Gender Diversity and Dealmaking 2022

An analysis of the impact of female CEOs and board-level gender diversity on M&A

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

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Executive Summary

Since the second half of 2020, mergers and acquisitions (M&A) activity has been booming, reaching a new peak in 2021. Total value of all deals across the year came to USD 5.7 billion. Not only does this represent an 83 percent annual rise over 2020, but it also overtakes 2015's record as the best year for M&A in terms of aggregate transaction value.

Against this background of rampant deal activity, female dealmakers are facing continued challenges. In this follow-up to the first edition of our *Gender Diversity & M&A Outcomes* report, published in 2020, we analyzed over 11,000 deals and spoke to a panel of seven senior leaders to understand differences in outcomes between deals initiated by companies with female leadership and those initiated by less gender-diverse businesses.

Our research found that, despite the fact that environmental, social and corporate governance (ESG) issues — including diversity — have risen in the corporate agenda, female CEOs still face greater challenges than their male counterparts, with markets generally reacting more negatively to deals announced by acquirer companies led by women.

KEY FINDINGS

1. Market perceptions remain out of line with M&A reality

Perceptions of deals conducted by a female CEO or boards with at least 30 percent female representation have improved since our 2019 research. Yet, deals conducted by female CEOs are still viewed less favorably than those conducted by their male counterparts. Our study finds that market-adjusted acquirer share price returns were 1.5 percentage points lower for deals where the acquirer had a female CEO compared to those where the acquirer was led by a male CEO, when looking at a 40-day window around the announcement date.

2. Diversity and female leads improve performance

Our research proves that this negative perception of female-led deals is unjustified. Diverse boards and female CEOs produce better results post-deal than their male counterparts across several key indicators such as share price performance, return on equity (ROE), EBIT/sales and EBITDA/sales.

3. Female CEOs complete more deals

Deals announced by female CEOs have slightly higher completion rates relative to deals announced by male CEOs: 97 percent for female CEOs, compared to 95 percent for male CEOs. This gap widened to five percentage points for deals completed during the pandemic.

4. Deal structures differ with diversity and point the way to success

The types of acquisitions undertaken by acquirers with female CEOs and 30 percent or more female representation on boards are significantly different from those conducted by male CEOs or less diverse boards. They are more likely to seek advice, more risk-averse and tend to seek out targets with stronger performance metrics.

5. Female leaders and diverse boards have performed better during the pandemic

During the pandemic, the performance gap between female CEOs and gender-diverse boards, and male CEOs and less gender-diverse boards, widened in the former's favor. Acquirer companies led by female CEOs saw their share prices perform better than those led by male CEOs one year post-transaction completion. The same held true for acquirer companies with more female representation on boards compared to those with fewer female board members.

INTRODUCTION AND METHODOLOGY

This study examines a large data set of worldwide M&A transactions to determine whether having women in positions of leadership affects the types of acquisitions undertaken and M&A outcomes such as short-term market reaction, shareholder value, sales growth, profitability and return on capital.

The study's data set comprises bids by publicly listed acquirers announced during the period January 1, 2010 to October 31, 2021 and includes 5,047 unique acquirers, 9,529 unique targets and 11,562 M&A transactions.

The sample was selected based on the following criteria:

- The deal is a "change of control" type deal where the acquirer owns less than 50 percent of the target before the acquisition and more than 50 percent of the target after the acquisition
- The deal is classified as either completed or withdrawn by Refinitiv
- Either the acquirer sales value is at least USD 50 million, the deal value is at least USD 50 million or the target sales value is at least USD 50 million

Out of these, 318 deals were initiated by bidder companies with female CEOs (three percent). Of these, 38 were announced during the pandemic period and the rest were announced during the pre-pandemic period.

The number of deals initiated by boards with at least 30 percent female representation is 1,237 (11 percent). Out of these, 142 deals were announced during the pandemic period. We consider all deals announced since March 2020 as part of the pandemic period in our sample and all deals announced prior to that as part of the pre-pandemic period.

Following completion of the research, interviews with seven senior-level female executives were conducted by Mergermarket to gain first-hand insight into their views on women in leadership and its impact on the deal process. Our expert interview panel is as follows:

- Roshanak Bassiri Gharb, legal director, Clyde & Co
- Liz Claydon, partner and head of deal advisory, KPMG UK
- Lauren Colasacco, partner, Kirkland & Ellis
- Tricia Glynn, managing director, Advent International
- Jennifer Reynolds, CEO, Women Corporate Directors Foundation
- Silvana Toppi, non-executive director, IPT PowerTech Group
- Sigrid Zialcita, CEO, Asia Pacific Real Assets Association (APREA)

AT A GLANCE: THE REPORT IN NUMBERS

Our research looked into gender diversity at both the CEO and board levels and examined how diversity affected M&A outcomes across several metrics, including share price performance, profitability, return on equity and growth.

11,562

M&A transactions analyzed

11

years of M&A deals analyzed

January 1, 2010 to October 31, 2021

318

M&A deals in the sample led by a female CEO

1,237

M&A deals led by acquirers with **30 percent** or more female board members

Introduction

While progress is being made toward achieving parity between men and women at the board level, much work needs to be done. In 2021, executive search firm Spencer Stuart found that 30 percent of all directors at the boards of S&P 500 companies were women, compared to 28 percent in the firm's 2020 study. Although a move in the right direction, this shows just how far there is left to go, as does the finding in the firm's 2020 survey that for the first time, there was at least one woman on every S&P 500 board.

The number of female CEOs is also on the rise, with research conducted by executive search firm Heidrick & Struggles finding that the share of women CEOs of all CEOs appointed in the first six months of 2021 doubled to 13 percent, up from a mere six percent share in the previous six months. While studies such as these show that progress is being made, women remain underrepresented at the most senior levels.

Against this background, we followed up on our previous 2019 study regarding male and female CEOs, where we uncovered a wide gulf between market perception and the actual operational outcomes of M&A deals. We discovered that, in line with our 2019 findings, female CEOs and diverse boards continue to deliver stronger M&A results across several performance metrics, such as growth, return on capital and share price performance. Yet, the initial market reactions to new deal announcements by female CEOs are still less favorable than to those conducted by their male counterparts — and this has worsened during the pandemic.

When it comes to achieving greater equality in the M&A process, we haven't reached the finish line just yet. While acceptance of female CEOs and gender diversity as a force of dynamic and profitable dealmaking is improving, the market perception still fails to recognize the true value that female CEOs and diverse boards bring to deal performance. Concrete action is still needed if the gap is to be bridged.

