Chapter

Gender Diversity and Corporate Governance

Suwongrat Papangkorn, Pattanaporn Chatjuthamard and Pornsit Jiraporn

Abstract

Gender diversity in the workplace has been an issue receiving a tremendous amount of attention both in academia and in the popular press. The research to date has tended to focus on the obstacles to promotion of women at lower and middle management levels, often referred to as a glass ceiling effect. However, most research on the subject has been mainly restricted to the definition of gender, by biological determination, that is, male and female, rather than by social construction. This chapter addresses the impact of gender diversity leadership and firms' performance. In addition, it offers a synopsis of selected research examining the LGBT-supportive workplace policies and firms' outcomes. Further, the chapter identifies priorities for future research that can advance our understanding on this research area, and the broader field of financial studies, encompassing the growing interest in the boundaries between the economic, the psychological and the social areas.

Keywords: diversity, gender, corporate governance, corporate boards, board composition, LGBT-supportive policy

1. Introduction

More than two decades after the United Nations' Beijing declaration and platform for action pledged to take the necessary steps to remove all hindrances to gender equality and the empowerment of women and LGBITQ+, support for gender equality is lacking effective action to boost women's representation at the tables of power. Although in year 2020 all the companies in the S&P 500 had at least one female director, women still only represent 28% of all board directors [1].

Gender diversity in the workplace can bring both benefits and costs to the firm. A voluminous body of literature suggests that board gender diversity brings unique perspectives to the boardroom (for example, see [2, 3]). If a diversified board can bring a broader range of backgrounds among directors, then a more diversified board will collectively possess more information and will have a higher chance of making better decisions. In addition, the diversity of the board can enhance the board independence, and consequently increased board diversity could lead to a better board monitoring function (for example, see [4–9]). At the same time, board gender diversity also gives a positive signal to stakeholders that the company cares about the societal diversity in their governance (for example, see [10–12]). On the other hand, a diverse board may cause higher decision-making costs in boards and increase the likelihood of conflicts and friction in boards [4].

Nevertheless, gender is much more than biological differences between male and female. It is socially constructed characteristics of men and women, such as norms, behaviors, and roles that a society considers appropriate for men and women. It varies from society to society and can be changed. Today, LGBT people are more accepted than ever. This is also true in the business world. Many companies around the world have started to create LGBTQ-friendly parental policy. Recently, several academic studies have also focused on LGBT-supportive policies. Prior studies find that LGBT-friendly policies provide both human-resources-related benefit and financial benefit (for example, see [13–19]). However, there is some evidence suggesting opportunity-seeking managers may use this policy for their self-benefit, particularly their compensation [20].

In the following sections, we review the literature on gender diversity in two key areas, which are theoretical perspective and impact. Section 4 presents a discussion on why there is inconclusive evidence on the relationship between board gender diversity and a firm's performance. Following this, the chapter discusses current literature on LGBT-supportive policies. Section 6 suggests the direction for future research. Lastly, we end with the concluding remarks.

2. Gender may not identify as exclusively male or female

Traditionally, the terms "sex" and "gender" have been used interchangeably, but their uses are becoming increasingly distinct [21]. In general, the term, "sex" often refers to biological differences between male and female. It is something that remains fixed, natural, unchanging, and consisting of a male/female dichotomy. On the other hand, gender is a social construction relating to behaviors and attributes based on labels of masculinity and femininity. Sometimes, a person's genetically assigned sex does not align with their gender identity. These individuals might refer to themselves as transgender, non-binary, gender fluid, or gender nonconforming. Thus, gender may not identify as exclusively male or female.

Although biological sex and the social construction of gender are not equivalents, the close association of gender and sex and the normative demands of conforming to sex-gender stereotypes for social recognition means that both the female sex and feminine gender are likely to be treated as equivalents and equally face discrimination. Furthermore, some also struggle to reconcile their sexual orientation with their gender. Thus, most researchers still use the proportions of male and female in companies as a proxy for the gender diversity, while others use corporate policies regarding gender non-discrimination policies as a proxy for working environment gender equality.

