

Promoting Gender Diversity in the Boardroom: Exploring Multiple Perspectives[†]

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Gender diversity has been the most researched aspect of board diversity, which consists of other observable dimensions like age, ethnicity and unobservable dimensions like attitudes and backgrounds. The possibility of women breaking the proverbial 'glass ceiling' to occupy senior leadership roles is still considered low in countries around the world, the underlying reason being the larger issue of gender inequality. A large body of academic literature has examined the relationship between the presence of women directors on boards and its impact on financial performance of an entity or firm value. Many of these studies have reported positive associations, contrarily some studies have found evidence of no significant relationship or a negative gender diversity-firm performance relationship. Yet another stream of research focuses on theoretical perspectives and characteristics of women on corporate boards. The objective of this paper is to assess the 'business case for diversity' and to review significant studies related to this theme. It considers multiple perspectives on gender diversity along with global contemporary research. The paper also puts forth the varied legislative initiatives adopted by different countries to address the under-representation of women in business. Broadly, the literature reviewed appears to support the 'business case' which suggests that greater gender diversity has a positive impact on financial performance. However, a closer look reveals that the direction of the gender diversity-firm performance relationship is affected by methodological issues, mediating variables/processes and contextual factors.

Introduction

Diversity was ranked as the top trend concerning the state of hiring as per LinkedIn's Global Recruiting Trends Report, 2018, ahead of data and Artificial Intelligence (AI). The report states that diversity, inclusion and belonging are directly tied to company culture and performance. It is based on a survey of more than 8,000 recruiters across the world. At the broadest level, diversity refers to "the great number of different statuses among which a population is distributed" (Blau, 1977). These 'statuses' include differences in gender, ethnicity, age, educational qualifications as well as differences in attitudes and backgrounds (Robinson and Dechant, 1997). With regard to board diversity, it is the variety inherent in the board's composition and is increasingly regarded as a crucial aspect of board composition (Campbell and Mínguez-Vera, 2008).

The subject of under-representation of women in business or political spheres has been a topic of conversation for years; in fact, it has become a crucial issue in all aspects of life (Pande and Ford, 2011). Much of this conversation on diversity revolves around gender, gender diversity being the easiest to track, though the other aspects such as racial and ethnic

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diversity are becoming increasingly important to companies globally (LinkedIn Talent Solutions, *Global Recruiting Trends*, 2018).

Despite women accounting for more than 40% of the labor force in many countries,¹ very few women are CEOs of the world's largest corporations. According to Catalyst's *Historical List of Women CEOs of the Fortune Lists: 1972-2018*, only 24 women (4.8%) were CEOs of Fortune 500 companies.² Women account for less than a quarter (24%) of senior roles globally.³ In 2017, women accounted for 22% of Executive Committee (EC) roles in the Americas, 15% in Europe, and only 4% in Asia.⁴ Women held only 15% of board director seats worldwide in 2017, a small increase from 12% in 2015.⁵ These statistics paint a grim picture of women's representation on boards and senior management positions.

The issue of diversity on boards has received much attention from corporates and legislative bodies globally and in equal measure with different approaches being adopted for increasing the representation of women (Macfarlane *et al.*, 2010; Labelle *et al.*, 2015; and Eagly, 2016). Kochan *et al.* (2003) acknowledge this reality of the workforce and state that this issue has generated tremendous amount of activity worldwide. The advocacy for increasing the representation of women on boards makes sense considering their low representation. In response to this, some countries have implemented quotas to increase the participation of women on corporate boards (Ferrari *et al.*, 2018). Finland, France, Germany, India, Italy, the Netherlands, and Norway have quotas for women on boards of public companies.⁶ Canada has a national goal to reach 30% of women on boards by 2019 (Catalyst, 2018).

The present study augments existing literature by investigating the dominant themes in the current state of research concerning gender diversity on corporate boards. It explores arguments on the 'business case' for gender diversity by reviewing key papers concerning women on boards and corporate financial performance. In addition, it documents and reviews research on the introduction of quota regulations in different countries (particularly the case of Norway). The current research effort aims to gain a better understanding of the literature on gender diversity and its effects by exploring the similarities and differences in points of view of prominent research in this area. This paper discusses the key theoretical perspectives underlying the gender diversity framework, attempts to describe the varied approaches to regulation followed in different national contexts and links it with the introduction of quota regulations and other initiatives in various countries. Through a brief illustration of the quota regulations in different

¹ Janell Fetterolf (2017), "In Many Countries, At Least Four-in-Ten in the Labor Force Are Women", *Pew Research Center*, March 7, 2017. Retrieved from <http://www.pewresearch.org/fact-tank/2017/03/07/in-many-countries-at-least-four-in-ten-in-the-labor-force-are-women/>

² Catalyst (2018), *Historical List of Women CEOs of the Fortune Lists: 1972-2018*, June.

³ Grant Thornton (2018), *Women in Business: Beyond Policy to Progress*, p. 6. Retrieved from <https://www.grantthornton.global/en/insights/articles/women-in-business-2018-report-page/>

⁴ 20-first (2018), *20-first's 2018 Global Gender Balance Scorecard*, February. Retrieved from https://20-first.com/wp-content/uploads/2018/09/2018-20-first-Global_Gender-Balance-Scorecard.pdf

⁵ Deloitte (2017), *Women in the Boardroom: A Global Perspective*, 5th Edition. Retrieved from <https://www2.deloitte.com/uk/en/pages/risk/articles/women-in-the-boardroom5th-edition.html>

⁶ Meggin Thwing Eastman (2017), *Women on Boards: Progress Report*, MSCI, December. Retrieved from <https://www.msci.com/www/research-paper/women-on-boards-progress-report/0806530251>

countries, the paper attempts to provide an overview of results from the studies reviewed in terms of empirical insights and common themes emerging in the literature.

Methodology

To locate studies for potential inclusion, a search was conducted using the terms, 'gender', 'female', 'diversity' combined with the terms, 'board', 'directors' or 'governance' and 'financial/firm performance'. Cross-references (especially those cited more than three times) were checked to include the most prominent research. Given the time required to conduct a systematic literature review, the current study uses the backward snowballing approach (which implies finding relevant articles from reference lists) (Jalali and Wohlin, 2012). Most of the judgements were made based on the title and abstract of the paper, while going through the reference lists. Research reports by consulting organizations like Catalyst and Deloitte were also studied to include updated statistics on gender diversity in various countries.

