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“Firm Effects of Board Gender Diversity”

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Riassunto

Lo scopo di questo elaborato è quello di analizzare gli effetti della diversità di genere nei consigli di amministrazione sulle varie attività delle organizzazioni, in particolare nel contesto di qualità del monitoraggio, livelli d'innovazione, responsabilità sociale e reputazione aziendale.

Il paper esamina le scoperte di ricerche accademiche che analizzano gli effetti diretti della composizione del consiglio di amministrazione.

Si trova che la presenza di donne nel CdA di un'organizzazione ha effetti positivi sul funzionamento del gruppo, promuovendo una comunicazione migliore, decisioni di innovazione più rigorose, strategie di soddisfacimento degli interessi degli stakeholder e iniziative ad interesse sociale. Inoltre, la diversità di genere nel CdA migliora la reputazione aziendale tra gli investitori e la forza lavoro femminile.

Senza cercare di trovare l'effetto della diversità di genere tra i membri del CdA sulla performance aziendale, l'elaborato raggruppa quelli che sono gli effetti diretti su specifici aspetti aziendali, aiutando a svelare i contesti settoriali e di mercato in cui porta benefici.

Introduction

The idea behind this final elaborate is to evaluate a topic of contemporary discussion on several levels of business, board gender diversity.

Board gender homogeneity has been raised by several institutions as a problem in the corporate world that is both ethical and economical. From an ethical standpoint board gender diversity has been perceived as the next logical step in the fight for parity among genders. From an economic perspective homogeneity has been hypothesized to be a constraint for corporate effectiveness and efficiency.

An institution proponent of this theory has been the European Union, that following the feminist movement has tied the issue to the higher levels of the firm. In 2016, among European Union based public companies, 23% of board members and 7% of the board presidents were female; this statistic is shocking especially because 60% of new graduates are women (Council of the European Union, 2020). There is a gender gap in the higher positions of public companies, the underrepresentation is presumed to be even more pronounced in small to medium enterprises. The EU has proposed to tackle the issue with fixed gender quotas for public firms of increasing rates, and promising member countries causal economic returns, these include growth and competitiveness. Consequently, it becomes relevant to evaluate these promises by examining the effects on the firm of gender diversity among board members. Understanding whether corporate outcomes can be expected to change with more female board representation is particularly significant in light of the increasing worldwide trend to enact boardroom gender quotas.

Many researches in the past have tried to find the connection between the presence of women on the board and indicators of financial performance or firm value, but problems of endogeneity and reverse causality result in inconsistent result across the literature. The findings of these studies depend significantly on external variables that cannot be controlled and are unquantifiable. For this reason, it is hard to evaluate whether board gender diversity influences the performance of the firm in a direct manner.

Given the concerns, the goal of this paper is to examine the ways in which board gender diversity affects the firm directly. By avoiding the problems of direct causality, the paper hopes to provide an insight on the potential mediators between board gender diversity and firm performance. This work is divided into three chapter, the first focusing on the effects of gender diversity, the second on the effects of feminine attitudes, and the third on the impact of the reputation that is a consequence of board gender diversity.

2 FIRST CHAPTER: THE EFFECT OF GENDER DIVERSITY IN THE BOARDROOM ON IN-BOARD DYNAMICS AND INNOVATION

2.1 Theorical fundamentals

Before analyzing how board gender diversity influences the firm, it is important to understand the role and the purpose of the board of directors to the general activity of the firm. The board of directors is the most crucial body of a company, it is responsible for two main functions, first is the monitoring of management, second is to advise top management (Welbourne, 2007). Since it plays a pivotal role, its composition might be relevant to the general functioning of organizations, hence worth analyzing.

The member composition has been legislated in various forms by countries, but the common purpose is to ensure the main functions. Lawmakers generally impose diversity of interests through a quota of independent directors to guarantee effective monitoring of the management to prevent opportunistic behavior that would damage shareholders' interests. Except for these laws, the composition of the board of directors is left to the shareholders to decide.

The scholarship on the effects of board composition has found contrasting results on the topic of gender heterogeneity, but it does agree on the concept that an organization's board does affect the functioning of said organizations. This concept finds fundaments in four main theories that are going to be illustrated: the agency theory, the human capital theory, the resource dependence theory, and the instrumental stakeholder theory.

The Agency Theory(1976) by Jensen and Meckling is centered around the conflicting interests of the shareholder and the board member (agent). The theory suggests that the board member tends to behave opportunistically to achieve different interests from the ones of the shareholders. Consequently, the role of the board of directors would be to represent the shareholders' interests and supervise the actions of the managers to reduce agency costs. Following this philosophy, a board with greater performance is one that shares the views and interests of the shareholders and monitors the management team to assure that the interests of the shareholders are pursued. Furthermore, gender diversity among board members would increase the interdependence between the board and the shareholders, resulting in greater efficiency in the supervision of the agents.

In the literature, the Human Capital theory (1963) of Gareth Becker is often cited for the potential impacts of gender heterogeneity. This theory proposes that the productivity of a worker increases with the level of human capital of that worker. When applied to the context of the board of directors, this theory suggests that members who have greater levels of human capital will be more productive. Human capital is not a monotone value, but it is composed of a variety of components like education and personal experiences. On one hand, females traditionally invest less in their education, resulting in lower human capital on average, on the other hand, gender diversity has been advocated as a means of improving organizational value and performance by providing the board with new insights and perspectives that are a consequence of background diversity. From this reasoning, it can be hypothesized that boards with homogeneous boards will have less human capital than those with gender diversity.

To the topic of gender diversity in boards, the Resource Dependence theory (1978) by Jeffrey Pfeffer and Gerald R. Salancik is highly significant. It addresses the problem of accessing resources as a determinant for the success of an organization's activity, which, in the framework of the board of directors, is an issue that the members should be taking care of by providing a connection to the environment. This theory suggests that a diversity of backgrounds in the boardroom would allow a company to have a wider network to access resources from, whether the resources are material, human or immaterial.

