Gender Diversity and M&A Outcomes

How Female Board-Level Representation Affects Corporate Dealmaking

A study by the M&A Research Centre at Cass Business School, City, University of London and SS&C Intralinks

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Executive summary

Issues relating to gender diversity in company senior leadership positions are attracting increasing attention from multiple stakeholders, including governments, regulators, investors and industry bodies. These issues include the percentage share of women on company boards and in senior leadership roles, the gender imbalance between the number of male vs. female CEOs and gender inequalities relating to remuneration.

This report discusses the findings of recently completed research into whether gender diversity at CEO- and board-level of corporate acquirers affects the types of deals undertaken and key measures of M&A success such as share price performance, growth, profitability, return on capital and shareholder value.

The study analyzed a very large sample of acquisitions undertaken by publicly listed acquirers from 1999 to 2018. We also interviewed 40 members of public company boards.

Key finding 1: The short-term, post-announcement investor reaction (acquirer share price performance) to acquisitions by female CEOs is more negative than to acquisitions by male CEOs.

Key finding 2: The longer-term, post-acquisition market performance (acquirer total shareholder return) of acquirers with female CEOs is worse than acquirers with male CEOs.

Key finding 3: The short-term, post-announcement investor reaction to acquisitions by firms where the percentage of female board members is 30 percent or higher is more positive than for firms with all-male boards or boards with a low percentage of female members.

Key finding 4: The longer-term, post-acquisition market performance of acquirers with at least 30 percent female board members is better than acquirers with all-male boards or boards with a low percentage of female members.

Key finding 5: When looking at most internal measures of acquirer post-transaction performance, such as sales growth, profitability and return on assets or equity, acquirers with female CEOs perform better than acquirers with male CEOs, and acquirers with at least 30 percent female board members perform better than acquirers with all-male boards or boards with a low percentage of female members.

Taken together, key findings one to five suggest that while acquisitions by female CEOs and more gender-balanced boards lead to higher company performance (i.e., these acquirers appear to engage in better acquisitions than male CEOs and all-male boards), this performance is not always recognised by the market as acquirers with female CEOs underperform acquirers with male CEOs on both short-term and long-term shareholder value measures. These findings suggest a possible public market investor bias against dealmaking activity by female CEOs.

Key finding 6: The characteristics of deals undertaken by acquirers with female CEOs show statistically significant differences compared to male CEOs. Female CEOs also appear to be more risk-averse in their dealmaking. These differences may be drivers of the performance variations identified in key findings one to five.

We hope that this study will draw attention to the benefits to strategic corporate decision-making of greater gender diversity in the boardroom and help to reduce some of the biases around perceptions of female-led dealmaking.

At a glance: key findings

Our research investigated how gender diversity at both CEO- and board-level affected M&A outcomes. It focused on a number of different aspects of the pre- and post-deal process, including the types of transactions undertaken and key measures of M&A success such as share price performance, growth, profitability, return on capital and shareholder value.