The Business Case for Diversity

The business case for diversity aims to promote the relationship between diversity (on boards or organizations) and measures of firm profitability. There are many studies investigating the impact of board composition on firm value (Carter *et al.*, 2003; Campbell and Mínguez-Vera, 2008; and Joecks *et al.*, 2013).

Robinson and Dechant (1997) present arguments for a 'business case' for workforce diversity in general by putting forth competitive arguments in support of it. These arguments are as follows: First, greater diversity in the workforce reduces discrimination practices, turnover costs and absenteeism rates for organizations. Second, greater diversity provides a larger pool of the most qualified employees from different groups. Third, diversity is associated with greater creativity and innovation and high quality problem solving. The difference of perspectives among employees allows them to draw from a range of experiences, enabling them to solve problems effectively. Third, increased diversity enhances leadership effectiveness and promotes a greater understanding of the diverse markets that companies operate in. The authors concluded that diversity management can have an impact on both short-term and long-term financial performance for a firm. In addition, process measures (such as focus groups, interviews, company statistics on employee recruitment, etc.) and outcome measures (such as business results) could be used to track the impact of diversity initiatives within an organization. However, the authors also acknowledged that measuring the impact of diversity on the bottom line is difficult as there are no guidelines or standards to systematically document and measure it. They asserted that successful diversity management is firm-specific and should be matched with firm objectives. Further, their arguments were echoed in later research by Carter *et al.* (2003) and Campbell and Minguiz-Vera (2008).

Theoretical Background

There are four key theories underlying the gender diversity framework: agency theory, resource dependency theory, gender role theory and the upper echelons theory. These theories provide

the framework for evaluating the relationship between gender diverse boards and financial performance. The theories discussed in the paper suggest that greater gender diversity on a board is expected to contribute to greater firm value.

While working towards the same goals, 'agents'—the managers and 'principals'—the owners may not share the same preferences. Agency theory focuses on the methods and systems that try to align the interests of the principal and the agent. This dilemma between the principal and agent's goals was first explored by Adam Smith in the *Wealth of Nations*, 1776. Berle and Means (1932) showed that in many large American corporations, there was no single shareholder—or even a group of shareholders—who owned a sufficient percentage of shares to be characterized as 'controlling' the firm. So, the effective control was in fact in the hands of the directors, and their hired managers, to whom the shareholders had delegated the power to run the firm. Jensen and Meckling (1976) identified monitoring the agent's actions as a source of agency cost, along with other types of costs, i.e., 'bonding costs' and 'residual loss' incurred to align the agent's actions with the interests of the principal (Jensen and Meckling, 1976). Their theory stated that the principal could limit divergences from his interest by establishing appropriate incentives for the agent and incurring monitoring costs designed to limit the agent's deviant activities. Eisenhardt (1989) put forward two streams of agency theory—the positivist stream which focused on identifying situations of differing goals/goal conflict between the principal and agent and then describing mechanisms to limit the agent's self-serving behavior, the second stream being the principal-agent stream focused on identifying the most efficient contract alternatives under varying levels of outcome uncertainty, risk aversion, etc. The most important contribution of agency theory was the treatment of the board of directors as a relevant information system for monitoring executive behavior. Hermalin and Weisbach (1991) also pointed out that the board fulfills the critical function of monitoring and advising top management. They explored the extent to which boards monitor management and to what degree monitoring depends on the composition of the board. Further, there have been several studies which have focused on the monitoring and controlling role of boards (Kesner, 1987; Baysinger and Hoskisson, 1990; and Pearce and Zahra, 1992). Agency theorists have suggested that when the board of directors have a share in the appreciation of equity of the company, their incentive to align with shareholder interests is maximized thus motivating the board to be a better monitor of management and enhancing firm performance (Kesner, 1987; Eisenhardt, 1989; Boyd, 1994; and Elson, 1996).

Applying the agency theory to the gender diversity framework, Carter *et al.* (2003) propose that a more diverse board may be a better monitor of managers as greater diversity increases board independence which in turn leads to better firm performance. The theoretical tie between different perspectives is that the gender composition of the board affects the monitoring function performed by the board of directors which in turn affects the financial performance of the firm (Campbell and Mínguez-Vera, 2008).

Resource dependency theory is the second theory underlying the gender diversity framework. It essentially says that different types of directors provide different kinds of beneficial resources to the firm which contribute to better performance. Pfeffer and Salancik

(1978) suggest benefits such as provision of information and expertise, creating communication channels helpful for the firm, gathering support from external organizations and groups, etc. These activities suggest that the directors' expertise, knowledge, experience, reputation, networking abilities and skills form the 'board capital' (Hillman and Dalziel, 2003). Hillman *et al.* (2002) expanded these benefits into director types, i.e., insiders, business experts, community influentials, support specialists, etc. Therefore, board capital has been associated with the provision of resources by boards which has been linked to firm performance (Hillman and Dalziel, 2003). For instance, a study conducted by Certo *et al.* (2001) revealed that firms with more prestigious boards performed better at their initial public offerings suggesting that the credibility and prestige of directors had a positive influence on firm performance. Hillman and Dalziel (2003) integrated the agency and resource dependence perspectives and established a conceptual model of board capital being related to both monitoring and provision of resources and their relationship to firm performance being moderated by incentives. Bilimoria (2000) cited a set of interviews conducted with Fortune 500 CEOs by Catalyst in 1995, many of these CEOs believed that women directors were responsible for providing strategic input, generating productive board discussions and had a positive effect on employee morale by serving as role models and mentors. In other words, the 'board capital' provided by gender diverse boards is expected to improve performance.

Gender role theory of Eagly (1987) suggests that gender determines behavior and its effectiveness with respect to influence. The theory suggests how a gender's behavior is assessed in terms of convergence (or divergence) from expectations. For instance, women are expected to be more sympathetic, flexible and gentle; in contrast men are expected to be more assertive and aggressive (Eagly, 1987). Scholars indicate that women offer a fresh perspective on complex issues, are more likely to ask questions, encourage debate, display leadership and collaborative skills and generally apply higher ethical standards (Franke *et al.*, 1997; Pan and Sparks, 2012; and Terjesen *et al.*, 2016). Female directors have been shown to value interdependence, benevolence and tolerance creating a collaborative atmosphere among board members (Adams and Funk, 2012). Gender roles are relevant for the board as directors communicate with multiple stakeholders and exert influence.

