Gender Diversity in the Boards of Directors: A Corporate Governance Perspective

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Abstract

Gender diversity in the boards of directors of large corporations is a key topic in corporate governance across Europe and elsewhere in the world. This paper investigates the effects of board gender diversity across the three main functions of the board: monitoring, strategic direction, and the relational function. It will be shown that, in a gender-balanced board, the perceptions associated with female leadership style help improve the effectiveness of the board across its three main roles. The core argument is that board gender diversity plays an important role due to certain signals it sends to long-term, risk-averse corporate stakeholders. These signals are based on certain features associated with the female leadership style. More specifically, women are perceived to be more conscientious in performing their tasks, more risk-averse both in investing their own assets and in investing on behalf of others, and more other-oriented. These perceptions are particularly relevant to long term stakeholders, who are generally more risk-averse, especially in turbulent economic times, or as the company is approaching insolvency.

1. Introduction

Diversity in the workforce is a topic of major interest in all forms of organisations, across all sectors of the economy, all over the world. A recent telling example comes from the Church of England. In January 2015, the Right Reverend Libby Lane became the first female to be appointed bishop in the history of the Church. Following this impetus for diversity, a growing current of opinion inside the Church has called for re-writing the official service texts to refer to God as female as well as male. In the debates that have arisen around this matter, a question that is often asked is: “Why does it matter, because

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“God is beyond all this?” (Bingham, 2015).

Over the past few years, the same question has been asked with regard to gender diversity in the membership of boards of directors of large companies. Is the gender of a board member relevant, given that the standards of conduct and liability are the same for all directors, irrespective of their diversity attributes? In a perfect world, such a question would not arise. Board diversity, in all its aspects, would occur naturally from the uniform distribution of talent and skill between genders (Langevoort, 2010). Our imperfect world, however, has a long record of gender discrimination and inequality of opportunities. At least from a social justice perspective, the gender question is quite relevant.

Diversity is increasingly recognised as a value in itself, as a manifestation of the fundamental democratic values of liberty, equality and justice. In the corporate governance context, however, many of the contemporary debates about the value of diversity in the board of directors approach this concept in an instrumental way. Diversity is analysed as a means to another end, such as improved employee productivity and morale, higher customer satisfaction, or higher shareholder value (Shin and Gulati, 2011). Without intending to suggest that board gender diversity is not an end worth pursuing for its own value, the approach to gender diversity that this paper takes is an instrumental one. This paper investigates the effects of board gender diversity across the three main functions of the board: monitoring, strategic direction, and the relational function.

It will be shown that, in a gender-balanced board, the perceptions associated with female leadership style help improve the effectiveness of the board across its three main roles. The core argument is that board gender diversity plays an important role due to certain signals it sends to long-term, risk-averse corporate stakeholders. These signals are based on certain features associated with the female leadership style.
More specifically, women are perceived to be more conscientious in performing their tasks, more risk-averse both in investing their own assets and in investing on behalf of others, and more other-oriented. These perceptions are particularly relevant to long term stakeholders, who are generally more risk-averse, especially in turbulent economic times, or as the company is approaching insolvency.

The main insights of this paper are based on the signalling effects of these female leadership features, rather than on finding tangible evidence of their presence in every female director. The empirical literature on gender differences in leadership styles is vast and there is no shortage of controversies and disagreements. This paper will not engage in detail with these controversies. It will, instead, outline some of the widespread perceptions of female leadership style that are relevant to the main functions of the board, and explain how their signalling power could contribute to a more effective performance of these functions and improved relations with long-term stakeholders.

The contemporary corporate governance literature on board gender diversity is dominated by a narrow approach, focused on the positive effects of diversity on the decision-making processes inside the board, or on various measures of firm performance. Although very appealing at first glance, this narrow approach has proven very difficult to demonstrate with any rigour. The findings of the extensive empirical studies have so far proven largely indeterminate (Langevoort, 2010). This paper adopts a broader approach, by looking at the effects of gender diversity on the firm’s relation with its main stakeholders. The broader approach is innovative in two main aspects. First, it analyses the effects of gender balance on the relations with stakeholders starting from the three main functions of the board. The existing corporate governance literature on this topic is dominated by a narrow focus on the monitoring role of the board and its effect on shareholders’ interests. Second, it shifts the focus from quantifiable, measurable effects of board diversity, such as increased
return on equity or increased share value, to the signalling effect of diversity and the expectations of various stakeholders based on persisting gender leadership stereotypes. The role of perceptions about gender leadership styles in the company’s relations with stakeholders has been very little explored in the corporate governance literature.

The analysis focuses on the scenario of a large public corporation having a unitary board and numerous dispersed shareholders. As Section 2 shows, board gender diversity is a topical issue in many different corporate governance models and across different forms of corporations. Many of the recent legislative debates, however, target large public corporations, where the board of directors is the central decision-making body. Consequently, no specific references will be made to corporations with dominant shareholders or having a dual board structure. Nevertheless, the core explanations for gender diversity proposed here apply equally to these forms of large corporation.

This paper is structured as follows. Section 2 reviews recent statistics about female directors and the main legislative approaches to improving board gender diversity: a voluntary market-based approach, disclosure requirements, and mandatory quotas. Section 3 analyses the main theoretical approaches to board gender diversity: the social justice argument, the business case, and the groupthink argument. Section 4 introduces the main functions of the board and the gender leadership stereotypes, and investigates the effects of these stereotypes on the relations with long term stakeholders. Section 5 concludes.
2. The current landscape of board gender diversity

Despite recent significant progress towards gender balance in the labour markets of many Western economies, women remain heavily underrepresented in leadership positions, especially in executive offices.

In the US, in 2014 women accounted for close to 19% of the number of directors of S&P 500 companies. Almost 70% of these companies had two or more women on their boards, while 4% had no female director. This is a significant improvement from ten years ago, when only 46% had two or more female directors and 13% of boards were entirely male. Nevertheless, women remain significantly under-represented in CEOs positions. In 2014 they occupied only 4.6% of the CEOs of S&P 500 companies (Spencer Stuart, 2014).

In Canada and Australia the situation is similar. Women account for a little over 20% of the board seats in the largest 60 companies listed at Toronto Stock Exchange (S&P/TSX 60), according to the latest Catalyst study (Catalyst, 2014). Another study shows that in 2014 women held 17.1% of the board seats of Canada’s largest 500 companies by revenue (FP 500 index), up from 15.6% in 2013 and 14.4% in 2012 (Canadian Board Diversity Council, 2014). In Australia, in 2014 women occupied a little over 19% of the board seats of companies listed on the Australian Securities Exchange (S&P/ASX 200 index), a significant increase from 17.3% in 2013 and 15.4% in 2012 (Australian Institute of Company Directors, 2015).