The Resource Dependence theory does not limit the role of the member to be a monitoring agent but highlights the importance of the board member as a mediator between the firm and the outside environment. Within this framework, the board of directors is perceived as a "vehicle to manage external dependency, reduce uncertainty, and lower transaction costs associated with environmental interdependency by linking the organization with its external environment"(Charles, Dang, & Redor, 2018). Resource dependency assumes that corporate directors are chosen to maximize access to critical resources. It can be assumed that the inclusion of female members to a board of directors would enhance the spectrum of resources accessible to the firm. This assumption can be conflicting with the rather opposite idea that women directors would reduce the potential network of a board because of their comparatively lower participation in business (Kanter, 1977).

Finally, the Instrumental stakeholder theory(Jones, 1995) of TM Jones which is an extension of the stakeholder theory addresses the importance of having board members that can connect to key stakeholders. In contrast with the stakeholder theory, Jones sees the satisfaction of the stakeholders' interests as beneficial for an organization's financial outcome and not simply as a medium for long term success. Specifically, it posits that trusting and cooperative relationships help solve problems related to opportunism(Jones, 1995). Papers on board gender diversity cite this theory to suggest that a heterogeneous board would be able to cooperate with stakeholders more seamlessly, eventually resulting in lower transactional costs for the organization. This logic assumes that stakeholders are generally gender-diverse, otherwise a negative effect would be expected for firms with gender diverse boards and with male-dominant stakeholders.

2.2 The problem of finding a direct impact with firm’s performance

The reasonable theoretical arguments shown suggest that research on this topic should find a direct relationship between the presence of women on the board of directors and the financial outcomes of an organization. The many pieces of researches that try to find this correlation deliver contrasting results, some show a positive relationship, some negative, and some no relationship at all. For example, the study of Adams & Ferreira (2009) documents a negative relationship between board gender diversity and firm performance, while Campbell & Mínguez-Vera (2008) find the presence of women on the board to be positively associated with a firm’s value. Finally, other research like the one of Carter, D’Souza, Simkins, & Simpson (2010) struggles to find any evidence for an impact of BGD on the performance of a firm.

There are many reasons that can explain such mixed results across different studies, different samples or measurements for gender diversity being obvious candidates. The sample’s time frame, country, legislation, and industry are just some of the possible justifications for the inconsistent results. Finding a relationship between the diversity among board members and a firm’s performance is particularly complicated, and studies trying to define this relationship encounter many non-negligible problems. First, the explanatory variables used by the literature to evaluate financial performance are ROA and Tobin Q’s, of which both of their values generally are a consequence of more forces than just the management. Because many variables are omitted market fluctuations or industry variables might play a relevant role in the changes of the outcome values. Secondly, it has been hypothesized that the presence of women on the board might affect the firm’s performance, but there is a possibility of reverse causality. BGD could be driven in some way by the firm’s financial outcomes. For example, a firm that has reached a high level of profitability and has satisfied the interests of the shareholders could choose to appoint more female directors to satisfy social issues that were not addressed at the time of lower profitability(Charles et al., 2018). An opposite effect could also be true; a firm that sees a declining trend of profitability might appoint more female directors to justify the lack of profitability on an increase of interest on social issues(Ryan & Haslam, 2007).

Research suggests that the association between gender diversity and firm performance is unlikely to be direct. Therefore, diversity and performance should be examined through intervening or moderating variables to uncover when and how diversity improves performance. A firm's performance can be synthesized in few values but there are an infinite amount of processes and components that play a role in determining the actual performance; hence why this paper is going to analyze some of the possible performance moderators that are found to be impacted by board gender diversity.

2.3 Board gender diversity's influence on in-board dynamics

The board of directors is one of the most important administrative bodies of an organization and its functioning constitutes in making decisions on behalf of the shareholders. Since board functioning is highly related to a firm's performance(Zahra & Pearce, 1989), analyzing the effect of BGD on the operating of the board is a relevant topic to the field of economics. There are various ideas on how the decision-making process of the board can be affected by the gender diversity of its members, particularly regarding the topic of communication.

One train of thought focuses on the frictions that can be created in the communication between members of a different gender. Bunderson & Sutcliffe (2002) find in fact that diversity harms the speed at which group can make decisions because of the dissimilarities in ideals between the members. Following this logic, board gender diversity would increase coordinative costs and making it less profitable for a firm to have diversity. Furthermore, Earley & Mosakowsk (2000) find that homogeneous groups tend to communicate more often, and Williams & O'Reilly III (1998) document that homogeneous groups experience fewer emotional conflicts and are generally more prone to cooperation, both these findings suggesting for the efficient functioning of the board when gender diversity is low.

On this topic, more recent studies show that gender diversity might alter the functioning of the board positively. Adams & Ferreira (2009) show that women board members have higher attendance rates and fewer attendance problems than their male counterparts, moreover, the attendance rates of those boards that are gender diverse are higher than those of homogeneous boards, suggesting that female attendance commitment might be taken as a role model for other board members. Although better attendance does not imply improved decision making, attendance is an important mechanism for directors to gather the information that is necessary to fulfill their duties.

This phenomenon is also consistent with the theory of tokenism (Kanter, 1977) of which many pieces of research on the behavioral aspect of board gender diversity are based on. This theory focuses on the behavioral consequences of group composition in the board of directors, particularly on the effects of sub-groups (minorities). Compared to homogeneous groups, the performance of the groups with sub-groups that are of the underrepresented gender (15% of the members or less) is lower. According to the author, there are three explanations for the underperforming: visibility, contrast, and role encapsulation. Visibility is the idea that minorities like women feel more pressure to perform because they stand out in the group, this pressure could be exaggerated and result in stress and low individual performance. Contrast is the sentiment of not belonging that leads to isolation, this can cause the member in minority to be heard less. Finally, role encapsulation is the phenomenon of limiting to the women those roles that fit in with the gender stereotypes.

