Women in Institutional Boards and their Influence on Board Effectiveness

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Abstract

In this study it shows that female directors have a significant impact on board inputs and educational institution’s outcomes. From the literature, we find that female directors have better attendance records than male directors, male directors have fewer attendance problems the more gender-diverse the board is, and women are more likely to join monitoring committees. In this paper we open the “black box” of board behavior by drawing upon theories of gender differences and group effectiveness. The results suggest that gender-diverse boards allocate more effort to monitoring, women directors is positively associated with board strategic control. In addition, there are positive effects of women directors on board effectiveness as mediated through increased board development activities and decreased level of conflict.

Policy Implications: Women’s ability to make a contribution to the board may be attributable to their different leadership styles. Their presence seems to increase board effectiveness through reducing the level of conflict and ensuring high quality of board development activities.

KEY WORDS: Women directors, Board, Gender differences, effectiveness, Institutions,

Introduction

The role of women in board positions is getting increased attention (Daily, Certo, and Dalton, 2000; Vinnicombe et al, 2008; Terjesen et al., 2009). Many proposals for governance reform explicitly stress the importance of gender diversity in the boardroom. In the UK, the Higgs (2003) report, commissioned by the British Department of Trade and Industry, argues that diversity could enhance board effectiveness and specifically recommends that firms draw more actively from professional groups in which women are better represented. In Kenya even formal laws requiring female representation on corporate boards have been introduced. Most of these legislative initiatives are based on the view that the presence of women on boards could affect the governance of companies in significant ways. One argument is that boards could enhance their effectiveness by tapping broader talent pools for their directors. However, research has failed to establish a convincing case for the presence of women on corporate boards of directors. As a result, more studies are needed on the effects of women directors on board decision-making and effectiveness. Another argument is that, because they do not belong to the “old boys club,” female directors could more closely correspond to the concept of the independent director emphasized in theory. In this paper, we provide new evidence that is relevant to this debate by investigating the hypothesis that gender diversity in the boardroom affects governance in meaningful ways. In particular, we ask the following questions.

Traditional theories used to explain board governance do not provide much insight about how women contribute to board effectiveness. From a traditional agency theory perspective (Fama, 1980; Fama & Jensen, 1983; Jensen & Meckling, 1976) or a resource-dependence perspective (Pfeffer & Salancik, 1978), the gender of a corporate director would not matter for his/her performance of board tasks.
Recognizing the limitations of traditional governance theories in explaining the role and contributions of women on corporate boards, this paper draws upon gender differences (Eagly & Johannesen-Schmidt, 2001; Eagly & Johnson, 1990) and group effectiveness theories (e.g., Cohen & Bailey, 1997; Gladstein, 1984; Hackman, 1987; Pelled, 1996; Williams & O’Reilly, 1998) and offers two main contributions to the literature. By applying gender differences theories to the context of institutional boards, it furthers our understanding of whether and how women directors make a difference to board effectiveness.

Prior research on gender differences suggests that whereas there are no overall differences in effectiveness between women and men, there are some gender related differences for some behavior and skills in some situations (Yukl, 2002). Such differences in leadership styles may have important implications for board processes and dynamics as well as for board effectiveness. In view of the increasing pressure to raise the number of women directors as well as the changing demographics of the workplace in general, the results of this study may have important implications for both corporate boards as well as for policy-makers.

Statement of the Problem
Many proposals for governance reform explicitly stress the importance of gender diversity in the boardroom. The inclusion of women on board of directors is seen as appositive way to corporate governance. Women also appear to have a significant impact on board governance. We find direct evidence that more diverse boards are more likely to hold CEOs accountable for poor stock price performance; CEO turnover is more sensitive to stock return performance in firms with relatively more women on boards. In our data, this effect is stronger and more robust than the previously shown effects of board independence on CEO turnover (Weisbach, 1988, Adams and Ferreira 2009). Despite the importance of gender diversity in the policy debate, relatively little research links diversity and corporate governance Adams and Ferreira 2009. The contribution that women make in the boardroom and their influence on board decisions and processes remains under researched (Nielsen and Huse 2010). In Kenya research has been limited to governance in firms and their performance, yet governance in educational institutions has been overlooked. This paper therefore will look at the role of female directors on educational institutions in Kenya.