Japan is at the other end of the spectrum among the industrialized markets. In 2014 women held a mere 3.1% of the 30 largest companies listed on the Tokyo Stock Exchange (Topix Core 30 index) (Catalyst, 2014). This is a modest increase from 2013, when women occupied 1.1% of the seats (GMI Ratings 2013). The massive difference
between Japan and other developed countries could be explained by the separation of educational tracks at secondary and tertiary levels along gender lines in Japan. Historically, female students were steered towards areas such as home economics, education and services, whereas male graduates came predominantly from fields more suitable for leadership positions, such as engineering, manufacturing and science. To address this imbalance, in 2013 Japan’s Prime Minister, Shinzo Abe created a new Ministry for the Promotion of Women and urged Japanese companies to set a target of at least one female executive per company and 30% of women in executive positions by 2020 (Credit Suisse Research Institute, 2014).

At global level, the representation of women in boards is on a slow upwards trend. In 2014, women held over 12% of board seats at the world’s largest and best-known companies, an increase of only three percentage points since 2009 (MSCI ESG Research, 2014). This increase is fuelled by several factors, including better awareness of the gender imbalance, public campaigns and legislation ranging from mandatory quotas backed up by sanctions to obligations to adopt and disclose a diversity policy. The following sections looks at these approaches in specific national contexts.

2.1 Mandatory quotas: Norway and the continental European model

Norway is the leading country in the world in terms of percentage of female directors in public companies. Recent statistics show that women occupy 41% of the board seats in public companies (Statistics Norway, 2015) and 35.5% in the boards of the most traded 25 public companies listed at the Oslo Stock Exchange (the OBX index) (Catalyst, 2014). The significant advance that Norway has is due to an early adoption of quotas legislation.
In 2002, women held only 4% of the seats in boards of Norwegian public companies (known as Allmennaksjeselskap or ASA) (Teigen, 2015). To redress this imbalance, in 2003 the Norwegian government passed the Quota Act, requiring at least 40% representation of each gender on company boards of state-owned companies (Public Limited Liability Companies Act 1997, s 6-11a). Public companies were given until 2005 to achieve this threshold voluntarily. By that deadline, women held only 18% of the board seats (Teigen, 2015). Consequently, in January 2006 legislation was introduced, requiring all public companies to achieve the 40% quota by 2008, or face fines and possible liquidation. By July 2008, women held 40.1% of overall board seats of public companies (Statistics Norway, 2008) and only 5% of the companies failed to meet the required threshold. Full compliance was achieved by 2009 (Davies Review, 2011).

At first glance, the Norwegian quota legislation appears to be a success. Full compliance was achieved in a relatively short period of time and no company faced liquidation. A more in-depth look at the effects of the quota legislation, however, shows a more mixed picture. One of the immediate effects of the quota requirement was to create a very high demand for qualified and experienced female candidates. The shortage of such candidates led to the creation of the so-called “golden skirts” category of directors, which were female directors holding a significantly higher number of multiple board seats compared to their male peers (Lindah, 2015). Another unintended consequence was the dramatic decrease in the number of public companies. In 2006, when the law was introduced, there were 452 public limited companies. By 2013 only 257 remained, since many companies preferred to convert into private companies to escape the quota requirement (Lindah, 2015).

In terms of economic consequences, the studies have found, again, mixed results. Ahern and Dittmar (2012) tracked the evolution of 248 publicly listed Norwegian companies from 2001 and 2009, and found that quotas had a significant negative impact on the value of these companies. Their study found that the price of the companies
with no female directors dropped significantly around the time of the announcement of the Quota Act. It also found that boards that were restructured to accommodate the quota were less effective in performing their monitoring and advisory roles. This was evidenced by increase in firm size, increase in leverage and general deterioration in operating performance for quota companies. Ahern and Dittmar (2012) attribute this decline in the economic value to the age, knowledge or skills set of the newly appointed female directors, rather than to the increased board gender diversity. The mandatory quota requirement and the shortage of experienced female directors led to the appointment of younger and less experienced female directors.

Matsa and Miller (2012) argued that Norwegian firms affected by quotas suffered a decrease in value due to certain features of the female leadership style, rather than the age and lack of experience of the new female directors. They compared the employment policies of firms affected by the quotas with those of unaffected firms of similar size and found that quota firms undertook fewer workforce reductions than comparison firms, increasing relative labour costs and employment levels and reducing short-term profits. Matsa and Miller (2012) argue that the newly appointed female directors increased the costs in quota companies because they are more altruistic and long-term oriented than male directors.

Bøhren and Staubo (2013) showed that the Norwegian quota increased the independence of the board as a whole by 20 percentage points between 2003 and 2008, due to the fact that the vast majority of newly appointed female directors were independent. They argued that the increased independence is likely to have negative effects on small, young, profitable, non-listed public companies, which need advice by dependent directors much more than they need monitoring by independent directors. In a different study, Bøhren and Staubo (2014) pointed out that mandatory quotas caused certain companies to incur high costs of involuntary board restructuring. Consequently, they argue that the one-size-fits-all approach of the mandatory quotas may produce firms with inefficient organizational forms or inefficient boards.
Other studies found that quotas failed to trigger more systematic changes towards equality between men and women in the workforce. Bertrand et al. (2008) found that the quota law had little effect in improving the gender inequalities in the workforce, beyond achieving the prescribed percentage. While the reform improved the representation of female employees in the top five highest earners in the organisation, there is no evidence that a similar balance was achieved further down the earnings ladder. Moreover, the legislation did not result in an improved female enrolment in business education programs, or in the convergence in earnings trajectories between recent male and female graduates of such programs. Other authors agree that there is no evidence that mandatory quotas produced a profound and lasting impact on the talent pool or on early career choices of women, which are essential in achieving gender balance across all levels of an organisation (Fereira, 2015).

Overall, these different studies demonstrate that it is very difficult to demonstrate whether or how mandatory quotas affect the financial performance of companies (Fereira, 2015). Despite this lack of convincing evidence, quotas legislation is spreading in Europe. Since 2008, several other European countries have adopted quotas. Belgium, France and Italy enacted binding quotas with sanctions, while the Netherlands and Spain enacted quotas without sanctions. Denmark, Finland, Greece, Austria and Slovenia have introduced quota requirements for state-owned companies (European Parliament, 2012a). More recently, in March 2015 Germany has adopted quota legislation, requiring a minimum of 30% of each gender on the supervisory boards of the largest listed companies from 2016. Any appointment to the supervisory board that violates this requirement will be declared void. Smaller companies are required to increase the number of women in leadership positions by means of self-imposed targets and to report regularly on their progress (European Commission, 2014). The quota will enter into force in 2016. Outside Europe, Malaysia has a 30% quota for new board appointments. Brazil has a 40% target for state-owned companies (Credit Suisse Research Institute, 2014). In India, the Companies Act (2013) require all listed companies to have at least one woman on the board of directors. In Canada, the province of Quebec requires gender parity on the boards of its Crown corporations (OECD, 2012).
Although the economic and social consequences of mandatory female director quotas are controversial, quotas legislation has triggered a dynamic public debate around board diversity. A recent survey shows that, worldwide, 55% of the respondents opposed the introduction of quotas on boards of large companies (Grant Thornton, 2013). A strong opposition to quotas comes from Anglo-American countries, which favour a voluntary approach.