The theory suggests that having female members might damage the performance of the board of directors if they feel underrepresented. It also introduces the concept of critical mass as the ideal minimum share of members that would eliminate the risk of visibility, contrast, and role encapsulation.

Many studies also attribute to board dynamics the phenomenon of *groupthink* which can be tied to the quality of the decisions taken by the board. The so-called groupthink consists of the desire for harmony or conformity in a group which results in an irrational decision-making outcome (Janis, 1972). Group behaviors conform to the assumptions, values, and norms that are made by of the group's members, when this happens there might be the failure of the board to consider alternatives to the dominant view when making a decision. Corporate boards are especially susceptible to groupthink because they tend to emphasize politeness and courtesy, sometimes at the expense of oversight. Further, groupthink tends to cause members to ignore negative information and to view messengers of bad news as people who 'don't get it' which eventually decreases dissent (Kamalnath, 2017). As a consequence, members tend to feel overconfident about their decisions.

The cohesiveness of the group is an aspect that is fundamental to the risk of groupthink, it manifests in feelings of well-being and happiness within the group. This is not always bad, but too much of it, and it could be detrimental to the decision-making and lead to a consensus prematurely. Interestingly, cohesiveness is further accentuated when board members are culturally and intellectually similar. To solve this issue the introduction of independent directors to the board has been widely legislated across countries to provide members that would stimulate discussions by playing the "devil's advocate" role. While this has been proven to be effective, many are suggesting that there can be further gains by increasing gender diversity in boards.

Post & Byron (2014) point out that women directors are prone to value different opinions, elicit information from all board members, and adopt a cooperative decision-making approach to stimulate collaboration within the group. The combination of the phenomena of tokenism and groupthink can lead to the belief that if there is not enough board gender diversity, there might be a barrier for women to influence the decisions being taken. This would limit the possibilities for an organization to benefit from the cognitive diversity that women can provide to a board. Overall, gender diversity is supposed to both enhance performance by increasing decision-making capacity and detract from group performance by increasing conflict. Opstrup & Villadsen (2015) suggest that the decision-making of boards in organizations can benefit from gender diversity among its members if there is a structure that tackles the conflicts by facilitating behavioral integration between the members, which in turn can facilitate interaction and cultivate the mutual exchange of opinions. Furthermore, this structure needs to be supported by the reaching of the critical mass that would eliminate the problems that tokenism causes.

2.4 The relationship between board gender diversity, creative thinking and innovation

Gender diversity in the boardroom brings together an assortment of backgrounds which is manifested in a discussion that includes more points of view than if the board was homogeneous, this aspect has been hypothesized to relate to creative thinking. This philosophy draws its logic directly from the Human capital theory, which are advocates for positive effects coming from a wider range of cognitive resources, whether they are academic or simply experience-based.

According to experimental studies, two of which are of Watson, Kumar, & Michaelsen (1993) and of Wiersema & Bantel (1992), group diversity encourages creativity and brings a greater breadth of perspectives and more innovative solutions to problems. Therefore, in the context of the board of directors, the heterogeneity of backgrounds and experiences brought by female directors could enable more effective problem-solving, enrich discussion, and improve the decisions made by the board. Diverse groups, in the development stages, design solutions that come from a wider variety of perspectives; this implies that diversity allows for a more thorough evaluation of choices in the selection stage because of the increased information available (Østergaard, Timmermans, & Kristinsson, 2011).

Since boards are decision-making groups and a significant component in the strategic decisions undertaken by an organization, it is expected that the creativity brought by gender diversity would contribute to a firm’s innovation. Furthermore, the behavioral theory of the firm suggests that the more comprehensive and broad the information available and evaluated during the decision-making process is, the more innovative a group's decision will be (Cyert & March, 1963). Logically, several studies have focused on the connection between board gender diversity and innovation, because of the involvement of the directors in allocating resources and providing ideas and relationships that increase the innovation of the firm. In this segment of the paper, the connection between gender diversity in the boardroom and innovation will be addressed.

A study by Miller & Del Carmen Triana (2009) is the first paper to introduce the concept of innovation as a mediator for firm productivity, driven by board gender diversity. The paper measures gender diversity as the proportion of the gender in minority to the number of directors on the board. Innovation is measured by the firm's research and development intensity as a reflection of the decisions in the allocation of resources performed by the board of directors. While it might not seem proper to deduce innovation levels from a company's spending on R&D, it is a good proxy, as established by the literature. The study conducts an OLS analysis to test the connection between gender diversity in boards and innovation, and it finds that the correlation is marginally significant ($p < 0.10$). The analysis overall supports the hypothesis of board gender diversity being correlated with higher innovation levels.

Other studies suggest that the relationship is more complex, for example, Torchia, Calabrò, & Huse (2011) analyse the critical mass introduced by Kanter in the realm of innovation. The paper finds the effects of different sizes of minority groups (one, two, or three women), besides, the research tries to find to what extent board strategic tasks are correlated with innovation levels. This article does not use R&D as a measure for innovation, but rather uses the board members' perceptions on firm innovation, highlighting the different perspectives of the individuals involved in the innovation process. Furthermore, it specifically examines the effect of women on the board on organizational innovation, which refers to the creation or adoption of an idea or behavior that is new to the organization. This measure is supposed to be more people-oriented and influenced by their individual characteristics. The data used is from a survey conducted in Norway among companies and organizational innovation is measured with a Likert-type scale derived from a series of questions that CEOs answered to. Torchia's study finds that the impact of women directors on innovation depends on the size of the minority group, supporting the tokenism theory of Kanter. It is found that there is no significant relationship with innovation levels for one or two women directors, this is signifying that a small minority might not be enough to counter tokenistic forces. In addition, it is found that when the number of women on the board is at least three there is a significant positive relationship with organizational innovation. The reaching of the critical mass allows majority-minority interactions and makes it more likely to express their views freely when they do not agree with the rest of the board.