Not only that, while this report focuses on the role of women in corporate leadership, more needs to be done to promote other forms of diversity, including the representation of people from BIPOC (Black, Indigenous or Person of Color) backgrounds, as well as the LGBTQIA community, including non-binary people.

While the trend is heading in the right direction, says Sigrid Zialcita, CEO of Asia Pacific Real Assets Association (APREA), it is far from fully achieved: "The case for diverse boards is gaining traction, especially as the ESG agenda has placed diversity at the center of boardroom conversations. I think several global companies are realizing that they need to be at the forefront of the agenda and drive the conversation forward. We are moving in the right direction, but there remains a long way to go."

The qualities that more gender-diverse teams bring to the table are particularly beneficial within the context of dealmaking, says Liz Claydon, partner and head of deal advisory at KPMG UK: "A study by Harvard Business Review found that diverse teams not only outperform non-diverse teams, but they are 70 percent more likely to capture new market share. This is particularly relevant in the context of M&A dealmaking, as often a key driver of transactions is capturing new market share."

Next up:
Market perceptions remain out of line with reality

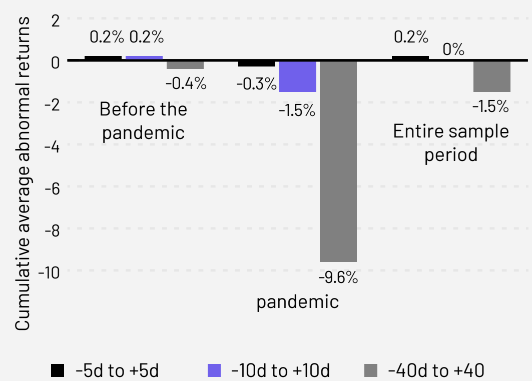
1. Market perceptions remain out of line with reality

While perceptions of female-led deals are improving, our study shows they still lag behind reality, with announcement reactions out of sync with actual performance.

Our analysis of market reactions to deal announcements shows that the market tends to have a more negative view of transactions where the acquirer is led by a female CEO. Although the difference in share price performance was negligible when looking at five- or 10-day windows around the announcement date, shares of acquirers with female CEOs tended to underperform those of acquirers led by male CEOs by an average of 1.5 percentage points when looking at a 40-day window pre- and post-announcement.

The picture is somewhat better for boards with 30 percent or more female representation: Our research found no significant difference in the market reaction to deals announced by boards with at least 30 percent female representation versus deals announced by majority-male boards with fewer female board members across the five-, 10- and 40-day windows.

Market favors deals led by male CEOs in the short term



Yet, given the evidence we have for better long-term performance for deals completed by acquirer firms with more gender-balanced boards, the fact that market reactions are not more positive than for deals announced by acquirer firms with less female representation on their boards can be interpreted as further evidence of bias.

Jennifer Reynolds, CEO of Women Corporate Directors Foundation, believes that the relatively negative market reaction is due to a systemic bias: "It goes back to the idea that men get promoted on potential, and women on what they have already achieved in the past," she says. "During a major strategic initiative or transaction, this inherent bias remains embedded. Markets are no different than the average individual, and we're all filled with biases — every single one of us."

Identifying and changing these biases is challenging. "The more we shine a light on these biases, the more people will challenge their own biases. But we also need to improve diversity across all job levels, and across all professions, including those reporting on M&A transactions or trading for/against these M&A deals," says Tricia Glynn, a managing director at private equity firm Advent International.

> Our research finds that deals announced by female CEOs had a higher chance of completion than those announced by their male counterparts — and this margin widened during the pandemic.

Pandemic changes

The pandemic seems to have exacerbated the situation for female CEO-led acquirers, at least temporarily. During the pandemic period, acquirers led by female CEOs saw their share prices underperform those led by male CEOs by an average of 9.6 percentage points, when comparing share prices 40 days before and after a deal announcement. This is despite the fact that our research finds that deals announced by female CEOs had a higher chance of completion than those announced by their male counterparts — and this margin widened during the pandemic.

Once again, the picture seems better for companies with at least 30 percent female boards during the pandemic. Companies with at least 30 percent female boards saw their share prices slightly outperform on average relative to boards with less female representation in the five-,10- and 40-day period around a deal's announcement date.

Roshanak Bassiri Gharb, legal director at Clyde & Co, believes that a focus on short-term gains is one reason behind this bias: "My personal theory is that females are generally seen as more prudent than men — they are less likely to take a risk and will spread that risk over a longer-term," she says.

"Investors attracted by short-term investments and looking for immediate returns will not favor this approach, so I think there might be a connection between the two. Whether this belief is conscious or unconscious, I'm not sure."

This bias is present despite the evidence showing diversity gives companies a competitive edge. "There is a strong business case for board diversity, which is being spearheaded by board members, corporate business, institutional investors and law firm leaders across industries," says Lauren Colasacco, a partner at law firm Kirkland & Ellis. "Including a diverse mix of backgrounds and, in particular, genders, on a board gives a company a competitive edge when it comes to making decisions — given differing viewpoints and diverse analyses, which have been proven to produce superior results. Investors will have more faith in a gender-diverse board versus an all-male board."

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> **Lauren Colasacco**
> Partner, Kirkland & Ellis

Next up:
Diversity and female leads improve performance

2. Diversity and female leads improve performance

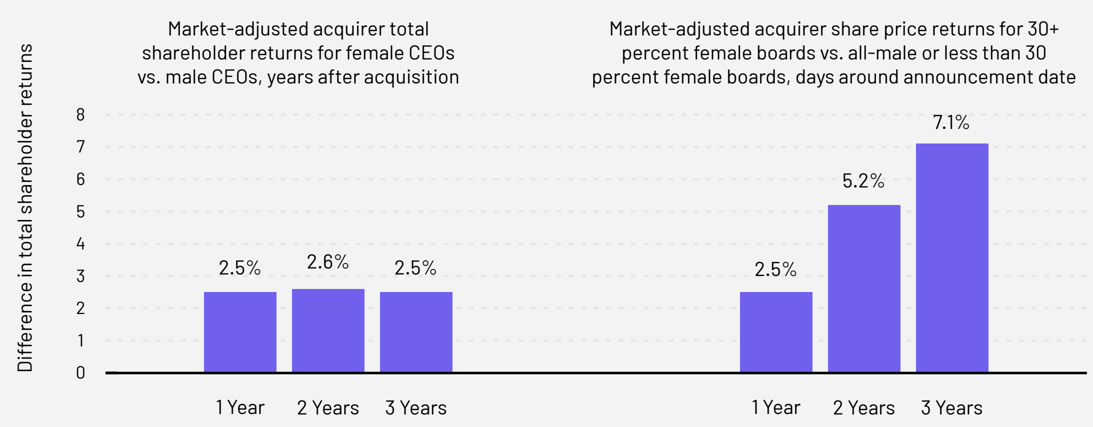
Our research proves that the negative perception of female leads is unjustified, with deals led by gender-diverse boards and female CEOs producing better results on average compared to less diverse boards and male CEOs.