Another theory, the Upper Echelons theory of Hambrick (2007) is a commonly cited theory in gender diversity studies. According to this theory, directors differ in their cognitive frames and these influence firm outcomes. Male and female directors differ in their cognitive frames (information seeking and information evaluation processes through experiences, knowledge and values) and thus their heterogeneity in terms of gender is likely to influence firm performance. Race and gender have been used as proxies for cognitive frames (Dezsö and Ross, 2012). A study by Loyd *et al.* (2012) suggests that heterogeneous groups are more likely to engage in discussions of disparate knowledge and integrate this information. Peterson and Philpot (2007) also asserted that diversity of perspectives provides access to critical and potentially performance-enhancing information in the environment. In another study, Post and Byron (2014) referred to the Upper Echelons theory and acknowledged that differences in experience and knowledge of female directors ultimately leads to a wider pool of knowledge

and experience which influence decision making processes of these directors and ultimately firm outcomes. Therefore, the theory suggests that gender diverse boards may be more effective in considering, discussing and integrating information. Hence, a greater number of female directors may help improve decision quality and improve a firm's ability to generate profits from its investments (Miller and Triana, 2009).

Developing Diversity Initiatives

The business case for boardroom diversity has been made many times, which auditing firms and consultancy firms continue to advocate. For instance, Catalyst, founded in 1962, is the leading non-profit membership organization responsible for promoting the cause of women in business. It regularly publishes and disseminates research and advice about women in the workforce. Reports by Catalyst and other consultancy firms have generally provided evidence of how female participation on boards has affected the 'bottom line' of businesses around the world. According to a report by the Credit Suisse Research Institute (2016), gender diversity is not just the 'right thing to do' but has been shown to increase stock returns and corporate profitability. According to an earlier report published by them in 2014, companies employing at least one woman director had generated a compound excess return p.a. of 3.3% over the previous decade. The 2016 study covered a database of 3,400 companies across all industries in all countries, the excess return increased to 3.5% p.a. compared to companies where the boardroom is entirely male.

The study reported diversity at 14.7% for the year ending 2015 (16% increase since 2014, a 54% increase since 2010). Europe leads the boardroom numbers, the average representation of women directors at 24.4% (2015), an 80% increase over a six-year period. A major factor accounting for this increase was the introduction of quotas and targets in European countries. Many countries have now incorporated recommendations for gender equality in their corporate governance codes and disclosure regulations. Norway has been at the forefront of such measures along with other European countries following suit such as Spain, Iceland, Finland and France with different compliance years. Norway, made it mandatory in 2005 for public limited companies to abide by a 40% quota for female directors requiring full compliance by 2008. Spain, followed suit and made it mandatory for companies to increase the presence of female directors to 40% by 2015 (Labelle *et al.*, 2015). Developed countries in the North American region (like the US and Canada) have also shown increased female participation without any quotas or targets. As per the Fortune 1000 companies in the US, the share of female directors rose from 12.3% in 1999 to 16.9% in 2014 (Catalyst, 2018). Despite significant improvements in Asia in the period, female board representation in Asia is still less than 10%. In a recent study conducted by Terjesen *et al.* (2016), the authors reported that 16 national corporate codes encourage the appointment of female directors; 14 countries mandate gender quotas for publicly-traded firms or state-owned enterprises. Taken together, the facts point to positive financial effects of gender diverse boards with different national governments being compelled to promote the cause of women in top corporate positions.

Table 1 shows a brief view of whether quota(s) have been adopted in a country, along with other initiatives taken and the current percentage of women on boards.

Country	Quota	Other Initiatives	Percentage of Women on Boards
US	No quota regulation.	Different state governments like those of California, Massachusetts, etc., have passed non-binding measures in the recent years to promote gender diversity. Organizations such as Catalyst, The Alliance for Board Diversity promote female participation in the workforce.	23% (Percentage of Fortune 100 board seats held by women). A 3.2% change from 2012.
India	The Companies Act of 2013 made it mandatory for all listed companies and other large public limited companies to appoint at least one woman director to their boards. Companies were given until March 31, 2015 to comply with the provision.	SEBI requires the boards of directors of all listed companies to have an optimum combination of executive and non-executive directors (at least 50% non-executive), with at least one woman director.	12.3% (Percentage of women directors out of total directors). A 3.4% change since 2014.
Japan	There are no government mandated quotas.	The Gender Equality Bureau Cabinet Office of the Government of Japan promotes various policies for gender equality, notably: In 2014, Prime Minister Shinzo Abe reemphasized his target to have 30% of all leadership positions led by women by 2020, in both the public and private sectors, as part of the Fourth Basic Plan for Gender Equality. There is a law to promote women's participation in the workplace and 'priority policies' for accelerating active participation by women.	3.5% (percentage of women on Boards). A 1.9% change since 2013.
Norway	Since 2005, legislation has focused on gender diversity on the boards of public limited companies—the first country in the world to do so. The Norwegian Public Limited Liability Companies Act requires a 40%	Several government proposals promoting equality were approved in December 2016. The main objective of these is to set goals and work toward a balanced representation of both genders in the management teams of companies, at both the executive and middle-	46.7% (percentage of women on boards). A 7% change since 2013.

Table 1 (Cont.)

