



Gender Diversity in the Audit and Compensation Committee, Firm Performance, Risk and Pay-Performance Sensitivity

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ABSTRACT

Based on the data of listed non-financial firms on the Taiwan Stock Exchange covering the period of 2011-2015, this study examines whether gender diversity in the audit committee and compensation committee affects firm performance, risk, and director/management's pay-performance sensitivity (PPS). While the existing research has explored the benefit and cost of gender diversity in the director/top management level, this study focuses on firm's two functional committee under corporate board—the audit committee and compensation committee, to explore how the characteristics of the female, e.g. conservativeness, caution and risk aversion affect the functioning efficiency in the committees. Gender diversity is measured by dummy variable of having female member in audit (compensation) committee, the number of female audit (compensation) committee member, and the ratio of female member in audit (compensation) committee. Firm's performance and risk is proxied by several accounting-based/market-based performance and volatility of stock market performance and operating consequences. PPS is estimated by linking between directors/management's compensation and firm's accounting-based performance. Through correlation analysis and multiple regression estimation, empirical evidence generally shows that the higher the degree of gender diversity in audit committee, the better the firm's performance. In addition, greater degree of gender diversity in compensation committee reduces the directors/management's pay-performance sensitivity.

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