Contrary to market reaction, deals completed by acquirers with female CEOs performed better than deals completed by acquirers with male CEOs in terms of share price performance, in the first, second and third year following deal completion.

The picture was similar for boards with strong female representation (over 30 percent). When comparing market-adjusted share price returns, companies with at least 30 percent female boards outperformed by 7.1 percentage points relative to all-male or less than 30 percent female boards three years post-acquisition.

When looking at accounting measures of performance such as ROE, EBITDA/sales and EBIT/sales adjusted to industry peers, deals completed by acquirers with female CEOs performed significantly better than deals completed by acquirers with male CEOs. The difference was particularly impressive when looking at acquirer ROE for female CEOs vs. male: When looking at this metric three years post-acquisition, companies led by female CEOs outperformed those led by male CEOs by 7.9 percentage points.

Gender-diverse deals post higher shareholder returns



Boards with at least 30 percent female representation are also outperforming less gender-diverse boards over the longer term, with ROE, EBIT/sales and EBITDA/sales metrics all overperforming relative to boards with fewer female members over one, two and three years.

"Boards are tasked with governance and strategic guidance. These issues are by definition complex and very few decisions look like the last. If you consider organizational behavior theory, groups with those sorts of complex challenges ahead of them benefit most from a true diversity of backgrounds," says Glynn. "Companies in the world today face multifaceted, evolving issues at an increasing rate, so diversity should have even more benefit today than it has in the past."

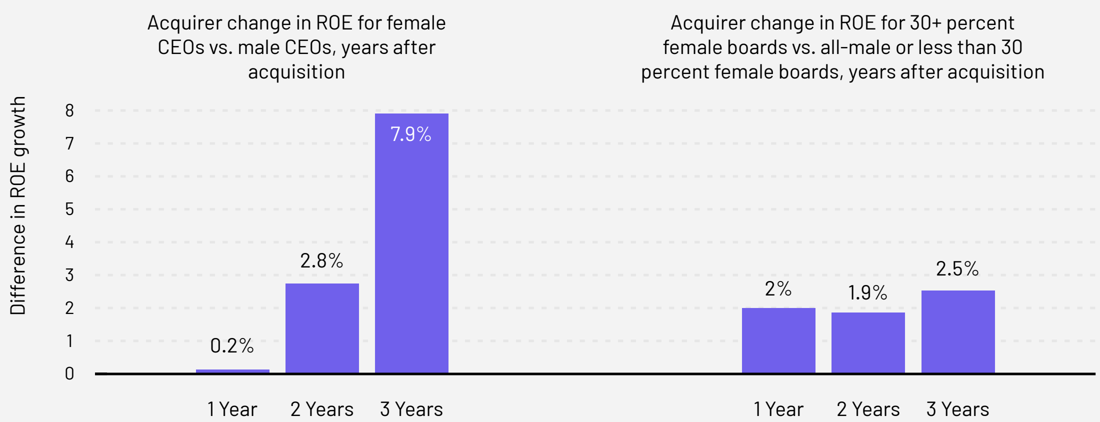
The case for women in leadership has been proven. Why is change so slow?

The outperformance of deals led by female CEOs and gender-diverse boards is by no means a new trend. Our 2019 study similarly found that the longer-term market performance of acquirers with at least one female board member is significantly better than acquirers with all-male boards, and the best performing acquirers have boards with at least 30 percent female representation.

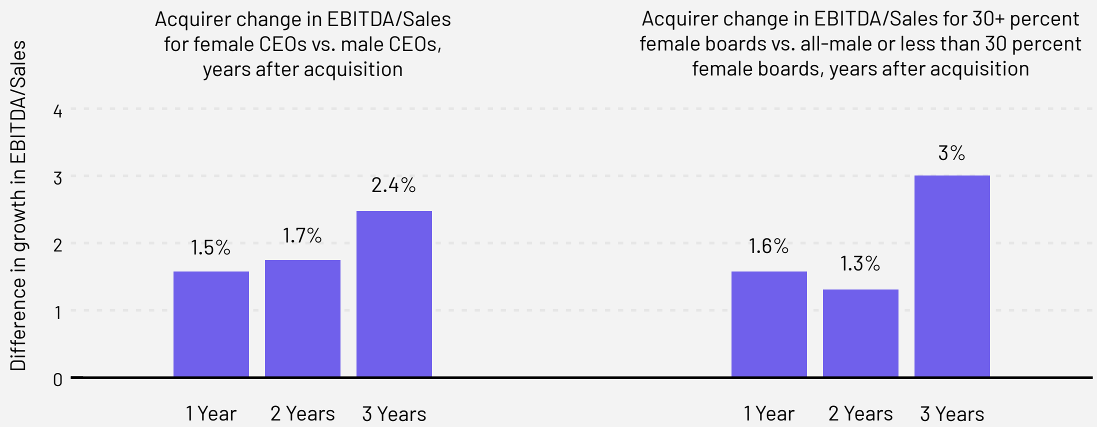
Looking at internal company measures of performance, such as sales growth, profitability and return on assets/equity, acquirers with female CEOs performed significantly better in our 2019 study than acquirers with male CEOs, while acquirers with at least one female board member performed significantly better than acquirers with all-male boards.

