UK and US board director perceptions of the significance of gender and racial diversity on board governance

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Doctor of Philosophy

ASTON UNIVERSITY

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THESIS SUMMARY

This mixed-methods study examines the perceptions and opinions of United Kingdom FTSE 350, and US Fortune 500 board of director members regarding the significance of gender and racial diversity on board governance. Perceptions were gathered from eighty-two directors using self-reported surveys and semi-structured interviews. This thesis provides: (1) an opportunity to investigate the perceptions (opinions) of directors regarding the effects of board gender and racial diversity on new board appointments and on the dynamics of board decision making (2) an opportunity to investigate the perception (opinions) of directors regarding the effects of social capital, new board appointments and the dynamics of board decision making, and (3) an opportunity to investigate comparatively the differences between UK and US director perceptions regarding the effects of board gender and racial diversity on new board appointments and board decision making.

My findings indicate that directors believe that expertise and experience are by far the most important attributes when decisions on the selection of new directors are being considered. While US directors report observing tangible benefits to gender and racial diversity, for their firms, as well as a willingness to consider diversity as an attribute in the selection process; most UK directors were strongly opposed to positive discrimination measures.[1] A majority of directors do not believe that their own demographic characteristics, such as race or gender were attributes to their being selected to a board position; however white males perceive that these attributes were considered attributes to the appointment of diverse directors. Moreover, in the United Kingdom, male directors reported that they may be at a disadvantage for board selection when compared to their female counterparts, hence advocating for a selection process with minimal considerations of the demographic characteristics of new directors. Directors do not seem to consider diverse social capital of directors when making board appointments. Instead, US directors were more likely to be assisted in board appointments by their having similar social capital, and UK directors indicated that they only consider director expertise, and that expertise is considered to ensure a broad mix of skills and professional experience on the board.

[1] Positive discrimination is the practice or policy of making sure that a particular number of jobs, etc. are given to people from groups that are often treated unfairly because of their race, sex, etc. (Oxford Advanced Learner's Dictionary)

COLLABORATION STATEMENT

STUDENT NAME: Darlene Booth-Bell

SCHOOL/RESEARCH GROUP: Aston Business School/Finance & Accounting Group

DECLARATION RELATING TO THE SUBMISSION OF A THESIS FOR PhD

(1) I hereby certify that:

(a) the work submitted for the degree of Doctor of Philosophy has not been submitted for any other academic award; and

(b) I have not knowingly falsified any of the data contained within the work I am submitting for the degree of Doctor of Philosophy; and

(c) the length of the thesis is not more than 80,000 words, excluding appendices.

AND EITHER

(2) I have clearly acknowledged in the thesis all those parts of the work which were done in collaboration with others.

OR

(3) No part of the work described in the thesis was done in collaboration.

SIGNED: …… (STUDENT)

COUNTERSIGNED: …… (SUPERVISOR)

STUDENT'S FULL NAME: Darlene Booth-Bell

DATE: April 2014

DEDICATION

I wish to dedicate this thesis to my husband Reggie and son Myles for the unlimited supply of love, patience, understanding, and daily support that they have given during the period of my matriculation. To Reggie, I am completely in awe of your personal commitment to my dreams. To Myles, always do your best and never, ever quit. I didn't.

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I first thank God for the strength to submit this thesis. This accomplishment would not have been possible without the support from many people.

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Thank you to my family both immediate and extended. Reggie Bell you are my rock and my blessing from God. You have supported my PhD. both financially and emotionally. Myles, you probably don’t remember a time when Mommy wasn’t a student. I look forward to your continuing excellence and I hope I have been a positive influence. I also thank my nephew and second son Jabari, and my godchildren Luisa, Felicia, and Jamar who have endured more than a few late night conversations regarding this process. You may now all get your wife, mom, aunt, mentor, and godmother back.

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CHAPTER 1- INTRODUCTION

UK and US Board of Director`s perception of gender and racial board diversity and their effects on board governance.

1.1 Prologue

The context of this study was to investigate the perceptions and attitudes of directors towards gender and race diversity and board governance, and attempt to evaluate how these board members perceive whether their own race and gender or that of their co-directors affect the ability of board members to govern effectively. Namely, it answers the broader question of whether directors perceive gender or racial diversity as valuable to the governance process. Moreover, if diversity is valuable to the directors, what are their perceptions of why it is valuable and what rationales do they use? Additionally, its context was to examine if social capital considerations might influence the director selection process, and board governance.

Diversity is defined in alternate ways and can be measured across a variety of components. A general description of the term diversity, according to Webster:

> *"The condition of being diverse: the inclusion of diverse people (as people of different*
>
> *race or culture) in a group or organisation" (Merriam-Webster Online Dictionary,*
>
> *2010).*

Demographic diversity has been used as a proxy for different experiences, sensibilities, and points of view (Krawiec et al. 2013). As it relates to corporate governance, the concept of diversity is related to board composition and the numerous attributes,

characteristics and expertise of individual board members. The various types of diversity that may be represented among directors in the boardroom include age, gender, ethnicity, culture, religion, constituency representation, independence, professional background, knowledge, technical skills and expertise, commercial and industry experience, career and life experience (Milliken and Martins, 1996). For the purposes of this study, race and gender diversity have been used in the analysis of surveys (Chapter 6) and interviews (Chapter 7). Other types of diversity including age, ethnicity, and years of experience were analyzed in the Chapter 5 analysis of all UK FTSE 350 directors.

This study will examine whether board directors perceive any general governance benefits, or social capital benefits to corporate board gender or race diversity, and whether these perceptions support the board diversity rationale that have been argued in the literature (Ramirez 2007, Fairfax 2005). Thus, the current thesis contributes to the literature on director perceptions (Burch 2008, Conley et al. 2009, Krawiec et al. 2013), rather than provide an argument that the benefits of board diversity as measured by financial performance is valuable (Farrell and Hersch 2005, Smith et al. 2006, Hussein and Kiwia 2009)[2]. Namely, it answers the question of whether directors perceive gender or racial diversity as valuable to the governance process. Moreover, if diversity is valuable to the directors, what rationales do they use to describe this value?

There are often five rationales discussed on how board diversity is valuable to firms. These rationales include: the talent rationale, the market rationale, the litigation rationale, the employee relations rationale, and the governance rationale. (Fairfax 2005) The rationales are important for this researcher's thesis, as they form the basis of what questions were asked of the Directors to gain their perceptions of how diversity is thought to be a benefit to corporate governance. The rationales are discussed further in Chapter 3, as well as in chapter 8. In additional, they allow this researcher to determine if directors perceive that social capital assists in achieving these purported benefits?

[2] A study of financial performance and board diversity has been left to other research. The question of whether board diversity improves financial performance has been debated in a number of studies which are referenced throughout this thesis.

1.2 Introduction to Methods

The goal of this thesis study was to gain a greater understanding of how directors perceive board diversity. Specifically, to find out if directors would articulate rationales for board diversity that would support the previous rationales. Additionally, Terjesen et al. (2009) propose that there is a need to obtain the viewpoints of board directors regarding the social capital resources of directors.

