# Impact of Gender Diverse Corporate Boards on the Financial Performance of Companies

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## Abstract

*The push for women participation in corporate boards is gaining traction as it develops corporate governance, makes boards more focussed and organised and improves company's performance. This trend of female participation in board of directors is a trustworthy variable of a gender equality policy being embraced by several countries. This paper explores the logic behind the women participation in governance and management, particularly the existence of females on board of directors. The role of female directors is seen as one of the indispensible features in corporate governance, for the betterment of quality of control and management. Therefore, this paper would have a significant impact on the existing literature.*

***Key Words*: Corporate boards, diversity in board of directors**

## Introduction

Diversity in corporate boards is categorized as the diverse characteristics denoted among board of directors relating to the board functions and decision-making, encompassing ethnicity, age, culture, gender, religion, knowledge, independence, technical skills, educational and professional background.

In addition to general diversity, the gender diversity in the boardroom is of paramount significance because of the imperative role of boards in modern corporate governance. Acknowledging the benefits and significance of gender diverse corporate boards, in the last decade, several state governments introduced and embraced legislative actions to encourage women participation on corporate boards. Norway was the first country to do so, in 2003. However, several EU states have also passed analogous laws to make women part of corporate boards. This paper inspects the measures taken by various states and national governments to make the corporate boards of their public companies gender-balance, as the trend of making corporate boards gender balanced is attaining attention worldwide having positive impact on the performance of companies.

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The methodology used for this paper is doctrinal employing inductive approach. The data collection tool used is document analysis while, the data analysis tools used are content analysis, exploratory and interpretative analysis. Moreover, it is pertinent to mention here that this research would be a meaningful contribution to the existing literature regarding the significance of gender diversity in corporate boardrooms.

*Gender Equality In The Boardroom: An International Perspective*

When talking about the significance of gender diverse corporate boardrooms; Norway is the pioneer who took the step towards enhancing the women participation in the corporate board of directors. In 2002, the Minister of Trade and Industry of Norway projected to make it compulsory for the public limited companies to have at least 40 per-cent women representation on their corporate boards.

The minister floated this idea in tabloid; without discussing it with anyone in government however; it was a planned strategy to overcome the 'boys club' in corporate boardrooms i.e., unequal gender representation which was a perceived problem under debates since long. That proposal was accepted by the sitting prime minister and was made part of the Norwegian Public Limited Liabilities Companies Act in 2006, under section 6-11a which gave the two years warning time to companies having male-dominated boards to appoint an adequate number of female directors.

According to Section 6-11a the minimum number of males or females is contingent on the total number of directors on the board. The intention of section 6-11a is unbiased; it requires the representation of both genders at least to 40 per-cent on corporate boards. The Norway set task for the corporate boards to recruit the required number of females by early 2008, which was achieved by the end of 2007. The Norwegian Register of Business Enterprises confirmed that, 90 per-cent of the public companies of Norway transformed the composition of their boards in accordance with Section 6-11a by early 2008. Today all Norwegian public companies have the required number of women in their boards. It was notified that in case of non-compliance the companies will be sanctioned accordingly; however, the Registrar of Business Enterprise reported that practically not even a single company breached the rule of section 6-11a.

The basic intention of Section 6-11a was to apprentice more females into the corporate boards and create gender balance for the sake of the companies and their performance and effectiveness. The companies have now been cajoled into widening their scope and picking the competent and experienced individuals for directorship; rather limiting the quest to just one half of the inhabitants. However, it is perhaps difficult to determine the effect of Section 6-11a, but already there are reasons to believe that Section 6-11a has led to some changes.

The actual intent of the rule 6-11a was to recruit the best females on corporate boards, and to get rid of less competent males, and therefore equip the companies with better boards. A Danish newspaper highlighted that, in consequence of Section 6-11a, the Norwegian corporate boards have gotten rid of the least competent male directors and have recruited more competent female counterparts. In addition to this, competent females becoming visible aftermath of Section 6-11a and getting more top positions in companies.

