm maturity and CEO aggressiveness notwithstanding, having greater female board representation still meant acquisition behaviour was less likely.

Moreover, the results showed that the higher the proportion of female board members, the smaller the premium that was offered in bids that were made. The bid premium represents the additional amount (in percentage terms) - or “how much more” – relative to the actual value of the target firm the bidding firm offers. To illustrate, a bid premium of 10% means that the acquiring firm has paid 10% more than what was the actual value of the target firm. The calculations of Levi and his colleagues indicated that for every 10% increase in the proportion of female directors (or roughly for each additional female director on the board) the bid premium dropped by 15.4%, which represents a sizeable amount in financial terms. It is worth noting that in performing these calculations, not only were the characteristics of the bidding firms taken into account, but also the characteristics of the target firms. This means that these findings are generalizable pretty much across all types of organizations.

Finally, one analysis indicated that greater gender diversity on the board was linked with longer time to reach a resolution about a bid. This implies that women’s presence on a board leads to fewer but *better quality* decisions. It supplements the explanation that women tend to suffer from less overconfidence and that greater representation of women on a board is therefore likely to result in more prudent board behaviour.

## **Conclusions & Implications**

There is a slow but steady increase when it comes to women on corporate boards. This increase is likely to accelerate due to legislative requirements – already in place in certain countries such as Norway (requiring at least 40% female corporate board membership). The work of Levi and his colleagues suggests that presence of more women is associated with substantial changes in a board's acquisition behaviour. Overall it seems that boards with more women take a more prudent approach—they are less likely to target other firms for acquisition in the first place, and once they do, are less likely to overpay. In essence, women seem to be less motivated by sheer empire building and, as a consequence, having greater female board representation means the board is less likely to make decisions that destroy shareholder value.

Levi and his colleagues conclude that behavioural differences that occur when gender diversity increases on boards may be attributed to two factors that are not necessarily mutually exclusive. First, women are less overconfident, meaning that they are less likely to hold an over-optimistic view of the future and their capabilities to forecast and influence it. Indeed, overconfidence at the top is associated with lower quality acquisition decisions (Huang & Kisgen, 2013; Malmendier & Tate, 2008). Second, diverse boards may be more thorough and methodical in their approach and evaluation when are considering an acquisition.

Regardless, Levi and his colleagues offer us a strong set of arguments for increasing gender diversity on corporate boards, including better acquisition decisions and better consequent shareholder value. And these are arguments that go beyond discussions of social

responsibility, equality and social justice. Indeed, they are arguments that corporate stakeholders and their bottom-line interests should find attractive if not compelling.

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