A more recent study by Almor, Bazel-Shoham, & Lee (2020) focuses on board gender in the current economic scenario in which organizations, to have success in the long term, are required to be ambidextrous. This means investing simultaneously in organizational exploration which eventually leads to the development of new organizational capabilities, as well as in organizational exploitation, which allows maintenance of an existing situation. The paper finds that board gender diversity has a significant negative relationship with R&D spending and attributes this outcome to a higher risk-aversion in gender-diverse boards. The findings suggest that boards with a higher percentage of women directors are more likely to allocate resources in a more balanced way, particularly by encouraging short-term exploitative behavior and long-term explorative behavior. These findings do not imply that gender diversity is not a driver for innovation, but rather that it is a driver for successful R&D spending, which in turn can be translated into inventions and innovation.

The literature on this topic shows that board gender diversity influences a firm’s innovation quite significantly. Women provide peculiar insights to a board discussion thanks to their background diversity; they provide creativity while maintaining a focus on exploitative activities. These benefits are enhanced when the gender diversity in the board reaches a certain threshold, which according to research is around three women. This relationship is most definitely relevant to an organization’s activity since firm innovation is one of the most important predictors of firm performance (Zahra & Garvis, 2000), helping firms gain competitive advantage and expand market share.

3 SECOND CHAPTER: THE EFFECTS OF FEMININE ATTITUDES ON THE FIRM

3.1 Male and female directors' individual traits

The differences in the values and motivations between men and women have been extensively analyzed by the literature, the origins of the differences have been attributed to biological reasons and more recently by consensual beliefs embedded in society. This section is going to address these differences rather than their cause, particularly those that are assumed to make a difference in the actions within an organization.

The literature in the field (e.g. Eagly (1987)) distinguishes between agentic or achievement-oriented and communal social-service-oriented attributes. Agentic characteristics and behaviors have been documented as assertiveness, ambition, competing for attention, and making problem-focused suggestions. Communal behaviors have been described as speaking tentatively, supporting and soothing others, and being helpful and sympathetic. Generally, people consider communal traits to be feminine and agentic traits to be masculine. Whether this categorization could be applied to leadership style and behavior has received persistent attention as a topic of research during the past decades (Maher, 1997)(Burke & Collins, 2001). While the topic is very complex it is worth addressing since it is assumed that a director's behavior is a major determinant in its effectiveness (Eagly, Johannesen-Schmidt, & van Engen, 2003). There are two schools of thought regarding the topic of directors' behavior and traits: one proposes a minimization of gender differences among directors and one that endorses stable differences between the genders. Supporting the idea of minimized differences is the evidence that women try to avoid competitive environments (Niederle & Vesterlund, 2008) and the fact that women may adapt the behavior of the predominantly men colleagues, suggesting that those women who pursue leadership positions might be more similar to men. On the topic, Adams & Funk (2012) surveyed directors from publicly traded firms in Sweden to focus on their motivational values and traits, particularly ten values taken from the theory of Schwartz (1992) which are labeled as achievement, power, security, conformity, tradition, benevolence, universalism, self-direction, stimulation, and hedonism. This study intended to find out if gender differences still appear at a director level or the traits needed to become part of the "elite" are the same among the two genders. It is found that women directors care more about self-transcendence values and stimulation, while they care less about power, security, conformity, and tradition. Self-transcendence values are benevolence and universalism, the first being defined as the preserving and enhancing of the welfare of those with whom one is in frequent personal contact, the second being the understanding, appreciation, tolerance, and protection for the welfare of all people and nature. The evidence suggests that gender differences do not disappear in the context of the board of directors, although, interestingly, some of the “typical” gender differences appear to be reversed in the case of security and tradition, proposing that women prefer change and men prefer conservation.

Since values affect the way people perceive and interpret situations and events (Gandal, Roccas, Sagiv, & Wrzesniewski, 2005), the traits that characterize each director are important in the organizational context because they affect the stances that directors take in the board meetings. This has been proven by an experimental study made by Adams, Licht, & Sagiv (2011) in which board directors of Sweden have been asked to respond to real organizational cases to see if their traits were influencing their decisions. Specifically, the researchers tested whether the tendency of directors to be favoring shareholders (shareholderism) or favoring stakeholders in general (stakeholderism) is determined by the traits that define the directors. The study finds that shareholderism is predominant in those directors who prioritize power and achievement. These values reflect an appreciation for wealth attainment and control (power) and success in competitive settings through hard work, self-challenge, and persistence (achievement). Accordingly, it is also found that stakeholderism is positively correlated with traits of benevolence and universalism. This is consistent with the logic that directors will favor a solution that is pro-stakeholder if they find motivation in the protection of the welfare of all people (universalism) and in the enhancement of the welfare of the people whom one is in personal contact (benevolence). The article shows that personal values contribute substantially to predicting the stances among corporate board members.

In the context of gender diversity in the board of directors, the study by Adams & Funk (2012) suggests that women directors’ traits are different than those of men, and the study from Adams et al. (2011) suggests that these traits could have an impact in the decisions and stance that they take in the boardroom. It can be expected that gender-diverse boards would have a higher percentage of directors who privilege benevolence and universalism. Consequently, it can be expected that those boards would have a tendency to promote pro-stakeholder strategies. The opposite strategies, shareholder-oriented, can be expected to be undertaken by boards with lower levels of gender diversity. This assumption is consistent with the Upper Echelons Theory (Hambrick & Mason, 1984) which states that organizational outcomes, strategic choices, and performance levels are partially predicted by managerial background characteristics.