The continued strong performance of M&A deals announced by companies with a gender-diverse board/female CEO demands the question: Why do boards still usually have so few female members? While gender quotas on board and management positions are effective for improving female representation at the highest levels, research conducted by the EU found that entrenched networks are getting

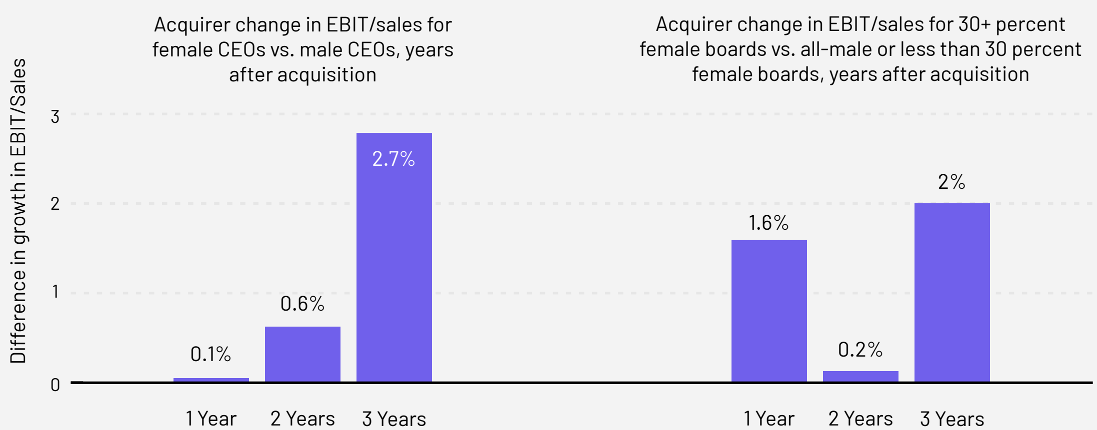
Gender-diverse deals generate better profit margins than those with fewer female members



Gender-diverse deals generate better profit margins than those with fewer female board members



Gender-diverse deals generate better profit margins than those with fewer female board members



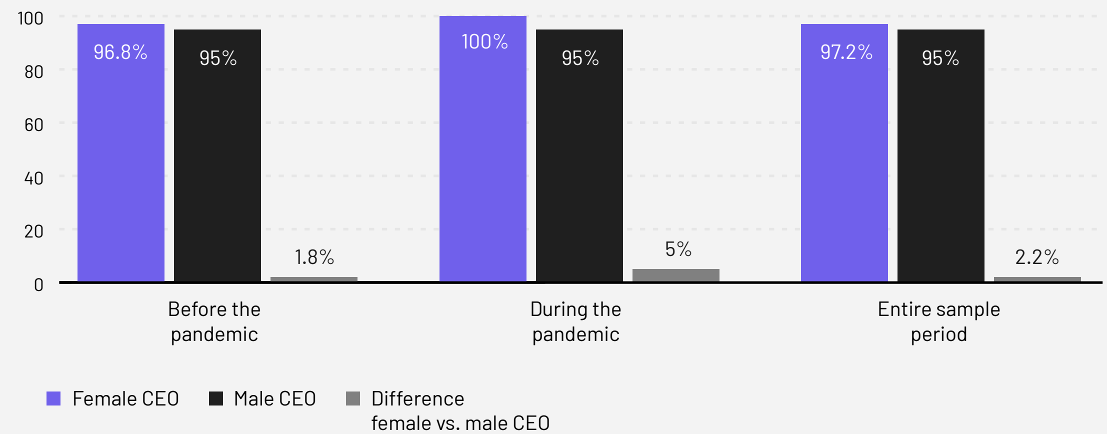
in the way of achieving "true" boardroom diversity. This is, it states, due to unconscious bias in the recruitment process, including socially defined ideas surrounding gender and demographics, and the homophily principle, which states that recruiters prefer to engage people similar to themselves.

According to Reynolds, the majority of board seats are still going to men, despite tough quotas around the world. "We've been working on achieving gender diversity on boards for a long time and — let's face it — change should be faster," she says. "If you look at the seats that come up every year, the majority are going to men — we're constantly playing catch up. Until women are getting more of the board seats that come up, we won't see progress."

3. Female CEOs complete more deals

Getting a deal across the finish line is the primary goal for any dealmaker. Our research finds that deals announced by female CEOs have a higher completion rate than those undertaken by their male counterparts.

Percentage of deals completed



Deals undertaken by female CEOs or gender-diverse boards appear to be more effective in reaching the finish line. Our research shows that deals announced by female CEOs have slightly higher completion rates relative to deals announced by male CEOs: 97 percent for female CEOs compared to 95 percent for male CEOs.

The global pandemic appears to have tipped the scales further in favor of female CEOs, who proved themselves to be more adept in closing deals amidst the global crisis. Companies led by female CEOs were able to complete 100 percent of deals during the pandemic period, compared to 95 percent for those led by male CEOs.

Better prepared and less risky

According to Zialcita, the higher completion rates being seen are down to the unique standards placed on women during the deal process: "In today's working society, women are subject to much higher standards than their male counterparts," she says. "This, in my opinion, is why female CEOs are more likely to get deals across the finish line. To get to where they are, they have to work many times harder than their male counterparts. This translates into deal performance. "The tendency for female CEOs to have higher standards can also be seen when analyzing targets of deals initiated by female CEOs, which tend to have better liquidity, higher growth and higher valuations than targets in transactions where the buy-side company is led by a male CEO.

"Throughout the whole deal cycle, from origination to completion, women are more likely to put in the long hours at the forefront of the deal, collating all the necessary analysis while also spending time gaining a consensus among different parties working on the deal," adds Silvana Toppi, non-executive director at IPT PowerTech Group. "They have a clear path of what they want and where they are going and have buy-in from relevant parties right from the start."

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Silvana Toppi
Non-executive director at
IPT PowerTech Group

Female leaders' awareness of the biases against them could lead them to better deal preparation, more thorough due diligence and ultimately, the long-term success of the deal. "The first time women sit at a boardroom table, they have to prove themselves. The way that we tend to do this is by being better prepared for the meeting, doing more due diligence and seeking more opportunities to educate ourselves. It is this thirst for knowledge that translates into success," Reynolds says.

4. Deal structures differ with diversity and point the way to success

The structure and type of acquisition undertaken by female CEOs and gender-diverse boards are a crucial determinant for their overall performance.

In terms of deal structure, our research found that the types of acquisitions undertaken by acquirers with female CEOs or with 30 percent or greater female board representation are significantly different from those conducted by male CEOs or less diverse boards, and these differences may explain their performance variations. We identified several key differences in this regard:

1. They are more likely to seek advice

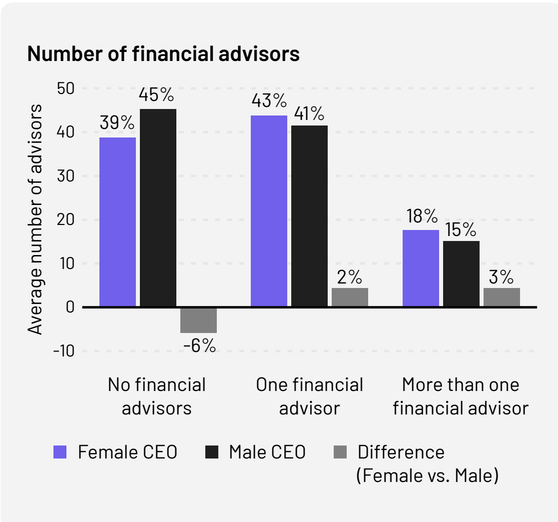
Deals by acquirers with female CEOs are more likely to seek financial and legal advice on their deal. In our analysis, in 45 percent of deals initiated by male CEOs, the acquiring company did not use any external financial advisor — this number decreases to 39 percent among companies led by female CEOs.