> *"It would be interesting to obtain the views of Chairs and other board members about the relative usefulness of diverse human capital and social capital resources of incoming directors once they have been fully integrated into the board and its key committees."*

To gather these viewpoints, it was essential to choose a method that would allow the directors to articulate these perceptions. Using both interviews and surveys would allow this researcher an opportunity to gather these perceptions directly from the directors themselves. McCracken (1998) argues that interviews are best used in collaboration with quantitative methodologies such as surveys. Utilizing a mixed methods approach, this research looks at two separate aspects of the board member: 1) the director selection processes, and 2) director communication and interaction with other board members. This study explores how these two critical activities may be impacted by board attitudes towards race and gender diversity and how such diversity is perceived to impact the governing process. The mixed methods approach blended two different research strategies, qualitative interviews and quantitative surveys. Recognizing the complementary approach of using qualitative and quantitative research methods (Morse, 1991; Corbin and Strauss, 1990), the data from surveys were used to gain insights into director perceptions of diversity and whether or not leveraging social capital is a consideration when the board is choosing new directors. While the surveys allowed a large number of directors to be contacted, the survey collection method did not allow for follow up questions, seeking clarification, or observation of the interviewees. However, information derived from these surveys was used for analysis, as well as to develop an

interview guide that was used for semi-structured director interviews. The qualitative analysis of in-depth semi-structured interviews was conducted to gather detailed insights into director expectations, attitudes, and perceptions regarding their selection and their general perceptions of the role of diversity in board governance. Director interviews allowed the researcher to seek clarification from the director when needed, ask follow-up questions, and in most cases observe the body language of the director.

1.3 The Purpose of the Study

The purpose of this thesis is to answer the question of whether directors perceive gender or racial diversity as valuable to the governance process. In addition, this study explores the idea of whether directors have "bought in" to the diversity arguments, or rationales, which attempt to connect enhanced governance to diverse boards (Dallas, 2002; Fairfax, 2005; Catalyst, 2004[3]). There are additional ways that this study is different than others on the subject. First, it seeks to provide insights regarding the expectation of alternate types of value the director may bring to the firm. Therefore, this researcher believes it is important to consider within this thesis, other ways in which diverse directors can enhance firm value that is not strictly oversight or financial in nature. One such value may include social connections that have the ability to bring additional resources to the firm. Specifically, this thesis looks at the perceived social capital that a director may hold, and investigates what expectations of social capital the firm may have for diverse directors.

Social capital, in the context of this thesis, describes networks together with shared norms, values and understandings that facilitate cooperation within or among groups[4]. One such way diverse directors may provide additional value to the firm, is through the

[3] This Thesis includes a number of references to Catalyst studies. It is noted for this and other references to Catalyst, that the research, while performed by academics, is not peer reviewed academic journal research.
[4] Social Capital definition provided by the United Kingdom Office for National Statistics (ONS) adopted definition November 2001

unique social capital that may be introduced to the board by virtue of their board membership. Just as financial capital is of value to the firm, so too is social capital. Figure 8.1 will proposes a view of social capital, where demographically diverse directors may be expected to provide social capital that is different or unique than their demographically similar counterparts resulting in a 'bridge' or spanning to new networks. This different or unique capital results in an increase in firm capital. This discussion, along with Figure 8.1 is described and developed from the literature as a part of the theoretical chapter in section 8.2, where a detailed discussion of social capital is included.

One of the indirect effects of diversity is the opportunity for the firm to access the diverse groups of contacts, relationships, and social ties that diverse directors may bring. Social ties with key external constituencies may result in strategic ties and strategic resources that the firm can leverage for resources (Pfeffer and Salanik, 1978). An aspect of diversity that has been studied in previous literature is social capital and its connection to diversity of social ties (Van der Walt et al. 2002, Van der Walt and Ingley 2003, Scott 1991, López-Fernández and Sánchez-Gardey 2010).

Research outcomes for whether board diversity leads to enhanced governance is a legitimate question; however, this thesis is different in that in investigates how and if directors see diversity's impact on the board. Additionally it seeks to determine if these perceptions appear different for directors due to country of residence, gender, or race.

Existing empirical research, in the area of diversity and board governance, has generally found a positive link between board diversity and governance (firm value) (Catalyst 2011, Ararat et al. 2010, Catalyst 2004, Carter et al. 2003, Erhardt et al. 2003, Westphal 2000). Research from these studies supports the argument that diversity enhances governance. For example, Fondas (2000) found that boards with larger proportions of women were less likely to let CEOs dominate the board and more likely to power share, and have significantly more influence over management decisions than boards without female directors, providing support for a diverse board enhancing the governance process

(Fondas, p 172). Adams and Ferreira (2002) also found a positive significant relationship between the proportion of female directors and financial performance as measured by Tobin's Q, but they found no relationship or a negative relationship between board gender diversity and ROA. However, few have offered much empirical evidence to substantiate the reasons directors believe diversity improves governance. Few researchers (Krawiec et al., 2013) have had discussions with directors to attempt to validate the cited reasons for these observed benefits, or whether directors believe they exist at all (Butler, 2012; Broome and Krawiec, 2008; Broome et al., 2011; Catalyst 2004; Krawiec, 2013). Researchers such as Butler (2012), Hafsi (2012), and Rhode and Packel (2010) have contributed research supporting the positive impact of board diversity on governance, but these researchers have restricted their studies to one country, thereby missing the opportunity to assess the impact that cultural influences, based on nationally, may have on director opinions about diversity.

The impact of board demographic characteristics and firm governance likely varies by country because of the different regulatory and governance structures, economic climate and culture, and size of capital markets (Kang et al. 2007). Therefore, board diversity should be studied within the influence of country (Kang et al.). Moreover, Toms and Wright (2005), argue that US/UK comparative work has been neglected, and that "although there are important similarities [between the US and the UK corporate governance systems], there are also differences that have not been fully investigated" (p 267). Some of these differences are discussed in research by Armour et al. (2009) and Deakin (2005); who found considerable differences between the US and UK governance systems related to insolvency law, and labour law, which they argue "casts doubt on a unitary "Anglo-American" view of corporate governance." This thesis provides UK and US comparative research on board diversity, which helps to fill this gap.

The link between board diversity and enhanced governance is often illusive or bimodal, pointing to both positive and negative relationships between diversity and governance (Rhode and Packel, 2010). For example, in the Female FTSE Report, 2005, Singh and

Vinnicombe state, “diversity is always part of exemplary corporate governance which will enhance shareholder value in the long term.” Yet they found no significant correlations between the presence of women directors and financial performance measures (Singh and Vinnicombe 2005). Similarly, Rose (2007) were unable to determine any significant link between firm performance, as measured by Tobin’s Q and female representation. Ahern and Dittmar (2011) found that when a board had a 10% increase in the number of women, Tobin’s Q declined by 12.4%. However, Lückerath-Rovers (2010) found that firms with women have better ROE than those without women. These studies, and others, are discussed in greater detail in Chapter 3 of this thesis.

A number of reasons for and against a diverse board of directors have been furthered in existing governance research. These reasons include first, how board diversity may influence how boards make decisions (Krawiec et al., 2013; Rhode and Packel, 2010), thereby evaluating how diversity may affect the process of board functions; secondly, how diversity may impact the types of decisions that are made (Rose, 2007; Miller and Triana, 2009), thereby impacting firm outcomes.

Arguing against diversity, several studies have suggested that diversity may decrease firm value (Ahern and Dittmar 2011, Adams and Ferreira, 2002). However, other empirical studies of Fortune 500 firms have provided insights into how diversity can positively impact firm outcomes. Miller and Triana (2009) showed increased innovation and reputation within the board demographic diversity–firm performance relationship.

Van der Walt and Ingley (2003) argue that board diversity may have a variety of impacts on the board, the firm, and the stakeholders. These impacts include organizational performance, board performance, organizational dynamics, and stakeholder dynamics. They present the figure below as a method of explaining the impact of board diversity.