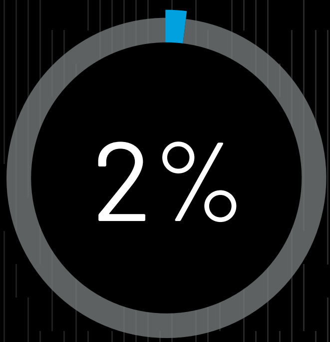
16,763

M&A transactions analyzed for the study

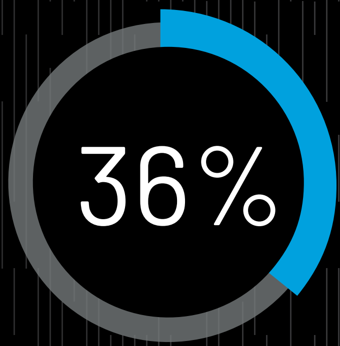
1999 2018

20

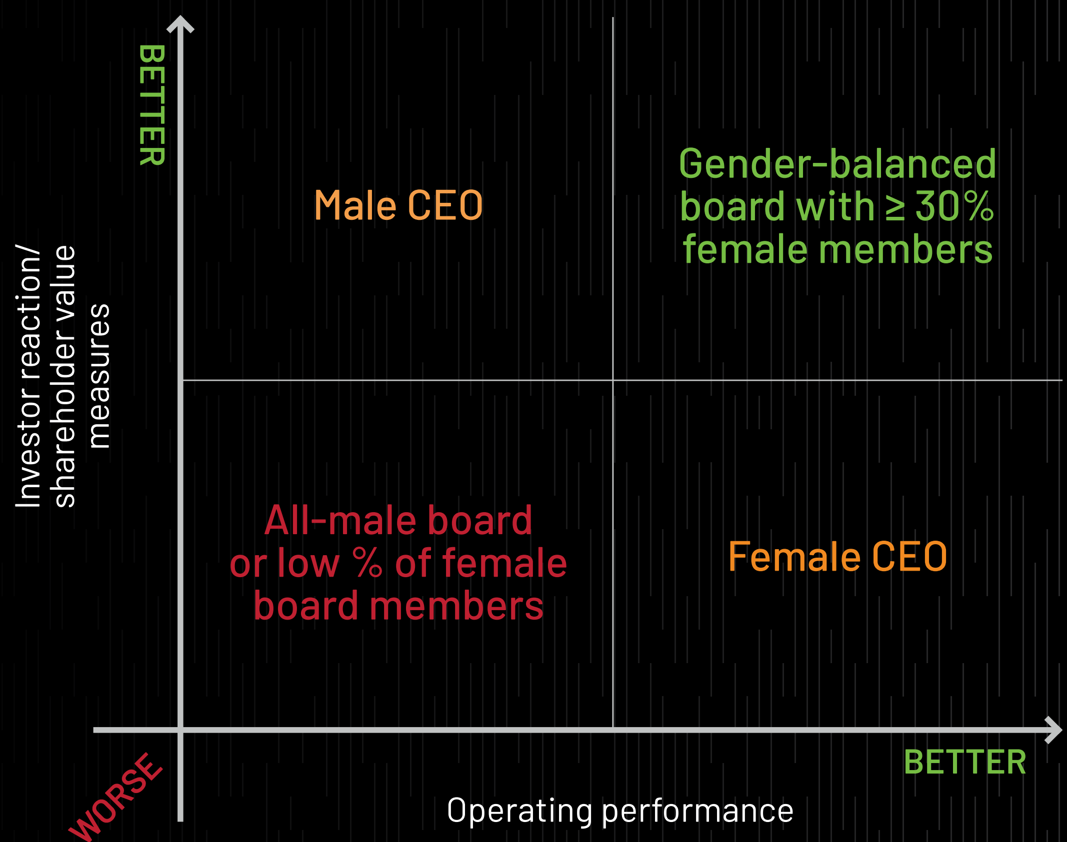
years of dealmaking



of acquisitions were by female CEOs



of acquisitions were by all-male boards



Methodology

The study sample comprised M&A transactions that were announced during the period 01.01.1999 to 31.12.2018, which met the following main criteria:

- The acquirer was publicly listed.
- The transaction involved a change of control of the target, where the acquirer owned less than 50 percent of the target prior to announcement and more than 50 percent of the target after completion.
- The value of the transaction was at least USD 50 million *or* the sales of the acquirer in the financial year prior to announcement were at least USD 50 million *or* the sales of the target in the financial year prior to announcement were at least USD 50 million.
- Information about the gender of the acquirer's CEO and the gender composition of the acquirer's board was available.

The final sample comprised 16,763 transactions. Of these, 335 (2 percent) involved an acquirer with a female CEO. 10,737 transactions (64 percent) involved an acquirer with at least one female board member. 6,026 transactions (36 percent) involved an acquirer with an all-male board.

Transaction data was obtained from Refinitiv/Thomson ONE. Share price data were obtained from Datastream. CEO and board member information was obtained from BoardEx.

Regression analyses were performed to test for the statistical significance of the findings.

Alongside the quantitative research, interviews with 40 board members of publicly listed firms were conducted by Acuris Studios. These interviewees offer their insights, and provide context to the research findings, within this report. Twenty of these executives have been on the board of a company with a female CEO. All respondents have experience of sitting on at least three different company boards and the average number of boards which respondents have sat on is four. A breakdown of the interviewees is set out below.

	Americas	EMEA	APAC	Total
Male board member	7	5	8	20
Female board member	7	5	8	20
Total	14	10	16	40

Introduction

The low representation of women in company senior leadership positions, on company boards and at CEO level, is the subject of increasing scrutiny. Governments, regulators, investors and industry bodies are leading a variety of initiatives to increase the number of women in such positions. In addition, an expanding body of evidence suggests that gender diversity at the senior level contributes positively to company performance.

For example, the consultancy McKinsey has published several studies that found a statistically significant correlation between a more diverse leadership team and financial outperformance. McKinsey reported that companies in the top quartile for the gender diversity of their executive teams were 21 percent more likely to outperform on profitability and 27 percent more likely to have superior value creation[1].

In the U.S., California passed legislation in 2018 that requires public companies with principal executive offices in the state to meet minimum female director targets by 2021, including a requirement that boards with six directors or more include at least three females[2]. New Jersey is looking at similar targets, while states such as Massachusetts, Illinois, Pennsylvania and Colorado have passed non-binding resolutions on the issue over recent years[3].

Over a decade ago, Norway instituted laws requiring public companies to have at least 40 percent female directors, with many western European countries following suit. In Belgium, France and Italy, companies failing to comply can be fined or even prevented from paying existing directors. And in Australia, the ASX Corporate Governance Council amended its guidelines in 2018 to include a 30 percent quota for women at board level.

Meanwhile in the U.K., an independent, business-led initiative supported by the government, known as the Hampton-Alexander Review, was launched in November 2016 with the aim of increasing the number of women in leadership positions at the 350 largest U.K.-listed public companies. It has produced a set of recommendations calling for action from all stakeholders to achieve a minimum target of 33 percent women on FTSE 350 boards and 33 percent women in FTSE 350 leadership teams (defined as the executive committee and direct reports) by 2020. In the latest report on progress toward the board target, the 100 largest companies were at 32.4 percent and the next 250 largest companies were at 29.6 percent[4].

Several very large institutional investors, including TIAA[5], State Street Global Advisors and BlackRock, have released notes suggesting they may vote against boards or hold nominating committees accountable if companies do not make progress on board diversity, including gender diversity, within reasonable timeframes.

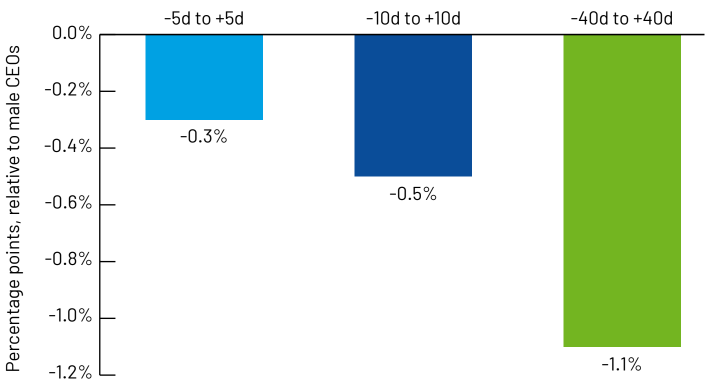
Against this backdrop, SS&C Intralinks and the M&A Research Centre at the University of London's Cass Business School decided to conduct the first-ever large-scale study to analyze gender diversity in the context of M&A activity by corporate acquirers, an area of significant strategic importance for company growth.

