Diversity begets diversity? The effects of board composition on the appointment and success of women CEOs

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ARTICLE INFO

ABSTRACT

Previous research on the effects of leadership diversity on firm outcomes has produced inconsistent and inconclusive findings. While some scholars argue that diversity increases organizational equity and enhances performance, others argue that diversity increases conflict, reduces cooperation and harms performance. This study tests the impact of a variety of compositional factors on firm outcomes. Specifically, we analyze whether and how board composition affects the advancement and mobility of women CEOs and firm performance. Our analysis relies on a unique data set of all Chief Executive Officers (CEOs) and Board of Directors (BODs) in Fortune 500 companies over a ten-year period. We find a marginally significant positive relationship between board diversity and the likelihood of a woman being appointed CEO. We further find that board diversity significantly and positively influences the post-promotion success of women CEOs. Our findings suggest that board composition is critical for the appointment and success of women CEOs, and increasing board diversity should be central to any organizational diversity efforts.

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1. Introduction

In the face of internal and external pressure to increase demographic diversity in work organizations, firms have introduced a variety of pro-diversity employment measures including diversity training, mentoring and networking programs and targeting measures (Dobbin, 2009; Kalev et al., 2006). Scholars have followed these trends in an effort to analyze the impacts of demographic diversity on organizational composition and performance, leading to substantial growth of this field. However, findings on the effect of diversity on organizational outcomes remain inconsistent and inconclusive.

Some studies conclude that demographic diversity among leadership ranks reduces segregation and increases pay equity and mobility opportunities for women and minorities (Bilimoria, 2006; Carter et al., 2003, 2010; Cohen and Huffman, 2007; Skaggs et al., 2012; Stainback and Kwon, 2012; Terjesen and Singh, 2008). Scholarship specific to board diversity also finds that diverse boards are more transparent and accountable, communicate more effectively, implement innovation more successfully and enjoy better reputations compared to firms without diverse boards (Bear et al., 2010; Brown et al., 2002; Fondas and Sassalos, 2000; Miller and Triana, 2009; Torchia et al., 2011). Others, however, conclude that diversity increases conflict, intragroup competition and turnover, and reduces cooperation, morale and communication and ultimately weakens performance (Amason, 1996; Eisenhardt et al., 1997; Hogg et al., 2012; Pelled et al., 1999; Williams and O'Reilly, 1998).

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The degree of disagreement and debate in this field led the authors of a recent paper to conclude that "any dimension of diversity that has been investigated....has been associated with inconsistent results" (van Dijk et al., 2012, 39). Difficulties reaching consensus are due in large part to the under emphasis on identifying the compositional factors that mediate the relationship between diversity and firm outcomes (*see* van Dijk et al., 2012). Generally speaking, research in this field has failed to sufficiently theorize the compositional mechanisms that mediate the effect of diversity on firm performance and the appointment of women to top leadership positions.

In this study we develop and test compositional mechanisms that we predict will determine the likelihood women are appointed to CEO and the likelihood that firm performance will improve under their leadership. Specifically, this study asks *under what conditions does board diversity support the appointment and success of women CEOs*? We predict that the appointment and success of women CEOs will be dependent on the particular demographic composition of the board of directors *and* the relative influence of women board members. The primary function of a company's board of directors is to appoint company leaders and oversee their leadership progress. There is even growing evidence that boards can also influence corporate strategy and long-term corporate planning (Demb and Neubauer, 1992; Matsa and Miller, 2013; Westphal and Zajac, 1995). Given the function of boards, it is likely that board composition significantly impacts CEO appointment and success.

Our analysis relies on a unique data set of all Chief Executive Officers (CEOs) and Board of Directors (BODs) in Fortune 500 companies over a ten-year period. Our research responds to calls to better theorize the mechanisms that determine the effect of leadership diversity on firm outcomes, including performance. Though profitability is not the only measure of leaders' impact on firms (e.g., Cook and Glass, 2015a,b), scholars routinely use firm performance as a proxy for leadership effectiveness and success (*see* Hambrick and Quigley (2014) for a review of this literature). This work contributes to and advances the field by testing the effect of specific mechanisms on appointment and performance of CEOs who are numerical minorities. Our data set includes detailed information on the gender and age composition of the CEOs as well as all board members, the relative influence of women board members as measured by the interlinks they have with other Fortune 500 boards, and firm performance outcomes over the short, medium, and long term. Overall, we find that board composition affects the likelihood of a woman being appointed CEO. We also find that the proportion of women on the board helps to enhance firm performance for women CEOs. These findings provide important new insights concerning the role of diverse boards in the support of and the performance of non-traditional leaders at the highest organizational levels. We conclude that board diversity is critical for the success of women CEOs, and increasing board diversity should be central to any organizational diversity efforts.

2. Barriers to women leaders' appointment and success

Previous research suggests that promoting women to leadership positions can be an effective means of increasing diversity throughout an organization (Skaggs, 2008; Stainback and Tomaskovic-Devey, 2009). For instance, scholarship on organizational mobility has long emphasized the importance of strong female or minority mentors in promoting the careers of junior colleagues from underrepresented groups (e.g., Bell and Nkomo, 2001; McGuire, 1999; Vallian, 1999). Research in organizational demography further suggests that diversity among top leadership ranks is associated with greater diversity at lower levels of an organization (Skaggs et al., 2012), a phenomenon termed 'bottom-up' ascription (Elliott and Smith, 2001). This research implies that leaders who represent a demographic minority will increase the representation of other demographic minorities by advocating for more diverse hires, serving as role models and mentors to those hires and/or moderating the influence of bias in recruitment, hiring and promotion (Duguid et al., 2012; Ibarra, 1995). Thus, women leaders are assumed to possess the ability as well as the desire to assist other women into leadership ranks.

That being said, women in high status leadership positions are numeric minorities. Numeric minority leaders, or tokens, experience high visibility, performance pressures and intense scrutiny (Kanter, 1977). They may also experience hostility, resistance, and challenges to their authority by firm insiders (Heilman et al., 2004; Kanter, 1977). The penalties associated with token status are enhanced when negative gender stereotypes are relevant to performance expectations, as with high status leadership roles (Thompson and Sekaquaptewa, 2002). These pressures tend to negatively impact the job performance of incumbents, leading to reduced performance success (Inzlicht and Ben-Zeev, 2003; Karakowsky and Siegal, 1999; Sackett et al., 1991; Spencer et al., 1999; Thompson and Sekaquaptewa, 2002).

Particularly in high prestige leadership positions, tokens tend to have low status within work groups and occupy relatively weak structural positions within organizations (Collins, 1997; Kanter, 1977; Ridgeway, 1997). As a result, tokens are less capable than other leaders of influencing or altering organizational practices or influencing organizational outcomes (Ashfrod et al., 1998; Maume, 2011; Penner et al., 2012). Tokens who express controversial or dissenting viewpoints may risk amplifying the salience of group differences, increasing bias and provoking social disapproval from the majority (Phillips and Loyd, 2006). As a result, tokens face pressures to assimilate to traditional attitudes and behaviors and are reluctant to 'rock the boat' with regard to controversial or innovative decisions (Bradshaw and Wicks, 2000; Kanter, 1977). Several studies have even revealed that minority group members are less assertive in their speech and gestures and less likely to challenge the perspectives of majority members. As a result, lower status tokens tend to be less influential over decision outcomes than higher status majority group members (Dovidio et al., 1988; Carli, 2001). When tokens do assert their authority, they risk eliciting resistance from higher status peers and subordinates (Carli, 2001), which in turn undermines the legitimacy of their leadership and reduces their ability to lead effectively (Ridgeway, 2001).