3. Gender diversity and leadership

> *"In the future world we will have a lot of women leaders... Because in the future, people will not only focus on muscle, power, but they will focus more on wisdom. They focus on caring and responsibility."*
>
> *-Jack Ma-*

As the benefits of gender diversity become ever more apparent, companies are working to close the gender parity gap within the organization and try to gain benefits of gender equality across their organization. At the same time, gender equality in the workplace is also an important issue for policymakers. For instance, two years ago, California passed a law mandating that publicly traded companies based in

California are required to have at least three female directors on their board. Many countries in Europe also impose board gender quotas and propose policies requiring board composition disclosure [22].

Despite the social pressure on gender equality, a diverse range of academic literature does not explicitly develop a theoretical framework explaining the gender gap in leadership. At the individual level, theoretical perspectives tend to focus on the characteristics of directors and their stereotypes, while at the board level, theoretical perspectives tend to focus on group-level processes.

3.1 Individual level

Today, people still struggle with their sexual orientation, and they often face prejudice based on their stereotype. According to McKinsey's women in the workplace 2020 report, the underrepresentation of women and women of color in senior management cannot be explained by attrition alone. Black women are more likely to have been laid off or furloughed during the COVID-19 crisis [23]. Also, gender stereotyping fosters bias against women in managerial selection, placement, and promotion, and training decisions [24].

Stereotyping is a cognitive process in that it involves associating a characteristic with a group (for example, see [25, 26]). It does not represent an abnormality in human social behaviors and values because it is simply the nature of people to develop ideas about other people and their behaviors based on our understanding and expectations of self. Stereotyping can be taught or reinforced to people through many different social interactions and influences.

Traditionally, the most appreciated leaders possess characteristics commonly associated with masculinity, such as competitiveness, self-confidence, ambition, and aggressiveness (for example, see [27, 28]). Unsurprisingly, male leaders dominate the world of business. Yet, in the past, researchers have shown that many masculine traits did not always benefit the companies. Some researchers argue that female leaders have important traits, such as warmth and empathy that are useful during a crisis. Consequently, the tendency to prefer female leaders over male leaders is likely to increase under conditions of organizational crisis (for example, see [6, 29]).

Female executives lead differently than male executives (for example, see [5, 30, 31]). Female executives tend to be collaborative and enhance participative decision making (for example, see [32, 33]). They are often described as using the style to motivate followers to change self-interest into group interest through shared concern for key goals. In addition, female executives care more about universalism and benevolence than male executives, and less about self-enhancement values such as achievement and power [34]. Women increase emphasis on their cultural capital to negotiate male-dominated networks and maintain their high-status positions through such measures as obtaining advanced educational degrees or modifying speech and behavior [35]. These traits enhance decision-making processes based on the diversity of ideas, brainstorming and consensus that increases cooperation during crises.

It is also argued that female executives behave like men in order to succeed. In contrast to female stereotypes for the population, female directors are more risk loving than their male directors [34]. One well-known research conducted by Adams and Ragunathan [36] suggests that gender stereotypes are influential in finance, constraining women to reach top positions in banking and sustaining a strong masculine culture. They document that banks with more female directors appear to take more risk than banks with fewer female directors. At the same time, the research also indicates that on average the women who make it to the top tend to perform better than men, in particular under uncertainty.

Some believe that female leaders are favored in times of economic challenges, not because they are expected to improve the situation, but because they are seen to be good people to take the blame in case of failure. This phenomenon has been coined the glass cliff or an invisible barrier, which inhibits the progression to higher levels of an organization's hierarchy [29, 37]. People have the perception that the suitable leaders of unsuccessful companies were associated with the female stereotype [38]. Along the same line, some studies show that the negative relationship between women's presence on boards and stock performance is because of investors' stereotypic beliefs about women's lack of competence and unsuitability for leadership [39].

In short, although there are lots of campaigns and social pressure to raise the gender equality and change the perception of people with respect to gender, there is still some evidence indicating that people prejudge others based on their sex and not on their true capability.

