Diversity in Board of Directors: Beyond Minimalism

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Abstract

Diversity in corporate boards leads towards better decision-making having a mixture diversified of skills, qualifications and experiences; however, moving a step further, gender equity in corporate boards is modern phenomenon which goes beyond minimalism. Gender-diversity in corporate boards is under-researched area in the third world countries. This study explores the benefits and pitfalls of gender diversity in the boardrooms and assesses how the proportion of female directors in the boardrooms impacts their performance. The methodology used to conduct this study is doctrinal, employing exploratory philosophy and inductive approach. The data has been analysed by content analysis. The findings of this study indicate that there is measurable performance gain of having more women in the board of directors. This research is a valuable contribution in the on-going debate on gender diversity; moreover, it provides new horizons and basis for future research.

Keywords: gender diversity, corporate boards, impact of gender diversity, performance of companies

Introduction

The strong board of directors is one of the foundations of a good corporate governance system, as demonstrated by the Corporate Governance Principles of the Organization for Economic Co-operation and Development (OECD), which state that

> *"the corporate governance system should ensure strategic direction to the company"*.

The board of directors is the key component of every corporation's regime, since it is responsible for financial decision-making, policy development and strategic decisions. Their membership can therefore be a solemn issue in the least time for the company. In recent years, the board diversity has seen a dramatic increase by raising the position of females in business leadership. The incentive behind this notion is that the diverse boards' experiences can be more creative and make better decisions. It could be improved, strength sharpened, and a new perspective conveyed. Meanwhile, female involvement in the decision-making procedure is one of the greatest divergent factors which were driven into the kind of law by the Company Act, 2013.

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Diversity is a concept that possesses acceptance and respect means that accepting that every other person is unique and there do exists some individual differences, but every person is being recognized in their way. This includes ethnicity, racial groups, gender orientation, sexual orientation, socio-economic status, age, physical and mental abilities, religions, political religions or other ideologies. They are ultimately discussed in a healthy and supportive setting. It is to understanding others and to accept and appreciate all flaws and all goods in everyone and it is about tolerance and embracing the dimensions of diversity in everyone.

Board diversity gained prominence because of a strengthening of the principle of corporate governance. There are many aspects to the diversity of boards; however, gender diversity is the focus of various companies. Ideally, the structure of the board of directors should reflect the strategic requirements of a company that are evolving as the business climate change. In addition, the shareholders and key importance attached to people value the diversity of perspectives, including those related to racial diversity and gender diversity (Renee Adams, Daniel Ferreira 2008).

Gender diversity is a core subject of corporate governance in Europe and around the world in the board of directors of large companies. This is one of the most significant elements of board diversity. Corporate boardrooms have been traditionally male dominated (Beate Sjafjell, 2015). This trend has been questioned in recent years when various corporations, boards and shareholders acknowledged the advantages of gender equality in the boardroom. Women sit in the boardroom increasingly side by side with their male counterparts, bringing a distinctive style of governance and insight. More research on gender equity in business and on the workplace is being supported by government initiatives. The latest boardroom literature focuses mainly on two areas: the effect of gender diversity on companies and thus the composition of boards.

Moreover, gender diversity is one of the most studied components of diversity, but much of the literature is descriptive. The theoretical theories tend to focus on the gender-based expectations of a person driven from human capital theory. On board level, group processes and how women directors can make special contributions are focused on theoretical constructions. However, Carter, Simkins and Simpsons, 2003, found a positive gender diversity relationship and high value for Fortune 1000. The studies centred on firm results, usually borrowed from resource dependency theory to argue for females on boards in the case of females. Female directors have a positive impact on directors’ performance, take their position more seriously and schedule meetings better. They are more likely to inquire

and become outspoken if there are three or more female directors. The board's independence is thus improved by gender diversity.
Furthermore, gender diversity in companies leads either directly or indirectly to an improved reputation. It is directly shown that businesses with a better percentage of women's board members are favourably regarded in sectors which are located at the edge of the ultimate customers and are much more likely to fall under the "World's Most Ethical Companies" listing of Ethisphere Institutes. Indirectly, the number of female directors is higher and smaller. Furthermore, the policy on gender diversity also seems to have an overall better corporate image as regards increasing corporate social responsibility.