Differences between the two genders are not limited to motivational values but research shows that differences might appear in risk aversion as well. Literature in the field of psychology finds that women tend to be more tradition and security-oriented than men are (Byrnes, Miller, & Schafer, 1999), however, some studies in business find that the opposite is true for women directors (Adams & Funk, 2012), others show mixed results depending on the subject of the risk (Chen, Gramlich, & Houser, 2019) and a study by Baixauli-Soler, Belda-Ruiz, & Sanchez-Marin (2015) finds results consistent with the conclusion of the population-oriented studies. Overall, the literature is still undecided on whether female's risk tendencies can be applied to female directors.

The next paragraph will investigate the governance practices that could be influenced by the behavioral differences between male and female directors.

3.2 Women directors' influence on Corporate Social Responsibility practices

It has been seen that women directors prioritize different motivational values than men directors in that their core values are generally more inclined towards benevolence and universalism. This difference has been hypothesized to be influencing the strategies of an organization to satisfy the stakeholders' interests for those boards with a higher percentage of women members.

These feminine values find space in ethical strategies as their motivations coincide with the definitions of universalism and benevolence. The ethicality of the firm has been a topic under extensive scrutiny, and, in recent years, for-profit organizations have started social and environmental initiatives to improve their corporate social responsibility (CSR) performance.

CSR is a type of international private business self-regulation (Sheehy, 2015) that aims to contribute to the societal goals of a philanthropic, activist, or charitable nature by engaging in or supporting volunteering or ethically-oriented practices. Whether CSR has been driven by a real commitment or by an interest in increasing the organization's reputation has been up for debate, nonetheless, in the past decade or two, CSR has become a legitimate element of the philosophy in management. Although these practices have become very popular, not all companies care equally about the matters pertaining to non-shareholding stakeholders (such as employees, consumers, and the community) and voluntarily dedicate their resources to social and environmental initiatives intended to promote those parties' welfare.

The motifs behind CSR are of two types: value-based and instrumental or strategic. The value-based perspective emphasizes the role of normative values and beliefs held by key decision-makers of organizations in firms' CSR efforts and performance. This view considers the positions taken by an organization on social and environmental issues to be reflective of the morals or social concerns of the individual members of the board of directors, for instance. The instrumental perspective highlights the potential economic benefits as the key driver for an organization's CSR efforts. According to this viewpoint, organizations are motivated to undergo social and environmental initiatives because it is good for their business and, ultimately, would benefit the shareholders of said organization. Regardless of the motive behind CSR, it has been increasingly important to address the social welfare issue by private organizations, for this reason alone it is pertinent to analyze the potential drivers of these practices since they can be a driver for a firm's performance(Lev, Petrovits, & Radhakrishnan, 2010).

Research in the field has studied how the group-level characteristics of the decision-making bodies influence the stances and the level of commitment to CSR, for instance, Chang, Oh, Park, & Jang (2017) highlight the importance of social ties and independence of the board in having good CSR performance. On the relationship of board gender diversity and CSR, many pieces of research have been performed and show a positive relationship between the two.

One of the first studies on the topic has been done by Bear, Rahman, & Post (2010). The research finds a positive significant relationship between board gender diversity and corporate social responsibility levels, supporting the idea that female directors influence an organization's strategies in favor of stakeholders. In pursuit of understanding this relationship, more research followed this study to address certain aspects of the connection that Bear et al. (2010) neglected.

More specifically, researchers focused on the organizational contexts that cause women to be more influential in the choice of CSR initiatives or strategies. Hafsi & Turgut (2013), for example, focuses on how CSR is impacted by "diversity of boards" (DoB) and by "diversity in boards" (DiB), the latter being the focus of this paragraph. The study tries to find if the positive effects on CSR caused by DiB are moderated by the structure of the board (DoB). In the paper, the DoB is calculated as the dissimilarity of a board from all the other boards for the variables of board size, the share of independent directors, the share of directors with stock ownership in the organization and board leadership duality (participation of the CEO on the board). The findings show that female directors have a significant positive impact on CSR and find that DoB has no direct influence on CSR, but it is a moderator for the effects that DiB has on CSR levels. Variables like the proportion of outsiders, leadership structure, ownership, and relative board size have a positive effect on how much influence individual director characteristics can have.

While Hafsi & Turgut (2013) highlight the role of the structure of a board as a moderator for the relationship between BGD and CSR performance, Hyun, Yang, Jung, & Hong (2016) focuses on the market in which the organization operates. In this study, the relationship is theorized to be caused by moral orientations and the desire to improve their reputational standing within the organization of women directors. The longing of a better reputation can originate from the difficulty in establishing credibility and influencing others in areas of technical issues. It is possible that women directors would take advantage of CSR matters by using the in-depth knowledge for soft-issue topics (like marketing and human resource management) that they are known (Ibrahim, Angelidis, & Tomic, 2009) to gain confidence in the boardroom.

Despite the inclination of women directors to take a leading role in CSR-relevant domains, like any corporate-level decision-making, CSR-oriented policies require some level of consensus in boardroom discussion. Consensus is most likely to arise when the majority of those occupying board seats have shared interest in the given agenda. The paper of Hyun et al. (2016) argues that an organization's presence in the direct consumer market might be strengthening the influence of women on CSR policies. Consumer market orientation is defined as the extent to which the company is doing business directly with individual consumers. The results of the study are consistent with the idea that women directors are a driver for CSR initiatives. In addition, the results show a moderating role of a firm's consumer orientation on the women directorship-CSR linkage. These findings suggest that a company's orientation to accept CSR initiatives is related to the image that it wants to transpire to the client. While this image might not be important when the ultimate clients are organizations, that are also trying to maximize profits, it is highly important when the customer is the individual consumer.

