**Why board gender diversity matters: The role of female directors in reining in male CEO overconfidence**

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**Abstract**

We provide new perspectives on why board gender diversity matters and how women on boards affect corporate decisions and performance. We find that male CEOs at firms with female directors are less likely to hold deep-in-the-money options, suggesting that gender diversity moderates the CEO’s inflated beliefs about the firm’s growth prospects. This finding has important implications for firm outcomes as we find that the presence of female directors is associated with less aggressive investment policies, better acquisition decisions, and ultimately improved firm performance in industries with high overconfidence prevalence, but not in those with low overconfidence prevalence. These results are consistent with the view that gender diversity affects firm outcomes through reducing overconfidence in male CEOs.