Country	Quota	Other Initiatives	Percentage of Women on Boards
	representation of both sexes on the board.	management levels.	
Canada	No gender quotas in Canada except a 50% gender quota for boards came into effect in 2011 for government-owned enterprises in Quebec.	The Ontario government set a target of 40% for female appointments to every provincial board and agency by 2019. It further suggested a 30% target for companies by the end of 2019. The Canadian government proposed Bill C-25 in December 2016, introducing important governance changes for public corporations governed by different Acts.	20.5% (Percentage of women on boards). A 4.6% change since 2013.
<i>Source: Deloitte Global Center for Corporate Governance (2017)</i>			

Researchers have tried to classify countries based on the approach followed to promote gender diversity in boardrooms. They have described the different regulations followed in different countries and debated on the relevance and desirability of quota regulation. A paper by Labelle *et al.* (2015) studied government efforts in establishing quotas to increase the representation of women in governance. The sample consisted of 1,691 firm-observations in 17 countries. The objective of the paper was to contribute to the public policy debate on the relevance of adopting 'voluntary', 'coercive' or 'enabling' approaches to promote gender diversity. They used a multi-country research design to compare the results obtained under the Norwegian 'coercive approach' to the results obtained under the 'enabling approach' (comply or explain approach), and the voluntary approach, which was not legally binding on firms. The authors found that in 2011, the voluntary approach was being followed in Canada, Greece, Italy, Portugal and Switzerland whereas Germany, the United States and the United Kingdom had moved to the enabling approach as corporate governance codes to promote the presence of women on boards came into effect. The coercive approach (introduction of quotas) was almost exclusively followed only in Norway followed by other European countries like Spain, France, Belgium and the Netherlands moving towards quota legislation after having introducing enabling codes. Regarding the effects on performance, the coercive and enabling approaches showed a negative impact due to the high costs incurred in the implementation of such programs, while the voluntary approach showed a positive effect on firm performance.

The issue of appointing more women as directors has not only captured the attention of policymakers globally, it is a firm-specific issue as well. As already pointed out by Robinson and Dechant (1997) successful diversity management depends on a firm's specific objectives and requires continuous evaluation of diversity interventions to track the impact on business processes and results. Macfarlane *et al.* (2010) concurred with this view and stated that 'diversity is not an end but a process'. The value of firm-specific initiatives was shown by Fouth-Cummings (2008) who conducted interviews with a set of women directors of Fortune

500 companies in the US (companies where the percentage of women directors exceeded 25% for 10 years) and identified these as ‘sustained commitment’ companies. The interview data revealed that these firms made a constant commitment to recruiting and promoting more women onto boards. These boards had made CEOs responsible for board and company diversity. The author cites the case of Chubb Corporation (a global provider of insurance products, headquartered in the US) which has taken a proactive approach to promote board diversity. Chubb had appointed a chief diversity officer (CDO) to report directly to the CEO with information and statistics on board diversity. The CDO was responsible for submitting an annual report, describing the company’s position with respect to the representation of different demographic sub-groups in the workforce.

However, integrating diversity management into the culture of the organization and ascertaining its effect on the bottom line is not a straightforward process as pointed out by (Macfarlane *et al.*, 2010). The next section reviews studies on the diversity-performance relationship to test the ‘business case’.

Diversity-Performance Relationship

The evidence on the relationship between the presence of women on corporate boards and financial performance is mixed and inconclusive.

Table 2 provides a snapshot view of some major studies linking diversity and performance:

Table 2: Major Studies Linking Diversity and Performance				
Author(s) and Year	Gender Diversity Measure (Independent Variable)	Performance Measure (Dependent Variable)	Sample and Country	Results (in Terms of Direction of the Relationship)
Terjesen <i>et al.</i> (2016)	Percentage of female directors.	Tobin’s Q and Return on Assets (ROA).	3,876 listed companies in 47 countries.	Positive link with both performance measures.
Lückerath-Rovers (2013)	Women dummy used for comparison between companies having women on the board versus those without; relative diversity measure computed as average proportion of females on boards.	Return on Equity (ROE), Return on Sales (ROS), Return on Invested Capital (ROIC), EBIT, Total Shareholder Return (TSR)	99 Dutch companies for the period 2005-2007.	Significant positive relationship with ROE.
Joecks <i>et al.</i> (2013)	Blau index of diversity	ROE	151 German companies observed over	Tilted boards (consisting of 20-40% women) outperform

Table 2 (Cont.)

Author(s) and Year	Gender Diversity Measure (Independent Variable)	Performance Measure (Dependent Variable)	Sample and Country	Results (in Terms of Direction of the Relationship)
			a 5-year period (2000-2005).	skewed boards (upto 20% women). The classification has been given by (Kanter, 1977). A critical mass of 30% women on boards needs to be reached for a more diverse board to outperform an all-male board.
Nygaard (2011)	Ratio of female directors	ROA	All Norwegian firms listed from 1999-2009.	Impact on firm performance tested for 2004-2008. Negative link with ROA for high information asymmetry firms.
Böhren and Ström (2010)	Proportion of women directors.	Tobin's Q, ROA, ROS.	203 firms listed on the Oslo stock exchange in Norway (1989-2002).	Negative link
Ahern and Dittmar (2012)	Predetermined variation in the percentage of women directors.	Stock Price Reaction and Tobin's Q.	Panel of 248 public listed companies in Norway (2001-2009).	Negative link with Tobin's Q, Significant negative stock price reaction to the announcement of the law.
Campbell and Mínguez-Vera (2008)	Women dummy (indicating the existence of one or more female directors), Percentage of women on Board, Blau and Shannon indices.	Tobin's Q	68 non-financial firms (1995-2000) in Spain.	Women's Dummy had an insignificant effect on firm value while the women's ratio and Blau and Shannon indices showed a positive influence on firm value.

Table 2 (Cont.)

Author(s) and Year	Gender Diversity Measure (Independent Variable)	Performance Measure (Dependent Variable)	Sample and Country	Results (in Terms of Direction of the Relationship)
Adams and Ferreira (2009)	Female Dummy (one if the firm has a female director in each year); women's ratio.	Tobin's Q and ROA	Data on 1939 firms for the period 1996-2003 in the United States.	Initially positive link with Tobin's Q. However, a negative link was reported after considering.
Rose (2007)	Women dummy if there is at least one woman on the board, otherwise zero.	Tobin's Q	All firms listed on the Copenhagen stock exchange between 1998-2001.	No link
Farrell and Hersch (2005)	Average number of women on the board, Percentage of females on the board.	Used the event study methodology to determine the impact on CAR (cumulative abnormal returns).	309 unregulated Fortune 1000 firms from 1990-1999.	Positive relation between ROA and the likelihood of adding a women director to the board, insignificant CARs around the event window (event being female additions to the board).
Carter <i>et al.</i> (2003)	Women dummy coded as 1 if there is at least one female member on the board, zero otherwise.	Tobin's Q	638 US Fortune 1000 firms.	Positive link with Tobin's Q.
Erhardt <i>et al.</i> (2003)	Percentage of minorities and females on the board.	ROA and ROI (return on assets and investment).	112 US Fortune 1000 firms, performance was measured at two different points (1993 and 1998).	Positive link
Shrader <i>et al.</i> (1997)	Percentage of women on the board (1990-1992).	ROA, ROS, ROI, ROE (taken for 1992 and 1993).	200 US firms (taken from <i>Wall Street Journal</i>).	Negative link