Figure 1.2 Source Van der Walt and Ingley 2003, pg 222

Additionally, according to Van der Walt and Ingley, the impact of diversity can include the individual characteristics of the directors and a variety of situational factors (Bilimoria and Wheeler, 2000; Burgess and Tharenou, 2002; Burke, 2000; Mattis, 2000).

1.4 Research Questions

This researcher contributes to this body of knowledge by increasing the knowledge of how board race and gender diversity may enhance governance, and by validating why a positive relationship may exist. Additionally, this study discusses the rationales often given by scholars to support board diversity, to determine whether director answers lend support to these rationales. This study contributes to prior research (Catalyst, Broom et al. 2008, Conley et al., 2009) as the methods allow directors to speak for themselves about what impact diversity has on governance duties. In accomplishing this goal, this researcher has completed a dual focused study which enhances the knowledge of this topic: 1) An examination of social capital expectations and outcomes in selection criteria

of women and minority board members; and 2) board director perception of how race and gender diversity impacts the board.

The subsidiary research questions which guide the thesis were as follows:

Research Question 1 - Directors perceive that board appointments are impacted by demographic factors such as their race, gender, age, or nationality.

Research Question 2 - Directors perceive that board governance is positively impacted by having diverse members on the board.

Research Question 3 - Directors perceive board diversity is an important signal of board values to the marketplace.

Research Question 4 - Directors perceive that board members are chosen to improve board networks and board capital, and this enhances board social capital.

Research Question 5 - Directors perceive that recruitment firms are important to board appointments.

These questions extend the current research as to how racial and gender diversity impacts governance, and allow this researcher to fill gaps in the existing literature by including director perceptions by gender, race, and country, on topics such as board diversity and social capital, board selection process, and board interactions.

1.5 Limitations

This study increases our knowledge of board of director perception and attitudes about director race and gender diversity. By critically analyzing the interviews and survey data, it is possible to conclude whether these directors are acting in ways that support certain previous theories about board diversity. Equally important, each individual interviewed gives an account of their understanding of the circumstances which led to their appointment to the board. These accounts are assumed to be correct and offer

perspectives into expectations of director social capital. Several limitations are presented below including the lack of both racial and gender diversity in the UK respondents, personal bias of the researcher, and the difficulty of generalizability. Future research which seeks interviews with others in the selection process such as recruitment firms, could further understanding of this issue.

1.5.1 Lack of UK Diversity

While the US directors were diverse, representing both racial and gender diversity; due to the general lack of diversity on UK boards, the survey population was overwhelmingly non-diverse. For example, a review of data on the number of women directorships in the UK revealed that as of 2005, there were only 14 women (3.4%) in executive directorships in the FTSE 100. Female non-executive directors numbered 107 (Singh, 2005). In 2008, this same publication reported women directors numbered 27 executive directors and 115 non-executive directors at FTSE 250 firms. In the US, as of 2006, women held 208 of the 1219 Fortune 100 board seats (Alliance for Board Diversity, 2008), almost double the number of UK women in the FTSE 250. The extremely low numbers of potential board participants qualifying as racial minorities made the ability to study minority director viewpoint in the UK even harder to accomplish. As of 2008 only 47 of the 1147 FTSE 100 directorships are held by non-white ethnic backgrounds. In contrast, as of 2006, 188 of the 1219 board seats of the US Fortune 100 were held by non-white directors (Alliance for Board Diversity, 2008). As the ability to make generalizations depends heavily on the representativeness of the sample, the inability to identify and access a sufficient sample of non-white directors in the UK is a limitation of this study. Without it, the UK perspectives become a study of the opinions and perceptions of white directors who are primarily British men.

1.5.2 Statement of Personal Bias

Interviewer bias happens when survey responses are recorded inaccurately or when interviewers guide individual's responses (Shaughnessy et.al., 2006, p.157). Interviewer bias can also occur as a result of motivations by the respondent or interviewer (or both) to falsify their response (Williams,1964, pp 339) Response bias can occur when respondents' seek to present themselves favorably to the interviewer. When using qualitative methods, there is a potential for bias, or appearance of bias. I am a Black US American woman. By virtue of this fact, there is a potential that my face-to-face interviews about diversity would lead respondents to answer in ways designed to portray themselves in a favorable light to the interviewer, by espousing views especially favorable to positive ethnic diversity. Additionally, there was a possibility that my US American cultural framework regarding the importance of race and gender would result in undue influence on the interview questions. To assist in mitigating this risk, an interview guide was developed with input and feedback from the supervisors of this thesis project. The two supervisors are white British males; who in principle should not share the same bias as I do. Once approved, the interview guide was followed exactly in every interview to assure that the directors were interviewed with a standard, pre-approved format. This allowed for some consistency in the interview format, assisted in the reduction of researcher bias; yet still allowed room for the directors to provide in-depth responses. As it relates to the transcription of interviews, the transcription of these interviews was performed in a meticulous manner to ensure the interview was recorded accurately. Detailed notes were taken during each interview, and those interviews were entered into Microsoft Word ™ for record keeping.

Despite the interview guide and the meticulous manner of note taking, I believe that the impact of some researcher bias is unavoidable. Given that I am a black woman, this bias is unavoidable with a subject such as board diversity. Specifically, the overarching questions for this thesis study evolved from a combination of professional experience of the researcher in the accounting and auditing field, a personal interest in diversity and

inclusion issues born from my racial background and experiences, my experience of living and studying in both the UK and US, and the increased media interest in corporate governance due to the corporate failures in 2001-2002. These four distinct areas provided a base of information that encouraged this researcher to seek additional knowledge in this subject. This thesis context is designed to provide an explanation of these influences, and how the gathering of the data needed for this thesis was affected by it.

One criterion that Creswell recommends considering when deciding which method is more appropriate is the prior training of the researcher. In qualitative studies, the researcher is the instrument. Whether the researcher's presence is sustained and intensive, as in long-term ethnographies, or whether relatively brief but personal, as in in-depth interview studies, the researcher enters into the lives of the participants (Marshall and Rossman, 1999). The researcher's role entails varying degrees of participantness – from full participant to complete observer, and all possible mixes along the continuum. Because the researcher is the instrument a qualitative report must include information about the researcher (Patton, 1990).

I am a black American woman born and raised after the tumultuous Civil Rights Era; some writers would consider my upbringing post-racial. I was born in a Pennsylvania steel town in the late 1960's to parents employed in heavy manufacturing, and as such enjoyed a middle class upbringing. I attended primary schools in the 1970's that were integrated and was taught by both black and white teachers.

I attended Pennsylvania State University, a 30,000+ public college with less than 3% Blacks enrollment. During my enrollment at Pennsylvania State University, I studied International Economics for one semester in Oxford, England. This experience gave me a broader view of the world around me and ignited an intellectual curiosity about the country that remains to this day.

After college I held several accounting and management positions each with progressively more responsibility and less supervision. These included management accounting jobs in large firms, a position as a Bank Examiner with the Federal Reserve Bank, and Controllers Division responsibilities as an Assistant Vice President with Wachovia Bank (now Wells Fargo). As it related to the current research, the time I spent as a bank examiner with the Federal Reserve Bank was helpful. In that position, I performed the attest function, reviewing the work and strategy of senior bank management. The position allowed me to read the minutes of the board of directors and to meet and discuss my finding with senior management as well as with the board itself.