Part 1: market perceptions

Markets are less supportive of acquisitions led by female CEOs – is there an investor bias?

Key finding 1: The short-term, post-announcement investor reaction (acquirer share price performance) to acquisitions by female CEOs is more negative than to acquisitions by male CEOs.

Figure 1: Market-adjusted acquirer share price returns for female CEOs vs. male CEOs, days around announcement date



Our study found that the share prices of acquirers with female CEOs performed worse than those of acquirers with male CEOs, when measured over 5-, 10- and 40-day windows around the announcement date. The average underperformance, 40 days post-announcement, of acquirers with female CEOs compared to acquirers with male CEOs was around 1.1 percentage points.

Negative reactions

This finding echoes a number of academic studies that find the market often reacts negatively to the appointment of a female CEO[6]. It also appears to validate the sentiment among our interviewees that the market reacts differently to major strategic decisions announced by female CEOs than those outlined by male CEOs. Nearly three-quarters (70 percent) said this is the case.

A male board member of an oil and gas company in Norway summed this up. “An announcement by a female CEO is analysed with a more critical eye than it would be with a male CEO,” he said.

This was backed by a male board member of a financial services company who said: “The market does react differently, especially if the decision is a major one, the level of scepticism on the particular decision would be higher if the decision came from a female CEO.”

This is potentially because there are far fewer female CEOs than male ones and the relative novelty of females in leadership positions may be leading to an investor bias (conscious or unconscious).

> “A male CEO’s decision would be accepted instantly at times. The market is still learning to base its ideas on the merits of the decision, rather than looking at it in gender-specific terms.”
>
> – Female board member of a U.S. media company

“The market does behave differently,” said a female board member of a U.S. media company. “A male CEO’s decision would be accepted instantly at times. The market is still learning to base its ideas on the merits of the decision, rather than looking at it in gender-specific terms.”

A male board member of a financial services company agreed. “There are differences because of the lower number of [female] CEOs that have been appointed in noted companies,” he said. “The rarity projects a level of caution to the market and the nature of the decision is explored in greater depth.”

Others suggest that cultural factors may be at play, particularly given the global nature of the study – some markets are clearly more advanced than others when it comes to gender equality.

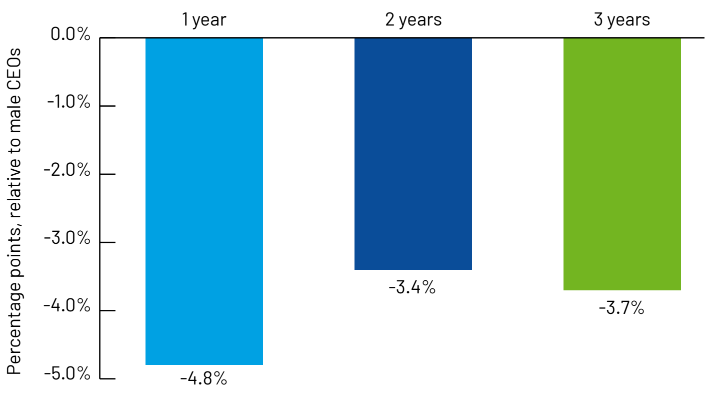
“If we are talking about the immediate reaction after an acquisition, the problem here is trusting the person physically making the announcement, rather than basing decisions on how the strategic decision is likely to impact performance,” said a female board member of a manufacturing business in Vietnam. “This is an embedded thought process with many cultures, where a female representative cannot achieve the same amount of respect that a male counterpart would enjoy. We are progressing and advances on many fronts can be seen on a regular basis, but when it comes to establishing gender equality in top management, there is still a long way to go.”

Meanwhile, there are those who feel that the media plays a part in negative reactions.

“When a female CEO makes an announcement delivering strategic decisions, there are various events that follow the announcement, such as intense media speculation. Although the media's intention may be to applaud the effort taken by a female CEO, the increased attention could influence investment patterns. Something that is suddenly highlighted would be more likely considered questionable by some,” said a female board member from an online retailer.

Key finding 2: The longer-term, post-acquisition market performance (acquirer total shareholder return) of acquirers with female CEOs is worse than acquirers with male CEOs.

Figure 2: Industry-adjusted acquirer total shareholder returns for female CEOs vs. male CEOs, years after acquisition



It's not just the short-term investor reaction to acquisition announcements by female CEOs that is more negative than for male CEOs. Over the longer term, we find a similar pattern. The total shareholder return (TSR, a metric of shareholder value creation that looks at share price performance plus dividends) of acquirers with female CEOs was significantly worse than acquirers with male CEOs, when adjusted both for the acquirer's local market index and industry peer group. This was the case when measured annually up to three years post-acquisition. Our study found that the industry-adjusted average TSR of acquirers with female CEOs, compared to acquirers with male CEOs, was 4.8, 3.4 and 3.7 percentage points lower one, two and three years, respectively, post-acquisition.

Our interviewees highlighted similar reasons for this finding as previously – rarity, scrutiny, cultural and social factors as well as media speculation. However, board members in our survey also explained the negative reaction may be felt more in some sectors than others.

"[A negative reaction] may be present in a few industries where women are not yet considered an integral part and would be questioned for their decision-making skills," said a male board member from a healthcare company. "The competence of women or men is often measured by perceptions."