2.2 The voluntary path: the Anglo-American model

Countries following the Anglo-American model of corporate governance (mainly the UK, the US, Australia and Canada) prefer to encourage firms to increase number of women directors using a combination of purely voluntary initiatives and disclosure requirements.

In 2010 the UK Government set up a commission chaired by Lord Davies of Abersoch, having as mandate to identify the barriers preventing women to reach the boardroom, and to recommend to the government and the business community strategies for increasing the proportion of women on corporate boards. The Davies Review recommended the FTSE 100 companies to aim for a minimum of 25% female representation by 2015 and 30% by 2020 (Davies Review, 2011). Between 2011 and 2015 the Davies Review issued annual reports on the progress towards this goal. These reports comprise suggestions for improvement and renew the threat of mandatory quotas being imposed by the EU, should the voluntary measures fail. The latest report shows that the 25% target is well within reach by the end of 2015. By March 1 2015, the FTSE 100 boards had 23.5% female directors, with no all-male board (Davies Review, 2015).

The recommendations of the Davies Review reports work alongside disclosure requirements imposed by the UK Companies Act (2006) and the UK Corporate Governance Code (2014). Section 414A(8)c of the UK Companies Act (2006) requires
quoted companies to specify in their annual Strategic Report the number of persons of each sex who were directors, senior managers, or employees of the company during the reporting period. The UK Corporate Governance Code (2014) recommends that board members be appointed on merit and with “due regard for the benefits of diversity on the board, including gender” (Principle B.2). It also requires companies to disclose in their annual reports “the board’s policy on diversity, including gender, any measurable objectives that it has set for implementing the policy, and progress on achieving the objectives.” (UK Corporate Governance Code 2014, provision B.2.4).

In the US, the Securities and Exchange Commission (SEC) requires listed companies to disclose whether they consider diversity as a factor in selecting the board members. If a company has a policy for considering diversity, it must disclose how the diversity policy is implemented, as well as how the nominating committee (or the board) assesses the effectiveness of its policy [Securities Act 1933, Regulation S-K, 17 C.F.R. § 229.407(c)(2)(vi)]. The SEC rule does not define diversity, and this leaves scope for companies to interpret this term narrowly or broadly. To address this ambiguity, a recent petition submitted to the SEC by several institutional investors proposes that the disclosure requirements specify expressly that companies must include information about the nominees’ gender, racial, and ethnic diversity, as well as their mix of skills and experience (Simpson et al., 2015). At state level, there are no gender diversity obligations imposed by state corporate law. The California Senate adopted in 2013 a resolution urging every California public company to have one to three women on its board by the end of 2016 (California Senate, 2013). The Delaware law provides no requirements as regards qualifications or attributes of directors, other than the requirement to be a natural person (Welch and Turezyn, 2009). The Delaware Chancery court held that it is the shareholders’ prerogative to determine the fitness or unfitness of individuals to become directors and it would be highly improper for the court to second-guess their options. (In Re Gulla, 115 A. 317, 318 [Del. Ch. 1921]).

In Canada, the securities regulators in a number of provinces (with the notable exception of Alberta and British Columbia) have recently introduced disclosure obligations for
Canadian listed companies as regards gender diversity on boards of directors and in executive officer positions. The companies listed in the participating jurisdictions must disclose on an annual basis, among other things, whether or not the issuer has adopted a written policy for identifying and nominating women directors, whether or not it has adopted targets regarding the number or percentage of women on its board or in executive officer positions, and the number and percentage of women on the board and in executive officer positions (CSA/ACVM, 2014; Norton Rose Fulbright, 2014). Similarly to the US, the gender diversity initiatives at federal level in Canada rule out the possibility to introduce mandatory quotas. In June 2014, the Advisory Council for Promoting Women on Boards published a report on gender diversity in Canadian companies. The report recommends Canadian listed companies to aspire to 30% female representation on boards until 2019. The report rules out mandatory legal requirements and endorses the “comply or explain” approach to gender diversity on boards recently implemented by the securities regulators.

The Australian approach is also based on a “comply or explain” obligation. In June 2010, the Australian Stock Exchange’s Corporate Governance Council recommended that listed companies disclose their gender diversity policies and targets, as well as the proportions of men and women at senior executive positions and in the board of directors. If the listed company elects not to make the disclosure, it must explain the reason for not doing so (ASX Corporate Governance Council, 2010).

The voluntary initiatives combined with disclosure requirements have led to a steady increase of the proportion of women on boards both in the Anglo-American countries and on continental Europe. The European Commission, however, believes that the rate of progress is disappointingly slow, and more stringent legislation is needed to close the gender gap in a reasonable period of time.
2.3 The EU policy in this field: the Directive proposal and its history

In the EU, the proportion of women in the boards of the largest publicly listed companies is currently around 20% (European Commission, 2015). Despite some progress over the past few years, the rate of change remains rather slow. To address this issue, in November 2012 the European Commission put forward a proposal for a Directive on improving the gender balance among non-executive directors of companies listed on stock exchanges (European Commission, 2012a).

The proposal sets a procedural quota of minimum 40% of the under-represented sex in non-executive board-member positions in listed companies and a individual commitments (self-imposed target) for executive directors, to be met by 2020. The proposal was adopted by the European Parliament in November 2013, but has been stuck in the European Council ever since, due to the divergent views of the Member States on the best way to promote gender diversity in corporate boards. In terms of sanctions for failing to have a diversity policy and report on its progress, the measures recommended by the proposal include administrative fines, publication of the decision to impose fines and judicial annulment of the board appointment made contrary to the gender diversity legal requirements.