Fortuitously, I was able to return to England in 2002. My spouse secured a two-year temporary assignment working for the CEO of a large British firm. Over the course of the two years, I was privileged to meet many of the firm's senior managers. I was also able to meet Jamaicans and Africans with whom I was able to discuss the socio-economics status of people of African descent. These discussions included our differences and similarities of living, working, and progressing as a minority citizen. I was also privileged through church and civic groups to meet many white British women who occasionally discussed their experiences of gender differences in the UK. These discussions assisted me in creating a broader world view of what it means to be a minority in both America and the UK.

While I am not of the Civil Rights era, educated in predominantly white institutions, worked and managed in large white corporate environments, and travelled extensively throughout the world, I still consider myself to be deeply affected by my racial ethnicity. This cultural identity of being a black woman has the ability to influence my personality and decisions in ways where I least expect it. While I am not naïve enough to think that this is the case for every women or every black American, I feel confident in saying that this cultural difference does influence an individual in some way whether they acknowledge it or not. My own professional management career has been influenced in ways which occasionally result in behaviors that mirror what researchers have come to

discuss as female leadership attributes. These include less hierarchical, more cooperative and collaborative, and more oriented towards enhancing the others' self-worth (Higgs 2003). Other traits characteristics which have been ascribed more strongly to women than men 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 and Johannesen-Schmidt, 2001). Understanding this influence, I became very interested in how race and gender affect those in management, and especially how such influence might affect the way those at the highest ranks govern their companies.

While my career in accounting began in 1989 after my graduation with an undergraduate degree in accounting; my interest in governance began in 2002. The news so prevalent at the time was the US corporate scandals such as Enron, Worldcom, Tyco, HealthSouth, and others. This coverage of scandals highlighted how directors were not always effective in their governance, and their shareholders paid a huge price in lost investments. My academic inquiry wondered if somehow the "old-boy" network of white male directors had made such scandals a possibility. More especially, I considered if perhaps diversity of the boards and perhaps therefore increased independence and personal ties could have prevented some of these calamities.

This prior experience gave me a level of confidence about my abilities to complete a mixed-methods study, which used many of these same skills and capitalized on this experience as an auditor and bank examiner while my background gave me an intellectual curiosity about this issue. This experience and its associated competence was an advantage to pursuing the methodology for this study. Lastly, as a minority woman manager and student, I was able to use my personal attributes as a manager and researcher to assist in the determination of what aspects of my own personality might be an asset to corporate governance. In order to accomplish this task, I consider my experiences in private firms as well as my experiences as a director in a university setting. I evaluated my own actions in this setting to decide what unique positive

attributes I may have contributed to the governance of my areas under my supervision. These attributes included an ability to critically think through issues and provide honest and unfiltered feedback to my superiors, the ability to multi-task projects, the need to seek justice for myself and those under my supervision, and the ability to remain unbiased regarding friendships and acceptable performance. These attributes enhanced my ability to decipher narrative clues such as “The woman director was very thorough”, “The women on our board lent more structure to our processes”, and “The women on our board ask many tactful questions in an effort to better understand the issues.” These answers resonated with me due to my own experiences as a minority and a woman in management.

My interest in gender/ethnic/racial diversity has been heightened in the UK by the passage of the Equality Act of 2006, which consolidated various “acts” and “requirements” of British law governing equality, diversity, and human rights. In the Act, public authorities are required to govern themselves based upon these acts; however, this has not translated into multiple identity representation on corporate boards. Although this study does not give a review of the Act, here it is noted that portions of the Act speak specifically to diversity and different groups. One of the intents of the Act is to work toward enabling member of groups to participate in society. As it relates to equality and diversity, Section 8 Part 1 of the Act states:

Equality and diversity

(1)The Commission shall, by exercising the powers conferred by this Part—

(a)promote understanding of the importance of equality and diversity,

(b)encourage good practice in relation to equality and diversity,

(c)promote equality of opportunity,

(d)promote awareness and understanding of rights under the equality enactments,

(e)enforce the equality enactments,

(f)work towards the elimination of unlawful discrimination, and

(g)work towards the elimination of unlawful harassment.

Thus, it is the intersection of my personal attributes and background, UK legislation on equality, and the corporate scandals that garnered so much media attention in the past decade provide an intersection of academic curiosity and gap in knowledge that provided the personal context and interest for this study.

1.5.3 Generalizability

When using surveys, there is a risk that response rates could be low (Simon and Francis, 1998 p. 61). In addition, due to response bias, the final sample may not represent the population. In this study, there is a distinct possibility that only those on the board with strong views about diverse boards returned the survey. This may have resulted in conclusions not necessarily representative of the entire board population of UK directors. This bias is not unique to this study and has been accepted as a normal dynamic of survey research. In this study, the survey instrument was not designed to provide representation. Instead the instrument was used to provide a framework to construct the interview guide, and provide additional support for the interview results. Pinsonneault and Kraemer (1993) argue that one purpose of a survey research can be to explore important ideas, or to become more familiar with a topic and to try out preliminary concepts about it. A survey used in this context is used to discover the range of responses likely to occur in some population of interest. Although the result of this work does not provide a context for generalizability, they do reveal much about the individual director. Broome, Conley and Krawiec (2011) discuss the inability to make generalizations based on a small number of a larger group:

> The fact that a member of a cultural group analyzes and interprets the world in a particular way does not, of course, permit one to generalize about what other members are thinking or doing. Yet by the same token, aggregate data about a

group as a whole do not allow one to say anything about any particular individual.. (Broome, Conley and Krawiec 2011, p. 775)

1.6 Context of Recent UK and US Corporate Governance Reports

The prominence of corporate failures and the attending media interest over the last 20 years in UK and US history has propelled modes of governance into the forefront of possible sources of corporate instability and financial uncertainty. The UK has a general corporate governance approach of "comply or explain"; versus the US, which has taken more of a legal approach with fines and prison sentences for serious corporate governance violations. In addition to literature discussed in this thesis that argue various forms of governance, it is important to discuss the recommendations of best governance practices that have been suggested as a means to improve UK and US corporate governance. The recommendations are the outcomes of congressional acts, and a series of committees that have been tasked with assessing, developing, and responding to the governance matters prominent during their tenure. This section is not intended to present a full historical account of these recommendation; however, it provides a summary of recommendations over the previous 20 years. The table below summarizes these reports.

TABLE 2.1: Major Industry and Governmental Governance Reports			
Report Name	Year	Commissioning unit	Focus
Cadbury Report - UK	1992	Financial Reporting Council, London Stock Exchange, accounting profession.	General board governance principles
Greenbury Report - UK	1994	Confederation of British Industry	Salary and bonuses of company senior executives
Hampel Report - UK	1997	London Stock Exchange, the Confederation of British Industry, the Institute of Directors, the Consultative Committee of Accountancy Bodies, the National Association of Pension Funds and the Association of British Insurers	Review of principles and purposes of Cadbury
The Combined Code – UK	1998	Financial Reporting Council	A combination and refinement of a number of different reports and codes concerning opinions on good corporate governance
The Turnbull Report - UK	1999, 2005, 2012	Institute of Chartered Accountants	Guidance on internal controls
The Higgs Report – UK	2003	UK Government	Adding specifics to the role of independent directors and audit committees
Walker Report – UK	2009	UK Government	Financial institutions governance
Guidance of Board Effectiveness – UK	2011	UK Government	Leadership and effectiveness of the board
The California Public Employees' Retirement System (CalPERS)	2002	US State led activism	Ensured that corporate value would not be destroyed by the relationships between the CEO and the board of directors
Sarbanes-Oxley Act of 2002 - US	2002	US Government	Auditor standards and requirements, penalties for corporate fraud

New York Stock Exchange and NASDAQ provisions	2002	US NYSE and NASDAQ	Director independence and management oversight.
The Conference Board Recommendations	2002	US Association of Prominent Companies	To guide boards in designing top executive compensation

Cadbury

As one of the first significant sets of UK governance recommendations, the Cadbury report has been referred to as "The beginning of a quiet revolution" (Jones and Pollitt, 2002). In 1991, the Financial Reporting Council, the London Stock Exchange, and the British accounting profession set up a committee on the Financial Aspects of Corporate Governance. The chairman of the Financial Reporting Council "FRC" approached Sir Adrian Cadbury to chair the committee. The Cadbury report presents general principles around which businesses are expected to operate to assure proper governance.[6] The report offered a set of principles that were published not as a blueprint for government mandates, but as recommendations that UK companies would willingly incorporate into their board governance processes.