Modern corporations faced gender diversity as most significant among the various board diversity characteristics. It is a matter of interest not only to literature about diversity, but also to political and social problems. Even though there are several females in boardroom but still there's on-going struggle for having more females on the top-level positions is a current global problem. Several nations have started implementing initiatives for promoting female's representation on corporate boards.

Due to lack of literature in the extent of corporate governance in developing countries, laws are insufficient regarding gender diversity in corporate boards and an inappropriate application and implementation. It shows that regulators have unsuccessful to implement the law in their true spirit and to increase public awareness and recognition of the benefits of gender diversity in corporate boards by the Commission to date. A lack of interest or ignorance by government and companies on this topic is the main reason for this inappropriate compliance of gender diversity in corporate boards.

The purpose of this research is to conduct a thorough investigation on the benefits and drawbacks of gender diversity on corporate boards, their application, implementation and therefore the result. Compliance with the codes of corporate governance of corporate boards is one of the company's listing criteria in developing countries, so companies are sure to obey those guidelines. Countries have codes much like the international codes of corporate governance and the corporate governance codes are practised by developing countries. The distinction lies in the momentum as the codes in developing countries are accepted, implemented and enforced.

This study is of great importance as corporate law cannot fall anywhere unless it complies with international standards. Many boards in developing countries have no women, because women do not have an opportunity to show their skills. This has a very strong effect on corporate governance, particularly in these countries because it is very impactful and feasible. On the other hand, developed countries have worked there, and have been successful on the corporate market. The social and economic performance of businesses could boost gender diversity. Corporate market is the backbone of any economy and the economy of a jurisdiction naturally improves once the business sector rises.

Almost every country around the world applies the ideals of business boards. They are applied in many countries and the voluntary collection of rules and codes, however, are introduced as an obligatory rule in other countries. Compliance with the principles of corporate boards is mandatory for businesses in these countries, otherwise they must face penalties, such firms are considered defaulters for not complying with the listing rules and, subsequently, with the codes of corporate governance.

Research Methodology

The methodology used to conduct this study is socio-legal and the method used is doctrinal. Doctrinal research is highly recommended method of research in law while doing document analysis and content analysis (Lisa Webley, 2010). As, this research analyses the policy documents of various jurisdictions to investigate their strata and pattern on the ratio of women participation in their corporate boards and its impact on the corporate and financial performance of companies; doctrinal research method is most appropriate. The philosophy used to reach on a conclusion is exploratory and research approach of this study is inductive.

Impact of Gender Diversity on Corporate Boards

Gender diversity has a positive influence on problems such as government sustainability and social responsibility. Gender diversity advantages go deeper than a company's financial capital. For example, a research paper by Morgan Stanley Capital International (MSCI) has found that companies with fewer females had an increased in governance disputes over the average. In contrast, there were less cases of fraud among more gender diverse boards.

Another recent research has shown that businesses with gender boards make fewer financial reporting errors. Increased inclusion of females on board has a strong influence on corporate sustainability activities. For example, numerous boards tend to increase the voluntary disclosure of climate change.

Decision-making literature reflects three process theories, by which diversity improves efficiency. The first is that females and males have different abilities and greater inclusion ensures the reflection of essential skills.

A second theory is that females and minorities have life experiences other than white males that how diversity increases success and that putting together diverse problems and queries allows the board to explore *"a broader variety of ideas and solutions for company issues"*. One research found that female directors have increased boardroom discussions and was more likely to address problems for multiple stakeholders than their male counterparts.