Moreover another impact of Section 6-11a, perhaps unintended, highlighted in the Norwegian media, that several Danish women are being employed into corporate boards and hence enlarged the Nordic representation in the administration of Norwegian public companies. The Norwegian rule also seems to have sparked interest and debate in the rest of Europe. Several countries have passed, or proposed to enact or are considering proposing similar legislation, at least as recommendations, and the issue has also been debated in the European Parliament.

The UK also started its efforts for making the corporate boards of FTSE 350 companies more gender balanced. The Davis Report was issued in 2012 and the target was set for achieving 25% female representation on corporate boards of UK FTSE 350 companies by 2017, which has been achieved. Currently, the FTSE 350 has 550 female members in corporate boards in just four years' time. The women come from diverse backgrounds and are making a note worthy input at the top positions, to British economy. In 2011, the FTSE 350 index were having 152 male-board members, today there are only 15 companies with all-male boards, all in the FTSE 250; but decreasing. The women on FTSE 100 boards on 2011 were 12.5% and in 2015 it reached to 26.1%.

The studies evidence that, it is important to make corporate boards diverse for their better effectiveness having several important roles in the governance of the corporation. Firstly, although the majority of operational decision-making is deputized to management, even then the significant managerial decisions such as mergers, stock issuance and change of company governance documents are to be taken by the board.

Secondly, the board is responsible to provide the vision and advice for the networking benefits of a company in order to facilitate the company's admittance to several resources. The third role of board is monitoring; to supervise the managerial affairs.

Moreover, when boards meet regularly, several significant board decisions are usually deputized to particular board committees concerning a particular mandate. The meetings of board committees are conducted separately from the full board. The corporate boards might have several committees but there are some basic strategic committees needs to be established which certainly have greatest impact on corporate governance.

The directors have a stronger and direct influence on the decision-making particularly if they serve on board committees whose main duty is to discharge vital functions such as executive compensation, director appointment, and several other significant board actions. The empirical research on board functions and socio-psychological research on small-group dynamics advocates that diverse boards have a significant positive relationship with better decision-making and governance.

The literature on corporate governance evidences an affirmative connection between board diversity and performance of companies. A study examined the impact of women on corporate boards and women representation on top executive jobs from 2500 largest Danish companies during the period 1993-2001; and concluded that the women representation on top executive positions have an affirmative influence on the performance of companies. The outcome of this study designates that an affirmative influence of females in top executive position is directly related with their qualifications as top managers.

Moreover, diverse management is an important element of good corporate governance. If more females on top executive positions or being the members of corporate boards actually have an affirmative influence on shareholder value and the performance of companies, it could be a resilient argument in favour of having large number of females in top executive positions. Adding to this, there are several arguments in favour of board diversity presented in the previous literature. For example, a diverse corporate board would be capable to take decisions on the basis of evaluation of more substitutes while comparing with a homogenous board.

Board diversity can enhance the reputation of company and therefore, have positive impact on company's performance and shareholder value. For instance, if only men are probable nominees for the boards, the appointment will be made from a limited dissemination of qualifications, which can imply a much lower quality. On the other hand, if the selection is taken place among the best from both genders, the quality will be much better.

However, the arguments may also be against diverse management as well. For instance, a diverse board results in more diverse ideas and more critical interrogations, and therefore, consume more time and would be less effective while comparing with a homogenous corporate board, particularly if a company is working in a competitive environment where the quick response to the market shudders matters a lot.

Thus, theoretically, the financial impact of board diversity and women on board is undecided. The results of earlier studies are not clear to take only one side of the aspect. It has been examined by using the data of 200 largest US companies and the results could not find any noteworthy positive connection between the proportion of women on corporate boards and the performance of companies. In contrast, a considerably negative relationship was observed.

In contrast to these outcomes, a positive relationship has been found between gender diverse US Fortune 500 companies and their performance. Moreover, a considerably positive impact has been noticed while the companies having a well-adjusted representation of women and minorities on corporate boards and equity value of companies. Moreover, the analysis of Swedish companies provides that the relationship of gender diverse boards and the performance of companies while calculating for the size and sectors of a company, that company seems to under-perform.