3.2 Board level

There are two main theoretical perspectives in the corporate finance literature underlying the rationale for favorable board gender diversity. The first theory is agency theory. It is based on the assumption that there is a separation of ownership and management that leads to costs associated with resolving conflict of interest between a principle (i.e., shareholders) and an agent (i.e., a manager). To mitigate agency cost, firms apply several corporate governance mechanisms such as law, incentives, shareholders' right, and monitoring [40]. And the board of directors is considered to be one of the important mechanisms for controlling managerial behavior and mitigating the agency problems in the firm. They are usually elected or appointed by shareholders, and they represent shareholders of the company. The board is tasked with making important strategic decisions, providing the leadership to put them into effect, monitoring, and supervising the top management on behalf of shareholders. Many studies have sought to examine the board quality in various aspects, particularly their impact on firm value and other corporate outcomes. Diversity of the board is one aspect used as a proxy for board monitoring effectiveness [4–9].

In social psychology, researchers believe people usually seek to surround themselves with people who share similar background, perspectives, and values, which are then reinforced in intragroup communication. Looking from this perspective, many researchers believe female directors are breaking out of the "old boys club" and thus introducing a more independent perspective [4, 5]. The board with a greater proportion of female directors will be better able to monitor self-interested actions by managers and will thereby minimize agency costs. It has also been observed that female directors are tougher monitors than men. In addition, a female director is more likely to classify as independent than a male director [4]. Firms with a high proportion of female directors tend to be associated with higher chief executive officer (CEO) turnover sensitivity, fewer board attendance problems and better board monitoring [4], and more transparent information disclosure [7]. Plus, female directors are more likely than men to ask questions and raise tough issues [8]. Other work indicates that boards with more female directors have better oversight of management reporting that improves the quality of earnings [9]. In short, female directors improve board monitoring quality and so enhance corporate governance control.

Some also believe that individuals consider themselves and others as either in- or out-group members and are more likely biased toward in-group members, making it more difficult for out-group individuals to join these groups. Consistent with this perspective, researchers describe how CEOs, who are mostly men, are more likely to lead boards composed of like others, of similar gender, as well as age, background, and experience. Similarly, the recent findings suggest that male directors categorize female directors as out-group members and may have a negative social bias toward their board appointment and their election to major board committees [41].

Another stream of this literature argues that there may be some critical number of female directors on board that makes a difference, and which could also have an impact on cultures. A female director is considered a minority in the boardroom. She realizes that her behavior is scrutinized, and she will be very careful in choosing when to speak up, while when there are two female directors in the boardroom, they can help to dispel the notion that either of them is raising the women's point of view. Additionally, women feel they are belonging to the same group so they can feel less isolated. Although two female directors are generally more powerful than one, it takes three or more women to achieve the critical mass that can cause a fundamental change in the boardroom and enhance corporate governance [42]. In a similar vein, Post et al. [43] also suggest that the number of female directors matters. Firms with at least three female directors received higher Kinder Lydenberg Domini (KLD) strengths scores.

The relationship between female directors and CEO has also received much attention. From an agency perspective, the separation between director role and CEO could lead to a reduction in opportunity for a powerful CEO to dominate the board [44]. Boards are held responsible for maintaining firm performance and appointing the CEO is one way in which the board is directly tied to firm performance [45]. Female directors have been found to contribute to governance, reducing CEO power due to their independence. A recent finding suggests that firms with female directors are less likely to hold deep-in-the-money options [46]. The representation of female directors could reduce male CEO overconfidence, especially in industries where high overconfidence is more prevalent. Along the same line, the empirical evidence suggests that there is a relationship between the board gender diversity and the likelihood that a firm will appoint a female CEO. The firm with high female-friendliness has a higher likelihood of appointing a female CEO [47].

Thus, from an agency perspective, board gender diversity could lead to higher independence of directors and the balance between executive and non-executive directors on boards. Boards with high gender diversity could provide a better board monitoring function on behalf of the shareholders. Nevertheless, there is some evidence suggesting that the critical mass of at least three female directors also matters. Any number less than the threshold will mostly result in tokenism, where females on boards are seen as tokens with insignificant impact on corporate decision-making [43, 48].

