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Firm-level determinants of gender diversity in the boardrooms: Evidence from some emerging markets

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ABSTRACT

This paper examines the determinants of board gender diversity in the context of emerging economies. Specifically, we investigate the impact of organizational characteristics on gender diversity in the boardrooms of Brazilian, Russian, Indian and Chinese firms and compare our findings with a control sample from US and UK. Analysing data for 1002 firms between a period of 2005 and 2012, we find some similarities between developed and emerging economies on the factors determining women representation on boards. In particular, we observe board gender diversity is positively related to the firm size, and it is inversely related to corporate risk across both emerging and developed economies. Family control affects positively board gender diversity only in India, China, UK and US. However, in contrast to developed countries, there is some evidence to suggest that state ownership has a negative effect on board gender diversity in India and Russia.

1. Introduction

Over the last two decades, diversity on boards has gained significant attention of researchers, investors and policy makers. Proponents of board diversity suggest that women representation on boards enhances board effectiveness by providing a breadth of resources, such as knowledge, legitimacy, strategic advice and links to external sources of dependency (Carter, Simkins, & Simpson, 2003; Farrell & Hersch, 2005; Upadhyay & Zeng, 2014). Further, women directors are seen to contribute to better corporate governance through efficient monitoring and controlling of managers (Adams & Ferreira, 2009; Huse & Solberg, 2006; Terjesen, Sealy, & Singh, 2009). Hence, beyond the social and ethical reasons, the economic arguments have stirred the demands for increasing women representation on boards around the globe. In response to this, several countries such as Norway, Iceland and France have introduced laws mandating women representation on corporate boards, while some others, such as UK and Canada, have incorporated recommendations for gender equality in their corporate governance codes. As a result, women are gaining ground on boards, for instance, they hold 14.8% of board seats at Fortune 500 companies in 2013. Particularly, Norway leads the world in their percentage of female directors, with 36.1%, followed by Sweden and Finland with 27% and 26.8%, respectively (GMI, 2013).

Increased demand for gender diversity on boards has led researchers to examine the factors which influence the presence of women directors in the boardrooms. Specifically, a burgeoning literature shows that gender composition on board depends on the organizational characteristics. Studies show the influence of several characteristics on female presence on boards such as firm size (Agrawal & Knoeber, 2001; Carter et al., 2003; Hyland & Marcellino, 2002), firm ownership (Martín-Ugedo & Minguez-Vera, 2014), type of industry (Esteban-Salvador, 2011; Jonge, 2014), and business risk (Mateos de Cabo, Gimeno, & Nieto, 2012; Hillman, Shropshire, Albert, & Cannella, 2007). Despite the fact that these studies have filled the research gap to some extent by injecting fresh insights into the existing literature however, the empirical investigations to date is seen to confine itself to firms from developed countries and no or very little substantive research on firms from emerging economies. Moreover, the institutional setting of emerging countries is sharply different from the developed ones which may include weak legal institutions, inefficient markets, active political involvement, and high ownership concentration (Saeed & Athreye, 2014; Wei &Varela, 2003).

According to Scott (1995), institutional environment includes social, political and economic systems that surround firms and grant them legitimacy. Specifically, Scott (1995) enumerates salient regulative, normative, and cognitive factors of institutions

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that influences firm's decisions such as board gender composition. One of these factors is the socio-economic factor including laws, and institutional constituents' attitudes which is considered to be weak in many emerging markets relative to that in developed markets (North, 1990). This is likely to raise the level of uncertainty in business environment and consequently encourage a range of conservative decisions such as board homogeneity. Further, higher degree of political involvement may motivate firms to avoid board diversity. On the other hand, globalization in many emerging markets led to the infusion of non-traditional norms and expectations – e.g. gender equality on corporate boards – which are promulgated by NGOs and international agencies such as the OECD, World Bank, and investment firms (Hafsi & Farashahi, 2005). Thus, we can construe that conflicting tendencies exist in institutional setting of emerging markets which affect board composition decision.

Motivated by the importance of a country's institutions to women board representation, we assess the role of institutional environment in determining board gender diversification in emerging countries, namely Brazil, Russia, India, and China (BRIC). Specifically, we address two fundamental questions. First, what is the state of board gender diversity in the BRIC economies? Second, do organizational determinants of board gender diversity in firms from BRIC countries differ from those found in developed economies?