A third theory is that the very existence of diversity inevitably affects board dynamics in a constructive way. For example, Mannix and Neale argue that the presence, by signalling the differences of opinion, of visibly different members strengthens the capacity of a group to deal with disputes. Some researchers have suggested that the frequent external status and greater unfairness of women may increase their readiness to report wrongdoing. Board of diversity can claim and convey a commitment to equal opportunity and responsiveness, which can enhance corporations' public image.

Empirical studies have shown that diversity has a positive relationship to other good governance initiatives. For instance, a higher women's participation holds more meetings, higher attendance rates, higher decision-making participation, tougher supervision and replacement of the CEO when Adam and Ferriera are poorly established in their stock. A survey of almost 400 company directors conducted by Ibrahim and Angelidis found that the female directors show greater corporate social responsibility participation. A research by the Canadian Conference Board showed that on average there are more transparency practises in organisations with two or more women board members.

Further studies have found that boards with more women and are diverse or have better gender balance are more prone to audit, risk oversight and control. Ferreira indicated that women pay more attention to the monitoring of firms and appear to be better for measuring and monitoring. In addition, they pay more attention and play active role in setting of strategic direction and priorities of the company.

Gender diverse boards have an influence on their results; women board members achieve excellence in economic and strategic analysis in problem solving skills and an excellent capacity to recognise successful agreements. The business and thus investors and clients' needs are also best represented in various boards. Such non-financial factors helped companies to make better financial decisions, make better and efficiently, and expand their customer base. The preference for equity financing was enhanced and debt dependencies were reduced, as it was imitated in equity to asset, debt to equity, and debt to asset ratios. The return on equity was increased for businesses with diversified boards.

The Current Landscape of Gender Diversity in Corporate Boards

Many western economic females are also highly underrepresented in leadership and executive roles on the labour market for gender equality and balance. Many countries have increased the balance and increased the number of women positions in high executive positions. There are many other roles and positions and quotas are set for women.

Norway was on top of the list that have firstly introduced women quota on board and gave them high executive positions and introduced legislations in corporate boards. New rule was implemented in 2008 requires all the organizations and corporations to have at least 40 percent of women quota on their board of directors. Davies reports the role of women that is played in board to ensure that all Chairmen of FTSE 350 companies to have percentage of women by 2013 and 2015. A report on women on boards has been published by Lord Davies which has seen more women on boards than ever before. It recommends a new objective of 33 percent for women on all FTSE 350 boards before 2020.

In Canada most of the companies have disclosed about their percentage of women that have increased by proportion 22.5 percent of companies and majority of S&P/TSX 60 companies have adopted proportion which is 5 percent increased compare to the last year.

In Australia, there were 339 boards with a total of 2530 members, as at 30 June 2018; out of these 1158 members were women that are about 45.8 percent. This compares to 30 June 2017, when there were 337 boards with a total of 2508 members, 1072 were women as 42.7 percent.

The Spanish National Securities Market Commission passed a new code for publicly listed companies in February 2015. One of the recommendations within the code was gender diversity. Spanish boards have asked to double the number of women to 30 percent by 2020.

A MSCI progress report on women on board, many companies in Asia, such as Japan, Hong Kong, Taiwan, South Korea and China have a male dominance. Despite the positive trend Japanese still have male dominancy. The board showed in recent years 56.1 percent in 2016 and 45 percent in 2018. A new women 's ministry and businesses urged to target at least one-woman director and 30 percent of women in executive positions in their boards is done by Japan's Prime Minister.

A recent study indicated very little progress on improving the gender diversity in the organisations in the United Kingdom and other nations. The UK board has a 22.7 percent representation of women less than a quarter compared with 20.3 percent when the study was released in 2017. Globally, females occupy just 16.9 percent of seats, increasing 1.9 percent from the previous survey. Meanwhile women hold just 12.7 percent of the Chief Financial Officer (CFO) roles globally, nearly three times that of CEO positions.