Similar results are shown in a study of Harjoto, Laksmana, & Lee (2015). This paper shows that gender-diverse boards are more effective in the management of CSR in those industries and sectors that are highly competitive and require more stakeholder management. The study further analyzes the influence of diversity on different aspects of CSR and finds that the positive relationship is significant for components in the community, environment, product, and corporate governance areas, while it is not significant for the areas of human rights and employee. The findings align with the idea that women directors would be more inclined to choose strategies in favor of stakeholders, thus being more effective in those markets that require higher stakeholder attention.

There is a problem that arises in the studies on the topic and it is the issue of self-selection. In essence, the problem with these studies is that gender-diversity in boards, as indicated by the percentage of women directors, is not randomly assigned across firms. Instead, the positions are a result of a mutual agreement between the individual director and the organization that it serves. On one hand, the organization might choose to assign a position on the board to a woman over a man because it wants to increase its CSR performance. On the other hand, the female director might choose to collaborate with an organization that is already known for the interests in social and environmental issues.

Overall, the literature shows that gender diversity in the board has a positive influence on corporate social responsibility practices, thus supporting the idea that motivational differences between men and women directors translate to the organization in the form of ethical initiatives. Also, it is found that the magnitude of the influence is situational, in fact, board structure, industry and market are determinant for diminishing or amplifying the effect of board gender diversity.

3.3 Board gender diversity and monitoring practices

One of the critical functions of a board is monitoring the overall performance of an organization, including its operational, strategic, and financial objectives. The activity of monitoring (oversight) is, in fact, the primary reason for why there is a board of directors in the first place, as its objective is to ensure that the management is pursuing the interests of the organization and its investors and is in compliance with applicable policies, laws and ethical standards. Consequently, the board of directors plays a pivotal role in monitoring the allocation of resources of the firm and deciding the level of risk that the organization should undertake.

Consistent with the behavioral differences discussed, female directors are found to be more active in monitoring activities (Adams & Ferreira, 2009), more cautious in decision-making, less aggressive, and risk-averse compared to male directors (Levi, Li, & Zhang, 2014). Corporate risk is fundamental to a firm's survival, growth, and arguably necessary to gain competitive advantage. Strategic risk-taking can contribute to the shareholder's value of the firm, on the other hand, the mismanagement of risk can lead to an expropriation of shareholders' interests. Needless to say, risk management is crucial to a firm's success. The purpose of this paragraph is to understand how board gender diversity affects the monitoring function of the firm.

On the topic of risk management, the studies of Hutchinson, Mack, & Plastow (2015) find that, in Australian public firms, a gender diverse board improves board decision-making and outcomes by influencing risk-taking. In a situation of high firm risk, firms need the board to manage and monitor risk, and those with more female members are more competent at doing so. The study measures risk as the level of exposition to volatility of the firm's stock and earnings, which is consistent with research in the field. Furthermore, it is found that board gender diversity plays as a moderator for a negative relationship between a firm's risk and performance thus suggesting that gender diversity is associated with better risk management. Similar results are found in the emerging economy of Malaysia, where female directors mitigate the risk-taking behavior among listed firms, for four different risk measures (Khaw & Liao, 2018). Part of risk management consists of the monitoring of the allocation of firm assets. Behavioral differences emerge in this field because risk perception is a driver for investments being taken or not. Research finds that female directors undertake fewer projects because of their risk aversion, potentially leaving behind profitable investments (Hutchinson et al., 2015). Female risk aversion and male overconfidence can lead to similar predictions, one distinction is that overconfident men make worse decisions for a firm and women if relatively risk-averse, make worse decisions for a firm. In accordance with the propositions, Huang & Kisgen (2013) find that women directors perform fewer acquisitions compared to men, but those projects have on average 2% higher returns than those of male directors.

At the same time, it can be argued that the benefits of having more cautious directors are not always related to the outcome of the projects. For instance, since the board of directors exercises its monitoring function through independent directors and audit committees, a stream of research ties risk aversion tendencies of female directors with monitoring levels, particularly in audit. It may be argued that, by being more cautious, female directors enrich the monitoring and oversight function of the board by enhancing audit, which is the examination of financial information to assure compliance with the law. Supporting this logic, it is found that gender-diverse boards appoint more industry-specialist auditors and demand higher audit efforts, resulting in higher audit fees (Lai, Srinidhi, Gul, & Tsui, 2017). On the outcome side of audit, a study by Abbott, Parker, & Presley (2012) finds that boards with a higher percentage of female directors is less likely to revise their financial statements, highlighting the effort and attention that those boards pay to audit. In support of this assumption are also the outcomes of research of Gul, Srinidhi, & Ng (2011) which show female directors have a positive impact on the quality of financial information on the board and firm-specific information. In addition, Wahid (2019) finds that boards with a higher percentage of female directors are negatively correlated with financial misconduct including fraud, thus suggesting that board gender-diverse boards find themselves monitoring executive directors more effectively than homogeneous ones. Regarding the external audit process, because of women's greater accounting conservatism and more risk-averse behavior, auditors may perceive firms with gender-diverse boards as being less likely to make financial misstatements. Nekhili, Gull, Chtioui, & Radhouane (2020) show that external audit fees for those firms with a gender-diverse board are lower, supposedly because of the perception of being monitored more thoroughly than if the board was masculine-heavy.

From these findings, there seems to be a financial benefit from board gender diversity not only from a risk management point of view but also from the potential reduction of costs derived from lower audit fees and fewer financial misconducts. Following this logic, there might be a serious argument for risk management being a mediator for the relationship between board gender diversity and firm performance.

4 THIRD CHAPTER: BOARD GENDER DIVERSITY AND THE EFFECTS ON FIRM PUBLIC IMAGE

4.1 Premise

Companies are always aiming to have a good reputation, whether it is among customers, employees or investors, this is because it gives a competitive advantage and it allows the firm to have more sustained earnings and continuous growth.

