BOARD GENDER DIVERSITY: A REVIEW OF THE LITERATURE

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ABSTRACT

Purpose: This study aims to review literature in the area of board gender diversity and firm performance in order to identify existing research themes and future opportunities. This is to better understand the relationship between board gender diversity and firm performance.

Approach: This study focusses on articles related to the business rationale of board gender diversity and its effect on firm's outcomes. This review identified four main trends in the literature of gender diversity. These are organisational environment, firm performance and value creation, governance and policies, socio-economics and socio-cultural attributes.

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Findings: The study concludes by identifying some gaps for future studies. Finally the study suggested elaborating the work of previous studies to build a comprehensive conceptual framework that would consider the relationship between the external and internal environmental factors affecting board gender diversity and firm performance.

Practical implications/social implications: Understanding firm level and country level contextual factors that interfere with the relationship between board gender diversity and firm performance. This should be considered when imposing policies and regulations of board gender diversity.

Originality/Value: Some ownership structures were discussed at the firm level; some country level specifications, such as socio-economic and socio-cultural attributes were also discussed.

Keywords: Gender diversity; performance; business case; firm outcomes; socio-economics; socio-cultural attributes.

INTRODUCTION

Corporate governance is an interdisciplinary topic that crosses boundaries between many knowledge branches; these include management, corporate finance, accounting, law, ethics and economics. One of the most important components corporate governance is the board of directors. The board plays an important role in regulating the relationship between management and stockholders by performing a monitory and supervisory role. The composition of the board of directors has received attention by researchers such as Hermalin and Weisbach (2003), who addressed the characteristics of a board's composition that would enhance board effectiveness and corporate performance, and others such as Bohren and Strom (2010) and Huse et al. (2011).

Recently, many researchers have paid attention to other board characteristics that would affect board effectiveness such as board gender diversity (Hillman et al., 2015; Ararat et al., 2015; Ferreira, 2015; Terjesen et al., 2015; Miller and del Carmen Triana, 2009; Hillman, 2015). According to Mahadeo et al. (2012), there are two major perspectives in the literature related to board gender diversity: the ethical perspective that considers diversity as an equality issue (Brancato and Patterson, 1999), and the business case, i.e., the impact of gender diversity on the firm's performance. This study is concerned with the latter; that is, the business case of board gender diversity and how it was handled in the literature.

This study aims to review some of the most widely used strands within the business perspective in order to identify current gaps that would serve as motivations for future studies. Such a review would help to elaborate the work of many researchers in order to build an integrated conceptual framework that would enrich the literature concerned in this area. In order to do so, two broad questions were raised by this study:

1. Why does board gender diversity affect firm outcomes?
2. How would board gender diversity affect firm outcomes?

To find answers for these questions, the reviewed literature was analysed to identify major authors, findings, contribution, methodology and key variables for each article.

The remainder of this paper is organised as follows: the next section will address the methodology of the review. Following this, is the identification of four major trends that were followed by the reviewed literature addressing board gender diversity. The final section will be the discussion, followed by the conclusions.

METHODOLOGY OF THE LITERATURE REVIEW

First, a group of the most recent (2015, 2016) studies published in highly ranked journals about board gender diversity was collected using the key words board, gender diversity, performance. This was followed by collecting their references, resulting in 200 articles after excluding similar references using 1996 as the cut-off year. The articles varied between qualitative and quantitative studies. After that, the number of articles was narrowed to 75 articles based on their relevance to gender diversity and performance from a business perspective. The articles were analysed according to their contribution, findings, theories, findings and methodology.

Articles were collected from top journals according to the ABS ranking in 2015 (4*,4 and 3). These journals included Strategic Management Journal, Corporate Governance, Corporate Governance: An international Review, Journal of Management & Governance, Journal of Management Studies, Academy of Management Journal, Administrative Science Quarterly, British Journal of Management, Asian Pacific Journal of Management, Journal of Business Ethics, Organization Science, Human Resource Management, Management Decision, Journal of Business Governance & Ethics, European Financial Management, Canadian Journal of Administrative Science, The International Journal of Human Resource, Journal of Gender and Entrepreneurship, Feminist Economics and Family Business Review.

This literature review is different from previous ones such as Huse et al. (2011), where they reviewed a group of articles that investigated boards under the umbrella of agency theory and only empirical studies. They differentiated between them according to the contribution of each article (context, behaviour and evolution). Adams et al. (2015 reviewed a group of articles based on their contribution, taking into consideration only recent studies that from between 2008 and 2015. Simpson et al. (2015), analysed a group of studies based on the US market context only; however, they reached the conclusion that the relationship between board gender diversity and financial performance is contingent on certain firm circumstances. Terjesen et al. (2009) conducted a multidisciplinary literature review for board gender diversity. However, the review concerned only the economic and political perspectives that would interfere with the relationship between board gender diversity and corporate performance.