Another important theory relating to arguments in favor of board gender diversity is the resource dependence perspective, which suggests that directors are appointed to boards in order for the firm to acquire critical resources. Part of the resources that directors bring to the boardroom is their human and social capital. Human capital refers to the individual's set of skills, knowledge, and reputation, which are typically developed through investments in education, training, and prior working experience. Such experiences shape directors' thinking, frame of reference, and perception. The greater the diversity of experience, the greater the potential for understanding problems and consequently better board decision making. Consistent with this notion, Carpenter and Westphal [49] demonstrated that the background and experience of board members is crucial for effective monitoring.

Some believe that females tend to devote more time to housework and childcare, which could result in inferior skills compared to males. This belief could imply that the human capital gap widens as males spend more time in the labor market. However, this belief confronts much criticism from many researchers. The recent empirical evidence shows female directors have accumulated human capital fairly similar to their peers in terms of education, reputation, and board experience [35, 50, 51]. Education is a way to acquire directors' expertise and enhance directors' cognitive skill. Directors with higher education could have a greater impact during board discussions. Prior studies show that a positive relationship between board gender diversity and firm performance is mainly driven by the higher education of female directors [52]. In the United States, female directors are more likely to hold advanced degrees than white males. Similarly, one study by Singh et al. [51] examined multiple human capital dimensions of new appointees to corporate boards in the United Kingdom. They point out that new female directors are more likely to have MBA degrees and international experience than new male directors. Dunn [53] also shows that specialized knowledge skills, such as education, expertise, or business experience, are relevant for a female director appointment. Furthermore, female directors are more likely than males to be support specialists and community influencers [50].

Directors' human capital can be an informational signal to stakeholders about the organization [54]. Firms can enhance their reputation and legitimacy by appointing female directors to the board [11]. The gender diversity in leadership positions communicates that an organization is committed to a tolerant workplace environment in which employees are not discriminated against due to their gender identity. Furthermore, researchers show a higher representation of female directors signals the increased commitment of a firm to a positive working environment and quality employment characteristics [10].

The representation of female directors is linked to organization size, industry type, firm diversification strategy, and the network effects of linkages to other boards with female directors [55, 56]. Female directors are less prevalent in firms that deal with infrastructure, energy, or electronics. In some industries, it is possible to advance a specific business case for increasing female representation in leadership roles, most notably, in companies that have more diverse workforces, or their target market is mostly women [12]. This notion has coined the phrase "women understand women." Having a feminine perspective may be particularly valuable in such industries. Furthermore, it could give a positive signal to stakeholders that the company understands what women want. In contrast, some also believe that only a small number of companies have gone so far as to change management structure for their particular products, services, and business operating environment.

Women are also more aware than men about corporate social responsibility (CSR) [33, 48] and have a better reputation in the eyes of other managers and stock market analysts [57]. Thus, a woman who holds an executive role at a company may raise the firm's reputation, even if the firm has not historically been motivated by corporate social responsibility. In other words, the board gender diversity can send a positive signal to both internal and external stakeholders [10, 11].

Nevertheless, the favorable perception toward female leaders may not be widely accepted in society. There is evidence suggesting that appointing a non-prototypical leader is a signal to stakeholders that they are undertaking change [58]. It is also possible that the appointment of a woman to a senior position is interpreted by investors as a signal of organizational difficulties or decline [54]. Consistent with this notion, research evidences a negative short-run market reaction to the appointment of female executives, suggesting that female executives are less informed than their male counterparts about future corporate performance [59]. However, in the longer term, market participants began to recognize the benefit of female executives for future corporate performance.

Another valuable attribute that directors can bring to the boardroom is social capital. Social capital or relational capital in the context of governance refers to an individual's ability to bring information about the external environment, other firms' strategies, and prospective managerial talent through their networks and relationships [54]. Directors who broadly network with outside groups will have greater social capital because they have easy access to relevant strategic knowledge and perspectives [49]. Similarly, directors who have an external network tied to relevant organizations can provide better advice and counsel. Ultimately, these ties can impact firm performance.

