Elena CHIȚIMUȘ
Doctoral School of Economics and Business Administration
Faculty of Economics and Business Administration
Alexandru Ioan Cuza University Iași

GENDER ISSUES – WOMEN’S REPRESENTATION ON BOARDS

Literature review

Keywords
Corporate Governance
Board of Directors
Diversity
Women

JEL Classification
G30, G38, J16

Abstract

Corporate Governance is seen as a set of systems, rules, regulations that are in place in order to keep the company on a straight path and to give assurance to the shareholders that their investment is well protected. One of the instruments that are at the choice of the shareholders is the Board of Directors (BoD). Debates go around its role of monitoring and supervising, on obtaining an adding value board or a competitive advantage, on the changes that it has suffered along the years. This paper is a literature review on the diversity in gender, age and experience of the members of the board that have in their hands the power to bring value or destruction to companies. The study shows that are many contradictory results and opinions on the matter and that company’s performance is determined by many factors combined together, like a good mix of culture, experience, professionalism. Discrimination shouldn’t be made on gender, age, background, all persons should be given equal chances and stereotype should be fought more.

1. INTRODUCTION

The business practice has established two types of governing systems: the one tier board and the two tier board. In the one tier board the company is managed by a Board of Directors that is elected by the shareholders and is in charge with monitoring and questioning management decision, strategic plans, protecting all stakeholders' interests. The two tier board has two structures for guiding the firm: the Supervisory Board that as a recommendation should be composed of non-executive directors and the Management Board formed only of executive directors. Hopt and Leyens (2004) consider that the management board is in charge with running the business and that the supervisory board has as main responsibilities the appointment, supervision and removal of members of the management board.

The requirements related to the composition of the board are specific to each firm and vary along the life cycle, business sector and culture. Due to the globalization of markets, the economic crisis and globally mobile employees that bring a diversity of culture and background, the emphasis goes on the ability of the board to socialize and build relations with stakeholders, business partners, and governments and on balancing of interests within firms.

The governing body should evolve alongside the company it represents, being able to manage and solve critical situations or to seize business opportunities. In the current competitive market a balanced board has to be selected using more than the common selection criteria as independence, integrity, a good professional and financial status. Such difficult times ask for members that know the market, the products of the company, are able to understand the final user of the product, and don't step back when difficult choices have to be made.

The diversity in gender, age, experience of the board of directors has raised debates ranging from a discussion related to equality to a discussion related to performance. The gender diversity has been under scrutiny in order to understand if the presence of women is bringing value or not.

2. CONTROVERSY ON THE PRESENCE OF WOMEN ON BOARDS

McCahery and Vermeulen (2013) analyze 70 venture capital backed companies that went through the process of first public offering, in United States, between 2011 and the first half of the year 2012 (VC-70) and the top 40 of the world largest firms in "Financial Times Global 500 2012" (FT-40) (including companies in United States, Europe and Asia). The authors strived to discover the best practices in listed companies with a high growth potential, and their analysis on the diversity of the board of directors ended with the conclusion that are significant difference between VC-70 and FT-40 firms (the list of companies is presented in Appendix A). The average age of the directors in FT-40, of 61 years, is higher compared to the age of the directors in VC-70, of 54.2 years, the members of FT-40 boards having occupied this position for more years than the ones in VC-70. The data that the authors collected shows that the directors in FT-40 have the same position in more than one company and/or non-profit organizations, that the recruitment of new members starts by going through boards already in function, searching for people of same gender and with similar age. Due to the fact that FT-40 are followed by mass-media in a greater extent than the VC-70 the percentage of women in the boards of FT-40 is of 20% whilst in VC-70 is of 7%, the majority of the women being appointed in the board as non-executive directors during 2005 – 2012 when the regulations related to corporate governance started to include recommendations or requirements regarding board diversity. Another situation can be correlated with the mass-media attention, that is that in the VC-70 a percentage of 85% from the total number of women appointed as members of the board were elected during the initial listing process (67% before and 23% after) between 2011 – 2012. If the presence of women as members of the board is a determinant of performance is still to be proved but the women's aversion towards risk (Odeanand Barber, 2001) is also noticed in the figures obtained by McCahery and Vermeulen (2013): 5% out of the FT-40 companies don't have women on their boards, while the percentage is much greater in the VC-70 companies, around 49%.

Regarding the election of the same person for the position of Chairman of the board and that of general director, both structures, FT-40 and VC-70, prefer this model, perhaps considering that this is a way of avoiding unnecessary struggles for power, delays and conflicts.