This review differs from the previous ones as it expanded the time window to 20 years, and included more research perspectives and theories handling the board gender diversity phenomena. This was in order to better understand why and how board gender diversity would affect performance, in addition to identifying what is already known and what needs to be investigated more to reach a clear understanding for board gender diversity and its effect on performance. The study tried to identify major trends followed by researchers to capture possible gaps that would form a potential space for future studies in an effort to obtain conclusive evidence.

IDENTIFICATION OF MAJOR LITERATURE TRENDS

The study identified four major trends of the existing literature that was followed by researchers. These are firstly, gender diversity and organisational environment, secondly, gender diversity, firm performance and value creation, thirdly, gender diversity and governance and finally, gender diversity, policies, socio-economics and socio-cultural attributes based on the reviewed articles in this study .

Gender diversity and organisational environment

Gender in an organisational setting has been viewed through the lens of diversity among organisational groups including issues such as wider scope and analysis of decisions and a better ability to generate ideas and solutions. Many studies have investigated gender differences in organisations, including the possible advantages and disadvantages that may affect organisational performance. The following will provide detailed discussion of these issues.

Gender differences

A study by Kennedy and Kray (2014) showed that females are more ethical than males. They are less able to compromise their ethical values, especially in business organisations where the primary and ultimate organisational goal is profit maximisation (Tetlock et al., 2000). This conclusion was also driven earlier by Franke et al. (1997), when they conducted meta-analysis on studies about gender differentiation of ethical issues. They found that females are more likely to perceive hypothetical business practices to be unethical. This was also proved by Hillman (2015) in her study regarding board gender diversity, where she concluded that boards with gender diversity were more ethical in decision taking.

Another point regarding gender differences was raised in a study by Adams and Ferreira (2009), where they found that females had the advantage over males by having better attendance levels and having better monitoring abilities; thus they were assigned more to monitoring committees. Furthermore, Bart and

McQueen(2013) pointed out that female directors are better in taking decisions in favour of stakeholders when there are competing interests at stake.

Neilsen and Huse (2010) focussed on gender differences in performing different tasks, such as leadership and other board tasks. Using group effectiveness theories, they proved that the effectiveness of women's presence is highly dependent on the type of tasks performed by the board. The relationship was mediated by board processes to enhance or inhibit board processes. Hillman (2015) also mentioned that diversity of boards may lead to better decision taking. She also indicated that female directors have a better ability to keep efficient employees, which may lead to reduced turnover costs. Female directors were also found to have a better understanding of the market and customer needs.

Risk taking behaviour

Many studies assessed the differences between males and females in the behaviour of risk taking and the possible outcomes of that to firms. Khaw et al. (2016) mentioned that promoting women in boards may help in reducing risk taking behaviours that may harm corporations, especially in emerging markets. This finding was also supported by Loukil and Yousfi (2015), as they found that women have risk perception that usually leads to risk avoidance behaviour. However, they could not find significance in the relationship between gender diversity and the propensity to take financial and strategic risks. These findings built on previous studies that proved the presence of a gender gap in risk-taking behaviour in many life aspects and decisions; for example, Byrnes et al.'s (1999) study that conducted meta-analysis for a wide range of studies that focussed on the risk-taking behaviour differences between both genders.

Although many studies outlined the positive side of diversity and its possible impact on organisations, there were a few that handled diversity from a different point of view, positing that diversity is a two faction tale where too much of it would hurt performance, creating the so-called factional fault-line (Veltrop et al., 2015). In 1996 Hambrik et al. (2008) indicated that diversity is a double-edged sword, as heterogeneous teams were slower in their reactions towards competitors; moves; nevertheless profitability and market share were positively affected by it. Nguyen et al. (2015) reached a relevant conclusion that there is a potential trade-off between the costs and benefits of diversity.

Organisational characteristics

Another group of studies focussed on the characteristics of organisations that would have a higher probability of assigning women leading positions such as boardroom directorships. Hillman et al. (2007) found that larger firms are more likely to place women in these positions as they face more pressures from surrounding societies. They also added that firms with a greater percentage of female employees have greater probability of having women on their boards. The last finding was that when women directors belong to networks, there is a higher possibility of having more women in these networks. Nekhili and Gatfaoui (2013) agreed with that when they found that a woman's appointment is strongly affected by size and ownership structure of the firm as well as their professional service, network relationships and valuable skills.