Directors who are broadly connected to outside groups will have greater social capital because they have quick access to information, diverse ideas, and critical resources [60]. It also enhances directors' experience [49] as well as permits the executive to establish a network or to monitor business relations [61]. In other words, the greater the number of ties a director has to other firms, the greater the information and network benefits for the firms. The empirical evidence suggests that female and minority directors have more multiple board seats than males [56, 62].

In summary, female directors tend to have different education backgrounds, professional experience, and personal networks from those of male directors and may be more aware of corporate social responsibility. As a result, the more gender diverse board may help ensure that more perspectives and issues are considered in the decision-making process, leading the board to achieve better decisions.

4. Board gender diversity and firm outcome

Although there is social pressure for gender equality and promotion for a diverse gender board, the empirical evidence on the relationship between board gender diversity and firm performance is inconsistent and the results ambiguous (for a meta-analysis, see [5, 30, 31, 63]). This section discusses various potential causes of these mixed results.

From the theoretical perspective above, one may suppose those female directors appear to reduce agency costs, facilitate access to untapped resources, and improve performance. Consistent with this viewpoint, Carter et al. [64] investigate the relationship between the percentage of female directors on boards and Tobin's q for a sample of 638 U.S. Fortune 1000 firms. They conclude that there is a positive relationship between the percentage of female directors on the board and firm value. Bennouri et al. [65] use multivariate analysis to test the relationship between the percentage of female directors and several measures of financial value (e.g., return on assets (ROA) and Tobin's q). They find gender diversity is positively associated with accounting-based performance measures, but not statistically significant related to Tobin's q. These findings suggest that the interactions between gender diversity and firm performance are not uniform across various measures of performance.

Another explanation for these inconsistent findings is related to methodology [66]. For instance, some researchers, such as Ahern and Dittmar [67] and Matsa and Miller [68], use quota for female directors as a natural experiment. They treat an increase in board gender diversity as an exogenous event. Nevertheless, the gender quota was first discussed in 1999 and firms were given two years to adjust; thus, this law gives too much freedom to define it as the shock [66].

The literature shows that the effects of board composition on firm performance vary among different environmental conditions [30]. In the context of weaker investor protection, board diversity has higher influence on firm performance. Each governance mechanism has its costs and benefits, resulting in the interrelation between governance mechanisms [69]. Firms with weaker investor protection require a tougher monitoring to protect the shareholders' rights. The finding of Bennouri et al. [65] supports this notion. They show a positive association between accounting performance and female directorship in a low investor protection environment. Similarly, the economic condition could be another explanation for these inconsistent findings. In periods of economic adversity, firms needed tougher monitoring and more diverse advice than they would normally need, thereby emphasizing the importance of board gender diversity [6, 29].

Another reason for the conflicting evidence on board diversity may be the ownership structure. Prior studies indicate that the concentrated owners have the means and incentive to monitor the top management effectively [70]. Likewise, Vieira [71] shows the relationship between gender diversity and firm performance differs between family owned and non-family owned firms. Specifically, she finds that female directors have a more positive impact on the performance of family firms relative to non-family firms.

In short, although, the benefit of board gender diversity is ambiguous and unclear, it is better to focus on potential benefits to society that go beyond a narrow indication of firm profitability. Further research on the impact of board gender diversity on firm performance is likely to generate new insights about the potential costs and benefits associated with having a gender equality board.

5. LGBT+ and firm

In 2007, the former CEO of British Petroleum (BP), Lord John Browne resigned from the company where he had worked for four decades after being outed as gay by the tabloid reports of a former lover. He said he had decided to leave now to "avoid unnecessary embarrassment and distraction to the company". As soon as Browne handed his resignation letter, BP shares edged upward from $67 to just under $69 [72].