With the movement of gender equality being a socially and politically loaded topic, there is a range of opinions that come with women in business that are not limited to the subjective effectiveness of those women. The judgement that individuals, groups, and organizations have on board gender diversity can be of wide range depending on factors and opinions that are deeply rooted in society. There are gender role expectations in society, gender discrimination, and overall biased perception of what female directors bring to the board and what the effects of gender diversity are. The perceptions of a firm can manifest in the form of reputation, which is the public's cumulative judgement of the firm over time. A firm's current reputation is determined by the signals that the public receives concerning its behaviors, whether directly from the firm or via other information channels, such as the media or the stock market.

In this chapter, the consequences of the reputation attached to board gender diversity are going to be addressed. The first paragraph will analyze how the external stakeholders of a firm perceive board gender diversity and the effects of the opinions of this perception will be shown. The second paragraph will present the effects of the reputation within the company that is caused by BGD.

4.2 The reputation of Board Gender Diversity with stakeholders

External reputation is the result of a combination of the reputation from the stakeholders that interact with a firm. Reputation is a multi-faceted phenomenon for firms. For example, a company might simultaneously have a reputation among actual and potential employees as a provider of an excellent working environment, a reputation among investors as a sound investment, and a reputation among consumers as the maker of reliable products and services. While there is no guarantee that these various reputations are all positive or all negative, it can be argued that the firm's reputation among investors can somewhat represent the reputation across the board. In fact, if the reputation among consumers is low, this will be reflected in the perception of the profitability of the company for investors. Similarly, if the reputation among current and potential employees is low, this will lead the investors to believe that the firm cannot attract or retain talent and therefore having a worse perception of the company as an investment. Following this logic, prominent research on the topic of reputation focuses on investor related perception.

As has been shown in the previous chapters, board gender diversity influences many aspects of the firm that could make it profitable. Board gender diversity could, therefore, be a potential influencer in attracting investors or not, as they might have a positive or negative image of board gender diversity depending on their ultimate interests. Shareholders are some of the most important stakeholders as they provide the capital to start and run a firm. A firm is likely to attract investors if its reputation suggests that it will be profitable, thus a good reputation can be associated with accessibility to capital. Investors might expect that the presence of female directors will improve board processes by bringing important skills, knowledge, and competencies to the boardroom, for instance, analyze firm reputation among executives and financial analysts and finds that the relationship between board gender diversity and firm perception is dependent on the sector in which the firm operates. Board gender diversity is seen differently across industry and market contexts, with consumer-oriented firms being the ones to have the largest reputational gains from having board gender diversity. Industrial differences are suggesting that reputational assessors perceive that female directors may contribute important resources that make gender diverse boards more effective in such circumstances. Investors have a better reputation for those companies that have higher proximity to the final customer and a gender-diverse board, this is because they expect female directors to help the organization manage its relationships with the more gender-diverse population of consumers. There is strong evidence that reputation varies systematically across sectors. The greatest predisposition to a good reputation lies in consumer services; the greatest predisposition to a bad reputation resides in the energy and finance sectors. The differences across sectors suggest that investors are evaluating gender diversity in boards in a unidirectional way, by giving importance primarily to the stakeholder connections that they bring.

Other research finds that CSR initiatives are a mediator for the relationship between BGD and reputation (Bear et al., 2010). This is in line with the findings of Brammer et al. (2009) since CSR is particularly important when the proximity to the customer is high. Particularly, board gender diversity could act as a signal of good CSR which then associates it with a good firm reputation and a less risky investment.

In addition to the connection between BGD and low-risk investment, studies show that there is a connection between board gender diversity and the access to investment in a firm, thus suggesting that there are direct economic benefits for a firm to have a gender-diverse board. This is a consequence of the reputation of risk management and monitoring performance increase shown earlier and the rise of ethical standards among institutional investors. Regarding the latter, the last two decades have been characterized by the growth of investors which value greatly gender diversity among the areas of interest. Ethical investors are now very powerful and boards across the world have been pressured to increase diversity to satisfy the restrictions of ESG funds (Ethical Social Governance). Furthermore, institutional investors might see women on the board as an indicator for forward planning in a world where sensitivity to different cultures and diversity is essential for long term survival (Terjesen, Sealy, & Singh, 2009). For example, some institutional investors have begun to implement diversity screens as part of their investment practices and a commitment to diversity in employment practices and directorship is part of the inclusion criteria for many socially responsible investment indices. Supporting this logic is the research of Redor (2018) which finds that board gender diversity matters to investors only when it drops below the critical level of three women. This could be explained by the interest of investors to avoid tokenism and by the necessity to satisfy the gender standards set up by ESG institutions.

It can be said that there is a lack of consensus on whether investors believe that gender diversity in the board consistently creates firms value (Post & Byron, 2014), but a recent study by Groening (2019) examines the reaction of investors to the increase in appointment of female directors. It analyzes the immediate reaction of investors to the passing of a law imposing a minimum quota of 20% of female members in the boardroom of public companies in Italy. The results show that the market responded positively to the announcement for those firms with male CEO and board chairman, those with a greater level of competitiveness and those with fewer women on board committees. Overall, the results show that investors anticipate a higher level of future cash flows from the expectation that females will occupy close to or greater than a critical mass of board positions. This study is particularly relevant because it shows the perception of investors to the gender aspect exclusively without knowing the actual identities or qualifications of the women to be appointed. While Groening shows that investors value BGD positively in Italian firms, the results cannot be generalized to all the economies as there may be idiosyncrasies in the Italian market which may make the specific results ungeneralizable, such as relatively low levels of women in the workforce and low levels of women on boards.

Besides, while it might be true that BGD is valued positively by investors, it is not certain whether this exogenous appointment of female directors is damaging the functioning of boards or whether boards are receiving the benefits of diversity anyway. For instance, the usage of gender diversity eligibility criteria by ethical fund managers has forced organizations to adapt to the investors and include more women in the boardroom. It is possible that the appointment of a female member can be interpreted purely as a political statement or as a tool to reach the eligibility requirements of institutional investors by the other members of the board. This phenomenon can be damaging in the boardroom as it amplifies token effects and does not allow the female directors to influence the board to the fullest.