Ruigrok et al. (2007) mentioned that women directors tend to be family affiliated to management through family ties, calling for a thorough inspection of their qualifications and attributes. Martin-Ugedo and Minguez-Vera (2014) mentioned the same thing in their study; that gender diversity increases with the presence of family ownership. On the other hand, however, it diminishes with the presence of corporate ownership. Furthermore, Abdulla (2014) indicated that the presence of women is positively associated with board size and presence of family connections. Bianco et al. (2015) stressed that firms with family affiliations had the worst performance, but he also found that institutional owners are the ones who are more prone to assign female directors. Kakabadse et al. (2015) argued that the chairperson has a crucial role in increasing the presence of women in boards based on interviews with women directors.

There might be other determinants for the presence of female directors in boards that need to be investigated in new contexts, rather the existing ones such as other attributes of diversity on the board like nationality (Hillman, 2015).

Gender diversity, firm performance and value creation

The relationship between gender diversity and firm performance is a widely debatable topic in the literature. Some results were given despite the fact that the studies were conducted in the same country. A good example of this is the Carter et al. (2010) study, as it failed to find a relationship between gender diversity and firm financial performance. On the other hand, Carter et al. (2003) and Erhartd et al. (2003) found a relationship between diversity and performance although the three studies were conducted in USA. This contradiction may be due to the different statistical instruments that were used to inspect this relationship.

In their pioneering study, Hermalin and Weisbach (2003) concluded that board composition is not related to firm performance. Furthermore, Haslam et al. (2010) found that the presence of women did not affect performance. However, investors were under the illusion of so-called prejudice, where firms with female directors were perceived to be performing less than other firms; this was not necessarily true in all cases. Marinova et al. (2016) agreed when they found that there is no evidence on the relationship between the presence of female directors and firm performance. However, these findings are mostly found in developed markets where laws and legislations are strong enough to ensure that shareholder rights and shareholding are dispersed, and the presence of female directors would not have a notable effect on performance.

On the other hand, a study such as Nguyen et al. (2015) found that gender diversity has a positive effect on performance, even though different proxies for diversity were used. Garcia-Meca et al. (2015) found that diversity promotes performance in the bank sector. In agreement with this, Low et al. (2015) concluded that female representation has a positive effect on performance. In an effort to enhance the measures, Triana et al. (2016) investigated the relationship in a different way; they indicated a positive effect for gender diversity on performance when the performance of the firm was not low and the firm was not facing any threats. However, the opposite was found when firms faced threats and performance was low, suggesting a double-edged relationship that impedes strategic decisions depending on performance and power of female directors. Solakoglu (2013) reached a similar finding combining the relationship between diversity and performance with the level of performance; he found that gender diversity has a different effect on performance over the different points of the conditional distribution for accounting-based measures, which supports a claim that diversity improves performance of average and above average performing firms. In line with this, Pucheta-Martinez et al. (2016) found that female institutional directors on boards enhance performance up to a limit, when they start affecting negatively firm performance.

Ntim (2015) claimed that gender diversity is positively valued by stock markets; however, this study failed to find evidence on a significant non-linear link between gender diversity and firm valuation. Solakoglu and Demir (2016) also found weak evidence on the positive effect of diversity on performance. Nevertheless, this weak evidence was in the firms targeting local markets with other specifications that may interact with the two variables. Martin-Ugedo and Minguez-Vera (2014) conducted their study on SMEs and found a positive relationship between gender diversity and performance.

Some studies give many reasons for these contradicted findings. One of these reasons is the simplistic way of handling this relationship in most of the previous studies. Ferreira (2015) emphasises the limited ability of these studies to generalise their findings as most samples were not representative of the population, and most researchers jump to the wrong conclusions. Hence, there should be a causality assessment between gender diversity and performance in the first place. Simpson et al. (2015) stated this earlier in their theoretical study, which tried to build a conceptual model for the relationship between gender diversity and firm performance. This study also tried to narrow the wide range of theoretical backgrounds addressed in the literature. It concludes that this relationship may be contingent to certain circumstances in each institution, such as ownership structure. Since these variables are complex and endogeneity exists in these relationships, there should be new methods to examine it and new variables should be added.

Johnson et al. (2013) agreed, proposing extending the existing research to uncover more complex relationships and overcome endogeneity. They also added that there should be studies conducted in new contexts rather than the US and China. A major difference between these markets is a concentration of ownership in certain groups, and the immature law system that does not protect minority shareholders.