A healthcare executive in the U.K. agreed: "I would say [the reaction] largely depends on the industry about which we are speaking. Some have remained male dominated and when females are promoted, they stand out more. The likelihood of negative reaction is increased when popular expectations are not met, or females do not fit into the big picture within the industry type as yet. The way in which the markets react to major strategic decisions in healthcare is somewhat different to others, where women have been an integral part for quite some time, and it is not unexpected for female CEOs to present major announcements. Investors are now more interested in discussing the formal metrics and diversity and voicing their opinion in favour of more women in the workplace."

However, they also pointed to a more strategic reason as well – markets often reward risk-taking activity. Indeed, over half of our interviewees (58 percent) agreed that the market tends to "over-reward risky M&A strategies."

"Markets tend to reward risky decisions that have potential to pay off," said a male board member of a healthcare company. "We have noted familiar patterns when it comes to market trends and taking risks. All these contribute to how the markets react, which can be anticipated by past experiences."

In fact, our study found that female CEOs are more likely to take a cautious approach to dealmaking (see page 10).

As one female board member from an Indian technology company said: "Female CEOs' application of ideas is more consistent, and they might be averse to excessive risk-taking."

A female board member of an Asian beverage company felt that risk is being rewarded because the market is too focused on the upside. "Risky M&A strategies are rewarded because the market tends to look at the positives and the promise of delivering value," she said. "[CEOs and board members] actively try to determine the best scenario and the optimum level of risk."

One further reason for the negative reaction may just be the market itself, according to a female board member from a U.S. technology company: "That is the nature of the market. It has always seen any major decisions from female leaders with suspicion and has failed to show confidence in female CEOs every time."

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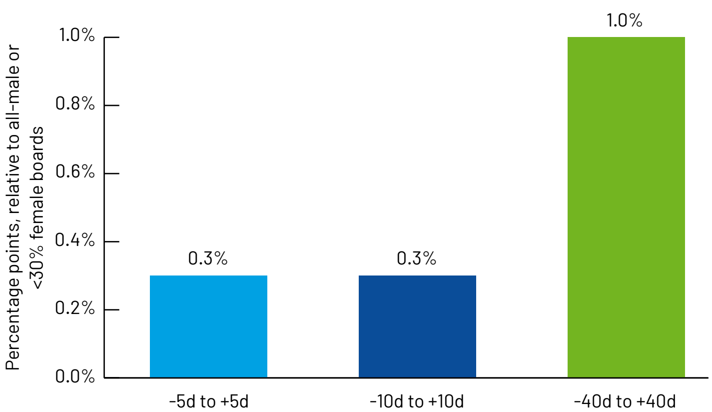
Part 2: perception vs. reality

The following four findings from our study show that acquisitions by female CEOs and acquirers with more gender-balanced boards lead to higher company performance, possibly as a result of these acquirers engaging in better deals than male CEOs and those with all-male boards.

Key finding 3: The short-term, post-announcement investor reaction to acquisitions by firms where the percentage of female board members is 30 percent or higher is more positive than for firms with all-male boards or boards with a low percentage of female members.

Figure 3: Market-adjusted acquirer share price returns for 30+ percent female boards vs. all-male or less than 30 percent female boards, days around announcement date



While investors' short-term reaction to acquisitions by female CEOs is more negative than for male-CEO acquirers, the reaction to acquisitions by firms with more gender-balanced boards is more positive than for firms with all-male boards or boards with a low percentage of female members.

Our study found that the share prices of acquirers with boards that have 30 percent or higher female representation perform better than those of acquirers with all-male boards or boards with less than 30 percent women, when measured over 5-, 10- and 40-day windows around the announcement date. The average outperformance, 40 days post-announcement, of acquirers with 30+ percent female boards was around 1 percentage point.

Respondents in our survey agree with investors and state that greater gender balance can only be a good thing. “Looking across various markets, both established and upcoming, there is an increase – albeit gradual – in female appointments to the board or higher leadership positions,” said a male board member of a Canadian mining company. “It is a critical time for companies. They must implement policies for better female representation – as most will gain from this.”

Female board representation patchy

Of course, the gender diversity of boards has long been a point of discussion. And while our respondent above notes some progress towards greater equality of female representation, it has been somewhat slow and varied according to region. In Europe, the average percentage of female board members in public companies was 24 percent in 2016, according to recent research by Vigeo Eiris[7], an increase of seven percentage points since 2012, while in North America 19 percent of board seats were held by women in 2016, up from 14 percent in 2012. In Asia-Pacific, just 10 percent of board seats were held by women in 2016, up from 8 percent in 2012.

One possible explanation for this divergence is that countries in Europe, such as Norway, France, Belgium and Italy, have implemented mandatory targets for female representation on boards, with the result that, for example, in Norway, 41 percent of public company board seats were held by women in 2016 and in France, 39 percent. Many other countries have instead adopted non-compulsory guidelines or have no initiatives at all dealing with gender diversity on boards.

> “It is a critical time for companies. They must implement policies for better female representation – as most will gain from this.”
>
> – Male board member of a Canadian mining company

Investor pressure on the rise

Our findings may reflect recent moves by some large and well-known institutional investors to attempt to address gender diversity at board level.

For example, “State Street Global Advisors announced that it voted against the chair or the entire nominating and governance committee at nearly 400 companies that lacked a single female director,” noted a recent Harvard Law School report[8]. It added: “In July 2018, the 10-member investor coalition with a combined USD 300 billion in assets under management, known as the Midwest Investors Diversity Initiative, publicly announced efforts to increase racial, ethnic and gender diversity through model checklists and best practices.”

This increased scrutiny on the part of investors is raised by some of our interviewees.