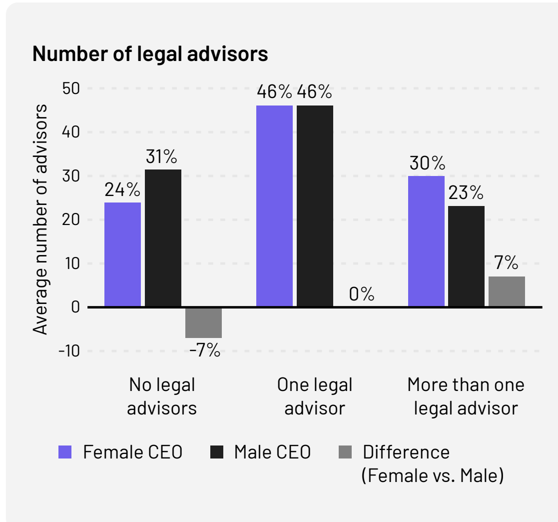
Similarly, while in 31 percent of deals initiated by male CEOs the acquirer did not appoint external legal advisors, this is only true in 24 percent for deals initiated by female CEOs — a seven percentage point difference.

Frequency of use of external advisors expressed as percentage of all announced deals

	Female CEO	Male CEO	Difference (female vs. male CEO)
No financial advisor	39%	45%	-6%
One financial advisor	43%	41%	2%
More than one financial advisor	18%	15%	3%

	Female CEO	Male CEO	Difference (female vs. male CEO)
No legal advisor	24%	31%	-7%
One legal advisor	46%	46%	0%
More than one legal advisor	30%	23%	7%





Female CEOs were more likely to appoint more than one advisor — 18 percent of deals initiated by female-led acquirers had more than one financial advisor on the buy-side, compared to 15 percent for male-led acquirers. Similarly, 30 percent of deals involving acquirers with female CEOs used more than one legal advisor, compared to only 23 percent for deals with male-led acquirers.

"Deals carried out by female CEOs and diverse boards tend to have been considered from many different perspectives, taking into account different agendas, opinions and concerns," says Bassiri Gharb." This explains why the deals are more structured — they are more than a one-man show. For a deal to be successful, it needs to be led by someone that is humble enough or wise enough to take on board other people's point of view, without overestimating her own. This, in my opinion, is a key determinant of the success of deals led by female CEOs."

The same theory applies to post-merger integration, says Reynolds. "If you have diversity within a management team or on your board, there is a greater likelihood of being open to a different culture within an organization, an openness to understanding why the target company operates in a certain way, and seeing the unique value in their working practices."

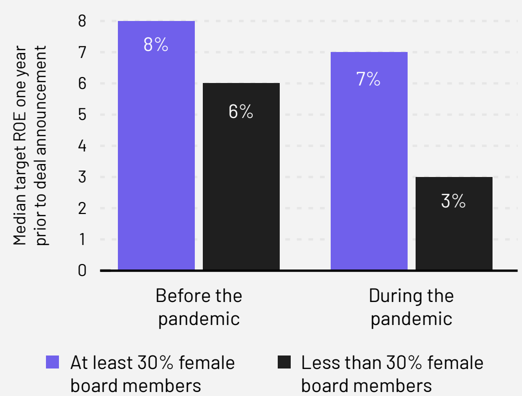
2. They seek out targets with strong growth indicators

Part of the reason deals done by female CEOs tend to perform better in the long term could be that female CEOs tend to go after targets with higher levels of liquidity and higher valuations, as well as higher revenue growth compared to the targets picked by their male counterparts.

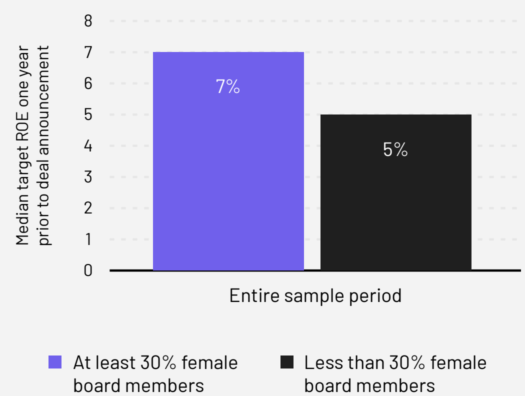
Measured by both current-assets-to-current-liabilities, as well as cash-to-total-assets, the targets in deals in which the acquirer company was led by a woman CEO tended to have higher liquidity. Targets of deals initiated by female CEOs had a median current-assets-to-current-liabilities ratio of 1.63 prior to deal announcement, compared to 1.57 for deals initiated by male CEOs. Median cash-to-total-assets at targets prior to deal announcement for transactions initiated by female CEOs was 13.6 percent, compared to 12.3 percent for deals with acquirers led by male CEOs. Deals sought out by female CEOs also had higher valuations, as measured by price-to-book value, prior to announcement. Target companies in deals where the bidder company had a female CEO had a median price-to-book ratio of 1.94, compared to 1.64 for acquirers with male CEOs.

Not only are acquirer companies led by female CEOs more likely to seek targets with a more secure financial position in terms of liquidity, but they are also more likely to seek target companies experiencing higher revenue growth. Median sales growth of targets selected by female CEOs was 12.7 percent prior to bid announcement, as measured by three-year compound annual growth rate (CAGR). This was more than double the 4.8 percent rate for targets in deals initiated by male CEOs.