In the nine years since then, things have changed at a dizzying pace. Society has changed its perception about the LGBTQ+ people. There is a much greater acceptance of LGBTQ+ people and their rights; marriage equality has been achieved nearly all around the world. In 2014, Apple CEO, Tom Cook publicly acknowledged his sexuality, saying that he is "proud to be gay". But Cook's decision to announce did not have much impact on Apple stock. The stock price was virtually unaffected [73].

Not surprisingly, a large number of corporations have considered creating a positive working environment for LGBTQ+ people by introducing LGBT-supportive corporate policies. For instance, Accenture partners with the UN to help operationalize the UN's LGBTI standards of workplace equality. In addition, they also research the advantages of an LGBTQ-inclusive workplace. Researchers also have become increasingly interested in LGBT-related issues. Recent research has focused on potential financial benefits to corporations for implementing LGBT-supportive corporate policies. LGBT customers often have a higher disposable income [13]. They are more likely to buy products from a LGBT-supportive company [74]. It has also been documented that firms with an LGBT equality policy give a positive signal to customers, resulting in higher customer satisfaction both directly and through enhanced marketing capability [14]. LGBT-supportive firms enjoy better credit rating than do non-LGBT supportive firms [15]. Also, a few studies have support for the hypothesized positive association between these policies and financial outcome [13, 16, 17]. At the same time, in terms of human-resources-related benefits, firms with LGBT-supportive policies have a less stressful work environment [18]. Consequently, LGBT-friendly firms tend to have lower employee turnover [19].

Other studies have highlighted the linkage between board structure and LGBT-friendly policies. The opportunity-seeking managers may adopt a favorable working environment policy to enjoy higher compensation through pay-for-performance measures such as bonus or through stock option exercise. Kyaw et al. [20] documents firms with high CEO influence over the board, measured by co-opted board, tend to impose LGBT-supportive policy. Additionally, their finding suggests CEOs use LGBT-supportive policies for self-benefit, in particular, higher compensation.

To summarize, the above findings on LGBT-supportive policies indicate that such policy enables a friendly working environment, which in turn motivates and improves firms' human capital. At the same time, LGBT-supportive policies can be bad for the firm if they are used as a mechanism by managers who want to appear open minded and ethically correct.

6. Future research

To further develop our understanding of the field, there is still clearly a pressing need for research that could help to explain the inconsistent findings observed across previous studies of the relationship between female directors and firm performance, especially under various economic conditions and multi-country studies to supplement the mainly single economic environment condition. This work can enrich our understanding of the impact of board composition on different scenarios.

The COVID pandemic exposed fault lines of gender equality, leaving women to bear the burden of unpaid work as well as being more likely to be laid off or furloughed. This could be a good opportunity for researchers to investigate the impact of COVID on the relationship between gender equality in the workplace and firm's outcome. For instance, how do gender-equality-friendly policies affect a firm's outcome during COVID? In addition, the researcher may consider investigating the relationship between boardroom gender diversity and stock price during the COVID pandemic in various market environments.

7. Conclusion

Despite unprecedented global challenges, gender equality in the workplace has been far too slow and uneven. Most stakeholders recognize the importance of different kinds of educational backgrounds and functional expertise, but they tend to underestimate the benefits of gender diversity. Achieving board gender diversity is likely to generate positive externality. The implementation of gender equality supportive policies, such as appointing females in senior management roles and implementing LGBT hiring campaigns, can give a positive signal to both employees and investors. Ethical postures of this kind have proved to be contributory in building relationships with other stakeholders, which in turn help build the firms' reputation and value creation. Furthermore, from the agency perspective, the board gender diversity could lead to higher independence of directors, resulting in a better board monitoring function on behalf of the shareholders. In other words, board gender diversity could reduce agency cost of the company and again, potentially lead to better firm performance. Firms with gender equality supportive policies tend to provide a less stressful work environment and have lower employee turnover, which in turn enhances human and social capital of the company. Nevertheless, these benefits also come with costs. In some cases, managers may adopt gender equality friendly policy for their own benefit. This leads to several interesting avenues for future research.

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