

eFinancialCareers, 1. November 2007

eFINANCIALCAREERS

Mixed Teams Outperform Single-Sex Teams. Right?

Are teams of men AND women stronger than teams of men OR women? One study suggests that, when it comes to mutual fund returns, the answer may be no.

A recent academic study found that mutual funds run by mixed-gender teams perform worse than funds managed by teams made up of either all men or all women. It found no performance difference between all-male and all-female teams.

"We find a significantly negative impact of gender diversity on performance while age diversity has no significant impact on performance," wrote the paper's authors, a male finance professor and two female Ph.D. students from the Centre for Financial Research at the University of Cologne, Germany. Their work indicated that a team of three males and one female underperforms a single-gender fund team by 1.22 percentage points of annual return, or 1.11 percentage points after adjusting for risk.

Summarizing prior research into how team composition affects performance outside the investment context, the authors note "it is still controversial whether diversity has a positive or negative impact." The academic literature weighs two distinct effects of diversity: an ability to get along and cooperate, and a propensity to access varied information sources. Diversity is thought to hamper performance along the first dimension, but help with the second.

Commenting on the findings, mutual fund-watcher Mark Hulbert wrote in the New York Times, "The problem is not gender diversity, the study's authors and other researchers suggest, but social and cultural biases that need to be corrected if diversity's benefits are to be realized." The study examined actively managed U.S. domestic equity funds that were run by a team at some point from 1996 through 2003. Titled "The Impact of Work Group Diversity on Performance: Large Sample Evidence from the Mutual Fund Industry," it was conducted by professor Stefan Ruenzi and graduate students Michäela Baer and Alexandra Niessen, all from the Center for Financial Research in Cologne.

In explaining the results, Ruenzi told the Times the mixed-gender teams probably suffered from poor communication, while "the single-sex teams were more likely to operate more cohesively and effectively."

The Times also quotes Brown University sociologist E. Brooke Harrington, whose research on investment clubs suggests gender diversity may improve investment performance. Both Ruenzi and Harrington said investment clubs can benefit from diversity because they welcome women's input, while Wall Street is "inhospitable" toward women and may discourage them from contributing their perspectives when part of a mixed-gender team.

CFR-Working Paper 2007-16

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The Impact of Work Group Diversity on Performance: Large Sample Evidence from the Mutual Fund Industry

<http://www.cfr-cologne.de/download/workingpaper/cfr-07-16.pdf>