

What We're
Watching in...
Business Psychology

...the Hazards of Sucking Up...

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When dished out in personal interactions, ham-handed flattery generates a negative response, Treadway's research reveals. If a supervisor perceives a subordinate's flattery as a ploy to get ahead, she'll tend to rate the employee lower on job performance (in this study, supervisors rated

employees on cooperative workplace behavior). But when she's fooled into thinking the sentiments are sincere, the supervisor rates the complimenter higher, Treadway tells us.

So you're taking a chance when you flatter the boss. You could improve your performance rating, but if you're inept, your stock will fall.

We asked Treadway how his findings square with Chan and Sengupta's results about the effects of insincere flattery. Perhaps, he says, there's something inherently different about a high-stakes, personal interaction—when a real relationship exists between the parties, the perceived sincerity behind the flattery may be more important.

When you flatter the boss, be aware that there are serious risks to being busted.

GOVERNANCE by Andrew O'Connell

How Investors React When Women Join Boards

A much-quoted study from a few years back shows that companies with high numbers of female directors on their boards perform substantially better on three metrics—return on equity, return on sales, and return on invested capital—than companies with very few or no female directors.

A group of researchers led by Harvard sociologist **Frank Dobbin** is now looking at what happens to companies' stock performance after women are appointed to corporate directorships. The results are troubling.

In the year after the number of women on a board increases, stock price tends to decline slightly. And it isn't due to any fall-off in corporate results—financial performance, on average, remains unchanged. Instead, the culprit appears to be investor bias, specifically among institutional investors holding relatively small amounts of stock.

Drawing on 10 years of data from more than 400 leading U.S. firms, Dobbin and his colleagues used statistical models to isolate the effects of board diversity from other factors that influence shareholding. They found that after the addition of women to a corporation's board, blockholders—institutional investors that each own 5% or more of a company's shares—increase their shares, but small-holding firms cut



back. “These are pretty significant effects,” Dobbin says.

Non-blockholding institutional investors controlled fully half of the shares in the companies that Dobbin and his colleagues studied—about twice as many shares as those owned by the blockholders. So the aggregate effect was to reduce the value of firms that appoint women directors, even though profitability did not decline.

Of course, blockholders know that their actions are scrutinized by the financial press and the public. Among the most

high-profile are the public pension funds that have lobbied for board diversity for years. So it's logical that those investors would show their approval for increased board diversity by buying shares. The non-blockholders, however, tend to fly under the radar, so they are less likely to “censor their own inclinations to sell in response to growing board diversity,” according to a working paper by Dobbin, **Jiwook Jung** of Harvard, and **Alexandra Kalev** of the University of Arizona.

In the absence of public scrutiny, the researchers suggest, fund managers' tendency to associate men with leadership and success may cause them to disfavor companies that appoint women to boards, most likely without realizing it. Research in the field of psychology suggests that people use stereotypes as cognitive shortcuts to make judgments about the supposed differing abilities of men and women.

Catalyst, a nonprofit dedicated to advancing women in business, wouldn't comment directly on Dobbin's research, but its chief knowledge officer, Jan Compiano, says the organization's influential 2007 report, “The Bottom Line: Corporate Performance and Women's Representation on Boards,” does show a strong correlation between corporate financial performance and gender diversity in leadership.

“We know that diversity, well managed, produces better results,” she says. “For companies that successfully diversify their boards with women, this can mean increased independence, innovation, and good governance, which can ultimately lead to better corporate performance.” ♡

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