Objectives

Major Objective
To determine the impact of female directors on board effectiveness of Kenyan educational institutions boards

Specific objective
1. To assess how the measures of board inputs (director attendance and committee assignments) vary with gender diversity in Kisii County
2. To establish whether gender composition of the board affect measures of governance in educational institutions in Kisii County

Research questions
1. Does the inclusion of female on the board affect board effectiveness of Kenyan educational institutions?
2. How do the measures of board inputs vary with gender diversity?
3. Does gender composition of the board affect measures of governance of educational institutions?

Significance
This study will contribute to theory and literature on corporate governance by analyzing how women directors improve board effectiveness within the theoretical frameworks: Gender differences (Eagly & Johannesen-Schmidt, 2001; Eagly & Johnson, 1990) and Group effectiveness theories and (e.g., Cohen & Bailey, 1997; Gladstein, 1984; Hackman, 1987; Pelled, 1996; Williams & O’Reilly, 1998). In view of the increasing pressure to raise the number of women directors as well as the changing demographics of the workplace in general, the results of this study may have important implications for both corporate boards as well as for policy-makers.
Literature Review

Theoretical framework
From a traditional agency theory perspective (Fama, 1980; Fama & Jensen, 1983; Jensen & Meckling, 1976) or a resource-dependence perspective (Pfeffer & Salancik, 1978), the gender of a corporate director would not matter for his/her performance of board tasks. Recognizing the limitations of traditional governance theories in explaining the role and contributions of women on corporate boards, this paper draws upon gender differences (Eagly & Johannesen-Schmidt, 2001; Eagly & Johnson, 1990) and group effectiveness theories (e.g., Cohen & Bailey, 1997; Gladstein, 1984; Hackman, 1987; Pelled, 1996; Williams & O’Reilly, 1998) and offers two main contributions to the literature.

Gender Differences in Leadership Style
Group effectiveness theories postulate that the nature of the tasks performed is an important moderator between team composition and effectiveness (Gist, Locke, & Taylor, 1987; Gladstein, 1984). This argument implies that a board with a certain composition may be better at performing one task than the other as the two distinct sets of board tasks require different skills for their effective performance. Similarly, research on gender differences suggests that women may behave differently than men and be more effective in the performance of certain tasks over others (Eagly, Karau, & Makhijani, 1995). This paper applies gender-based differences in leadership theories to the context of gender diversity on corporate boards in order to offer new insights as to how gender diversity might influence board dynamics, and task performance. Forbes and Milliken argue that boards face complex, multifaceted tasks similar to those of the top management team (Forbes & Milliken, 1999:491–492).

Hence, boards of directors share some of the tasks and responsibilities of the top leaders of the organization and as such act in a leadership role. Second, boards are typically comprised of individuals with significant leadership experience. Directors are highly accomplished professionals with established track records as leaders of organizations or government authorities. As such, they have established their own leadership style and behavior in the process of their careers and are likely to bring it along with them to the boardroom decision-making.

While theories of gender-based differences of leadership operate at the individual level, they can be applied in the context of boards to explain how board gender composition (a team level construct) affects board effectiveness.

From a team perspective, it can be expected that boards with higher ratios of women directors will have characteristics and behavior typically associated with women leaders. Such arguments are in accordance with upper echelons theory, which postulates that individual backgrounds of executives influence strategic choices made by the entire top management team and thus affect team and firm level outcomes (Hambrick & Mason, 1984). The ratio of women directors represents a central tendency of team (board) composition by aggregating individual (director) characteristics to the team (board) level. Thus, gender diversity can be used as a predictor of board level processes and effectiveness. The literature on gender-based differences asserts that women and men are different in their leadership behavior. Aspects of gender differences that are important to understanding leadership pertain to agentic and communal attributes (Eagly, Johannesen-Schmidt, & van Engen, 2003). Agentic characteristics, which are ascribed more strongly to men than women, include being assertive, ambitious, aggressive, independent, self-confident, daring, and competitive. In work setting, agentic behavior might include speaking assertively, competing for attention, influencing others and making problem-focused suggestions. Communal characteristics, which are more strongly ascribed to women than men, describe primarily a concern with the welfare of other people and being affectionate, helpful, kind, sympathetic, interpersonally sensitive, nurturing, and gentle. In work situations, communal behavior might include speaking tentatively, not drawing attention to oneself, accepting others’ positions, supporting and soothing others, and contributing to the solution of relational and interpersonal problems (Eagly & Johannesen-Schmidt, 2001). In a synthesis of prior research on managers, Eagly and Johnson (1990) found
that women tend to be more democratic and participative and less autocratic and directive compared to male leaders. Research has further established that female leaders, compared with male leaders, are less hierarchical, more cooperative and collaborative, and more oriented towards enhancing the others’ self-worth (Eagly et al., 2003). Thus, women may be particularly sensitive to – and may exercise influence on – decisions pertaining to certain organizational practices, such as corporate social responsibility and environmental politics. Accordingly, women directors may contribute substantially to the board control tasks for issues of strategic nature. Thus, it can be expected that boards with a higher ratio of women directors may be more effective in performing strategic control tasks.

