

# FEMALE BOARD REPRESENTATION - IMPACT ON MARKET REACTION TO PUBLIC M&A DEALS

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Legal Briefings - By **Amalia Stone and Mia Harrison-Kelf**

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Data backs the push for diversity on the boards of companies preparing for IPOs and advisers and investors are paying attention.

## IN BRIEF

- When preparing a company for a public listing or a strategic transaction, a new study suggests that paying attention to the diversity at a board and CEO level can have a marked effect on the results of the listing, and the performance of the company going forward.

## DIVERSITY

In February 2020, Intralinks released [\*Gender Diversity and M&A Outcomes: How Female Board-Level Representation Affects Corporate Dealmaking\*](#), published in association with City, University of London's Cass Business School and Acuris Studios. Noting the strategic importance of M&A activity for company growth, the study considered 16,763 acquisitions by publicly listed acquirers over the 20 year period from 1998 to 2018, and looked at investor reactions, market performance and measures of actual post-transaction performance, by reference to the gender diversity at the CEO and board level of corporate acquirers. Similar studies, on smaller data sets and in different markets, have not been able to perform this analysis as thoroughly, but have returned similar initial findings.<sup>1</sup>

Amongst the key findings were that investor reactions and market performance of publicly listed companies tend to be more negative when acquisitions are by companies led by female CEOs, than acquisitions by male CEOs, but this is not necessarily reflective of the actual post transaction performance of those companies, which tend to perform better.

Only 2% of acquisitions of the 20 year sample set of acquisitions were by companies led by female CEOs. So, while the findings are interesting, they may be specific to the circumstances for those particular acquisitions. The researchers pointed out that the small number of female CEOs may mean they are subject to greater scrutiny, possibly contributing to the negative market perception of these deals.

By contrast, investor reaction and market performance (as well as actual post-transaction performance of the acquired companies) where the percentage of female board members of the acquirer is 30% or higher is better than those with boards with lower female representation. Goldman Sachs announced earlier this year<sup>2</sup> that because it believes IPOs perform better with at least one woman board member, it would not be accepting IPO engagements for companies looking to list in the US or Europe without at least one diverse board member, with an initial focus on gender diversity. By 2021, Goldman Sachs' requirement will increase to at least two diverse board members.

As highlighted in the report, these findings align with an expanding body of evidence that suggests that gender diversity at the senior level contributes positively to overall company performance. Requirements like those of Goldman Sachs are expected to become increasingly common, with some very large institutional investors indicating they will start holding boards who are not making progress on gender diversity accountable on this point.

## ENDNOTES

1. <https://hbr.org/2019/09/research-when-women-are-on-boards-male-ceos-are-less-overconfident>
2. <https://www.reuters.com/article/us-goldman-sachs-ipo-diversity/goldman-sachs-to-companies-hire-at-least-one-woman-director-if-you-want-to-go-public-idUSKBN1ZM2MK>

## KEY CONTACTS

If you have any questions, or would like to know how this might affect your business, phone, or email these key contacts.



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