To answer the above questions, we use a panel dataset of 1002 firms which have been observed over the period 2005–2012. The results show that firm size, corporate risk, family control and state ownership are common factors, in all countries, in determining women representation on boards. Notably, board gender diversity is positively related to firm size, and it is inversely related to corporate risk across both emerging and developed countries. However, there are country specific differences in the impact of family and state ownership on board gender diversity. It is worth mentioning that these results are robust to alternative measure of board gender diversity, endogeneity, reduced sample size and cross-country estimation.

This research thus contributes to the literature in two important ways. Firstly, it provides understanding of the determinants of female representation on boards in emerging economies (BRIC). A study on BRIC countries is theoretically and empirically interesting, because most of our understanding on board gender diversity comes from single country studies that focus on developed countries. As such this study will shed lights into how institutional environment affect board diversity.

Secondly, unlike the extant studies, we develop our hypotheses drawing on institutional theory. Historically, the resource-dependency and agency theories (Hillman et al., 2007; Mateos de Cabo et al., 2012) of the firm have been key theories employed in literature examining predictors of female presence on boards. While resources are certainly important, the issues such as culture, legal environment, and economic situation can also impact firm level factors and in turn shape the board gender composition. Nowhere is this point more clearly borne out than in emerging economies, where institutional frameworks differ greatly from those in developed economies (Peng, Wang, & Jiang, 2008). Considering these institutional differences, this article draws on the institutional theory to explore the extent to which institutional elements influence determinants of board gender diversity in emerging economies.

The paper proceeds as follows. Section 2 discuses the existing literature and provide theoretical framework. Section 3 develops the testable hypotheses. The data and methodology are discussed in Section 4. Section 5 presents the results and Section 6 discusses the results and lastly we conclude the study.

2. Board gender diversity: empirical evidences and theoretical framework

2.1. Empirical evidences

A burgeoning literature has focused on gender composition on corporate boards. These include Adams and Ferreira (2009) and Carter et al. (2003) using US data; Singh, Vinnicombe, & Johnson (2001) and Brammer, Millington, & Pavelin (2009) in the UK setting; Mateos de Cabo et al. (2012) and Rivas (2012) within an European Union context, Lucas-Pe'rez, Mı'nguez-Vera, Baixauli-Soler, Martı'n-Ugedo, & Sa'nchez-Marı'n (2014) using Spanish data, Ruigrok, Peck, & Tacheva (2007) using Swiss data; and Ahern and Dittmar (2012) and Torchia, Calabro, & Huse (2011) within Norwegian context. These papers consider developed countries, with one exception of Terjesen and Singh (2008) that use international data. Terjesen and Singh (2008) include Brazil but not the remaining BRIC countries in their sample, and their main interest has been to examine the impact of female presence in legislative roles on board gender diversity.

There are a number of studies that particularly focus on organizational determinants of board gender diversity. For example, Hyland and Marcellino (2002) examine the influence of firm size and industry in women representation on US boards and find a positive relationship between organizational size and the presence of women directors, while likelihood of having women director is found to be significant only in financial sector. Hillman et al. (2007) investigate this vein in US and find that organizational size and industry type significantly impact the likelihood of female representation on boards of directors. However, firm diversification in terms of product is not found to be significantly related to female board representation. This is also reflected in the work of Mateos de Cabo et al. (2012) who seek to identify the organizational factors which explain women presence on the boards of European Union banks. Their analysis reveals that banks that have larger boards and lesser risk of financial distress are more likely to have female directors on boards. Esteban-Salvador (2011) analyses the determinants of board gender composition in Spanish firms. She shows that board gender composition is positively and significantly related with firm size, ownership concentration and industry. Similarly, Martín-Ugedo and Minguez-Vera (2014), using a sample of Spanish firms, observe that the probability of women on board increases with firm performance and family ownership, but diminishes with firm risk and institutional ownership.

Studies showing similar findings for emerging markets are scarce. Jonge (2014) shows that in China and India, women presence on boards is above average in large firms and firms in the financial services sector. Sharma (2014) finds that large Indian firms have at least one female director. Using a sample of Malaysian firms, Abdullah, Ismail, and Nachum (2015) show that women representation on boards has a positive and significant correlation with family ownership and state-ownership. In addition to the determinants of board gender diversity, some researchers have examined the link between gender diversity and firm performance in emerging economies. For example, Liu, Wei, and Xie (2013) provide evidence of a positive relationship between firm performance and board gender diversity in China, and they also show that the probability of women on the board increases with state ownership.

Although much has been learned from these studies, their focus is primarily on developed markets. There is limited research on determinants of board gender diversity in emerging economies. We aim to bridge this gap in the literature.