Gender Differences and Board Tasks
Boards with a higher ratio of women directors may have differential impacts on the performance of distinct board tasks. Board operational control tasks refer to the board’s responsibility to supervise managerial decisions regarding investments, cash flow, dividends, financial statements, and so forth, that is decisions concerning the firm financial and accounting situation requiring strong quantitative background knowledge and skills. Strategic control, on the other hand, refers to monitoring managerial decisions regarding firm strategy as well as organizational practices and policies such as safety, health, and environment, and, accordingly, assumes more analytical and visionary skills. While operational control tasks are more routine and ex post, strategic control tasks are ex ante, more complex and creative, and require a broader range of perspectives. Prior research suggests that women are particularly valued as board members for their ability to provide strategic input and generate more productive discourse (Bilimoria, 2000). The productive discourse involves presentation of different perspectives and points of view, which ultimately may result in generation of more numerous alternatives and higher quality decision-making related to organizational strategies and practices. In addition, the unique role of women on boards is often reflected in their participative management style (Pearce & Zahra, 1991) and in higher sensitivity compared to their male colleagues (Bradshaw & Wicks, 2000). This ability, combined with women’s attention to and consideration of the needs of others, may lead to women’s active involvement in issues of strategic nature that concern the firm and its stakeholders.

DISCUSSION
In times of intense debates about the role of women on corporate boards, this article contributes to both theory and practice by studying the impact of women directors on board processes and effectiveness. We combine theories about gender differences and group effectiveness in order to explain whether and how women directors contribute to the work of corporate boards. The results show that the impact of women board members on board
effectiveness: This article makes a few contributions to current discussions about the role of women directors on corporate boards.

Conclusion

First, our study demonstrates that the impact of women on boards depends on the nature of the task performed. Our results are consistent with the literature on gender differences in leadership styles (Eagly & Johnson, 1990; Eagly et al., 1995; Eagly and Johannesen-Schmidt, 2001), which suggests that there are no overall differences in behavior between women and men in management positions. Rather, women directors’ leadership style may be different from those of men for certain tasks and in certain situations. Specifically, we find the ratio of women directors to have a positive direct relationship with board strategic control but no direct relationship with board operational control. Together, these results suggest that while women directors do not perform operational control tasks better or worse than men, they bring specific advantages to board decision-making when it comes to board strategic tasks. It seems that women’s enhanced sensitivity towards others and their consideration of the interests and perspectives of multiple parties enhance board oversight of firm strategy. These findings may help explain why it is difficult to establish a direct relationship between board gender composition and firm performance.

To the extent that boards perform multiple tasks simultaneously and women have differential impact on some of these tasks, no overall performance differences can be detected between firms with high and low ratios of women directors. Second, the results clearly support the notion that board processes are an important predictor of board effectiveness (Forbes & Milliken, 1999; Macus, 2008; Petrovic, 2008; Pettigrew, 1992). Specifically, whereas board open debate and development activities increase board strategic and operational control, board conflict reduces board strategic control. Our results indicate that while debate is crucial for the quality of board decision-making, increased conflict can harm board functioning. Together, these findings point to the importance of balancing the need for constructive open debate among board members without incurring the negative effects of conflict. The strong effects of the three process variables on board strategic and operational control suggest that board processes and dynamics are important drivers of board effectiveness.

In addition, board development activities mediate the relationship between women directors and operational control. We find that boards with high ratios of women are more likely to use board development activities related to the introduction of working structures such as board work instructions, evaluations, and development programs. These structures, in turn, enhance board strategic and operational control. Hence, one of the mechanisms through which women contribute to board effectiveness is the use of board development activities. Board conflict constitutes another mediating mechanism between board gender diversity and effectiveness. We find that women directors reduce the level of conflict, which is detrimental for board strategic control.

These findings suggest that board processes may indeed matter more than composition of the board (Finkelstein & Mooney, 2003; Forbes & Milliken, 1999).

References