The committee report is also referred to as the Cadbury Code of Best Practices. There were a set of five key principles enumerated:

1. Separation of Chairman and Chief Executives ;

2. A majority of independent non-executive directors (The committee recommended that the majority of non-executive directors should be independent, and defined this as 'independent of management and free from any business or other relationship which could materially interfere with the exercise of their independent judgment [Cadbury Report, paragraph 4.12]);

3. An audit committee with a majority of non-executive directors;

4. A remuneration committee with a majority of non-executive directors;

5. A nomination committee with a majority of non-executive directors.

[6] History of Cadbury Committee taken from the Cadbury Archive at Cambridge Judge Business School http://www.jbs.cam.ac.uk/cadbury/report/index.html Cambridge Judge Business School, Trumpington Street, Cambridge, CB2 1AG

The committee proposed that a voluntary code should be directed at establishing best practices, encouraging pressure from shareholders to hasten its widespread adoption, and allowing some flexibility in implementation (Cadbury Report, 1992 paragraph 1.10).

Dahya and McConnell (2003), in an empirical study of 1124 UK companies, found that that the Cadbury Code improved the financial performance of adopting companies. They found that compliance with the Cadbury recommendations was followed by a statistically significant improvement in operating performance regardless of the performance benchmark used. (Dahya and McConnell, p. 4). [7]

In May 1995 Sir Cadbury dissolved the committee by presenting a report with significant findings on the implementation of the Cadbury Code. The report indicated a change in boardroom behavior from consistent with Code recommendations. Among FTSE250 companies the percentage with an independent audit committee had risen from 45% in 1992 to 87% in1995; the percentage with a nomination committee had risen from 8% in 1992 to 60% in 1995; the percentage with a remuneration committee had risen from 60% in 1992 to 98% in 1995. Only 7 companies had a combined chairman and chief executive (discouraged by the code) without the suggested position of a named lead non-executive director (Jones and Pollitt 2002).

The Cadbury Report and its resulting code have had wide influence on other codes of UK governance. The Hampel Report, is one such code which is based on the recommendations of Cadbury. The Hampel Report states that the Cadbury Code's provisions led to a higher standards and greater awareness of governance (Hampel Report paragraph 1.8).

[7] Dahya and McConnell (2009) report that the percentage increases are 2.50%, and .33% respectively, "the adopting firms experienced a statistically significant increase in average ROA of 2.50%, from 7.04% to 9.54%. Over the same time interval, the adopting companies' industry peers experienced an insignificant increase in average ROA of 0.33%, from 8.69% to 9.02%"[sic].

Hampel

The Hampel Report was organized to review the Cadbury Code and was implemented to ensure that the original purpose of the Code was being achieved. Additionally, the Hampel Report reviewed any matters taken up by the Greenbury report. The committee articulated an additional task: to take fresh look at the roles of directors, shareholders and auditors in corporate governance, while keeping in mind the need to restrict the regulatory burden on companies. (Hampel Report, paragraph 1.6).

The Hampel Report (1997) included a list of recommended duties of the board of directors. The duties reinforced the recommendations of the Cadbury Report. Some of the specific listed duties they suggested include to act in good faith in the interests of the company and to exercise care and skill. The report emphasizes the duty of the directors to the shareholders of the company whether current, future, or past. This is communicated by the report at, "The duties are owed to the company, meaning generally the shareholders collectively, both present and future, not the shareholders at a given point in time." (Hampel report paragraph 3.2)

Combined Code

Following the Hampel report, is a report referred to as The Combined Code (1998). The Combined Code was the culmination of the recommendations from the Committee on Corporate Governance, and has since been revised in 2003, 2006, 2008, and 2009. The Combined Code (1998) is the consolidation of the work of the prior governance committees and was not intended to be a new set of guidelines (Combined Code 1998, paragraph 7).

The Combined Code, like the Hampel report before it, provides recommendations to encourage firms to adopt the principles of good governance rather than it providing a set of uniform rules. The Combined Code requires that those companies who do not voluntarily comply with its provisions are required to explain the reasons why in their

financial statements. This position is commonly referred to as “Comply or Explain.”

By 2004 the level of compliance with the Combined Code varied by provisions and type of firm. Arcot et al. (2009) indicated more than half of the non-financial firms of the FTSE350 were fully compliant with all provisions of the Code at the end of 2004. In addition, by 2007 almost 90% of companies had split the roles of Chief Executive and Chairperson, thereby complying with a key provision of both the Combined Code as well as the Cadbury report (Pensions Investment Research Consultants Ltd, 2007).

Greenbury

UK Governance practices have been influenced by other committee based recommendations targeting specific areas for governance. For example, The Greenbury Committee was established in 1994 by the Confederation of British Industry to address the rising levels of salaries and bonuses being paid to senior executives. (Greenbury Report, 1994) The key themes of the report were board accountability, responsibility, full disclosure, alignment of director and shareholder interest, and improving company performance. Three of the key recommendations of the report were the following: 1.) that remuneration committees should be comprised of non-executive directors that would be responsible for setting the level of executive directors' salaries and bonuses; 2.) that there should be full disclosure of each compensation package and 3.) that shareholders would be required to approve these packages. Additionally, the committee recommended that 4.) salary and bonuses should be more closely tied to performance and paid at a level to attract talent without being excessive (Greenbury Report, 1994).

Turnbull

In addition to the Greenbury report which targeted salaries and bonuses, another report that is somewhat more focused in its governance target was the Turnbull report (1999, 2005, 2012). The Turnbull was authored by the Institute of Chartered Accountants to provide guidance to UK directors on company internal controls. The Turnbull report

recommended that directors ensure their companies have good auditing processes to provide quality financial reporting and to prevent fraud. The report's recommendations included that directors should detail their firm's internal control systems, regularly review the internal control system for effectiveness, issue annual statements on internal control mechanisms, and if there is no formal internal audit system in place, to review periodically the need for one (Trumbull Report 2012, paragraph 2.2).

Higgs

The Higgs Report (2003) was commissioned by the UK Department of Trade and Industry (DTI). Its purpose is to advance and reflect best practice through proposed revisions to the Combined Code. It includes elements that the authors believe are essential for an effective board with specific emphasis on recommendations for non-executive directors. Specific to this thesis research, the report specifically addresses the low UK board representation of women and minorities (Higgs, paragraph 10.22).

The report is the result of meetings and interviews with 40 FTSE 350 directors, surveys of 605 executive directors, non-executive directors, and chairmen of UK listed companies, and paper responses of 250 individuals. As it relates to theory framework, guidance from the report seems to support some traditional agency views of the corporate board and its goals of oversight and shareholder responsibility, it attempts to curb management (CEO) power with a suggestion to appoint a "senior independent director. Additionally, it recommends the separation of the CEO and Chairman role which is accepted in stewardship theory. However, it also supports behaviors seen in stewardship models. For example, the report suggests strong collaboration between executive and independent directors.