4.3 Board gender diversity and reputational effects on employees

The reputation of a company can have effects externally as well as internally. In this paragraph, the perception of board gender diversity among employees and its effects are going to be analyzed.

Reputation among the workforce is important on two levels, first, it allows for companies to attract good quality employees (Turban & Cable, 2003), second, it lowers employee turnover levels by increasing affective commitment (Alniacik, Cigerim, Akcin, & Bayram, 2011). Board gender diversity could be signaling to employees that the firm has a history for advancing equally the careers of female employees and male ones. At the same time, women executive directors can act as a signal for the political stance that the company has on sex discrimination. Sealy, Vinnicombe, & Singh (2008) find that firms are likely to gain legitimacy from female employees and from potential recruits as “female-friendly” employers if there are women holding executive directorships. Also, it finds that women perceive female directorship as a symbol of career possibilities. In theory, companies with a gender diverse board can hire from a larger talent pool than those with homogeneous ones. Bilimoria (2000) finds that board gender diversity is associated with lower female employee turnover. Therefore, suggesting that female employees perceive companies with a gender diverse board to be associated with a better workplace. In addition, the lack of female role models is contributing to women’s propensity to resign (Rosin & Korabik, 1995). Increased retention of the workforce is particularly beneficial for a firm since the cost of losing a qualified employee is estimated as at least one and a half times the salary of that employee.

It can be deduced that women prefer to work in a firm that has a reputation for having career paths for female employees to become directors, this is particularly true when these employees find a role model director within the company. Research has extensively analyzed the significance of having a mentor in which employees can identify themselves in to be motivated, through admiration and idealization for instance (Kelan & Mah, 2014). A worker is unlikely to pursue directorship-oriented career paths unless it finds a role model to aim at. This is particularly relevant to this paper considering that Sealy & Singh (2010) show that employees tend to find a role model in someone who has similar demographic attributes in the form of self-identification. Consequently, female directors and executives are likely to become role models for female employees which, in consequence, influence them to strive for those leadership positions. Whenever a female employee is in a company that does not have women in the higher positions it is more likely that it will not have a role model and will struggle to be motivated in the workplace. Furthermore, it is found that female employees feel that higher positions are more attainable when there are already female executives in the company (Skinner, 2014).

In line with motivational theories, one can expect that when a goal is perceived as more achievable by an individual that it will work harder to achieve that goal. Similarly, a female manager would push herself to work harder when the directorship position seems more attainable thus leading to an increase in her productivity. For instance, Luanglath, Ali, & Mohannak (2019) find that top management team diversity is associated with higher employee productivity, measured as the operating revenues per employee. Similarly, Dezsö & Ross (2012) find increased productivity of middle managers when top management diversity is higher. Research has not expanded on the potential influence of board gender diversity to the performance of female managers, but given that the members of the top management team have a higher probability than board members to have been recruited from within the firm, it would be expected that the positive impact found with top management on the motivation of lower-level women managers would be stronger than the effect of board gender diversity. On the other hand, male managers might face a reduction in motivation to achieve higher positions caused by the reduction of the board's masculinity. A study by Tsui, Egan, & O'Reilly (1992) suggests that gender diversity might be deleterious on the intention to stay of men in operational teams.

The reputation of a firm to have career paths for women and to having a better workplace for women is beneficial because it allows to draw talent from a larger pool. Furthermore, it allows female employees to feel directorship positions to be more achievable thus increasing their motivation and ultimately increasing their productivity. From the perspective of role models, board gender diversity is particularly beneficial for those firms that have a large share of female middle-managers, which often lack a mentor to follow as an example.

5 CONCLUSIONS

The study, in the form of literature review, has analyzed the influence of board gender diversity to the firm and avoided to find a connection between the presence of female directors on the board and the performance of the organization. The contribution of this paper is threefold.

First, it analyzed the consequences of having differences in backgrounds, connections, and human capital on the decision-making dynamics within the board and on the propensity to innovation. The aggregation of theoretical and empirical literature suggests that gender diversity, although it can cause conflict in the board and make the decision process stiff and longer when it reaches the critical mass of 3 women, is a good medium to tackle groupthink and to increase the decision-making capacity of the group. The increase in the variety of human capital and connections in the board translates to an increase in the performance of R&D by better allocation of resources and an increase in creative thinking and explorative behavior.

Second, it examined the outcome of the entry of feminine values to the board of directors like the ones of benevolence and universalism. These impacted the overall strategies of the organization by being more stakeholder-oriented and ethically conscious. This effect is further enhanced for firms that operate in the consumer market, hence when the board is more prone to receive the proposition of CSR initiatives. It is shown that female and male directors differ by their perception of risk, specifically, women are more risk-averse. This is reflected in the higher monitoring levels which could benefit the firm by having fewer financial reporting mistakes and lower audit fees and harm it at the same time by reducing corporate risk below the optimal level.

Third, the research on the impact of the reputation, both internal and external, on the firm is reviewed. Female employees perceive firms with BGD and a gender-diverse executive team as politically inclined to fight for gender discrimination and as a workplace where there are career paths for women. This perception causes female middle-managers to be more productive and motivated and it enhances the firm’s ability to attract talent. Investors value gender diversity positively because of the range of insights that it can bring and because of the ability of the board to connect to key stakeholders, this is shown by the importance that investors give to BGD in the context of firms with high levels of proximity to the end consumer.

The evidence gathered by the paper suggests that the introduction of gender quotas or the appointment of more female to directorship positions would benefit those boards that struggle to manage risk, to advise good innovation strategies, and to achieve good CSR performance.

Furthermore, BGD would advantage those organizations that are in close contact with the end consumer for two main reasons, it improves the reputation, and accessibility to capital.

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