In August 2012 Credit Suisse published a study called "Gender diversity and corporate governance" which examines for the period 2005 – 2011 a number of 2,360 companies in order to answer the question whether gender diversity in the management of a company is beneficial. The authors compiled info from the database's of current index constituents of MSCI ACWI (MSCI Inc. is a leading provider of investment decision support tools to investors globally; the index captures large and mid cap representation across 23 developed markets and 23 emerging markets countries having 2,446 constituents). The study investigates if there are evidences to support the statement that the performance on the stock market increases with the presence of one or more women in councils and if firms with female members on boards present different financial characteristics. What factors determine a company to decide in the favor of women's presence in boards and on increasing their number, where you can see the difference, for better or worse, of the existence of gender diversity in a company, are other highlights of the work.

The analysis demonstrated that companies with one or more women on the Board of Directors obtained a higher return on equity and a higher average growth. In authors' opinion gender diversity in executive management became a subject of increasing debate due to three major factors:

- although the overall percentage of women in boards remains low, compared to 2005 when the MSCI ACWI index shows a percentage of 41% for the number of women on councils, at the end of the 2011this percentage reached 59%;
- the government intervention increased in regulating this aspect so during 2005 -2011 seven countries have passed laws that specifically require the presence of women on councils;
- the debate on this topic passed from a theme of equality and fairness to one that considers superior performance.

The literature dedicated to gender diversity has both positive and negative results for the presence of women on boards and the companies' performance. For example on a sample from Fortune 500 (the ranking prepared by Fortune magazine for the top 500 corporations in United States), McKinsey and Catalyst (2007) show the firms with women on councils tend to be more profitable, while Adams and Ferreira (2009) or Farrell and Hersch (2005) sustain that there is no causal relationship between gender diversity and increased profitability or stock market performance.

The findings of the Credit Suisse (2012) study can be summarized as follows:

- the number of women on the board is higher in the business sectors that are closer to the final consumer; business areas that are at the other end of the supply chain have a lower number of female presence on councils.
- certain regions (e.g.: Europe) or countries (e.g.: Norway) tend to have a larger number of ladies in councils, and others regions/countries a lower one.
- the number of female persons is higher in large companies councils against small ones.
- during 2005 – 2011 the fastest rate of change came from European companies in terms of women's representation on boards.

Regarding the stock market performance Credit Suisse (2012) data shows that companies with female presence on the board and with a market capitalization of over \$ 10 billion exceeded with 26% the companies with no women on councils in the period under review. Small and medium companies recorded higher performance by 17%. When analyzing the financial performance companies with one woman or more on councils recorded a higher return on equity of 16% compared to 14% registered in companies without female representation. A difference of four percent is obtained in the net profit analysis, where companies with female representation register an average of 14% compared with 10% in the other group.

The same positive results for companies with women on the board were obtained in 2007 by Catalyst Inc. (a non-profit organization with interests in consultancy and research that has its headquarters in North America, and supports the women's participation in business) that analyzing the Fortune 500 companies achieved a return on sales (ROS) of 13.7% for companies with female presence compared with 9.7% for the other group, return on equity (ROE) of 13.9% compared with 9.1%, return on invested capital (ROIC) of 7.7% compared with 4.7%. The financial data for the analysis was obtained from the Standard & Poor's Compustat database, using for the three financial measures the average of the years 2001 – 2004. The authors analyzed 520 companies where the upper quartile includes 132 companies with the highest percentage of female representation on councils, and lower quartile with 129 companies with the lowest average percentage.

Dezso and Ross (2007) start an analysis on the same subject, of women's representation on boards, with a beautiful and eloquent quote: "Man is defined as a human being and a woman as a female - whenever she behaves as a human being she is said to imitate the male" (de Beauvoir). Authors' analysis is performed on a sample of 1,500 companies from United States top ranked in terms of economic performance from 1992 to 2006. In 2006 while women represent more than a third of all managers in these companies, only one third of these companies have reported one woman among executive managers, less than 6% reported more than one woman in these positions, and less than 3% have a female as General Manager (CEO). The authors consider that despite the best intentions there are some obstacles for women in reaching top positions in companies: ladies aversion to competitive environments, the opposition that comes from men when they have to work with women, conflicts between masculine behavior associated with leadership and social female behavior expected from women, and a failure of corporate human resource policies to adapt to personal commitments of women. The study results show that a positive strong association exists between Tobin's Q, return on assets, return on equity, on the one hand, and the participation rate of female in leadership, on the other hand.