"Inclusion of female board members presents a diverse and established front, with modern ethics," said a male board member of a technology company. "Investors are likely to have more faith in such a board than one comprising only men."

"I think we have reached a point in time where diversity matters and people are keenly looking at the number of female participants in the company and industry," added a female board member of a Canadian retail company.

Yet it is at least as likely to reflect – as we'll explore in more depth later in this report – better decision-making by more gender-diverse boards when it comes to M&A transactions.

"A higher percentage of female board members would have a different impression in the market than an all-male board," said a female media company board member based in the U.S. "Yet the direction of thinking would also be different for these two sets. Acquisitions are key decisions – they require accurate business skills to get the deal right. A mix of males and females on the board can provide a competitive edge in decision-making, given their different experience and outlook."

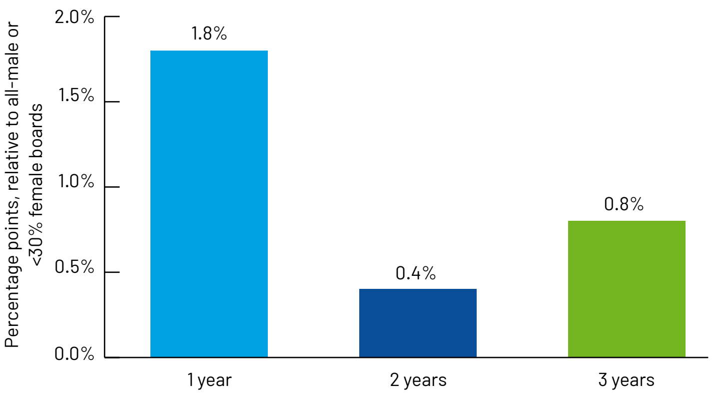
This view is also reflected by a male board member of an Indian chemicals company. "Females have different experiences when it comes to being at the board level of a company," he said. "Sharing these may provide a different insight when determining the course of action during an important decision, such as an acquisition."

"Inclusion of female board members presents a diverse and established front, with modern ethics. Investors are likely to have more faith in such a board than one comprising only men."

– Male board member of a technology company

Key finding 4: The longer-term, post-acquisition market performance of acquirers with at least 30 percent female board members is better than acquirers with all-male boards or boards with a low percentage of female members.

Figure 4: Market-adjusted acquirer total shareholder returns for 30+ percent female boards vs. all-male or less than 30 percent female boards, years after acquisition



Our study found that the superior market performance of more gender-balanced boards that engage in acquisitions also persists over the longer term.

The market-adjusted average TSR of acquirers with 30 percent or higher female boards was 1.8, 0.4 and 0.8 percentage points higher one, two and three years, respectively, post-acquisition, than firms with all-male boards or boards with a low percentage of female members.

Better decisions?

Again, this may have some link to the more positive perception among increasing numbers of investors of more gender-balanced boards. Yet it's worth noting that this study incorporates data going back as far as 1999 – well before gender diversity had risen up the agenda at investor level. As a number of our interviewees note, this outperformance is more likely explained by better decision-making at board level in companies where diversity of thought is encouraged and fostered.

A female board member of a facilities company in Italy was representative of this view. "All-male boards can reach good decisions, but more gender-balanced boards will contain a wider range of ideas and a greater diversity of experience," she said. "This is one of the reasons for better longer-term shareholder returns for acquirers with higher female representation."

A male mining company board member in Canada went further still. "Gender diversity on the board is essential from a societal point of view," he said. "But for companies, it also provides major benefits, including a longer-term perspective during planning or advanced decision-making phases. Gender balance gives boards a variety of expertise, which may not be the case with all-male boards."

Another respondent also noted that those women who have been able to reach board level are more likely to be uncompromising in their pursuit of sound decision-making, given that it may well have been more difficult for them to secure their positions in the company. "Female board members have the ability to provide a deeper perspective on some issues which may be ignored by male board members," added a female board member of a Vietnamese manufacturing company. "The fact that it has historically been harder for women to climb the corporate ladder is likely to mean they stand by their solutions without compromising. This is reflected in the longer-term shareholder return performance."

Key finding 5: When looking at most internal measures of acquirer post-transaction performance, such as sales growth, profitability and return on assets or equity, acquirers with female CEOs perform better than acquirers with male CEOs, and acquirers with at least 30 percent female board members perform better than acquirers with all-male boards or boards with a low percentage of female board members.

Our study found unambiguous evidence that acquirers with gender-balanced boards performed better post-acquisition on internal measures of operating performance than all-male boards or boards with a low percentage of female members. This finding holds true across key indicators such as sales growth, profitability and return on equity, as well as being consistent over time.

Creating value

Overall, the results suggest that companies with at least one female board member, including those led by a female CEO, are better managed post-acquisition and should therefore create more value for shareholders.

Existing evidence on the effect of greater female board-level representation is, however, somewhat mixed. While some studies, like ours, have shown a link between strong company performance and more gender-balanced boards[9, 10], others have not[11, 12]. Nevertheless, there is a strong argument for diversity of all kinds on boards and, in a world where women make up 48 percent of the labor force[13] and 50 percent of the population[14], companies with low or no female board representation risk missing out on talent and are potentially more prone to "group-think" on key strategic decisions, including M&A.

The 2020 Women on Boards campaign, for example, says: "Good corporate decision-making requires the ability to hear and consider different points of view, which comes from people who have different backgrounds, experiences, and perspectives. Companies that have women directors and executive officers lead by example. They send a clear message that they value diversity of thought and experience[15]."