The Proposal for procedural quotas follows a long series of initiatives aiming to encourage European companies to address the gender imbalance in their workforce and leadership positions. During 1980s and 1990s the European Council adopted several recommendations, encouraging Member States to adopt policies designed to eliminate the existing inequalities and prejudices that women face in employment and to promote a balanced participation of women and men in the decision-making process (European Council, 1996).
Despite these recommendations, progress remained very slow. In 2010 the Commission issued the Women’s Charter setting forth several principles of equality between women and men that will underpin its future policies (European Commission, 2010a). Under the principle of equality in decision-making, the Commission reaffirmed its intention to use its powers to achieve gender balance in decision-making in political and economic life and in the public and private sectors. Later that year, the Commission adopted an action plan aiming to achieve the objectives of the Women’s Charter (European Commission, 2010b). The first step towards the implementation of the Strategy took place in 2011, when the EU Justice Commissioner Viviane Reding published a memorandum addressed directly to publicly-listed companies in Europe. It challenged them to pledge to increase the women’s presence on their boards to 30% by 2015 and 40% by 2020, by recruiting qualified women to replace outgoing male members (Reding, 2011). The pledge, however, was very slow to take off. By 2012 only 24 companies had signed it. The overall progress towards gender balance was also disappointingly slow. At this slow rate of progress, it would have taken around 40 years for the companies to reach gender balance in their boards (European Commission, 2012b).

In light of this slow pace of change, it became clear that voluntary, self-regulatory measures will not bring about gender balance within a reasonable timeframe. Consequently, in 2011 and 2012 the European Parliament repeatedly called upon companies and Member States to increase female representation of women in decision-making bodies and invited the Commission to propose legislative quotas to attain the critical threshold of 30% female membership of management bodies by 2015 and 40 per cent by 2020 (European Parliament, 2011, European Parliament, 2012b). Following these calls, in November 2012 the Commission put forward the Directive proposal introducing the procedural quota.
In its Impact Assessment study, the Commission argued that the legislative intervention in the form of quotas is necessary to remove the existing supply-side barriers blocking the career advancement of highly qualified women, and to correct a labour market failure. The study points out that over the past decade, considerably more qualified women than men have entered the labour market, but this has not translated into a more balanced representation of women in management and board positions (European Commission, 2012c). Among the main causes for this inequality (the supply-side barriers) are a male-dominated business culture and defective recruitment and promotion practices. The recruitment process lacks transparency, often relies on the business and personal contacts of current board members, and is driven by an elite of predominantly male chairmen who favour candidates with similar characteristics (European Commission, 2012c). Thus, a “glass ceiling” is created, which blocks women from advancing to senior executive offices and company board positions (European Commission 2012c, p. 18). This process is symptomatic of a labour market failure – the market fails to make full use of the entire range of available talent pool (European Commission, 2012c).

The Commission set two main policy objectives to address this persistent market failure: (i) to promote gender equality in economic decision-making, specifically in the boardrooms of listed companies; and (ii) to fully exploit the existing talent pool for more equal gender representation on company boards, thereby contributing to the proper functioning of the internal market (European Commission, 2012c). In light of the existing experience at EU and Member State levels, the Commission considered that more self-regulation by Member States is not the appropriate way to achieve these objectives. It also argued that increased transparency on the appointment process as a stand-alone measure is insufficient to achieve gender balance in boards of public companies (European Commission, 2012c). Having considered and discarded a series of other policy options, the Commission concluded that the most suitable legal instrument is a Directive introducing an objective of at least 40% of board members of each gender by 2020 for non-executive directors of publicly listed companies and
a flexible objective for executive directors, which would be set by the companies themselves in the light of their specific circumstances (European Commission, 2012a).

The procedural quota solution was met with strong opposition by nine member states, led by the UK (Suk, 2014). The opposition’s case, mostly voiced by the UK, was based on two main points. First, the opposition challenged the legitimacy of EU level action in this matter. It argued that, based on the subsidiarity principle, “it is first and foremost up to the member states to find their own national approaches to achieving this goal” (Suk 2014, p.3). Second, the opposing states pointed out that quotas are a one-size-fits-all approach that is not suitable for all companies envisaged and all Member States. The UK emphasised that board appointments should be made on the basis of business needs, skills and ability, reflecting each company’s specific circumstances and each country’s legal system and business environment (Davies Review, 2011).

Presently, the Directive is being discussed by the Council of the EU. Latvia, the new president of the Council, reaffirmed that the proposal is a priority for its mandate, and stressed the need for a legally binding quota as opposed to voluntary action (Duncan, 2015). The Member States, however, remain divided on the most appropriate legal solution to increasing the number of women on boards.

Although the gender diversity proposal is slowed down by controversies, two other Directives have been adopted recently that encourage gender balance. Section 2(a) of the Directive 2013/36/EU of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms imposes on the nomination committee of the institutions concerned the obligation to set its own target for gender balance in the management body and to adopt a policy on how to meet the target. The second instrument is the EU Directive 2014/95/EU on disclosure of non-financial and diversity information by certain large undertakings and groups.
Under this Directive, large companies must disclose the diversity policy that they have in place for their administrative, management and supervisory bodies, with regard to aspects such as age, gender, or educational and professional backgrounds. Furthermore, they must disclose how the policy has been implemented and the results in the reporting period. If no such policy is applied, companies must explain why this is the case.

The worldwide debates around the most suitable legal instrument to promote gender parity are bound to continue. In the meanwhile, the market is developing a wide array of tools to encourage companies to promote women in leadership positions. These initiatives create visibility and public awareness around the gender gap problems and act both stick and carrot in urging companies to solve this problem.

### 2.4 Market-based initiatives to reduce the gender imbalance

Over the past decades, the market has come up with an impressive array of initiatives promoting gender parity in the workforce. These initiatives include: non-profit organisations, diversity awards, diversity rankings and board-ready female databases.

Several non-profit organisations play a central role in redressing the gender gap worldwide. Catalyst is one of the most prominent ones. Catalyst is a non-profit American organisation that promotes gender diversity in the workplace. Founded in 1962, Catalyst currently has more than 800 members worldwide, including business corporations, partnerships, business schools, and associations. Catalyst publishes regular census and research reports tracking the progress of gender diversity in boardrooms and executive suites worldwide. It also publishes practice case studies of their member companies, which are available to all their members. Catalyst’s annual diversity reports are widely covered by media and are often invoked by legislations, policy makers and academics.
The 30% Club is another prominent organisation. The Club was launched in Britain in 2010. Its name refers to the group’s goal to boost the proportion of women on boards of directors to 30%, which is believed to be the critical mass required for a minority to have a significant voice in a group. It is currently present in ten countries through local chapters that campaign for the attainment of 30% female board representation towards the end of this decade. The Club also aims to develop the pipeline for female directors and executives, by focusing on the earlier stages of women’s careers and education. Other relevant organisations include the Thirty Percent Coalition (US), 2020 Women on Boards (US), Canadian Board Diversity Council (Canada), 25 Percent Group (New Zealand), and Male Champions of Change (Australia).