> *"A strong relationship between the chairman and chief executive lies at the heart of an effective board…….the relationship works best where there is a valuable mix of different skills and experiences which complement each other. The chairman should not seek executive responsibility and should let the chief executive take credit for their achievements. The chairman can be an informed, experienced and trusted partner, the source of counsel and challenge designed to support the chief executive's performance, without becoming an obstacle to*

questioning of the chief executive by the non-executive directors." (Higgs report, paragraph 5.4)

Higgs explains that listed companies should have to report on how they apply the proposals and state whether they comply with the provisions or explain why they do not "Comply or explain."

A portion of the report provides research based on 40 in-depth interviews with directors. These interviews provide insight into the perspectives of the directors regarding their responsibilities. The directors saw their role as both oversight as well as helping to set the strategy of the organization. The director interviews also reveal that there was no essential contradiction between the monitoring and strategic aspects of the role of the non-executive director.

The Higgs Report also specifically discusses diversity of the board under the section, "The pool of non-executive directors" (Higgs 2003 section 10.16-10.20). The report argues that the composition of the board sends a signal about the values of the company.

> *"The composition of a board sends important signals about the values of the company. A commitment to equal opportunities which can be of motivational as well as reputational importance is inevitably undermined if the board itself does not follow the same guiding principles. Higgs, 2003, paragraph 10.16*

This signaling function of the board is explored in this thesis as Research Question 3: Directors perceive board diversity is an important signal of board values to the marketplace.

The Higgs report also suggests that requiring previous PLC board experience is partly to blame for the lack of board diversity, and encourages boards and search firms to look beyond this primary requirement (paragraph 10.18). The report also discusses the low numbers of young directors, and ethnic minority directors (paragraph 10.21); and female directors (paragraph 10.22). Lastly, the report cautions against the tendency to populate boards with personal contacts, and suggest that this may be the reason for bias against women candidates.

> *Using personal contacts as a main source of candidates will tend to favour those with similar backgrounds to incumbent directors. A rigorous appointments process is important to offset this natural bias. The various criteria used for selection may also implicitly discriminate against women, such as requiring wide senior executive or PLC board experience. Higgs 2003, paragraph 10.24*

Walker

The Walker Report was commissioned by the UK government in February 2009, to specifically focus on the governance of UK financial institutions that were experiencing critical financial losses and failures throughout the banking system at that time (Walker Report 2009). The report provided 39 recommendations ranging from those providing guidance on board composition, board size, director qualifications, management remuneration, and company risk management. The report also provided suggestions to institutional shareholders.

Guidance on Board Effectiveness

One of the more recent reports to be commissioned by the UK Government on governance is the 2011 Guidance on Board Effectiveness. The UK Financial Reporting Council "FRC" published this new guidance on governance related primarily to Sections A and B of the Combined Code on the leadership and effectiveness of the Board. The guidance was developed by the Institute of Chartered Secretaries and Administrators on the FRC's behalf, and replaces 'Suggestions for Good Practice from the Higgs Report' (known as the Higgs guidance), which by 2011 had been withdrawn and replaced by this new guidance. [8]

US acts and reports over the past 20 years

Prior to the 1980's, the US Corporate Governance system focused on the ensuring the growth and sustainment of the company rather than maximizing shareholder wealth

[8] Information taken from the Financial Reporting Council website at http://www.frc.org.uk/Our-Work/Codes-Standards/Corporate-governance/UK-Corporate-Governance-Code/Guidance-for-boards-and-board-committees.aspx

(Holmstrom & Kaplan, 2003). Additionally, according to Holmstrom and Kaplan (2003) external governance mechanisms available to dissatisfied shareholders were seldom used, raiders and hostile takeovers were relatively uncommon, and proxy fights were rare and didn't have much chance of succeeding prior to the 1990's. Moreover, they argue that corporate boards tended to be cozy with and dominated by management, making board oversight weak. However, the increase in takeovers after the 1990's led to a greater focus on the shareholder as the preeminent stakeholder.

Sarbanes-Oxley

Table 2.2: Sarbanes-Oxley Provisions (Coates, 2007)

Section	Topic
101–109	PCAOB's creation, oversight, funding, and tasks
302, 401–406, 408–409, 906	New disclosure rules, including control systems and officer certifications
t201–209, 303	Regulation of public company auditors and auditor–client relationship
301, 304, 306, 407	Corporate governance for listed firms (audit committee rules, ban on officer loans)
501	Regulation of securities analysts
305, 601–604, 1103, 1105	SEC funding and powers
802, 807, 902–905, 1102, 1104, 1106	Criminal penalties
806, 1107	Whistleblowing protection
308, 803–804	Miscellaneous (time limits for securities fraud, bankruptcy law, fair funds)

Taken from Coates, 2007

A significant influence on governance across the globe is the Sarbanes-Oxley "SOX" legislation, also known as the Public Company Accounting Reform and Investor Protection Act of 2002. SOX was designed to prevent a recurrence of the auditing crisis

of 2001 and 2002 . It was designed to reduce corruption and self-dealing by board of director members, and increase oversight of corporations and boards. The primary goal of the Sarbanes-Oxley legislation was to improve audit quality and reduce fraud (Coates 2007).

The law was passed in July 2002 as a response to several large-scale and highly publicized corporate scandals (Ramirez 2007, Butler 2013) such as the failure of Worldcom and Enron, and their auditing ineffectiveness. As such, the passage of the legislation was a political response to negative media attention. Romano (2004) argues, that the corporate governance provisions of SOX were not a result of careful deliberation by Congress, but that SOX was emergency legislation, enacted under conditions of limited legislative debate, during a media frenzy involving several high-profile corporate fraud and bankruptcy cases. SOX was a combination of two separate bills by Oxley and Sarbanes which were passed in a relatively short period of time to address corporate fraud. [9] On June 25, 2002, WorldCom revealed it's massive accounting fraud of $3.8 billion, leading to additional public outrage. (Li et al. 2006). Senator Sarbanes introduced Senate Bill 2673 to the full Senate that same day, and it passed 97–0 less than three weeks later on July 15, 2002. The House and the Senate formed a Conference Committee to reconcile the differences between Sen. Sarbanes's bill (S. 2673) and Rep. Oxley's bill (H.R. 3763). The conference committee focused primarily on the provisions of S. 2673 and most changes made by the conference committee strengthened the prescriptions of S. 2673. The Committee approved the final conference bill on July 24, 2002, and gave it the name "the Sarbanes–Oxley Act of 2002.[10]

Prior to these high-profile scandals, federal laws had consisted of disclosure requirements, rather than substantive corporate governance mandates, which were traditionally left to state regulation and were not part of the federal securities mandates

[9] All dates and vote counts can be found on the website of the US Library of Congress. http://thomas.loc.gov/cgi-bin/bdquery/z?d107:S2673:

[10] The full bill and names can be found on the UK Government printing office website at http://www.gpo.gov/fdsys/pkg/PLAW-107publ204/html/PLAW-107publ204.htm

(Romano 2004). The key provisions of the Act included:

1. *Internal monitoring, requiring independent board audit committee to be responsible for hiring and overseeing auditors;*
2. *Gatekeeper regulation;*
3. *Regulations of insider misconduct;*
4. *More disclosure;*
5. *Regulating securities professionals to ensure independence.*

SOX created the Public Company Accounting Oversight Board (PCAOB, a quasi-public oversight board to regulate auditing. The law is developed from a framework of agency theory, focusing on the need to provide the guidelines to prevent management self-dealing. One of the ways that the law protects against self-dealing is to require auditors to enforce existing laws against theft and fraud by corporate officers. [11]

While SOX has not resulted in a complete cure of inadequate corporate governance in US firms, research indicates that it has provided some positive results. SOX dramatically affected corporate boards, their activities, and their costs(Linck et al., 2008). For example, Cohen et al. (2010) conducted semi-structured interviews with 30 firm partners and managers from three of the "Big 4" US audit firms. They found that the corporate governance environment has improved considerably with SOX.