In 2019, women held approximately 29.3 percent of the supervisory board posts of large enterprises, but only 16.6 percent of the executing positions, according to the European Union's equalities report. Some countries in Europe have introduced diversity with quotas. For instance, Norway was the very first to introduced quota in 2004 and many countries have followed it.

In US, gender diversity again accelerated in 2019, breaking another record of women on board. In Russell 3000, 45 percent of new directors are women, As compared to 34 percent in 2018. New regulations in California mandates the presence of women in boardrooms to have no less than one woman on board in 2019, while three women on board was the requirement by 2021.

The latest women on board Pakistan survey 2020 released at Pakistan Stock Exchange's (PSX) ceremony of 'Ring the Bell for Gender Diversity' shows some improvement over the last four years. The survey was held which was self-initiated survey and self-funded in accordance to make diversity as a highlighted topic and important component. Besides increase in absolute female directorship, survey shows the women participation by 11 percent of total directorships in 2019 and 2 percent increase from 2016 results. Similarly, listed companies with no women directors, has also fallen.

With the growth in women representation on board 50 percent of the listed companies still don't have any women directors in their boards. Survey also shows that 30 percent Karachi Stock Exchange (KSE) 100 companies don't have a women director. The issue of diversity has gained so much attention. Most notable is the new law generated which requires for the companies to have at least one female director on board. Female representation, at corporate board level needs more efforts and attention.

At Global level women on board trend is on slow upward trend. Women held more than 12 percent of board seats in the world's largest and most important companies in 2014 and only increased 3 percent by 2009. Yet the barriers in boardrooms and more on the workplace, gender diversities out dated working cultures, unconscious preference and lack of support are some factors that prevents many women to reach the senior positions of leadership. Females hold just 4.4 percent of chief executive officer positions worldwide. Chief financial officer positions change three times, but only 12.7 percent of women hold positions worldwide. Many members of the board of directors are still engaged in the shortages of females in the board.

Under-Representation of Women in the Board of Directors

In the 2017 report, women were 15 percent less likely than men to be promoted. It will take women a century to demonstrate their value in the C-suite. The lack of the same promotional resources and a change in an organization causes dissatisfaction and absence of encouragement for females to succeed in the workplace.

Lean and McKinsey & Company released a survey in 2015 and found that fewer females chose to reach top positions relative to males. Females have shown that pressure is not being moved to high positions. The study also discussed the misunderstanding that females with children are less ambitious in achieving top positions.

A research by Korn Ferry found that Asia is ahead of most western developed countries when it comes to leadership in the 100 largest publicly listed firms within ten Asia-Pacific economies. The facts show that, “the proportion of women in senior management was much greater in China (38 percent) and Indonesia (41 percent) as well as Southeast Asia, than in the US (22 percent) and European markets like the UK (20 percent) and Germany (14 percent).” This suggests that women executives in Asia are rising.

In addition, researcher have conducted interview with women out of which 63 percent of women discussed to leave the senior positions the main reason was given by the women was frustration, anger and change.

An interesting idea was seen in an inquiry involving employing at Hewlett-Packard:

> *“men apply for a job when they meet only 60 percent of the qualifications, but women apply only if they meet 100 percent of them.”*

Tara Sophia Mohr has been surveying more than 1,000 women and men and asking them,

> *“if you decided not to apply for a job because you didn’t meet all the qualifications, why did not you apply?”*

Many respondents said that they did not apply because they felt they had not been eligible.

Conclusion

Diversity seeks to cultivate in the boardroom a wide range of demographic features. The representation of women on the board is straightforward and common in a boardroom related to gender diversity to promote heterogeneity. The conventional corporate boards were more prone towards homogeneity with no female representation; however, the modern approaches of corporate governance go beyond this minimalism and advocates that it is good for companies to have more gender diverse boards. Developed countries have worked on it through their legislation and have diversified their boards; however, developing countries are trying to do the same. It has a positive effect on the governance and financial performance of companies, as it ensures sustainability and corporate social responsibility along with other advantages.

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