Diversity awards are another tool through which the market promotes female directors. Catalyst has two such initiatives: the Catalyst Award, which honours annually the most successful innovative organisational approaches to the recruitment, development, and advancement of all women; and Catalyst Canada Honours, awarded annually to leaders who advance women and inclusive workplaces in Canadian business. Other initiatives include the DiversityInc Top 50 Companies for Diversity compiled annually by DiversityInc, a US-based foundation; the Breaking the Mould Awards, organised annually in the UK in partnership with the Institute of Directors, the 30% Club and the Mail on Sunday; the Most Outstanding Company in Gender Diversity, awarded annually by Women in Engineering National Committee of Australia.

3. Theoretical approaches to board gender diversity

Board gender diversity has been the subject of intense theoretical debates over the past few years. Three main themes have emerged from these debates. The first theme is based on public policy, and holds that diversity should be promoted as a value in itself, to redress social inequalities and market failures. The second theme
promotes the business case for diversity. Gender diversity is believed to contribute to better financial results. The third theme focuses on psychological and sociological aspects of small group decision-making. It points out that enhanced board diversity improves the quality of the decision-making process in the boardroom and prevents the groupthink phenomenon.

These themes address important aspects of board gender diversity, but their relevance to corporate governance is not altogether clear. Gender diversity is an aspect of corporate social responsibility, which is part of corporate governance, understood in a broad sense. If corporate governance is regarded in a narrow sense, by looking primarily at the relations between the various corporate stakeholders, the main themes do not offer a valid corporate governance argument for gender diversity. The social justice argument exceeds the corporate governance framework, narrowly understood. The business case and the quality of decision-making arguments have important methodological shortcomings. As the next section will show, a more persuasive corporate governance argument for gender diversity starts from the fundamental functions of the board of directors.

### 3.1 The public policy approach: gender diversity as social justice

The social justice perspective is one of the most prominent and appealing approaches to gender diversity. Promoting women in the board is simply the right thing to do, as a matter of fundamental fairness, equal opportunity and non-discrimination. Corporate boards should be more diverse because that is the morally correct outcome. Giving priority to female directors is a way of compensating for the historical record of discrimination and exclusion from the highest levels of corporate leadership (Broome, Conley and Krawiec, 2013). As discussed in the previous section, the desire to redress the imbalance between women and men in employment at all levels is one of the core policy objectives behind many of the legislative debates about the desirability of quotas.
Another version of the social justice argument outlines the failure of the market to access the entire available talent pool. Numerous studies show that, around the world, women have become the new majority in the highly qualified talent pool. In Europe and the USA, women account for approximately six out of every ten university graduates and in the UK women represent almost half of the labour force (Davies Review, 2011). The existing boards, dominated by white males are not an equitable reflection of the existing talent pool.

The social justice argument faces several important difficulties, which, to a certain extent, apply across the entire range of approaches to gender diversity. The first one refers to the multiple aspects of diversity. If diversity in the board is desirable, how much diversity is optimal (Jehn et al., 1999)? The answer to this question must take into account the observable and the non-observable aspects of diversity. Observable diversity criteria include age, ethnicity, race, religion, gender, professional qualification or affiliation (such as outside director, executive director, employee representative, or creditor representative). The non-observable aspects of diversity include social and cultural values, knowledge and expertise, attitude towards risk (Milliken and Martins, 1996).

As regards observable diversity, the equality and fairness argument has to take into account other diversity criteria that raise discrimination or inequality questions. Such diversity aspects include ethnicity, nationality, age, religion or sexual orientation. From a social justice perspective, these socially relevant aspects of diversity would probably have to be given equal weight in determining the composition of the board, since it would be very difficult, if not impossible, to rank them in order of priority.

The social justice argument tends to have little relevance within the traditional Anglo-American model of corporate governance, which is focused on shareholder wealth
maximisation. If board diversity is not positively related to board effectiveness or corporate performance, then the normative case for diversity is difficult to make (Broome, Conley and Krawiec, 2011). It is not surprising, therefore, that the debates about the value of board diversity within the Anglo-American governance model revolve around the business case and board effectiveness arguments.

3.2 The business case for gender diversity

Numerous empirical studies seek to establish a relationship between board gender diversity and various measures of corporate performance. In a recent study, Catalyst found that Fortune 500 companies that had three or more women on board for four years significantly outperformed similar companies with no women on board as regards return on sales, return on invested capital, and return on equity (Catalyst, 2011). The study, however, warns that the statistically significant correlations do not establish or imply causal connections. Other studies by prestigious names such as McKinsey (McKinsey, 2007) or Credit Suisse (Credit Suisse Research Institute, 2014) emphasise the same result: there is a positive correlation between the share of women on boards and financial company performance, although there is no evidence of causation.

Not all empirical studies, however, find a positive correlation between gender diversity and business performance. Some researchers have found no impact or a negative impact of gender diversity on the company’s performance. For example, Smith, Smith and Verner (2006) examined the relationship between firm performance gender diversity in senior executive and board offices in the 2,500 largest Danish firms. They found that outside female board members who are not elected by staff had a negative effect on firm performance, although female inside directors showed positive effects. Adams and Ferreira (2009) found that, in firms that have strong corporate governance mechanisms, imposing gender quotas results in over-monitoring and decrease
of shareholder value. Dobbin and Jung (2011) found that bias among institutional investors depresses the share prices of firms that appoint female directors, although there is no corresponding negative effect on profits.

The business case studies attract a lot of attention, especially from media, activist organisations and policy makers. It has even been claimed that we are now in a place where “the business case is no longer in question.” (Davies Review 2014, p. 14). Most of the academic literature, however, regards these studies as largely inconclusive, due to the difficulty of demonstrating the existence of a causal relation between diversity and corporate performance, and the direction of this causal link (Ferreira 2015).

In theory, a positive correlation between diversity and firm performance could indicate one of four things. First, it may be an indication that gender diversity is indeed the cause of improved financial performance. Second, it may mean that more successful firms have greater resources to invest in the pursuit of board diversity. Third, it may mean that more successful firms face greater public scrutiny and pressure to increase their board diversity. Or, fourth, it may mean that qualified female directors are scarce, and they choose to serve on the boards of the most successful firms (Broome, Conley and Krawiec, 2011). The existence of these alternative explanations makes the business case very difficult to demonstrate with any rigour.

Another important difficulty with the business case is that it is impossible to measure in a reliable way the input of each director in the decision-making and the short term and long term financial effects of that input (Hickman 2014). The board is a collective decision-making body and it is impossible to attribute the financial performance of the company solely to actions of particular individuals. Moreover, the observable and non-observable facets of diversity co-exist and interact in the decision-making process in ways that are difficult to observe or measure (Nielsen 2013).
Another shortcoming of the business case argument is that it could open the door for making the opposite claim - a business case against gender balance. Statistical evidence could be found linking women directors to reduced corporate performance (Ferreira 2015). Several such studies already exist, but they are concerned with the negative effects of mandatory quotas, rather than the effects of board gender diversity as such.