The studies covered above relate to different themes uncovered in the gender diversity-performance relationship. These themes have been discussed below:

Direct Relationship Between Women on Boards and Financial Performance

Evidence of a Positive Link

While some studies report evidence of a possible positive relationship, others provide evidence of a negative relationship or no relationship at all. For instance, Erhardt *et al.* (2003) studied 112 firms over five years and found a positive relationship between board diversity (gender and race) and performance measured by ROI and ROA. However, the authors acknowledged that better performance may be inducing more diverse board appointments, thus pointing to the problem of reverse causation. Carter *et al.* (2003) studied the relationship between board diversity and Tobin's Q of Fortune 1000 firms and found a statistically significant positive relationship. They found that firms with at least two women on the board performed better on Tobin's Q and ROA. However, this study too did not take into account reverse causation. A recent study by Terjesen *et al.* (2016) also belongs to the stream of research investigating how the composition of a firm's board affects performance outcomes, especially the impact of independent and female directors. Using a sample of 3,876 firms in 47 countries, they tested the effects of gender and independent board structure on ROA and Tobin's Q. The results revealed that the proportions of independent directors and female directors were both positively associated with ROA and Tobin's Q. This result was especially true for large firms. However, when a board had fewer or no female directors, the presence of independent directors showed a negative relationship with ROA. The authors acknowledged that using cross-sectional data was a limitation of the study.

Evidence of No Link or a Negative Link

Studies that have found either no effects or negative relationships between board diversity and measures of performance have attempted to rule out reverse causation. Such studies have generally used panel data or accounted for endogeneity. Shrader *et al.* (1997) found a negative relationship between the percentage of female directors on boards and various performance measures (ROA, ROE, and profit margin) but positively related to the percentage of women in management. Smith *et al.* (2006) used panel data on 2,500 Danish firms over the period 1993-2001 to ascertain the impact on several performance measures. Female outside directors showed negative effects, though female insiders (directors represented by the staff) showed positive effects. Their results showed one positive and significant coefficient for the effect of female CEOs on the performance measure: contribution margin/net sales. The coefficient for some performance measures was negative although insignificant. Positive performance results were shown for those female managers with a university degree, those without a university degree had a small or insignificant impact. Adams and Ferreira (2009) examined whether gender diversity impacts governance in significant ways. Specifically, they explored whether gender diversity affects measures of board inputs, i.e., director attendance and committee assignments, measures of governance like CEO turnover and compensation.

Further, they also tested the effect of gender diversity on corporate performance. Their sample consisted of an unbalanced panel of 86,714 director level observations from 1,939 firms for the period 1996-2003. The authors documented only 25% of firms in their study to have more than one female director (65% having at least one). Majority of firms reported only one woman director, taken as evidence of tokenism. Their results revealed that a greater presence of women on board led to higher attendance and greater monitoring as women were more likely to be appointed to audit, nominating, and governance committees although less likely to be assigned to compensation committees and thus less likely to determine CEO pay. Regarding the impact on performance, the study initially found a positive relationship between gender diversity and firm value (as measured by Tobin's Q and ROA). However, addressing endogeneity and reverse causality problems, this relationship turned out to be a negative one. Rose (2007) reported no significant relationship between gender diversity on Danish boards and Tobin's Q. The author speculates that women directors were so few that their presence did not lead to significant advantages. Farrell and Hersch (2005) examined how gender impacts the selection of a new director to serve on the board. They used a Poisson model and considered supply side and demand side determinants associated with the likelihood of adding a new female director to the board. The event study results revealed insignificant market reaction to new female additions to the board despite finding a positive relation between the likelihood of adding a woman director and ROA.

Effect of Intervening Variables

The inconsistency in the results regarding the direction of the gender-diversity performance relationship led researchers to suggest that this relationship is affected by intervening or mediating variables and these must be studied to establish a clearer link between gender diversity and performance. Miller and Triana (2009) (Table 3) studied the relationship between board demographic diversity and firm performance. Their study used the behavioral theory of the firm and signaling theory as the theoretical framework and suggested that diverse boards served as symbols for firms enhancing their human and social capital. They hypothesized a positive relationship between board diversity and innovation. Further, innovation was positively associated with firm performance. Their second hypothesis suggested reputation as the mediating variable between the gender diversity performance relationship. The authors cited, Daily and Dalton (2003) who stated that the 'signaling power' of the presence of women and racial minorities on boards was positively associated with stock returns.

Kochan *et al.* (2013) tested the arguments regarding the 'business case' for diversity in four large firms as part of a research consortium known as the Diversity Research Network. Sponsored by the Business Opportunities for Leadership Diversity (BOLD) initiative, a non-profit organization dedicated to helping American companies leverage their cultural diversity for competitive advantage, their research found few direct effects of diversity on performance. Instead, the authors suggested that the relationship between diversity and performance was dependent on the organizational context (consisting of organizational culture, business strategy, human resource policies) and group/team processes. Diversity was hypothesized to

Authors	Gender Diversity Measure (Independent Variable)	Intervening/ Moderator Variable	Performance Measure	Results
Miller and Triana (2009)	Board gender diversity and racial diversity measured using Blau's Index 1977, proportion of racial and women minorities on the board for a sample of Fortune 500 firms.	Innovation: was measured using R&D expenses as a proxy. Reputation: Firm reputation scores were obtained from the 2004. Fortune Corporate Reputation Survey.	ROI, measured as net income divided by invested capital. ROS, measured as net income divided by net sales.	Both board gender and racial diversity were positively related to innovation. However, gender diversity was not related to reputation. No direct relationship was found between gender diversity and firm performance. However, the correlation among the variables was positive and significant.

have a positive relationship with performance if associated with positive group processes (such as creativity). Gender diversity showed positive effects on team processes in some cases. However, there were hardly any direct effects of diversity on performance.