The diverse boards are alleged to influence a company's long-term and short-term equity value in different way; however these proposals do not come from a single academic discourse. These propositions may be as follows. Firstly, the diverse boards encourage a more realistic picture of company in the marketplace as the demographic prognostications show that diversity in market is increasing day by day, alike to the diversity of the company's probable stakeholders intensify the capability to infiltrate market places. Secondly, diversity promotes creativeness and novelty. This view proclaims that, "attitudes, intellectual functioning, and beliefs are not arbitrarily distributed in the population, but tend to vary systematically with demographic variables such as age, race, and gender".

Moreover, the diverse boards adopt enhanced problem-solving strategies. However, heterogeneous corporate boards might face conflicts in the decision making process initially, but the diverge ideas leads towards discussion and evaluation of more and better alternatives in the decision making process of corporate boards and explore the outcomes of these alternatives more carefully.

Furthermore, the heterogeneous board enriches the efficiency of corporate leadership that takes wider view of matters; on the other hand, the homogenous leadership at the top of a company has narrow perspective of matters. In a consequence, the diverse management of a company handles risks and complexities in smarter way and results in astute decision-making. Lastly, the broader view of diverse boards leads towards better international relationships.

This paper argues that considering the role of women directors as 'monitoring' and 'negative' may not be true, as the women directors are normal directors as others are. This notion is not correct that women directors are recruited for monitoring purposes; those are the independent non-executive directors that are recruited for monitoring purposes. The intention to make boards gender diverse is to benefit from diverse minds in order to create innovations in making policies fairer, to handle risks properly, and to safeguard the capital and interests of shareholders.

Over the last decade, even though the gender-performance relationship has received considerable attention. Some believe that the gender diversity positively affects performance while others contend that the association between gender and performance is negative or there is evidence of no significant correlation. The negative impact is consistent in robustness checks where country governance and global economic shock are taken into consideration.
The possible underlying explanation is that the representation of females on boards is connected with tough monitoring and turns into enhanced performance in some circumstances. However, excessive monitoring can be costly for those companies operating in strong institutional environments where shareholders' rights are well-protected since the marginal cost of the monitoring outweighs its marginal benefits. Otherwise, the results designate that the compulsory existence of women on boards might increase the probability of conflicts among directors, weaken board effectiveness of monitoring and advisory functions and later result in poor performance.

Contemporary academic debate on the topic under consideration can be divided into three main strands. First, there are studies that survey the current landscape of board gender diversity. These studies examine the number of women currently filling board directorships, as well as historical trends related to gender diversity. A second strand inspects the influence of gender diversity on the financial performance of a company, attempting to determine whether boards that are more diverse improve performance or other observable characteristics of companies.

Finally, a third strand based on the social understanding of board diversity, asking how gender effects board dynamics and operation. Taken together, many of these studies ultimately conclude that either economic or moral forces or both support the push for increasing board diversity and making the boards gender-balanced.
Until this point, however, current academic debate has had a dearth of empirical data dissecting the specific roles of women once they are elected to serve on a board and contrasting them with their peer male directors. For instance, information is still lacking regarding important questions such as: what board committees do women tend to sit on; do they hold similar leadership roles; what is their tenure compared to their male counterparts; and what industries have higher percentages of female participation? Such details help reveal whether the metaphorical glass ceiling is truly broken for an individual woman once she enters a boardroom or whether female directors are still subject to disparities even while serving as directors.

The answer to these questions is central to gender diversity debate. It matters if you believe in gender diversity on boards as part of a social cause. It also matters if you believe that gender diverse boards lead to better company performance. The empirical findings reveal significant differences between male and female directors, extending from their tenure to the roles they hold while on the board. Women have shorter tenures, are less likely to hold leadership roles and are stretched more thinly than their men counterparts. These previously unexplored differences highlight that in addition to the highly addressed *quantitative gender disparity* on boards lies an equally concerning *substantive gender disparity* that has yet to be addressed.

Accordingly, current calls for board diversity and the current disclosure regime must internalize the lessons these new empirical data present. Gender diverse boards, therefore, need to concentrate beyond the quantitative numbers of female directors on corporate board and account for the functions that these directors perform once appointed.According to a study of the Norwegian quota regime, female directors tend to bring to the boardroom more vigilant and probing approach, and women “may be particularly adept at critically questioning, guiding and advising management without disrupting the overall working relationship between the board and management.”