The approach taken by this paper does not need to confront directly the difficult question of measuring the financial impact of female directors. Gender as observable diversity attribute is important due to certain characteristics of the female leadership style (such as lower risk appetite compared to men and increased other-orientation). What matters the most for the argument developed here is the widespread perception of this relation, rather than its actual existence.

### 3.3 The quality of the board decisions and the groupthink problem

Beside the social justice and business case arguments, policy makers often invoke the groupthink problem in support of various legal instruments promoting women on boards (European Commission, 2012a; UK Corporate Governance Code 2014). The groupthink problem is often invoked as an argument in favour of gender diversity without a deep understanding of the groupthink theory. Groupthink is a concept developed by the psychologist Irving Janis in the 1970s and 1980s in the context of political science (Janis, 1972; 1982). His theory was subsequently applied by other researchers in various fields such as management, organisational theory, and, more recently, corporate governance.

Groupthink is a psychological phenomenon that occurs within a group of people, when loyalty to the group and the desire for harmony results in minimisation of conflict,
suppression of dissent, and a tendency to reach consensus without critical evaluation of alternative viewpoints (Janis, 1972; 1982). The groupthink argument for diversity is usually presented as follows. Due to flaws in the director recruitment and appointment procedures, the members of the board are frequently males with similar educational and professional background, nationality, ethnicity or age. The board is thus a cohesive and homogenous group and therefore prone to groupthink and erroneous decisions (European Commission, 2013). A board including a critical mass of female directors reduces the groupthink problem. Such board is more diverse, is likely to consider a wider range of perspectives, to evaluate them more carefully, and therefore to reach more balanced and better decisions (Forbes and Milliken, 1999).

The groupthink theory, however, sets forth a more complex relation between group composition and erroneous decisions. Group cohesiveness is only one antecedent condition for groupthink, albeit the most important. Cohesiveness in itself has a neutral value. It can improve the quality of the group’s decisions or it can lead to groupthink, depending on whether other relevant circumstances are present. For Janis, other necessary antecedent conditions for groupthink to occur included structural faults and a specific context (Janis, 1972; 1982). Examples of structural faults are: group insulation, lack of impartial leadership, lack of norms and methodological procedures, or homogeneity of members’ social backgrounds and ideology. The specific context includes circumstances such as time constraints, external threats, recent failures, excessive difficulties on the decision-making task, or moral dilemmas (Hart 1991).

When norms about group procedures exist, a cohesive and homogenous group will abide by such norms. Whether or not groupthink arises depends on the content of the group norms and the presence of special circumstances. If the norms encourage individual dissent and critical evaluation of alternatives, it is likely that groupthink will be avoided even in a highly cohesive group. This means that high cohesion will lead to groupthink only if some of the other antecedents are present, situational context being slightly more likely than structural faults to produce groupthink (Hart 1991).
Even if cohesion and homogeneity are eliminated, it does not follow that the group’s decisions will be improved. Research has shown that group heterogeneity could produce either positive results, such as more and better information, consideration of better alternatives and higher quality decisions, or negative results, such as a decrease in group cohesion, increase in group dissatisfaction and higher turnover (Beal et al., 2003).

Equating group homogeneity with distorted decisions has other shortcomings. Commentators increasingly recognise that board processes are more important to board effectiveness and corporate performance than board composition (Minichilli et al., 2012). It has been argued that some of the most popular board composition reforms, such as the president-CEO separation or the presence of independent directors, are a misguided way to assure the proper functioning of the board (Finkelstein and Mooney, 2003).

The most relevant board processes are the effort norms, presence of cognitive conflict and the ability to use directors’ knowledge and skills (Minichilli et al., 2012). The concept of effort norms refers to the group’s view on the level of effort that each board member is expected to devote to preparation, analysis and participation in boardroom debates (Forbes and Milliken, 1999). Cognitive conflicts are differences in judgment among group members with respect to the task being performed (Jehn, 1995). The board’s ability to tap into the knowledge and skills of its members refers to processes such as the flow of information among board members, the clear division of responsibilities, and the awareness that each board member has of the others’ competences and areas of expertise (Forbes and Milliken, 1999).

Moreover, informal connections are also vital for board effectiveness. In addition to formal structures and processes, informal structures and networks are relevant to the way in which board members interact and work as a group (Stevenson and Radin,
2014). It has been noted that directors who are a demographic minority in a board are more effective if they have informal connections with the majority directors, such as common membership of other boards. This is an indication of how informal networks can redress otherwise perceived power imbalances (Nielsen, 2013).

Nevertheless, if the “groupthink” label is dropped, the substance of the argument about increased board effectiveness remains appealing. It could still be argued that female directors bring different perspectives, experiences, concerns and sensibilities to the boardroom. Discussions are deeper and richer, and there is more constructive dissent and cognitive conflict, since women are more willing to ask questions and disagree with the status quo. Although this justification seems very persuasive, evidence of concrete examples in which female directors bring new perspectives to the boardroom table and make the discussions richer seems elusive. A series of qualitative studies carried by Broome, Conley and Krawiec (2011; 2013) show that persons with direct involvement in corporate board activities, such as directors, executives, consultants or proxy advisors, while strongly agreeing that board diversity is an important goal worth pursuing, struggled to give concrete examples of ways in which female directors made a special contribution to the board discussion due to their gender, as opposed to other characteristics, such as professional expertise, skill set or personality. Some respondents even pointed out that gender and race as such have no effect on the way in which a board functions (Broome, Conley and Krawiec (2011).

In conclusion, the main approaches to the purpose and effects of board gender diversity suffer from important theoretical shortcomings. Certainly, no explanation could address fully the very complex range of issues that board gender diversity involves. From a corporate governance perspective, the controversies surrounding these theories have left a gap in our understanding of the role that gender plays in the effectiveness of the board. The following section points towards a more promising corporate governance approach to board gender diversity. It will show how certain perceptions associated with female managers could improve the board’s performance of its core functions.
4. Gender, leadership style and the main functions of the board

If one aims to understand the relevance of board diversity from a corporate governance perspective, the main question that arises is: what are the main functions of the board of large public corporations and how does directors' gender relate to these functions?

One way to approach the role of the board is from the perspective of the theory of the firm and directors' fiduciary duties. The vast literature on these topics could be narrowed down to two main approaches. The shareholder-centric approach holds that the overarching role of the board is to maximise shareholders' wealth (Easterbrook and Fischel, 1993). The stakeholder approach sees the role of the board as creating value for the entire community of interests that forms the corporation, of which shareholders are only one constituency (Blair and Stout, 1999). The core difference between these two approaches is the emphasis they place on the relative importance of shareholders’ interests compared with the interests of other stakeholders.