Post and Byron (2014) conducted a meta-analysis and examined the results of 140 studies concerning women on boards and financial performance and investigated whether these results varied due to different regulatory and sociocultural conditions. Upper Echelons theory served as the main theory underlying their meta-analysis. They considered how female board representation may contribute to financial performance by looking at board monitoring and board strategy involvement as possible intermediary variables linking gender diversity on boards and performance. In addition, they considered the role of contextual factors, i.e., shareholder protection and gender parity. They examined whether the relationship between female board representation and monitoring activities was moderated by the extent of shareholder protection and gender parity. Their results showed that the relationship between women on boards and accounting returns was positive in countries with stronger stakeholder protection. A positive link was also reported for market performance in countries with greater gender parity. The presence of a greater number of female directors was also associated with greater monitoring and strategy involvement.

A notable study in this regard is Nielsen and Huse (2010a and 2010b) who investigated the contribution of women directors to board decision making and strategic involvement. According to the authors, it is not the gender per se but the different values and professional experiences that enable women to make significant contributions. Their sample consisted of 392 board members and CEOs from 120 Norwegian companies.

Effect of Regulation

Apart from the studies taking into consideration the moderating variables, some studies have reported evidence on the impact of the quota mandating 40% female representation (passed in 2003) on boards in Norway. As already pointed out, Labelle *et al.* (2015) studied the relevance of different approaches (namely, the 'voluntary', 'coercive' and 'enabling' approaches) to promote gender diversity. The case of the coercive approach followed in Norway has been discussed below.

The Norwegian Parliament enacted a first of its kind law in December 2003 requiring all public limited companies to have at least 40% representation of women on their boards by July 2005. The law became mandatory on January 1, 2006 with a two-year transition period requiring full compliance by January 2008. The Nordic countries have a reputation of having the most gender progressive policies. Norway has one of the highest percentage of women in Parliament. They are ranked highest in numerous indicators of national development, including education, quality of life, economic competitiveness and human development.⁷

An important study by Ahern and Dittmar (2012) sought to investigate whether the mandated increased representation of women on boards (or quotas) had a positive or negative effect on firm value. The authors used a panel of 248 publicly listed firms listed on the Oslo Stock Exchange from 2001 to 2009 to ascertain the pre-quota and post-quota effects on firm value. First, they conducted an event study to determine the impact of initial announcement of the law on stock prices, the first announcement being made on February 22, 2002. The industry-adjusted stock returns, taken for five days surrounding the announcement, were highly negative (-3.54%) and significant for firms with no female directors compared to (-0.02%) for firms with one female director. Norwegian firms suffered a substantial loss in market value compared to US firms in the same industry. They also tested the long-run impact of the quota on firm value as measured by Tobin's Q. Quotas caused a substantially large negative impact on firm value. Though more number of women were elected to boards, the number of female directors serving as Chairman and CEO remained less than 5%. The authors provided a summary of laws regulating gender diversity on boards by country, specifically stating the year in which gender quota legislation had been passed, the mandatory quota percentage, the quota compliance year and the average percentage of women on boards post the incorporation of recommendations in various countries' governance codes. They reported evidence on countries like Spain, France and Iceland having passed quota laws, and the Netherlands and Belgium having 'pending laws' (laws not having passed all stages of the legislative process). Some countries were labeled as 'discussion' wherein the media sources cited politicians of the respective country still debating the viability of quotas. Their results showed that forced additions of new female directors on Norwegian boards resulted in value losses of more than 20% for firms with large constraints and firms may have appointed family members to comply with the new regulations. Further, the findings revealed that the mandatory compliance of the gender quotas changed multiple dimensions of directors'

⁷ Munch Haagen Klaus (2013), *Nordic Statistical Yearbook*, Nordic Council of Ministers. Retrieved from <http://norden.diva-portal.org/smash/record.jsf?pid=diva2%3A702003&dswid=-4549>

demographic characteristics. On average, new female directors were substantially younger, more likely to possess higher education and less likely to have been a CEO or full time board member as compared to existing male directors and exiting male directors. The negative effect of gender quotas on firm value became insignificant as age and experience were included in OLS regressions of Tobin's Q on board characteristics.

In another study, Nygaard (2011) tested the impact on stock prices, post the announcement of the implementation of the mandatory quota requirement on December 9, 2005. The results revealed that forced increases in gender diversity added value to firms with low information asymmetry. Therefore, the impact of the quota on firm performance was dependent on firm-specific information asymmetry. The author documents that a regulatory system imposing gender quotas may not be optimal for all firms as it alters the existing governance structure. Matsa and Miller (2013) focused on the differences in firms' legal organization as a source of variation to capture the impact of the quota. They compared the voluntary compliance period to the mandatory compliance period and showed that operating profits declined and costs increased because of the quota consistent with the results of Ahern and Dittmar (2012).

The Norwegian studies illustrate that though the quotas mandated gender diversity, it also constrained the ability of firms to find directors with the same kind of characteristics of the replaced directors. This may be the reason for a negative effect on firm value.

Role of Women Directors as a Critical Mass

The core question in 'critical mass' studies is whether a certain number of women on the board can influence board dynamics and decision making. Therefore, another important theme in gender diversity—performance relationships is that of 'critical mass' theory. A few studies examine whether a critical mass of women directors on boards is required to positively affect firm performance. Joecks *et al.* (2013) found that the link between gender diversity and firm performance follows a U-shape. They found evidence for a critical mass of about 30% (or an absolute number of about 3 women on board) to have substantial effects on performance compared to an all-male board. Their results were in line with Konrad *et al.* (2008); and Torchia *et al.* (2011).

A recent meta-analysis by Kirsch (2018) reviewed the literature on board gender composition. The author analyzed 310 articles published in 135 journals covering a 35-year period (1981-2016). Using the systematic review method, the author discovered four distinct streams in the literature of gender composition, i.e., the factors affecting gender composition, how it affects organizational outcomes and addressed the introduction of gender quotas regulations and their outcomes. The author tries to provide answers to the fundamental question of how women's access to boards can be improved. To pursue this goal, her review builds on earlier reviews of research on gender diverse boards.

Differences in the Demographics, Values and Traits of Directors

Overall, research has revealed that there are gender-based differences in leadership and these have been applied to the context of boards to have a better understanding of how boards

operate (Nielsen and Huse, 2010a and 2010b). Notions that women directors are risk averse, compassionate, tolerant, more ethical and conflict-averse draw on gender stereotypes that may or may not apply to all women directors (Post and Byron, 2014). These studies help researchers and others to try and understand what kinds of women succeed in ascending to board positions. Kirsch (2018) points out that the variables measured range from age, social and educational background, marital status to career paths and aspects of women directors' board roles (executive/non-executive status, committee memberships, number of directorships).