*Gender Gap In Top Executive Firms*

Adding to the above debate, it has also been observed that female executives earn better in companies that are run by women. Particularly, females working in companies run by females receive between 15-20% higher remuneration in contrast to the females employed in other companies. Moreover, companies run by women have meaningfully large numbers of women on top executive positions, indicates that female heads prefer and encourage females to be appointed on top positions of a company. Companies having large existence of females on corporate boards are also connected with affirmative gains for female executives.

Females-led companies are defined in one of two ways. A lenient definition defines that: females-led companies are those having a CEO and/or Chair who is a female. However, a slightly narrow definition inflicts the supplementary limitation that the female CEO should be a part of the corporate board of directors; as the top corporate remuneration and elevation choices are commonly concluded by internal-process, i.e., the meetings of board of directors, before consequent endorsement by the compensation committee. The influence of CEO is obvious at both internal and external level sand hence probably to be influential of the result while she appears in the meetings of corporate board.

Furthermore, the evidence suggests that females working in companies as directors are considered genuine leaders as compared to the females in top positions in other sectors because of somewhat greater prevalence of female directors and this prevalence increases their influence.There is a substantial difference in salary which women is earning in women-led and other companies, and also surpasses the differences in male salary in women-led and other companies. It has also been observed that females in companies led by females relish a pay premium that does not encompass to males. Another interesting fact to know is that there is no difference between the pay of male and female executives in companies that are run by females. This interesting fact stresses the importance of women in all executive posts generally and particularly in corporate board of directors, as the gender balanced boards are more transparent and fair while doing decision-making and policy making on significant matters of companies considering the interests of all stakeholders, which ultimately leads towards the better corporate and financial performance of companies.

The literature further advocates that female executives favours other females not only regarding the better pay, but regarding their presence and positions as well. Female executives are influential in supporting females within the organization exactly as males are impactful to promote males.

According to the narrow definition of women-led companies, in which the female CEO is also a member of board of directors are comparatively resilient for the inclusive influence of women-leaders on other top women at a company. Particularly, the existence of a woman as CEO and director at the same time enhances the possibility that women will be in the top-five paid executive positions in the firm. The empirical studies indicate that females working in companies run by females are paid higher and they more likely to be in the top-five paid executive positions of company as compared to the females working in companies which are not led by females.

There are various justifications to prove the strong relationship between companies led by women and an affirmative remuneration and representation impact on the females that work in them. For instance, it has been noticed, that a growing percentage of women in a company could lead towards hiring more women in that company and particularly when the women are in top positions of that particular company.

This could be due to the three major reasons: women can acquire more human capital and better access via mentoring; the aversion and discernment for women as co-workers may reduce with the rise of their percentage; superior information relating to women might accurate informational prejudices and irregularities that could lead towards more employing and elevation of women in top executive positions.

The analogies examined and explored in this paper regarding the significance of role of women in corporate boards are unique and novel and that would be a meaningful contribution in the literature on gender balance approach.

## Conclusion

This paper explored the dire need of hiring women on corporate boards and on the top executive positions. Companies, regulators, advocacy groups and institutional investors, all have acknowledged the necessity of board diversity particularly gender-diverse boards. Though, gender parity is still lacking from the corporate boards of various companies. The area of gender diversity is in hot debates in modern jurisdictions but it is still under-researched in developing world.

The existing literature has concentrated only on the quantitative number of females serving on corporate boards and the litmus test they have taken is by comparing their number with male counterparts. The paper argues that though it is highly important to increase the number of women in corporate boards, but the emphasis is also required on their actual role and impact in the corporate boardrooms. In other words, substantive gender diversity is required for enhancing the corporate and financial performance of companies. Having said that, this paper proclaims that companies, regulatory authorities and institutional investors should focus not only on enhancing the number of women directors on boards rather to guarantee that women directors receive similar parity while comparing with male directors once elected. In addition to this, this paper recommends a transformation towards a substantive gender diversity disclosure with the idea that it will measure and report the substantive element of gender diversity in corporate boardrooms.

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