Gender diversity and Governance

Boards are a key element in governance, and they have a crucial role in supervising and monitoring management. Many studies linked gender diversity to governance attributes, which may have effect on the performance of firms.

Governance and Ownership

Terjesen et al. (2015) focussed on two important governance attributes, board independence and ownership structure, and studied their interaction with gender diversity at the multi-country level. They found that the presence of women enhances the effectiveness of independent directors on firm performance. Institutional and insider ownership were dependent on board diversity in their effect on performance. The study took many variables that may interact with these relationships into consideration. These included dividends, economic condition, level of corporate governance, percentage of women in the work force, and countries' GDP in order to comprehensively compare between these countries. An important finding was that board independence becomes secondary when not addressing the issue of board gender diversity. Carter et al. (2003) agreed with that finding. They indicated that the ratio of women decreases when the number of insiders increases. These findings build on the argument that diversity enhances board independence.

Ben-Amar et al. (2013) conducted a study that links gender diversity with ownership structures and Mergers and Acquisitions (M&A), which is a strategic decision that interacts with performance. He pointed out that ownership structure affects the effect of diversity on performance. He also found an impact for diversity on M&A decisions. Institutional ownership was an important variable that was handled in this study as it exists in the Canadian context where the study was conducted.

In an effort to extend that work, Ararat et al. (2015) explored the channels through which diversity, including gender diversity, affects firm performance. The results of this study are more liable as it built a diversity index with multiple variables instead of only one. It stated that diversity positively affects the monitoring role of the board. However, this effect was non-linear and synergetic as well. It also linked diversity to independence in the presence of concentrated ownership structures, in line with Terjesen et al. (2015).

Bianco et al. (2015) reached a similar conclusion when they mentioned that board diversity should be accompanied with board independence to enhance performance;

they also found that some governance attributes were positively affected by the presence of women, such as the number of board meetings. These studies extended the results of studies such as Choi et al. (2007), Cho and Kim (2007), Black and Kim (2012) and Liu et al. (2015) where they studied the interactions between board independence and ownership structures. They proved the importance of board independence in firms with concentrated ownership structures, and differentiated between certain types of ownership structures, such as family and governmental ownership.

The relationship between ownership structure and governance was addressed by Desender et al. (2013) when they mentioned that best governance practices are highly dependent on environmental and institutional settings where they are only effective in certain combinations. They argued that the type and degree of ownership concentration affects the monitoring role of the board of directors through external audit fees, as firms with dispersed ownership require higher audit fees because independent directors need more effort to monitor the behaviour of management. On the other hand, in highly concentrated ownership firms, independent directors usually have more information due to their ties with controlling shareholders resulting in lower audit fees. Garcia-Meca et al. (2015) agreed, mentioning that institutional settings have a moderating role in a gender diversity-performance relationship. Furthermore, the existence of weak governance laws inhibits the positive effect of gender diversity on boards. These findings built on the findings of Tam and Tan (2007), who indicated that ownership type has an impact on three governance mechanisms that were addressed in this study (COE duality, debt, and ownership structure).

Board independence

On the other hand, some studies found evidence of a non-linear relationship between independent female directors and performance; this is because increasing board independence would damage board performance and board effectiveness. This was found by Pucheta-Martinez et al. (2016) and Fraile and Fradejas (2014). Tanaka (2016) extended this by indicating that firms with female independent directors enjoy a lower cost of debt after controlling for corporate governance and firm characteristics.

Family business governance

Family businesses are the largest type of enterprise in the world (Bianco et al., 2015). Chu (2011) mentioned that family ownership is positively associated with performance, especially when family members are COEs. Kappes and Schmid (2013) agreed, indicating that firms who are actively managed by their founders were more long term oriented, and they were more able than other control groups to face consequences of short term pressures. In contrast, Filatotchev et al. (2011) claimed that family control increases the risk of private information abuse to retain control of the firm, which negatively affects firm performance. Anderson et al. (2004) found that firms with more family representatives and fewer independent directors have a worse performance than firms with more independent directors. They indicated that independent directors mitigate the conflicts between minority and majority shareholders. Bianco et al. (2015) extended these results by linking gender diversity, family ownership and performance. They indicated the role of family ownership in the relationship between gender diversity and performance.

These conflicting findings are in line with what was mentioned by Dyer (2006) and Miller and Breton-Miller (2006), where they indicated that family businesses are a very heterogeneous group, which will result in conflicting outcomes. They added that family business would perform better if they took advantage of low agency costs and elicited stewardship attitudes among leaders and majority owners. On the other hand, when ownership is too concentrated or too dispersed, too much control without ownership or when too many family members clash, the financial performance may suffer.