Discussion

The insights from the literature reveal five types of themes associated with financial performance. The first relates to studies concerning the empirical evidence on the direct relationship between gender diversity and financial performance, the second relates to studies considering intervening variables/board processes, the third relates to studies concerning the effect of regulation, the fourth relates to the role of directors as a 'critical mass' and the fifth considers the differences in the values and traits of women directors. The implications are discussed below. These findings confirm the presence of the major themes emerging in the diversity literature.

The Empirical Evidence (Positive, Negative or No Relationship)

Several studies have examined the effect of board gender composition on financial performance of firms. The central issue in studies showing positive effects on performance is the use of cross-sectional data (Carter *et al.*, 2003; Erhardt *et al.*, 2003; and Terjesen *et al.*, 2016) or observations for short time periods leading to problems of endogeneity (reverse causation). The endogeneity problem has been pointed out by several researchers (Adams and Ferreira, 2009; Böhren and Ström, 2010; Dobbin and Jung, 2011; Ahern and Dittmar, 2012; Lückerath-Rovers, 2013; and Joecks *et al.*, 2013). To tackle the endogeneity problem, several studies have used panel data (Smith *et al.*, 2006; Adams and Ferreira, 2009; Böhren and Ström, 2010; Ahern and Dittmar, 2012; and Joecks *et al.*, 2013).

Studies that have attempted to deal with endogeneity found either negative or no effects of board diversity on profits or insignificant market reactions (Farrell and Hersch, 2005; Smith *et al.*, 2006; Rose, 2007; Adams and Ferreira, 2009; and Ahern and Dittmar, 2012). There are three approaches which deal with endogeneity: fixed effects models, fixed effects models with instrumental variables, and models with lagged dependent variables (Dobbin and Jung, 2011). The findings clearly suggest that reverse causation is a major factor operating in the diversity-performance relationship. Taken together, the results point to the fact that it is important for researchers to determine whether profitable, well run firms are more likely to appoint women or do women directors have positive, negative or neutral effects on firm performance. It is important for researchers to tackle reverse causation with the use of panel data models.

The major constructs defined in these studies are (1) Female board representation measured as—number, proportion, percentage or presence of women on boards or diversity has been

measured by Blau's index (1977); women dummy variables have been used wherein women dummy is coded as 1 when a female director is present, zero otherwise; and (2) Financial performance has been measured by way of three dimensions: accounting returns (firm profitability measured by ROA, ROI, ROE, ROS); market measure of performance being Tobin's Q and stock price/market reactions in event studies (refer to Table 2).

Board Processes/The Effect of Intervening Variables

In a meta-analysis, Kirsch (2018) points out that the presence of women on boards affects group processes and decision making. Kochan *et al.* (2003) emphasize the importance of studying organizational context and the effect of gender diverse boards on group processes (such as creativity, reducing conflict, etc.). A series of studies conducted by Nielsen and Huse (2010a and 2010b) supported the notion that board processes mediate the relationship between the ratio of women directors and board effectiveness. They found that boards with a greater number of women directors are likely to use board development activities (such as instruction, development and evaluation programs). These mechanisms enhance board strategic and operational control which in turn contribute to board effectiveness. Another proposition put forward by the authors was that the presence of women directors reduced the level of board conflict. Another area where the presence of women directors has shown positive effects is strategy involvement (Post and Byron, 2014). A couple of other studies have found that female directors provide useful insights that are useful in strategy deliberations (Carter *et al.*, 2003; and Campbell and Minguez, 2008). Taken together, the results suggest that it is not the number of women directors, rather group processes and team dynamics that mediate the relationship between board diversity and performance.

Effect of Regulation

A meta analysis by Kirsch (2018) points out three types of arguments for a more balanced gender composition. First, the business case for diversity states that diversity is beneficial for firms as it is in their best economic interests. Second, ethical arguments point out that it is discriminatory to leave women out of top corporate jobs. Third, the social justice argument highlights that the inclusion of women is a question of democracy in any society and equal participation is essential.

Norway has been at the forefront of studies concerning the effect of regulation. A study carried out by Ahern and Dittmar (2012) found that the quota led to a negative stock price reaction for firms with no women on boards at the time, and a negative effect on performance as measured by Tobin's Q. Their findings revealed that the quota imposed severe constraints on the choice of directors which led to firms to recruit younger, less experienced females. It also caused firms to relocate or change their incorporation status (these companies went private or were taken over by foreign firms). Evidence revealed that many firms delisted as a result of the quota as the quota was only applicable to public limited firms. Matsa and Miller (2013) also found a decline in performance and increase in costs as a result of the quota regulation. However, Nygaard (2011) found an overall positive effect using a different date for the announcement of the quota. The author relates his findings to that of Ahern and

Dittmar (2012). The author suggested that the negative stock market reaction in Ahern and Dittmar (2012) may have been due to firm-specific variation in exposure to market risk and a sampling procedure that over emphasized new firms. Terjesen *et al.* (2016) pointed out that there is no standard 'successful quota' that can be implemented. Overall, the findings suggest that mandatory fulfillment of quotas do not necessarily lead to the desired effects. However, quotas are intended to push for a gender-balanced view in decision making.

Role of Women Directors as a 'Critical Mass'

The Critical Mass theory states that until a certain threshold or critical mass of women in a group is achieved, the focus of the group members is not on the different abilities and skills that women bring to the group (Joecks *et al.*, 2013). Some research has begun to evaluate whether a critical mass of women is required to have a positive and substantial impact on performance. Joecks *et al.* (2013) suggested that a more gender diverse board composition would enhance performance only if there was more than 10% female participation on boards and that boards with a critical mass of female representation (i.e., boards with 30% plus females) outperformed all male boards. Torchia *et al.* (2011) supported this view and reported a positive relationship between 3+ women on the board and innovation. These studies imply a clear case against tokenism. Chauhan and Dey (2017) provided evidence of tokenism on boards in India where family-owned firms are prevalent and a patriarchal society exists. The findings imply that an increased number of women on boards may indeed lead to improved performance.