Another approach to the role of the board looks at the main functions for which the board of directors is appointed in a public company: the monitoring role, the strategic and advisory role, and the relational role. The question of who is the ultimate beneficiary of directors' duties is not of immediate relevance to this approach. The second approach is more promising for the gender diversity discussion, as it cuts across the shareholder value versus stakeholder value theories.

4.1 The monitoring board

The contemporary corporate governance literature places a great emphasis on the monitoring role of the board (Ahern and Dittmar 2012). The prominence of the monitoring role is due to the dominance of the Anglo-American model of corporate
governance, which is built around the concepts of separation between ownership and control, the principal-agent problem, and agency costs. (Berle and Means, 1932; Jensen and Meckling, 1976; Fama and Jensen, 1983; Easterbrook and Fischel, 1993). In this model, the main role of the board is understood to be that of a buffer between shareholders (owners) and managers (controllers). The main purpose of the board is to monitor closely the managers in order to discourage them from acting self-interestedly, at the shareholders’ expense (Eisenberg, 1997).

How does gender diversity affect the monitoring role of the board? Adams and Ferreira (2009) argue that a higher presence of women in boards leads to better supervision and accountability of the CEO. This is partly due to the fact that women attend more meetings, they improve the attendance behaviour of male directors and are more likely to be assigned to monitoring-related committees than men. Moreover, they take their non-executive director roles more seriously, preparing more conscientiously for meetings (Izraeli, 2000). This has a positive impact on the monitoring intensity of the board (European Commission, 2013).

This line of inquiry has potential to bring important insights into the role of gender diversity. The weight of this view, however, depends on the ability to show that the more effective monitoring is due to cognitive or behavioural features of females, rather than to other, non-observable elements, such as diligence or care. Moreover, as Adams and Ferreira (2009) show, when the firm is performing well, gender diversity may result in over-monitoring of managers. This increases the agency cost of monitoring, restricts too much managers’ discretion and decreases shareholder value.
4.2 Gender and the strategic planning role of the board: risk and uncertainty

The board of directors also plays a pivotal role in determining the company’s business model and strategic objectives, as well as the nature and extent of the principal risks it is willing to take in achieving these objectives. An essential aspect of the board’s strategic role is determining the company’s risk appetite and monitor the company’s risk management and internal control systems. [UK Corporate Governance Code, 2014]. Therefore, in order to investigate the role of gender on board effectiveness, it is necessary to determine if gender balance affects the board’s attitude towards risk.

Empirical investigations of gender differences in risk taking show that women tend to take less risk than men [Charness and Gneezy, 2012]. Other studies have found that gender plays an important role in asset allocation in a portfolio of investments. Overall, women’s portfolios were found to be less risky than men’s, and women made smaller investments in risky assets than men [Charness and Gneezy, 2012]. A similar result has been shown with regard to risk-taking on behalf of others. Ertac and Gurdal [2012] study whether men and women make different decisions in the group context as compared to an individual risk context, and find that women are more risk-averse than men, in both when deciding individually and when they are part of a group.

It is worth noting that not all studies agree that female directors are more risk averse. Adams and Funk [2012], for instance, surveyed a sample of Swedish directors and found that female directors are more risk-seeking than male directors. This view, however, seems to be in the minority.

Although it has been argued that the context of the decision and the way in which the relevant information is framed are more important than gender in analysing attitudes
towards risk (Amanatullah et al., 2010; Ajzen and Fishbein, 1977), numerous meta-
alysis studies that show strong support for the view that, in general, women are
more risk averse than men (Byrnes, Miller, and Schafer, 1999).

It could be inferred from these studies that there is a strong perception of gender
differences in risk taking. For the purpose of the argument developed here, it is
sufficient to show that there is a perception of different gender attitudes towards
risk. This perception plays an important role from the perspective of the signalling
role of the board. Despite the fact that the empirical findings on the relation between
gender and risk taking are controversial, the overall perception that women are
more risk averse sends an important signal to long term, risk-averse shareholders
or stakeholders. The signal is that the board binds itself to have a balanced attitude
towards risk, by diluting men’s innate propensity towards risk-taking. This signal
is especially relevant for situations of unstable financial times, when the interests
of short term shareholders and those of long term stakeholders point to opposite
directions (Valsan and Yahya, 2006).

Several studies confirm that diversity is especially important in turbulent economic
or financial situations. In unstable situations like financial crises, heterogeneous
management teams perform better than homogenous teams (Nielsen, 2013; Rost and
Osterloh, 2010). Gender differences in risk taking have been found to be important
particularly in situations of economic downturn (Amanatullah et al., 2010).

Similarly, other studies have found that diverse boards are important in situations of
uncertainty. Pearce and Zahra (1992) found that the higher the level of uncertainty
a firm faced with regard to aspects such as suppliers, customers, competitors,
the economic or political situation, the higher the proportion of outside directors in
its board. They also found a positive association between a strategy of growth and
diversification and the proportion of outside directors in the board. Conversely, they
found a negative correlation between small, incremental changes and proportion of outside directors [Dallas, 1996]. These insights are directly relevant to gender diversity, since most of the initiatives to increase the presence of women on boards focus on independent (outside) director.

From a corporate governance perspective, perceptions about gender differences in attitudes towards risk and uncertainty play an important signalling role. The company signals to its long term constituencies its balanced approach to risk taking, which is especially relevant in the vicinity of insolvency. This could reassure long term, risk-averse stakeholders, whose interests are at risk in situations of doubtful solvency.

4.3 Gender and the relational role of the board: fairness and other-orientation

As explained in the previous sections, the dominant view in the Anglo-American system is that the board’s single most important function is to monitor the management-shareholder relationship. A strand of research coming from fields like management, organisational behaviour and sociology, focuses on the role of directors in providing and maintaining resource networks that are essential for the company’s survival and success. This is the relational role, or resource dependence role, of the board [Ferreira, 2010; Dallas, 2003; Pfeffer and Salancik, 1978].

Boards form a variety of relational functions that assist the corporation in forging relationships with various stakeholders in its economic environment. By selecting board members with network connections with key constituencies, the corporation ensures coordination and exchange of information with key outsiders, such as regulators, suppliers, or financiers, and acquires the resources necessary for its survival and success. Thus, carefully chosen board members help make the company
more legitimate in the eyes of key resource providers such as customers, employees or shareholders (Langevoort, 2001; 2010).