Target company ROE prior to acquisition (pre-pandemic vs. pandemic period)



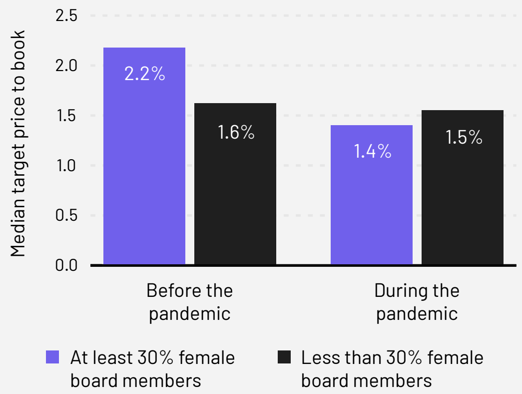
Target company ROE prior to acquisition (entire sample period)



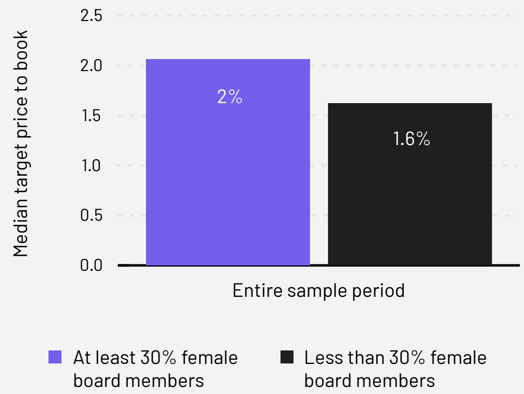
Companies with boards that had at least 30 percent female representation were also more likely to seek out high-performing targets. The median ROE of target companies in deals where the bidder company had boards with at least 30 percent female representation was 7.39 percent, compared to only 5.37 percent for firms with boards that have fewer female members.

Targets chosen by acquirers with higher female board representation also tended to have higher valuations, as measured by price-to-book value. The median price-to-book ratio

Target company price to book prior to acquisition (pre-pandemic vs. pandemic period)



Target company price to book prior to acquisition (entire sample period)



for targets in deals where the acquirers had at least 30 percent female boards was 2.06, compared to a median ratio of 1.62 for boards with higher male representation.

M&A deals undertaken by female CEOs also tended to be for targets with higher leverage than those initiated by male CEOs. The median net debt-to-EBITDA ratio at target companies in M&A deals initiated by female CEOs is 1.48x, compared to 1.03x for those led by male CEOs. During the pandemic, this gap widened. Looking only at deals during this period, female CEOs targeted companies with a median net debt-to-EBITDA ratio of 3.14x, compared to 2.09x for deals with male CEOs on the buy-side.

3. They have a lower appetite for risk

One possible reason deals initiated by female CEOs were more likely to complete is those female CEOs were slightly less likely than their male counterparts to undertake cross-border M&A. Domestic deals are by their nature less complex and involve less risk. Of all the deals analyzed which were initiated by female CEOs, 39 percent were cross-border transactions, compared to 41 percent for deals initiated by male CEOs.

Interestingly, however, companies led by female CEOs proved to be more willing to make foreign acquisitions during the pandemic than those led by male CEOs. Nearly half (47 percent) of M&A deals initiated by female CEOs during the pandemic were cross-border deals, a significantly higher proportion than the 42 percent of deals initiated by male CEOs.

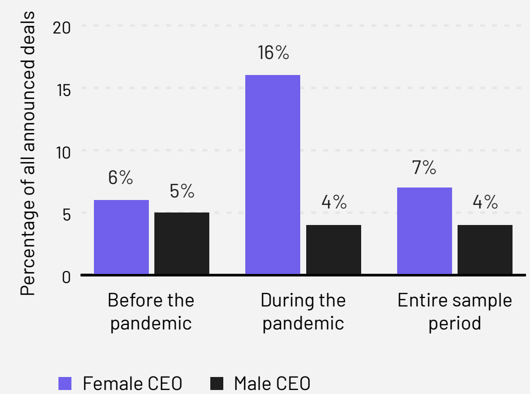
In addition to being slightly more likely to pick domestic deal targets, female CEOs also tend to minimize risk in other ways. Companies with female CEOs are more likely to seek the security of target termination fees relative to those with male leadership. This tendency increased considerably during the pandemic period. Prior to the pandemic, 12 percent of deals with a female-led acquirer included a target termination fee, a slightly higher proportion than the 11 percent of deals initiated by a male CEO on the acquirer side. During the pandemic, this gap widened from one percentage point to seven. The proportion of deals initiated by female CEOs with target termination fees rose to 13 percent; meanwhile, it fell to six percent for deals initiated by male CEOs.

This difference could be attributable to the fact that female CEO-led acquirers are more likely to target publicly listed firms than those led by male CEOs, and termination fees are more common in public company M&A than in transactions involving privately held targets. This disparity also widened during the pandemic. Prior to the pandemic, 21 percent of deals where the bidder was led by a female CEO targeted a public company, compared to 19 percent of deals where the acquirer company had a male CEO. Although the proportion of deals during the pandemic involving publicly listed targets decreased for both companies led by male and female CEOs, they fell further for those led by male CEOs —15 percent of deals during the pandemic involving male CEO-led acquirers were for public companies, compared to 18 percent of deals initiated by female CEOs.

4. They offer assurance

Deals involving female CEOs on the buy-side were also more likely to include acquirer termination fees, also known as reverse termination fees. Given that market reaction to deals announced by female CEOs tends to be more negative than to those announced by male CEOs, it is perhaps unsurprising that deals with female-led acquirers are more likely to offer the security of reverse break-up fees to the sell-side. This is another disparity that has widened in recent years. Before the pandemic, six percent of acquisitions initiated by female CEOs included acquirer termination fees, a slightly higher proportion than the five percent of deals with male CEOs on the buy-side. This gap widened to a 12 percentage point difference during the pandemic — 16 percent of deals during the pandemic initiated by female CEOs included acquirer termination fees versus just four percent of those initiated by male CEOs.

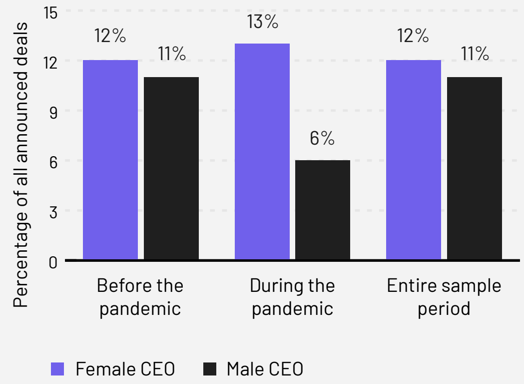
Proportion of deals with acquirer termination fees



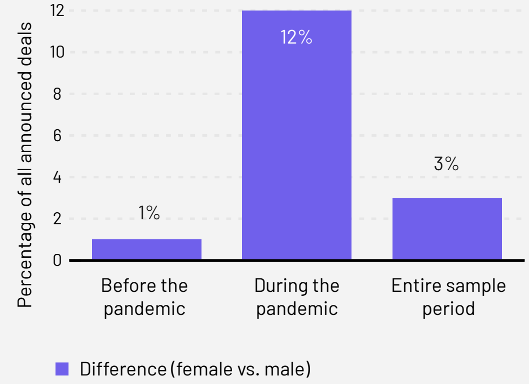
Zialcita agrees that female-led deals are more sensitive to risk, resulting in a more balanced approach to dealmaking: "At the end of the day, deals naturally mirror the perspectives of those who structure them. This is one key reason why you'll see a different kind of deal when women are involved. The higher expectations and desire for outperformance drive us to be more cognizant."