Linck et al. (2008) argue that one of the outcomes of the law is that it has created a shortage of qualified directors. In their empirical study of 8000 public companies from 1989 to 2005, they find that the demand for directors post-SOX increased due to various regulatory mandates on director composition and workload. However, they also found that SOX led to a decreased supply of directors. Director supply decreased due to increased workload and additional risks of being a director. Moreover, factors related to

[11] Information taken from information on the Securities and Exchange Commision website at http://www.sec.gov/answers/pcaob.htm, and the PCABO website at http://pcaobus.org/Pages/default.aspx.

the decreased supply and increased demand for directors included changes in the structure of corporate boards (for example more independent directors are needed), the liability risk faced by directors, and the composition of the director pool. Lastly, they found that composition of the boards changed with relatively more lawyers and financial experts and fewer executives from other firms than before SOX. (Linck et al. pg 3288).

Butler (2013) argues that the financial expert requirement of SOX results in a gender bias against women directors. SOX section 407, requires that at least one member of the audit committee is a financial expert. She asserts that the title and definition for the audit committee expert contain a gender bias and have negative inadvertent consequences against women on public company boards of directors (p. 4). Butler indicates that the intent of the requirement, was to ensure that one person was an accounting expert. Butler argues this requirement could have been an attribute for women on boards, since women make up a majority of those graduating from accounting programs. However, both the title and qualifications highlight finance, which is a predominantly male dominated field. Butler argues that these Expert Regulation requirements have a negative impact on the pool of qualified directors and current pipeline of women corporate board members, because the larger concentration of women professionals and entrants is in accounting and auditing as compared to finance.

Other research has shown that SOX can help to reduce corporate insider trading (Ebrahim and Black 2013), and improve internet based financial reporting (Kelton and Yang 2008).

While there have been improvements in governance under the new law, one of the possible limitations to these improvements is that government spending on enforcement has not been enough to keep up with the enforcement needs of the agencies. Before Sarbanes-Oxley, total U.S. spending on securities regulation (per dollar of market capitalization was less than 80 percent of spending in the United Kingdom (FSA 2002). After the passage of Sarbanes-Oxley, U.S. spending on securities regulation remains

below that of the United Kingdom (FSA 2004, Jackson 2005).

Non-US firms registered with the Securities and Exchange Commission, including UK companies operating in the US, are also subject to SOX laws. However, the US Securities and Exchange Commission (SEC) has identified guidance provided in the Turnbull report as a suitable framework for complying with US requirements to report on internal controls over financial reporting, as detailed in Section 404 of the Sarbanes-Oxley Act 2002 and related SEC rules (Financial Reporting Council 2004).

There is no universal consensus that SOX has benefited corporate governance, or that the cost has outweighed the benefits to shareholders. Ribstein (2005), in a review article, argues that the cost of SOX outweighs the benefits to the market. Ribstein also argues that the market provides more efficient methods of regulating corporate governance, and that the US should adopt a “comply or explain” approach.

Without understanding the full costs of the legislation, it may be difficult to determine the net benefits of the legislation to corporate governance. However, the law has changed the corporate director structure, workload, and risk, so it bears a discussion in this thesis.

US Stock Exchange Recommendations

In 2002, both the New York Stock Exchange and NASDAQ submitted proposals designed to strengthen the corporate governance of their listed firms. Both exchanges now require the following: (1) shareholder approval of most equity compensation plans; (2) a majority of independent directors with no material relationships with the company; (3) a larger role for independent directors in the compensation and nominating committees; and (4) regular meetings of only non-management directors.

Compared to SOX, these proposals address U.S. corporate governance deficiencies both more directly and with lower costs. Comparing the UK; the closest historical parallel to these proposals is the Code of Best Practices that was adopted by the London Stock

Exchange in 1992 (Holmstrom and Kaplan, 2003), Both the Code of Best Pracices, and the stock exchange recommendations emphasis independent directors and management oversite.

The Conference Board Recommendations

An association of prominent US companies formed an organization in 2002 to address corporate governance problems. September 2002 they made recommendations to , provide a set of principles to guide boards in designing top executive compensation. These include: (1) compensation committees should be independent and should avoid benchmarking; (2) performance-based compensation should correspond to the corporation's long-term goals--"cost of capital, return on equity, economic value added, market share, environment goals etc."--and should avoid windfalls related to stock market volatility; (3) equity-based compensation should be "reasonable and cost effective"; (4) key executives and directors should "acquire and hold" a meaningful amount of company stock; and 45) compensation disclosure should be transparent and accounting-neutral--i.e., stock options should be expensed (Holmstrom and Kaplan, 2003).

1.7 Organization of Study

This thesis represents an attempt to build knowledge of director perceptions of board governance and board diversity. Additionally, this thesis seeks to determine if boards seek to increase diversity, or increase the social capital of the firm when they are making director appointments.

The introduction and general rationale has been presented in Chapter 1 for investigating director diversity. Chapter 2, examines the governance literature and theories that can be used to develop an analytic framework for a study about board diversity and governance. Chapter 3 contains a discussion of the literature that examines board of director diversity. Chapter 4, describes the methodological perspectives for this research

and explains the methods that were selected as appropriate for the study. Chapter 5 presents a quantitative analysis of the full dataset of directors from the FTSE 350 to allow the reader to understand the population from which the UK participants were chosen. Chapter 6 presents the results of the UK survey data and Chapter 7 presents the findings from the US and UK director interviews. In addition, Chapter 7 provides a discussion of the how the findings from Chapters 6 and 7 support the research questions. In chapter 8, provides a theoretical analysis of social capital and resource dependency based on the findings from research. Chapter 9 of this research concludes with a discussion of the potential contributions and limitations of the research.

CHAPTER 2. REVIEW OF RELATED LITERATURE ON GOVERNANCE THEORIES

2.1 Introduction of Literature Review

The literature review seeks to document the literature on boards of directors concerning the correlation between diversity and board governance. This literature review provides: (1) The essential literature on board of director diversity, effective governance, and diversity's impact on the firm? (2) The foundational work in agency, stakeholder, stewardship, and resource dependency theories which provides the guidance on what constitutes good governance? (3) What is the essential literature on social capital, and how might diversity affect social capital in organizations including the board. The works included in this literature review are not intended to be an all-inclusive of related literature, but in the opinion of the researcher provide an essential historical as well as current framework in which to view this study.

The literature will also attempt to provide reflections of the literature authors, their evaluations, and perhaps conflicting opinions regarding the validity of the assumptions based on related literature.[12] Lastly, how the works presented relate to this thesis, and how the inquiry of the literature is similar or different than other literature.