It's a view increasingly shared by some of the world's largest and most influential investors. The USD 1 trillion U.S. public pension plan TIAA, for example, is pushing for increased gender parity on boards through engagement with companies on the basis that this helps them "identify talented people who can work to eliminate their blind spots," according to the plan's CEO Roger Ferguson[16]. He added: "A good board of directors should know where it has blind spots. Companies lacking the right mix of talent, experience and perspectives may miss opportunities, ignore threats and fail to hold management accountable ... too few boardroom doors are open to women."

The theme of diversity of thought on the board is picked up by many of our interviewees, many of whom also cited the determination necessary for a female to reach a senior leadership role. "Diversity can give a company better leverage against the competition," said a female board member of an advisory company in India. "Diversity brings a more complete view to decision-making, adding new insights to the way targets and performance can be achieved – without this, it's too easy to take certain aspects for granted."

A female board member of a U.S. media company added: "Female CEOs have had to break social barriers to get where they are. They have to continually prove their worth among peers

Figure 5: Acquirer sales growth for female CEOs vs. male CEOs, years after acquisition

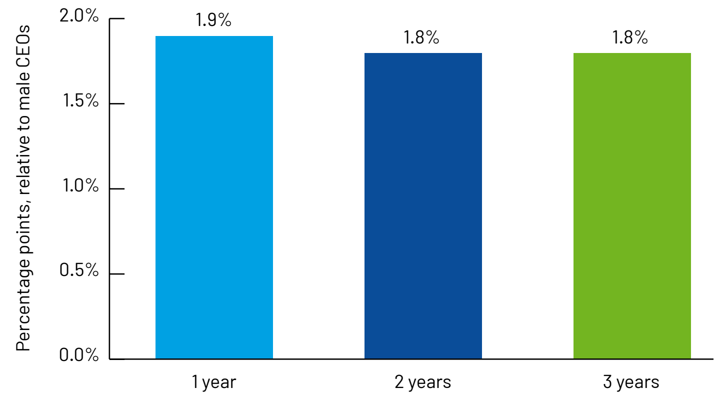


Figure 6: Acquirer change in EBITDA/sales margin for 30+ percent female boards vs. all-male or less than 30 percent female boards, years after acquisition

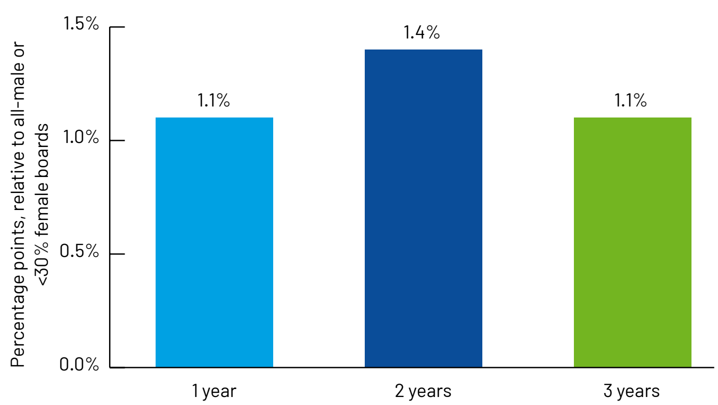
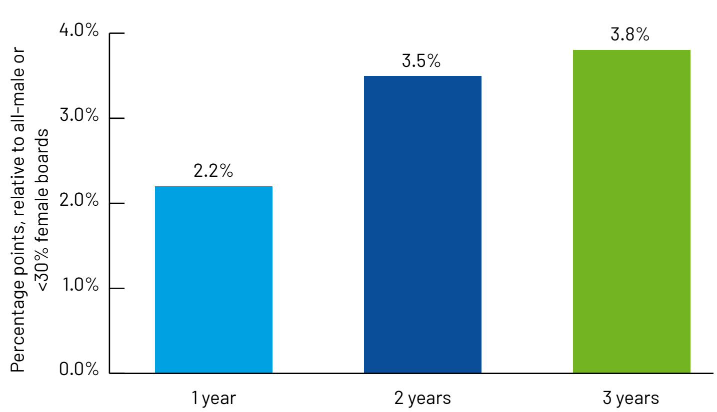


Figure 7: Acquirer change in return on equity for 30+ percent female boards vs. all-male or less than 30 percent female boards, years after acquisition



and competitors. A female CEO may or may not be better at negotiation, but she will most likely work harder at following up to make sure that schedules are met, communication remains open and in planning for undesirable outcomes."

This view of female determination in the workplace was backed by a male board member of a Thai energy company: "Female members have had to work harder to prove themselves in the workplace and especially in higher-ranking positions. All things considered, the best performing acquirers have evolved with this knowledge and understood the importance of female participants."

Other respondents pointed to the fact that female executives tend to put more emphasis on long-term goals. A male board member from a U.K. healthcare company said: "Arguably, female board members are more perceptive when it comes to evaluating the longer-term statistics and whittling down the possibilities, even in difficult situations. Having female board members is an effective way to exercise consistent performance levels."

A female executive from a French real estate company agreed with this point of view: "The longer-term shareholder return performance of such acquirers could be explained by the fact that females are more enlightened when it comes to thinking ahead, making judgement calls in terms of risks and determining targets and, all in all, being restrictive and innovative at the same time. The other reasons could be the efficiency and flexibility in working conditions when female board members are part of the acquisition."

Meanwhile, a male board member from a Singaporean consumer company added that, in an age of disruption, all-male boards just seem old-fashioned. "All-male boards are considered more traditional in their approach and, in the era that we are in, innovation in thought and action is given due credence," he said. "Technological influences and faster growth periods are happening, more than before, and it has become vital for companies to change their old core business systems and implement newer structures that would be organizationally fit for today."