This risk-sensitive approach could be more valuable now than ever. "The growing importance of due diligence in the M&A process is playing to women's strengths," Toppi says. "Due diligence has become part of the DNA of deals, enabled by new technologies. I believe this more structured way of carrying out deals will give female leaders a boost, as it democratizes activity and gives them more visibility. This can only be a good thing moving forward."

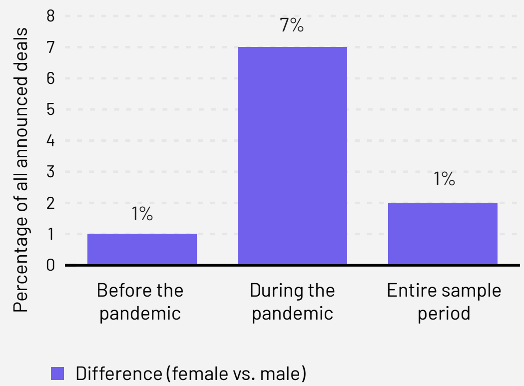
Proportion of deals with target termination fees



Proportion of deals with acquirer termination fees (difference)



Proportion of deals with target termination fees (difference)



5. Women leaders have proven themselves during the pandemic, yet perceptions haven't changed

Despite the evidence that gender diversity can produce better results, market reactions to deals announced by female leaders have become more negative during the pandemic. On a governmental and societal level, female leaders have shown themselves to be more competent than their male counterparts during the pandemic.

The cultural shifts brought on by the pandemic have led to the need for a different kind of CEO, with purpose-led and mission-led leadership needed more than ever. "The thinking around diversity has changed during the pandemic," says Reynolds. "It's really highlighted some of the follies in society, and the need for better representation of various communities within leadership teams," she says.

A different type of leader

Various studies have pointed to the benefits of having more women in leadership roles. Recent research carried out by the *Harvard Business Review* found that females were rated as better leaders than men, with the performance gap widening during the pandemic. Women were rated higher across several competencies, such as "inspires and motivates," "communicates powerfully," "collaboration/teamwork" and "relationship building" — competencies that increased in importance amidst the COVID-19 crisis.

Research by S&P Global mirrors this research, finding that female CEOs exhibited a more positive communication style at the peak of the pandemic, with their leadership style leaning toward empathy, adaptability, accountability and diversity.

On a governmental level, too, numerous studies suggest female leaders have proven themselves to be more competent in handling the crisis than their male counterparts. An analysis of 122 political speeches showed that, while male leaders tended to use fear-based tactics, women leaders such as Jacinda Ardern in New Zealand and Angela Merkel in Germany were more focused on messages of compassion and social cohesion.

Meanwhile, research published by the Centre for Economic Policy Research and the World Economic Forum suggests that the relatively low COVID-19 deaths within countries led by females "may be explained by the proactive and coordinated policy responses" adopted by female leaders in the early stages of the pandemic.

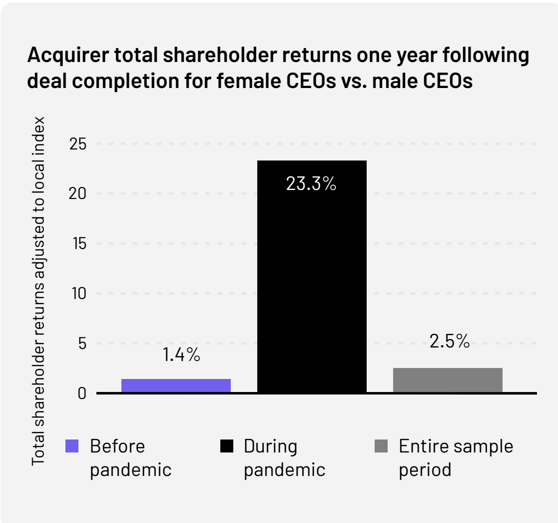
Gulf widens between market perception and reality

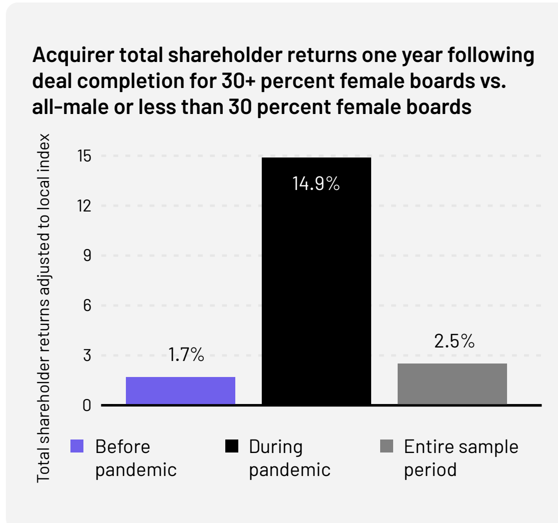
Despite these pieces of research suggesting that having more female leaders is beneficial to organizations, women's place in the workplace has been eroded during the pandemic. Research carried out by McKinsey and Oxford Economics estimates that employment for women may not recover to pre-pandemic levels until at least 2024. One in three women in McKinsey's *2021 Women in the Workplace* survey said they were considering leaving the workforce or downshifting their careers, compared to one in four at the start of the pandemic.

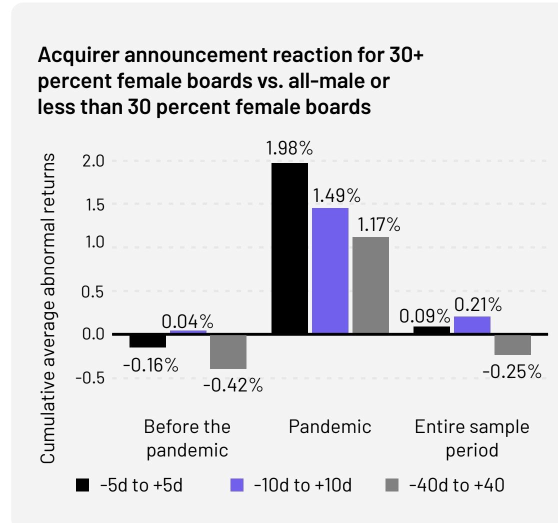
In line with these overall trends, the gulf has widened during the pandemic in terms of the overperformance of share prices at companies led by female CEOs in the longer-term (one year post-completion), as well as the underperformance of share prices in the immediate aftermath of deal announcements initiated by female CEOs compared to their male counterparts. In other words, women are proving themselves to be better leaders during the pandemic than before, and yet the market is less capable of recognizing this.