The research made by Credit Suisse (2012) identifies seven reasons to explain the correlation between gender diversity and corporate performance:

- gender diversity reports a better company, because the analysis suggests that usually, in large companies with positive results, there are more likely appointments of women on the board;
- better efforts submitted at Board's level by each member individually in order to avoid embarrassment in front of a group of various training;
- better mix of managerial skills;
- access to a wider range of talents;
- an improved reflection of the consumer decision-makers; the authors mention that a book published by Consulting Group in Boston, in 2010, shows that 73% of the decision of US household expenses are under women control, which explains among other things why companies with the most women on boards are those in close contact with the end consumer, as shown on Credit Suisse study;
- better corporate governance;
- risk aversion.

Part of Credit Suisse study, called "Barriers to change" studied socially the obstacles on women ascending for top positions.

First is the "double burden", referring to the facts that, in addition to duties at work women deal with family / household. Eurostat calculation shows that European women spend double time than men, on domestic duties – 4 hours and 29 minutes for women and 2 hours and 18 minutes for men.

Maternity leave and low mobility – in an US study done by Catalyst, 62% from women surveyed responded that family obligations were an impediment to the promotion and in France 96% of female graduates of higher education felt that being pregnant or having a baby in perspective inhibits promotion. In the same way, more women than men choose to give up a career opportunity in order to dedicate themselves to family.

The solution for the "double burden" could be the creation of a workplace environment that is compatible with family life for both women and men. It could be tax reducing for allowing parents to support childcare costs, flexible working hours, or a work place nursery. From management point of view, career advancement should be based on skills, results, without putting so much emphasis on time itself.

Stereotype – in 1980, a blind audition at The Munich Philharmonic Orchestra impressed the jury that faced the fact that they had chosen a woman for that job, because they believed that women cannot play the trombone. A study made by Goldin and Rouse in 1997 shows that before introducing blind auditions, less than 5% of the 5 great orchestra members in US were women. Between 1970 and 1980 blind auditions have become a common practice, and the number of women rose up to 25% aiming 50% until 2012.

The stereotype issue is that usually is not a conscious reaction. A Harvard Kennedy School study applied on two groups of master students (MBA) which considered the same case study, but one group general manager was called John and the other Jane, resulted in a more severe assessment of Jane's performance than John's.

Character traits – an Eagly study on master students (MBA) showed that 70% of responding women had considered their performance equal to other colleagues, whilst 70% of men rated their performance as better than peers. An internal analysis from Hewlett Packard indicates that women tend to apply for a job when they achieve 100% of standards required (qualifications, skills), while men are tempted to apply if they meet only 60% of criteria. Women also seem to have professional ambitions lower than men's. According to a study by Harvard Business Review Survey, only 15% of highly qualified women aspire to executive positions, compared to an average of 27% for men.

Chanavat and Ramsden (2013) from the Thomson Reuters analyzed, on a global level, 4,100 companies listed on the stock market, in order to observe gender diversity in the board of directors between 2008 and 2012. When it comes to adopting new ways that could lead to the improvement of gender diversity and equal gender opportunities the authors consider that in the studied years were registered very small changes because only two percent improvement from 64% in FY2008 to 66% in FY2012. The countries that showed a rigorous implementation of these changes are Australia, followed closely by India and South Correa.

The study mentions Australia as showing positive results due to the specific requests made by Australian Stock Exchange in January 2011 that demanded companies to mention in their annual reports the steps made towards reaching the gender diversity goals.

Also in France, in 2011, a new law has been passed, which stipulates that until 2017 all the companies with more than 500 employees must have on boards at least 40% women.

Starting with October 2012 the Corporate Governance Code of the United Kingdom demands an annual report from companies on gender diversity politics inside boards, and to include diversity on the list of measurement of the boards' performance.

The study concludes that companies with a mixed board showed an increase in profits, but because of the numerous other factors that influence returns, the increase in profitability cannot be correlated only with the culture, experience, skills brought by a mixed board.

Technology, Industrial and Non-cyclical consumer goods & services are the business sectors where women' representation on boards is the highest. If you separate countries on regions like EMEA (Europe, Middle East and Africa), North America and South America, Pacific Asia, the region with the most diverse board is EMEA followed closely by America.

In 2009, Adams and Ferreira (2009) made a study on 1,939 companies in the United States for 1996-2013 periods, with the information taken from IRRC (Investor Responsibility Research Center), by analyzing the relationship between diversity, performance and governance.

They consider that for the most part the legislative initiatives are based on the premise that the presence of women on boards will affect in a positive way the governance in companies, having as argument that they will have a higher number of talented candidates from which they could choose.