Differences in the Values and Traits of Women Directors

A common finding across several studies is that women tend to be younger, have less board experience, as measured by prior directorships, multiple directorships or directorships in blue chip companies (Terjesen *et al.*, 2009; and Post and Byron, 2014). Research has also found that differences in the values and attitudes of men and women generates a healthy level of debate and these differences aid in better monitoring of management (Adams and Ferreira, 2009). These differences are crucial and are ultimately linked to board processes and outcomes. Macfarlane *et al.* (2010) noted that board diversity contributes to better problem solving, taking advantage of global opportunities and avoidance of groupthink. Taken together, differences in values and traits of males and females contributes to board effectiveness.

Scope for Future Research

The avenues for future research arise from the limitations and implications of the various studies reviewed in the earlier sections. Bilimoria (2000) called for more research into creating a compelling business case for women on corporate boards and highlighted four major areas which ought to be the focus of empirical study: overall corporate reputation, strategic involvement and corporate direction, effective boardroom behavior and contribution to other women employees. For instance, the author asks whether firms with multiple women directors had better business reputations than firms with single woman directors. Another future area for research calls for determining whether large shareholders exert influence in

the recruitment of women directors. An important result of Post and Byron (2014) was the use of contextual factors (extent of shareholder protection and gender parity) moderating the relationship between gender diversity on boards and financial performance. Their study encouraged the identification of new moderating variables in the gender-diversity-performance relationship. For instance, environmental uncertainty or level of economic development may be used as contextual factors. Kochan *et al.* (2003) also suggested that context was crucial in determining the nature of diversity's impact on performance. Future research could look at the conditions under which diverse boards outperform or underperform more homogenous boards. Also, while researchers (Nielsen and Huse, 2010a and 2010b; and Post and Byron, 2014) have studied mechanisms such as board monitoring and strategy involvement through which board composition may affect financial performance, future research may consider other mechanisms/intervening variables through which female board representation may affect performance. An important issue worth exploring is how gender influences decision making as well as the content of decisions made. Smith *et al.* (2006) identified an important topic for future research, i.e., to identify the performance effects of female as well as male board members who have family ties to the owners. A notable implication of their study was the importance of recruiting well qualified women onto the boards of directors or as top CEOs. Future studies could study the impact of varied levels of education of women on their performance as board members. In addition, the use of case studies, interviews and real life instances would help in comprehending the reality of boardroom behavior. Another interesting area of research points to whether the firms increasing the number of women (especially because of legislation) are engaging in symbolic management or 'tokenism' (Chauhan and Dey, 2017). It would also be helpful to understand the reasons behind a complete lack of women on boards. This would help researchers to examine the efficacy of regulations in different national contexts. Lastly, an important area for future research is documenting the broader impact of gender equality in organizations and not just on boards. This would assist researchers in documenting women's managerial careers and whether gender diverse boards represent and augment opportunities for women employees within the firm.

Overall, the literature reviewed has been used to identify major themes and pinpoint gaps that require more attention from researchers. Table 4 shows the major insights from the literature reviewed in the above sections.

Table 4: Major Insights	
Use of Data	Many studies finding a positive relationship between gender diversity and financial performance have used cross-sectional data (Carter <i>et al.</i> , 2003; Erhardt <i>et al.</i> , 2003; and Terjesen <i>et al.</i> , 2016) leading to endogeneity issues. However, using panel data (Adams and Ferreira, 2009; and Smith <i>et al.</i> , 2006) takes care of endogeneity. Evidence reveals that such studies have generally found a negative or insignificant relationship with performance.
Methodologies	The methodologies used range from using OLS regression, Panel Data analysis with Fixed Effect models to the Event Study methodology (Farrell and

Table 4 (Cont.)

	Hersch, 2005; and Ahern and Dittmar, 2012). Carter <i>et al.</i> (2003) used the two Stage Least Square (2SLS) regression model. Terjesen <i>et al.</i> (2016) used the generalized method of moments regression. To tackle endogeneity most studies have used Fixed Effect models (Smith <i>et al.</i> , 2006; Adams and Ferreira, 2009; Böhren and Ström, 2010; Ahern and Dittmar, 2012; and Joecks <i>et al.</i> , 2013) use a Random Effects model.
Use of Theories	Agency theory (Jensen and Meckling, 1976; and Eisenhardt, 1989), Upper Echelons theory (Hambrick, 2007), Resource Dependency theory (Pfeffer and Salancik, 1978; and Hillman and Dalziel, 2003), Gender Role theory (Eagly, 1987).
Gaps in Literature	How does the role of women directors differ as insiders (executive directors) and outsiders (non-executive directors) and how does it impact performance? A related gap arises when considering the presence of women directors and assessing their contribution in different governance models. Are board gender quotas having a trickle-down effect, i.e., is female representation increasing below the top ranks in organizations globally?
Relevance for Real World Application	The contribution of women directors to board processes and effectiveness is dependent on national and organizational context (Kochan <i>et al.</i> , 2003; Huse, 2008; and Nielsen and Huse, 2010b). Although the Norwegian case is well documented, the efficacy of quota regulations to promote gender diversity remains to be seen in different national contexts.

Conclusion

The goal of this paper was to examine the business case for diversity by reviewing the most significant studies of the impact of women on corporate boards. In addition, the current research effort looks at the impact of regulatory initiatives, especially the effect of mandated gender quotas, on firm performance. Although a limitation is that the review is not a structured meta-analysis, the evidence from the literature reviewed brings to light the dominant themes of the gender diversity literature. The theoretical perspective posits that gender diversity on boards contributes to effective corporate governance mechanisms and higher firm value, although the empirical evidence points to the fact that the presence of female directors may not always translate into increased accounting returns/profitability. Overall, promoting gender diversity is not just a numbers game; organizational context and effective team processes are important mediators in the diversity-performance relationship. Nevertheless, women directors may prove to be important players inspiring other women below the board level to achieve and stay with the firm. They still do not have an equitable share in the governance of firms despite the 'business case' for greater diversity. To counter this issue, governments around the world are engaged in the implementation of quotas and regulations to promote their cause. However, the debate as to how much regulation is appropriate and necessary remains to be seen. Successful implementation of regulation in a few countries has shown

that the process needs to be gradual to be cost-effective for organizations. Research related to women on corporate boards is not only important academically but also provides a more balanced gender representation at all levels in the corporate world. ✪

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