When looking at share price performance one year after deal completion for transactions that were announced during the COVID-19 pandemic, companies led by female CEOs were on average 23.3 percent higher than those led by male CEOs. This is despite the fact that short-term market reactions for deals announced by female CEOs compared to those announced by male CEOs were even worse than they were pre-pandemic. Acquirer share price returns for deals announced by female CEOs during the pandemic were 9.6 percentage points below those announced by their male peers when looking at a 40-day window around the deal's announcement date. This compares to a percentage point difference of only 0.4 below those of male CEOs when looking at a 40-day window around the announcement date for deals announced before the pandemic.

Things were slightly better for deals where the acquirer had a board made up of at least 30 percent women. There was a negligible difference between market-adjusted share price returns for acquirers with at least 30 percent female board representation and those that had fewer female board members in the five-, 10- and 40-day window surrounding a deal's announcement date. During the pandemic, the share prices of acquirers with strong female representation on their boards improved — companies with 30 percent or







more female boards saw their market-adjusted share price returns between 1.2 and two percentage points above those with majority-male boards, across the five-, 10- and 40-day windows.

Bassiri Gharb believes that the ability to assess a range of risk factors was crucial to the success of female leadership during the pandemic. "You can draw a clear link between the pandemic and the effectiveness of female leadership," she says. "I think this comes from a greater ability and willingness to assess risk factors in decision-making. In my mind, this is why female leaders came into their own during the pandemic."

The tendency to be more risk-averse could play to the strengths of female leaders going forward. "As we transition away from the pandemic era, I see less appetite for risky deals — people want to play it safe and caution is appreciated," Zialcita argues. "This is why female-led deals tend to be highly valued — it's a reflection of the times," she says.

Translating positive perceptions to the boardroom

The competence of women leaders has been proven time and again, on both a company level and societal level — and the pandemic has only made this clearer. Yet the tendency for the market to react negatively to deal announcements by female CEOs is emblematic of a wider problem: the continued gap in female representation in the boardroom and at the senior levels of corporations, as well as the lack of confidence in their skills.

The pandemic has served to illustrate this disparity further. According to the 2021 *Women in the Workplace* study conducted by McKinsey, women are feeling more exhausted, burned out and under pressure than men, with the biggest gap seen among senior leaders. And in M&A, our research shows that female leaders are delivering better results than their male counterparts yet provoking a more negative initial market reaction than before the start of the pandemic.

"The competence of female leadership, in terms of their empathy and decision-making, has been proven," says Zialcita. "A shift in mindset is now needed if this is to be translated into the boardroom. For this to happen, policymakers need to create a support system and the right environment to help female leaders get the professional opportunities they deserve. Clearly, this will be a gradual change rather than an overnight shift, but policymakers must continue to act in order to make this a reality."

Claydon argues that material change will only happen if leaders continually challenge their way of thinking: "As humans, we tend to surround ourselves with people who talk and think like us. As a leader, you need to continually challenge both yourself and others while listening to differing perspectives around the table. Now, more than ever, achieving value post-deal requires an inclusive approach and challenging current thinking — both at the CEO and board level. Only then will we be able to avoid a certain tribalism in the workplace."

"

Policymakers need to create a support system and the right environment to help female leaders get the professional opportunities they deserve.

—

Sigrid Zialcita

CEO, Asia Pacific Real Assets Association (APREA)

Taking the Next Step

Our research sends a conclusive message: The benefits of women in leadership positions within M&A transactions are clear and proven. Yet inherent barriers, such as an unconscious bias within the workplace and in society, are holding back progress. While improvement has occurred, change is not happening fast enough.

Numerous pieces of research — this one among them — highlight the need for women in positions of leadership at the very top of organizations; but if true diversity is to be achieved in boardrooms across the globe, it will need to overcome hundreds of years of entrenched thinking and male-dominated boards. Clearly not an easy task, and this goes some way in explaining the slow pace of change.

"We have a lot of studies and data — but the problem is they have a short shelf life", says Toppi. "To make material change, we need to take the next step — honest and ethical communication needs to take place in order to address the cultural misunderstandings holding back progress."

Although there is broad consensus for the need for more diverse boards, many boards struggle to put this into practice. "There is a lot of awareness around the need for gender-diverse boards," says Toppi. "What is currently lacking is a structured way in which to engage and support women. For this to happen, companies need much more inclusive criteria for recruiting people onto boards."

Part of the challenge is that historically, boards of directors have usually been comprised of former CEOs and seasoned board members, says Glynn. "If you put those two restraints on a search, you're limiting the pool — and the pool you're left with is less diverse. Stepping back to what a board is supposed to do — a board is supposed to think about a changing world and provide governance and strategic guidance to a business — those are not roles that necessarily require seasoned board members or sitting or former CEOs," she says. "There are a tremendous number of executives who can bring unique and distinct perspectives that would be valuable to boards of directors."

Above all, says Claydon, we need to keep the dialogue open: "First and foremost, we need to keep talking," she says. "The issue of gender diversity needs to stay on the agenda and needs to be continually challenged and questioned. Only then will we see real change."

Business leaders must also play their part in supporting women in business, says Colasacco: "Inclusion is a process of change that requires the attention and action of our leaders," she says. "Business leaders across industries — both men and women — can use their influence to create an allied front that presses for gender inclusion and lifts women leaders up — to the success of us all. It's great to see the focus in the market on continued progress, and while we are not there yet, we are seeing this progress year over year."

For change to take effect, the gender-diversity cause needs to be supported by several stakeholders. Government leaders, business leaders, investors and stock exchanges all play a role in supporting gender diversity and being accountable for its progress.

When looking to improve female representation at the board level, businesses, in particular, play a role in identifying barriers that may be standing in the way, both on the demand side (e.g., resistance to change) and on the supply-side (the pipeline of "board-ready" women). Once identified, they must take the necessary action to break down these barriers and help women succeed at their highest potential.

The pandemic has allowed female leaders to demonstrate their worth. Now is the time to grasp this opportunity and push the agenda forward. If this step is taken successfully, it is not just M&A deal performance that will benefit, but society as a whole.

> "The issue of gender diversity needs to stay on the agenda and needs to be continually challenged and questioned. Only then will we see real change."
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> **Liz Claydon**
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> Partner and head of deal advisory at KPMG UK

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