In their opinion, women tend to be nominated especially in the monitoring committees (for example, corporate governance or audit), and less in the remuneration committees, compared to men; hence the result of this study, that shows that due to low representation in this committee, women don't decisively influence the salary of the General Director.

The study shows that gender diversity has positive effects in companies where share holder rights are poorly respected, because additional monitoring from the board may have the effect of increasing the company's value, but the effects are negative in companies that already provide equitable treatment to all shareholders.

On boards with female representation, ladies have a higher participation rate in meetings than the gentlemen, and when the percentage of diversity increases, the percentage of non-participation of male members decreases.

The boards where gender diversity is higher, there placement rate of the CEO is more sensitive to the performance on the stock market, and its remuneration is to a greater extent based on share package. Despite all the positive effects identified, the authors consider that the average effect of gender diversity on performance is negative, being determined by the companies with fewer regulations against take over by another company.

Analyzing the results, Adams and Ferreira (2009) believe that monitoring is more severe in the case of gender diversity councils, and if strict supervision leads to lower achievement, diversity doesn't bring value on average.

Also the imposition of a strict target to companies in terms of diversity can reduce the value of the firms for the ones that are well managed, but for companies with weak governance, gender diversity brings positive results.

The study concludes that firms should not appoint women on the board on the premise that this will automatically improve their performance.

Farrell and Hersch (2005) examine some of the Fortune 500 companies for years 1990 – 1999, with an average number of 300 companies per year. The study's results are presented in tables 1 and 2 for the defining periods.

The analysis shows that the percentage of women on boards had an upward trend in the sample and in the analyzed period and that women recorded a higher percentage as independent council members than as internal representative of the companies.

The authors use as a tool of performance measurement the return on assets and the results of their study show that companies that obtain profit are more inclined towards the election of women in the Board of Directors, but the presence of women does not increase performance. They conclude that they couldn't find strong evidence to demonstrate that on average councils diversity is a strategy to increase company's value, but under internal or external pressure gender diversity has played an important role in boards' designation during the `90s.

McKinsey & Company (2007)has put together a list of practices that could help companies in reaching a satisfying level of diversity:

- defining and monitoring measurement indicators for the degree of diversity (the percentage of women in different sectors of the company, on each level of management, and for new employees);
- implement measures that will allow women to mix both work and family responsibilities (flexible work hours, freedom in the career choices, support during breaks);
- human resources management should be updated to match the needs of the society;
- guidance taken from other people experience, informal meetings.

3. CONCLUSION

The studies selected for this literature review show that there are contradictory results regarding the presumption that the presence of women on boards brings value to the company, value measured through different financial indicators as return on equity, return in assets or return on sales. The authors used large database in order to include various companies that operate in different business sectors in countries with weak or strong shareholders protection. What all authors agree on is that the presence of women increases the area of expertise and experience and that the nomination in boards should be made on merit even though finding new candidates takes time. Each company has to choose the best option for its board putting together a mix of culture, gender, experience, age, background that would fit its needs. Countries like Austria, Belgium, Finland, France, and Norway have introduced requirements for the percentage of women on boards and other countries like Great

Britain, United States have only given recommendation on this matter.

The discussion around women's presence on top executive management can continue with analyzing the number of women that occupy positions as financial director (Chief Financial Officer) or general director (Chief Executive Officer), detailing age, experience, business sectors. Also large companies in Romania can offer an interesting study for finding where our country is situated compared to Europe or the rest of the world.

ACKNOWLEDGEMENTS

This paper is a result of a research made possible by the financial support of the Sectorial Operational Program for Human Resources Development 2007-2013, co-financed by the European Social Fund, under the project POSDRU/159/1.5/S/132400 - "Young successful researchers – professional development in an international and interdisciplinary environment".

References:

[1] Adams, R. B., Ferreira, D. (2009).Women in the boardroom and their impact on governance and performance. *94 Journal of Financial Economics*, pp 291-pp 309.

[2] Barber, B.M., Odean, T. (2001). Boys will be boys: gender, overconfidence and common stock investment, *Quaterly Journal of Economics*, February 2001, pp 261-pp 292.

[3] Chanavat A., Ramsden, K. (2013).*Mining the metrics of Board diversity*, downloaded at 04.09.2014 from http://accelus.thomsonreuters.com/sites/default/files/mining_the_metrics_of_board_diversity.pdf

[4] Credit Suisse Research Institute (2012).*Gender diversity and corporate performance*, downloaded at 01.09.2014 from https://www.credit-suisse.com/newsletter/doc/gender_diversity.pdf

[5] Dezso, C.L., Ross, D.G. (2007).*Girl Power: Female participation in top management and firm performance*, downloaded at 19.09.2014 from http://pages.stern.nyu.edu/~sternfin/dross/GirlPower.pdf

[6] Farrell, K., Hersch, P. L. (2005). Additions to corporate boards: The effect of gender, *Journal of Corporate Finance 11*, pp 85-pp 106.