> "Female CEOs have had to break social barriers to get where they are. They have to continually prove their worth among peers and competitors. A female CEO may or may not be better at negotiation, but she will most likely work harder at following up to make sure that schedules are met, communication remains open and planning for undesirable outcomes."
>
> – Female board member of a U.S. media company

Key finding 6: The characteristics of deals undertaken by acquirers with female CEOs show statistically significant differences compared to male CEOs. Female CEOs also appear to be more risk-averse in their dealmaking. These differences may be drivers of the performance variations identified in key findings one to five.

Different types of deals drive different outcomes

Our study found that the types of acquisitions that female CEOs engage in have different characteristics from those pursued by male CEOs and that this is true across a variety of measures. The targets of acquirers with female CEOs, according to our research, have higher sales growth, higher profitability, higher leverage, higher liquidity (a measure that indicates lower financial stress) and higher valuations, as measured by market to book value of equity (which suggests greater growth opportunities), than acquirers with male CEOs.

Taken together, these measures appear to suggest that the targets chosen by female CEOs tend to be higher quality businesses than those that male CEOs opt for. This is indicative of lower risk, a finding supported by further analysis. When the size and location of targets are examined according to CEO gender, we find further evidence of a more cautious stance by female CEOs than their male counterparts. Relative to the size of the acquirer, female CEOs engage in M&A with smaller targets than male CEOs and undertake fewer cross-border transactions. In addition, female CEOs appear more likely to prefer to act supported by expert counsel than male CEOs: they are more likely to engage a financial adviser and more frequently employ multiple advisers on the deals they pursue.

These results also hold true when the larger sample of acquirers with at least one female board member is compared with all-male boards, suggesting that female presence on boards may act as a brake on excessive risk-taking behavior by management.

Lower risk targets?

These findings are also reflected in our qualitative survey, where many respondents noted a more cautious approach in companies led by women. A South African male board member of a clothing company, for example, said: "Some of the key characteristics of decisions taken by male and female CEOs will be similar and some, such as risk assessments, tend to be different. M&A decisions are often worked through in a more controlled atmosphere when a female CEO is in charge of the situation. A male CEO can be more open to risky considerations, while of course taking the complete picture into account."

"Male and female leaders will on the whole approach situations in similar ways, yet there are some differences when it comes to strategic decisions," added a female board member of an Australian healthcare company. "The events linked with such major decisions are approached with more caution by female CEOs, which I see as a good sign for the company. Often, they work using deep insight, which, added to expertise and experience, lead many to have a leadership style that is unique."

A Canadian male board member also said that the difficulty many women face in reaching senior leadership in a company is likely to lead to a more methodical and differentiated approach to M&A.

"Women may be no more tactical than men," he said, "they just tend to be a little more resourceful, can judge a situation better and assess the level of risk to be taken with better precision. It will have been a struggle for them to climb up the ladder and for the few who have managed it successfully, it is better that they approach decisions differently to enable them to stand out from the rest."

Predictors of M&A success

The most striking aspect of our findings is that the characteristics of acquisitions pursued by female CEOs match closely those we have identified in previous studies as being predictors of M&A success.

Across three previous studies published by Intralinks – *Masters of the Deal*, *Attractive M&A Targets* and *Abandoned Acquisitions* – we have consistently found that M&A success is far more likely when targets have higher sales growth, profitability, leverage, liquidity and valuations. Additionally, avoiding risk by concentrating on domestic deals and targets which are smaller in size relative to the acquirer have also been shown to be predictors of deal success. Engaging multiple advisers in transactions has been shown to increase the probability of deal completion.

The characteristics of targets and deals pursued by acquirers with female CEOs and those with more gender-balanced boards therefore appear to be consistent with our earlier findings around the superior market performance of these acquirers and of their outperformance on internal operating measures.

One conclusion from this could be that gender-balanced boards are making better acquisition decisions.

Investor bias exists

Our findings show that, while the market values the decisions and performance of boards with higher levels of female representation, it is undervaluing acquirers led by female CEOs despite their stronger company performance after the deal.

For all the statements made by influential investors that gender balance on boards is not only positive but essential, our study implies that female CEOs have a harder time than their male counterparts convincing the market that their M&A strategies are the right direction for the company and that their outcomes are leading to strong company performance.

Taken together, our findings on initial market reaction to announcements and total shareholder return for companies led by female CEOs point strongly to investor bias.

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Supplement: gender balance – a boon for the board

As we've noted elsewhere in the report, there are many initiatives worldwide to promote, encourage and, in some instances, mandate greater gender balance on company boards. While progress has clearly been made in some markets – some European countries, such as Norway and France stand out here, where boards average well over a third of female directors – the pace of change in other markets has been slower.

This raises the question of whether companies perceive greater gender parity on boards to be an advantage, given that progress seems mainly to have been driven by legal requirements as opposed to a more guidance-based approach.

Indeed, such was the frustration with some all-male boards among team members conducting the Hampton-Alexander Review that in May 2018 they decided to publish some of the worst excuses they had received for not having more women on boards[17].

> "We want to break the barriers that companies feel when recruiting a female to top positions, but a more positive outlook is needed within industries that are not yet supportive of the notion of female presence on board."
>
> – Female board member of a TMT (Technology, Media & Telecoms) company in India

These included: "I don't think women fit comfortably into the board environment"; "All the 'good' women have already been snapped up"; "Most women don't want the hassle or pressure of sitting on a board"; "My other board members wouldn't want to appoint a woman on our board"; and "There aren't that many women with the right credentials and depth of experience to sit on the board – the issues are extremely complex."

Yet while these responses range from patronising to dismissive about board-level gender diversity, our survey interviewees were unanimous in their support for female representation on boards. All of our respondents said there are advantages of having gender-balanced boards. These range, according to interviewees, from a greater capacity for innovation, a diversity of ideas, sharper focus on long-term goals, more rounded discussions and access to different experience through to a greater focus on ethics and an enhanced reputation.