Gender diversity, policies, socio-economics and socio-cultural attributes

In an effort to draw a full picture of gender diversity on boards, some studies investigated the market reaction towards imposing females in boardrooms, gender quotas, and their possible outcomes on society, organisational performance, and the economy.

Gender quota

In some countries, such as Norway and Spain, females enjoy a board seat quota. This motivated studies such as Bøhren and Stuabo (2016) to investigate the effect of quota on performance. They indicated that forcing firms to impose a gender quota increased independence; however, it decreased firm value. They also indicated that gender quota shock is stronger in smaller firms and not listed firms with fewer independent directors and with fewer female directors. Wang and Kelan (2013) believed that gender quota has provided a fertile environment to improve their experience and be in leading positions. In agreement with Bøhren and Stuabo (2016), they also found that gender quotas improve independence in addition to tenure and qualifications. They added that firms with an older and better qualified female chair tend to add more women to the board. The likelihood of assigning women as CEO rises with the presence of independent directors and better qualified board chairs.

Socio-economics and cultural perspectives

Low et al. (2015) expanded the perspective of these studies by studying new contexts and adding a socio-economic perspective to gender diversity. They indicated that female representation has a positive effect on performance; however, this effect diminishes with higher female economic participation and empowerment.

They also added that enforcing female quotas may have negative consequences, especially in countries with "cultural resistance".

Abdulla et al. (2016) connected institutional factors with societal reactions towards gender diversity on boards. They indicated that gender diversity exhibits different outcomes on performance depending on institutional and cultural factors. However, some ownership structures were not inspected to provide a wider view for the interactions between ownership structure and gender diversity and their reflection on performance.

Market perception and reaction

Other studies focussed on the market reaction towards gender diversity. For example, Haslam et al. (2010) where they indicated that firms with male boards are perceived by investors to be performing better and that women only appear in weak performing firms. They also believed that market reaction may not always reflect reality as some investors may be investing with a prejudice. In contrast to this, Campbell and Minguez-Vera (2008) indicated that there is no evidence that investors penalise firms appointing female directors in the Spanish context. They also added that increasing female representation provides economic gains. Moreover, Perrault (2015) provided evidence that the presence of women on boards helps in breaking down male networks; this enhances board effectiveness. She also added that gender diversified boards are deemed trustworthy by shareholders, and viewed positively by active communities while homophile boards lack this kind of trust.

DISCUSSION

The relationship between board gender diversity and firm performance has been studied on multiple levels. However, there are still some avenues to explore and enhance the theory that lies behind this relationship. Results are mixed on the empirical side; there is a need to develop the theory and include new perspectives to the existing theory.

At a firm level, the most important aspects that were investigated are governance issues with which gender diversity would interact. Ownership structure was studied extensively; however, governmental and familial ownership structures were the dominant ones. Foreign ownership and institutional ownership and how they interact with the relationship between gender diversity and performance remain under-investigated.

New contexts with different circumstances would enrich the literature of board gender diversity where these types of ownership are common, for example for Middle Eastern countries (Terjesen et al., 2009). On the other hand, external factors, such as economic and cultural issues, and their effect on board gender diversity were considered in previous studies such as Mahdaoe et al. (2012). Other studies such as Abdullah et al. (2016) addressed the cultural perspectives of board gender diversity and how they would affect performance.

In order to better understand the phenomena of board gender diversity and the different elements with which it interacts, this review was conducted by taking in consideration several perspectives. Terjesen et al. (2009) called for an investigation of the validity of models, including firm level aspects and other contextual factors; this is a relevant finding to the current study.

Cultural perspectives of the audience of financial markets should be considered. Moreover factors such as a female women labour force and education percentages should also be considered (Kumar and Zattoni, 2016). The presence of polices that empower women in the society and on corporate boards should also be addressed.

CONCLUSIONS

The study suggests elaborating contextual factors that may exist endogenously, and exogenously calling for the inclusion of more governance attributes that may interact with board gender diversity. This should be in addition to the ownership structure of institutions and consideration of the cultural and economic factors that may inhibit or augment the effect of board gender diversity. This may be by building a comprehensive conceptual model for the relationship between gender diversity and performance including environmental variables (exogenous and endogenous). The internal institutional attributes that may be considered are governance level, board characteristics, ownership structure. On the other hand, external environmental characteristics may include economic conditions, and cultural and societal perceptions towards board gender diversity.

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