Women on Boards: Does Corporate Culture Influence Board Gender Diversity?

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Abstract
Purpose: We examine the link between corporate culture and the company’s willingness to appoint women to the Boards of Directors.

Method: We proxy corporate culture by how companies communicate with investors in the 10-K filings and run textual data analysis. Then, we employ quantitative modeling.

Result: We find that companies with high degree of collaborative corporate culture appoint more female directors, while companies that score high on competitive corporate culture appoint more female directors.

Motivation

Academia: “We know very little about the causes of female relative underrepresentation on boards.” (Renee B. Adams 2016)

Industry: “Fewer large companies are run by women than by men named John” (FT, 2015)

“It’s also essential to look at culture, which is often the biggest driver of diversity and inclusion. Culture underpins diversity and inclusion.” (HER 2020)

Research Objectives

We study the composition of the Boards of Directors (BoD) of the S&P 1500 companies to verify whether corporate culture (CC), which details a firm’s operating philosophy that guides the top management’s decision-making and influences their outcomes, is the channel through which organizations decide to appoint women onto their Boards of Directors.

Operationalizing CC

Competing values framework (“CVF”)—one of the 40 most important frameworks in the history of business (Ten Have et al. 2003)—considers the factors that account for highly effective organizational performance (Quinn & Cameron, 1983; Quinn & Rohrbaugh, 1983).

WOB and CC

The number of women on the BoDs has been gradually increasing over time; but on average, only a bit over 60% firm-year observations had a least one woman on the board.

Hypothesis

H1: Companies with strong tendency towards collaborative corporate culture appoint more women to their BoD.

H2: Companies with strong tendency towards competitive corporate culture appoint fewer women to their BoD.

Methods

Qualitative analysis—sentiment analysis (propagated in finance and accounting by Loughran and McDonald (JAR, 2016):

• developing word lists (libraries) – defining key words used to identify corporate values associated with the four CCs, adding synonyms and controlling for negations

• textual analysis run on the 10-K filings

Quantitative analysis—mean, quartile analysis, univariate and multivariate regression analysis (panel data)

Data

SEC’s Edgar: mapping/measuring Corporate Culture (CC) through textual analysis run on the firms’ 10-K filings

Compustat: annual firm-level data of the U.S. publicly traded firms

ISS (formerly RiskMetrics): Women representation on the BoD and other corporate governance data (data on the universe of S&P1500 firms)

Execucomp: data on the firms’ executives, their personal characteristics, and compensation etc.

Univariate analysis

The more collaborative the CC, the more women on the board on average; the more creative, competitive or controlling the CC, the fewer women on the board.

Multivariate analysis

Model: \[ \text{WOB}_{it} = \alpha + \beta \text{CC}_{it-1} + \gamma X_{it} + \eta_i + \epsilon_{it} \]

Results: the more collaborative the CC, the more female board members; the more competitive CC, the fewer female directors.

Addressing Endogeneity

• Lagging CC variables up to 3 periods

• Testing for changes in WOB with preceding changes in CC

A preceding 1% increase in collaborative culture is followed by a 1.2% increase in female representation on the BoD.

• Testing for reverse causal relationships within so-called dynamic approach to CC

A preceding 1% increase in competitive culture is followed by a lift of 0.2% in female representation on the BoD.

• Testing for reverse causality when women directors gain critical mass (>35% according to Kanter, 1977)

Only once a minimal threshold of gender diversity is reached—min 3 female directors—an increase of WOB affects back CC. That happens in only 1,368 out of 17,010 firm-year observations.

Conclusions

• This is the first study to link corporate culture (proxied by management communication via the SEC filings) and women representation to the BoDs

• Highly collaborative culture companies appoint more female directors and exhibit less tendency for tokenism: ‘ticking the box’ only to look good regarding board gender diversity than highly competitive culture companies

• While gender quota are more of a ‘stick’ type of measure to increase gender balance in business that can cause performance decrease, changing corporate culture has a long lasting, positive effect on the board gender diversity without causing negative side effects.

Tokenism

Farrell and Henseh (2005): the likelihood of a company appointing a woman to its board is negatively affected by the number of women already on the board.