The relational role of the board shows that diversity plays two very important, related roles in increasing the board effectiveness. First, it strengthens the relations to stakeholders in a direct way, by providing them with a direct tool to gather strategic information and to influence the board decisions. Second, gender diversity strengthens the relations with stakeholders in indirect ways, which have not been fully explored in the corporate governance literature so far.

One indirect way in which board diversity in general helps the relational role of the board refers to the perception that more diverse boards make fairer decisions. Researchers in organisational justice have long studied the distinction between procedural justice, focused on the decision-making process, and distributive justice, focused on the outcome of a decision-making group (De Cremer, 2005; Tyler, 1989; Deutsch, 1985). One of the major findings of this line of research is that people are more accepting of outcomes when the procedure for distribution is perceived as fair, even in situations where the outcome itself is poor (Phillips, Freeman, Wicks, 2003). Greater participation in decision making is an important aspect of procedural fairness. Consequently, greater participation in decision making leads to an increase in the perceived fairness of the outcomes (Phillips, Freeman, Wicks, 2003). Gender diversity in the board increases the perceived fairness of the board’s decisions, thus strengthening the effectiveness of the board’s relational role.

Another indirect way in which gender diversity advances the relational role refers to the perception that female directors are more other-oriented, which means that they are more willing to take into account the interests of the non-shareholding stakeholders (Amanatullah et al., 2010). Research on gender roles suggests that men
are predisposed to focus on self-interests, while women are more other-oriented in their approach to certain situations (Chodorow, 1978; Eagly, 1987; Wade 2001).

Some authors argue that these differences are rooted in innate differences between male and female personality. Men are more likely to regard themselves as separate from others and develop an independent self-construal, while women are more likely to regard themselves as inseparably connected with others (Cross and Madson, 1997; Amanatullah et al., 2010). These differences are carried over into leadership styles. Male leadership is generally characterised by a focus on task achievement and performance outcomes, while female leaders are expected to focus on interpersonal relations and work satisfaction (Ellemers et al., 2012).

These studies raise the difficult question of stereotyping and the continuing relevance of the preconceptions about male and female roles and leadership styles. Although there is evidence that male and female directors display the same leadership style and that the social roles of the two genders are changing, stereotypic expectations do not change at the same rate (Ellemers et al., 2012). There is a persisting tendency for people to rely on gender stereotypes in assessing leadership in organisations (Bass and Aviolo, 1990; Williams and Best, 1990). The belief that women and men tend to display different forms of leadership determines stakeholders’ expectations regarding the effects of gender balance in top management and board positions (Ellemers et al., 2012). Consequently, stakeholders will anticipate that the inclusion of more women in the board of directors will add a more stakeholder-oriented leadership perspective. This insight has been demonstrated in the context of Norway’s quota legislation. Matsa and Miller (2012) found that the companies affected by quotas undertook fewer workforce reductions than comparable firms, even if that came at a cost to short-term profits.
In conclusion, there is significant evidence to suggest that gender diversity has a direct impact on the effectiveness of the board in performing its core functions. At the same time, there is a body of research suggesting that gender as such has no direct relevance to these roles, or has a negative effect. The argument developed in this paper is rooted in the perceptions and expectations regarding the effect of female leadership style on the main functions of the board. From this perspective, gender balance could be understood as a signal that the company is sending to its main stakeholders as concerns the board’s effectiveness in performing its core functions.

4.4 Board gender diversity and the signalling theory

From an economic theory perspective, using board gender diversity could be interpreted as a signal sent to the relevant long-term stakeholders. Having a gender-balanced board of directors is regarded as a way of signalling or conveying to relevant market participants information that is otherwise difficult to perceive, such as the board’s general attitude towards risk or propensity to consider the interests of other stakeholders. Signalling has a power to attract support and allegiance from stakeholders, which goes beyond the informational content of the message. Signalling plays an important role in understanding how the choice of directors might affect the expectations of external constituencies (Broome, Conley and Krawiec, 2011).

The signals sent to stakeholders by board gender diversity are direct and indirect. A direct signal is sent to the current or prospective employees that the firm embraces equality in employment and has removed any form of gender discrimination. This, in turn, may improve existing employee’s morale and their productivity (Broome, Conley and Krawiec, 2011). This signal, however, may not be very convincing if the female directors are outside, non-executive directors, rather than executive directors who have reached the board position from inside the corporation. Board diversity may also
signal to the company’s customers that is has considered the needs of their demographic segment of the market. This form of signalling is frequently invoked, especially in consumer industries, and could be an explanation for why there are discrepancies in the number of female directors across industry fields. More generally, board gender diversity may signal to the public and regulators that the firm is forward-looking, progressive and socially responsible (Broome, Conley and Krawiec, 2011).

An important difficulty with gender diversity as a signal theory is the clarity of the message it signalled to constituencies (Shin and Gulati, 2011). Is gender diversity a clear and reliable signal? The particular appeal of gender diversity as a signal is its flexibility. Signalling is an important mechanism that balances the board’s need for decision-making discretion with commitments to stakeholders. Given the need for board discretion and wide decision-making power, alternative, more credible signal may be difficult, short of explicit policies. In certain respects, gender diversity could be a more effective signal than policies with respect to stakeholder interests or risk attitude, since it has the potential to operate ex ante, before a decision is made. The signalling explanation of board gender diversity is not meant to replace other forms of stakeholder protection or other, more direct, forms of communication, whenever the circumstances require them (Shin and Gulati, 2011).

Another problem with signalling is the potential for fake signalling and mimicry Shin and Gulati, 2011). Fake signals, however, are not sustainable in a repeat game scenario. The market will soon learn to distinguish between fake signals and signals that reflect the company’s true policy. Moreover, this signal could be costly to implement, as it could deter certain market actors from investing in the company.
5. Conclusion

Board gender diversity has been the topic of intense research over the past two decades. Despite numerous theories, the literature still lacks a clear understanding of how gender in itself, as opposed to gender as a proxy to other, unobservable, features affects the decision-making in the board or the corporate performance.

This paper contributes to the existing knowledge by emphasising how gender diversity contributes to the effective performance of board’s main roles. The stereotypic perceptions about female leaders affect stakeholders’ expectations about the added value of having women in in the board of directors. Although recent research has called into question the existence of significant differences between male and female leadership styles, there is a persisting tendency for market actors to rely on gender stereotypes in defining their expectations from a company’s management team and board of directors. The continuing relevance of these perceptions allows the board to send signals to certain stakeholders by appointing more female directors. Since female leaders are perceived to be more risk averse and more other-oriented, a gender balanced board is a signal sent to long term, risk averse stakeholders that their interests will be taken into account. This signal is particularly important in the vicinity of insolvency, when the interests of this type of stakeholders are at risk.
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