[7] Hopt, K. J., Leyens, P. C. (2004). Board Models in Europe. Recent Developments of Internal Corporate. Governance Strcutures in Germany, the United Kingdom, France and Italy, *Law Working Paper No. 18/2004*, downloaded athttp://ssrn.com/abstract=487944 at 14.02.2014

[8] Joy, L., Carter, N.M., Wagener, H.M., Narayanan, S. (2007). The Bottom Line: Corporate Performance and Women's representation on boards, *CatalystInc*, downloaded at 14.08.2014 from http://www.catalyst.org/knowledge/bottom-line-corporate-performance-and-womens-representation-boards

[9] McCahery, J. A., Vermeulen, E. P. M. (2013) *Understanding the Board of Directors after the Financial Crisis*, downloaded at 29.08.2014 fromhttp://papers.ssrn.com/sol3/papers.cfm?abstract_id=2336614

[10] McKinsey & Company (2007) *Women matter: gender diversity, a corporate performance driver*, downloaded at 29.08.2014 from http://www.mckinsey.de/sites/mck_files/files/Women_Matter_1_brochure.pdf

Table No. 1
Women's representation on boards

Year	No. of companies	Average no of women on the board	Percent women on boards	Percentage of companies with:			
				0 women on the board	1 woman on the board	2 women on the board	> 2 women on the board
1990	302	0,74	5,6	47,02	36,42	13,58	2,98
1995	304	1,11	9,22	22,03	49,01	25,66	3,29
1996	262	1,39	12,26	12,6	45,8	33,58	8,01

Source: Farrell and Hersch (2005)

Table No. 2
Characteristics of the Board of Directors: size, diversity, inside vs outside members

Year	No. of companies	Average size of BoD	Average no of insiders	Average no of outsiders	Average no of male insiders	Average no of male outsiders	Average no of female insiders	Average no of female outsiders
1990	302	12,13	3,34	8,79	3,31	8,08	0,03	0,71
1995	304	11,66	2,63	9,04	2,59	7,96	0,03	1,08
1996	262	11,26	2,23	9,03	2,2	7,67	0,03	1,36

Source: Farrell and Hersch (2005)

Appendix A

Companies in group VC-70

AcelRx Pharmaceuticals	Gevo	Skullcandy
Angie’s List	Groupon	Solazyme
Audience	HomeAway	Splunk
Bazaarvoice	Horizon Pharma	Supernus Pharmaceuticals
BG Medicine	Imperva	Synacor
Boingo	Infoblox	Tangoe
Brightcove	Intermolecular	Tesaro
CafePress	InterXion Holding	The Active Network
Carbonite	Invensense	Tranzyme
Cempra Pharmaceuticals	Jive Software	Ubiquiti Networks
Ceres	KiOR Inc	Vanguard Health Systems
Chemocentryx	LinkedIn	Verastem
Clovis Oncology	Merrimack Pharma	Vocera
Cornerstone OnDemand	Millennial Media	WageWorks
Demand Media	Neophotonics	Yandex
Demandware	Pacira Pharmaceuticals	Yelp
Ellie Mea	Pandora Media	ZELTIQ Aesthetics
Endocyte	Proofpoint	Zillow
Enphase Energy	Proto Labs	Zipcar
Epocrates	Renewable Energy Group	Zynga
Exa	Responsys	
ExactTarget	RPX Corp	
Facebook	Sagent Pharmaceuticals	
Fluidigm	ServiceNow	
Fusion-io	ServiceSource International	

Companies in group FT-40

Abbott Laboratories	IBM	Roche
Amazon.com	Intel	Samsung Electronics
Ambev	Johnson & Johnson	Sanofi
Anheuser-Busch Inbev	LVMH	SAP
Apple	McDonald's	Siemens
AT&T	Merck	Toyota Motor
Basf	Microsoft	Unilever
British American Tobacco	Nestle	Verizon Communications
China Mobile	Novartis	Vodafone Group
Cisco Systems	Oracle	Wal-Mart Stores
Coca-Cola	PepsiCo	
Comcast	Pfizer	
General Electric	Philip Morris International	
GlaxoSmithKline	Procter&Gamble	
Google	Qualcomm	