One male board member at a U.S. technology company said: "When reaching decisions, boards need to look at a variety of alternatives and functions and analyze matters from multiple standpoints if they are to make accurate assumptions. All these can be better anticipated and worked out when you have a competent board, but even more so if you have a balance of genders on the board to identify the options. If you take into account multiple perspectives, it's more likely that the path you take will be a profitable one."

In addition, all respondents agreed that having gender balance on a board affects the board's decision-making and approach, with comments suggesting that they view this effect positively. "Gender balance has an impact on how the discussions proceed," said a U.S.-based female board member of a media company. "It's easier to be clear in identifying opportunities and threats because a balanced board is privy to unique insights that can aid effective strategic decision-making."

This was echoed by a female board member of a recruitment company in the U.K. "Having a balance of gender on boards is useful when you require multiple experiences and backgrounds," she said. "The decision-making approach can then take account of different perspectives. More functional and workable targets can be set when you have a balance of genders on the board."

Indeed, one male U.K.-based mining company board member said that, given the nature of decisions boards are required to make, a gender balance can provide a more accurate and nuanced view. "Where you have highly competent males and females working together in a conducive environment, this can only be good for the company's future prospects," he said. "Decisions can be highly complex in board situations and you'll get the best outcome if you can apply the talents and characteristics of both genders."

Yet despite this enthusiasm and positivity around increased female board representation, only just over half of respondents (55 percent) say the boards on which they serve have a goal of being gender-balanced.

Sentiment among those whose boards do not have such a policy is typified by a female board member at an Italian transportation company, who said: "We encourage males and females to apply for board positions, but the decision revolves around the core qualities the candidates possess, their background and effort in previous entities."

There was also concern among some that – despite apparently recognising the strengths of gender-balanced boards – having an explicit goal might affect the quality of candidates (perhaps mirroring some of the comments from the Hampton-Alexander Review above). "Although we appreciate the value of female board members, we do not wish to limit the search to a gender," said a male board member at a U.S. retail firm. "This is mainly because we might not find the right female candidate during the search duration and even if we do, there would be limited options with which to work and their vision might not align to that of the company."

However, those that do have a goal to reach gender balance refute the argument that they are somehow lowering the bar. "It has become a top priority for many companies to have boards that are gender-balanced – and in turn more functional and efficient in the long run," said a male board member of a Singaporean food business. "Females are being encouraged to participate at the board level. The selection process continues as usual. So, just because we are looking to include more female members on the board, that doesn't mean we've given up on key recruitment practices."

Rather, as a female board member of a TMT company in India outlined, a broad-based approach to gender equality in the workplace requires greater effort on the part of the company and, potentially, a shift in mindset. "We have been working on our gender equality at the workplace and this initiative wouldn't be complete unless it reaches the top levels of management," she said. "We want to break the barriers that companies feel when recruiting a female to top positions, but a more positive outlook is needed within industries that are not yet supportive of the notion of female presence on the board."

This sentiment was echoed by a female board member from a U.S. recruitment company. "Delivering equal opportunity solutions takes time and effort," she said. "We are keen to pursue this by recruiting board members based on their merit, while also ensuring the balance is maintained by seeking out potential candidates."

> "It has become a top priority for many companies to have boards that are gender-balanced – and in turn more functional and efficient in the long run."
>
> – Male board member of a Singaporean food business

Conclusions

Our study, which captures 16,763 public M&A transactions globally, announced over a 20-year period, demonstrates that, while there has been progress in female representation at board level and there is widespread support among major institutional investors, and the companies we interviewed, for gender balance on boards, there remains an investor bias – conscious or unconscious – against dealmaking by female CEOs.

This is evidenced by the following:

1. Both short- and long-term TSR performance of companies led by female CEOs is lower than that of businesses led by male CEOs following the announcement of an acquisition.
2. Nevertheless, boards with female representation of 30+ percent outperform, according to TSR, their all-male counterparts over both the short and long term.
3. The TSR underperformance of companies with female CEOs cannot be explained by poor company performance post-acquisition. In fact, our study demonstrates that internal measures of company performance, such as sales growth, profitability and return on equity or assets, are better for acquirers led by female CEOs than for those led by male CEOs. This holds true over one, two and three years after the transaction.
4. More negative TSR cannot be explained by poor M&A choices either. Female CEOs tend to pursue better quality and less risky targets than their male counterparts – the companies female-led businesses acquire tend to have higher sales growth, higher profitability, higher liquidity and higher valuations (all indicators of strong companies) and are more likely to be domestic (which represents lower risk). Female CEOs also tend to de-risk transactions further by engaging at least one financial adviser when conducting M&A.
5. Our survey respondents overwhelmingly supported the view that gender diversity on boards brought higher quality insight into decision-making and more discipline in pursuing the right targets as well as during the deal process, all of which feed into enhanced company performance. Yet many also highlighted that the market – and to some extent the media – reacted differently to acquisition announcements made by female CEOs from those made by male CEOs.

Overall, our study indicates clearly that, while gender-balanced boards are well-received externally, there is still much to be done before female CEOs are accurately perceived and valued by the markets and wider stakeholders. The fact that just two percent of acquisitions in our large sample were undertaken by female CEOs may be partly behind the more negative sentiment we found in our research – female CEOs remain rare and seem therefore to be subject to far greater scrutiny than their male peers. Indeed, we may see a shift over the years to come as more women reach top positions in companies.

However, we would hope that, by shining a light on the disparity between market performance and the quality of M&A acquisition strategies pursued by female CEOs, this study can help accelerate this change.

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