

On The Effectiveness of Board Diversity Reforms

F. Arnaboldi, B. Casu, E. Kalotychou, and A. Sarkisyan

Abstract

We examine the impact of board diversity reforms on the performance of EU listed banks in the wake of the global financial crisis. Using a difference-in-difference approach, we document a positive effect of board diversity reforms on bank stock returns. Mandatory reforms increase bank risk but this effect depends on a country's prior institutional environment. We find that in countries more open to diversity and in countries adopting common law legal systems, reforms increase profitability and reduce risk. In particular, gender diversity has no effect on performance, but when women presence is legally reinforced it reduces risk. On the contrary, legal reinforcement of employee representation increases risk in the short time. We conclude that the legal reinforcement of board diversity is an important aspect of the on-going reforms of corporate governance codes and its impact on bank performance depends on countries' attitude towards diversity.

Keywords: Board diversity reforms, corporate governance codes, bank performance