What is characterized as good governance is dependent on which theory is accepted as the appropriate way to govern the firm. To accomplish the answering of these questions, the literature review is organized into two chapters. The first chapter discusses literature related to agency, stakeholder, stewardship, and resource dependency theory. These theories of governance are identified and discussed in the literature review, in order to closely examine the tension among theories and to determine what role diversity plays in board governance and to establish whether the theories of board governance offer any insights into that relationship. In particular, are any of the theories of board governance

[12] Description of pattern of inquiry is in part taken from Dewey, J. 1938. *Experience and education*. New York: Collier Books.

conformable to impulses of diversity on the one side and are there any governance theories at the other end of the spectrum that are hostile? Sections on agency theory are primarily historical, and are included to review how these historical writings help to form the basis of assumptions that form the foundation of much of the corporate governance literature that will be discussed. Additionally, stakeholder and stewardship are discussed to help explain how those theories may suggest somewhat different behavior by the board for good governance practices, as well as discussing the difficulties of asserting one particular theory as an appropriate framework over all others. Resource dependency theory is discussed as a basis for how diverse directors may provide unique and therefore valuable capital to the firm. The final section of Chapter 2 (Section 2.4) discusses the relationship between social capital and board governance. In particular, literature that is presented in this section was selected for its focus on social capital as a valuable tool for increasing firm resources and how social capital provides additional capital to the firm.

Additionally, because of the influence that recruitment firms have on board director appointments and thus a board's diversity, this section briefly discusses the role of executive recruitment firms, their relationship to board selection and social capital.

Chapter 3 of the literature review discusses research on board diversity, as these studies provide insight into how elements of diversity may impact the performance of the board and therefore the firm overall. In particular, the various rationales of board diversity are examined to provide guidance on the types of benefits that boards may gain from diverse members, and which will form the basis of interview and survey questions.

2.2 Review of Agency, Stakeholder, Stewardship, and Resource Dependency Theories

Corporate governance research literature is not grounded in one agreed upon theoretical or conceptual framework. This literature investigation attempts to determine if there is an empirical correlation between these models and the diversity of boards of directors that is more likely to encourage or deter the creation or expansion of a diverse board. There are limitations to what we currently know about effective board governance and governance research. No single approach to governance by a governing board has been shown by credible, replicated, research to be the best governance (Carver 2001). Carver argues that the reason there is no definitive single approach to governance, is because the corporate community has not decided what governance is supposed to accomplish. "It is impossible to research whether one or another method is more effective when we haven't gotten together on what they should be effective at" (Carver p xxiii). Given that there is no one agreed upon system of governance or governance research, this researcher thought it best to discuss a variety of alternatives argued in the literature. No single theory is used universally as the underpinnings of corporate governance research, and as such this thesis will not purport to suggest that any of these theories is the absolute correct theory

Three major theories of board governance – Agency, Stakeholder, and Stewardship – contend as overlapping alternative governance paradigms capable of explaining existing board behavior or of offering a prescription for future board governance success (Huse, 2005). Agency theory argues that the owners of the firm and the managers of the firm are distinct, often with contrary or conflicting interest on firm related decision-making matters (Smith, 1776, Berle and Means, 1932, Jensen and Meckling, 1976). In contrast, stewardship theorists argue that there is no real core conflict between owners and managers and that whatever conflicts that exist can be reconciled (Donaldson and Davis, 1991; Davis, 1997). Triangulating the agency-stewardship opposition, stakeholder theory offers its own form of reconciliation through inclusion of interested of multiple constituents

who have a vested interested in the firm's activities (Freeman 1984, Jensen 2000, Donaldson and Preston 1995, Heath and Norman 2004, Hsieh 2009). In addition to these three main modes of governance; resource dependency theory offers a less popular, model to this thesis, through its emphasis on how director themselves provide resources to the firm based on their own unique characteristics.

2.2.1 Agency Theory and Corporate Governance

Recognition between the divergence between the interest of owner and the interest of those the owner hires to manage their firms is dated back as far as 1776 when Adam Smith wrote the following:

> *The directors of such [joint-stock] companies, however, being the managers rather of other people's money than of their own, it cannot well be expected, that they should watch over it with the same anxious vigilance with which the partners in a private copartnery frequently watch over their own. Like the stewards of a rich man, they are apt to consider attention to small matters as not for their master's honour, and very easily give themselves a dispensation from having it. Negligence and profusion, therefore, must always prevail, more or less, in the management of the affairs of such a company*. (Smith, 1776, Book V, Ch.1, paragraph V.1.107)

Agency Theory Advocates and Diversity

Given the separation of ownership and control described by Smith in his *Wealth of Nations*; agency theory has been used to mitigate this problem by ensuring adequate monitoring by the board of directors of managers who are prone to act within their own self-interest. Agency theory is based on the problem that arises when two parties have different goals (Jensen and Meckling, 1976; Ross, 1976) and the owners (principals) are unable to write contracts for the managers (agents) which anticipate every possible situation (Hart 1995, p.680). The principal delegates responsibility to the agent to act on behalf of the principal. The relationship between principal and agent is defined as a contract where the principal engages the agent in his/her duties to the principal (Jensen and Meckling, 1976). Agency Theory assumes that people are: self-interested, have bounded rationality, are opportunistic, and risk averse. The focus of the theory is to determine the best way to govern the contract between principal and agent (Eisenhardt,

1989). The principal 'shareholders' can use the board as an information system to control and monitor the agents 'executive managers' and their assumed opportunistic behavior according to Fama and Jensen (1983) and Eisenhardt (1989). As firms seek a way to reduce principal and agent problems, and their potential cost to the organization, principals have chosen to elect representatives or intermediaries to monitor their interest. This monitoring role is most often performed primarily by the boards of directors, who according to agency theory advocates, are the monitoring agents. The board of directors bear the responsibility of reducing principal agent problems and their associated costs by astute monitoring. According to agency theory, boards represent the principal and are the primary and first line of defense as a mechanism for controlling manager's opportunistic behavior (Fama and Jensen 1983). A significant amount of corporate governance literature Bebchuk et al. (2004); Fields and Keys (2003), Hart (1995), Sternberg (1999), Fama and Jensen (1983), Moldoveanu and Martin (2001) uses agency as its preferred theory to help explain the important role of governance. In corporate governance research, agency theory is often the primary framework used as the theoretical basis for developing standards of good governance. This thesis seeks to provide support for the theory that directors believe that race and gender board diversity is one tool for enhancing the return to the principal and improving principal monitoring which is encouraged by agency theorist. As such, this thesis considers several possible ways that diversity may enhance governance and therefore the investment of the principal.

Berle and Means (1932) were two of the first modern era researchers of firm management model and have been credited with developing the terminology of separation of ownership and control (Mizruchi 2004). Berle and Means' expressed concern about the separation of ownership from control of the firm and the resulting lack of manager accountability to owners and society. According to Berle and Means, this ownership dispersion made it difficult for the owners to actually control the decisions of firm managers. Their viewpoint presents a viewpoint of agency, by their warnings of divergent interests of owner and manager. They believed that when ownership of the

firm is too widely dispersed, there is little control that each owner can exercise over his own investment. Specifically, due to this separation the owner is not able to control the actions of the manager to ensure the owner's interests are protected and therefore pursued. Additionally, they write that managers in these firms have more freedom over the decisions regarding resources due to this lack of control by each of the owners. The research by Berle and Means is important to this thesis; as it lays the framework for why a board of directors, and their oversight function, is important to helping firms address the dispersed ownership problem. This oversight role is discussed at length in research performed by Fama and Jensen (1983). Fama and Jensen were troubled by the ability of organizations to survive where important decision agents (managers) do not bear a substantial share of the wealth effects of their decisions (Fama and Jensen p 1). They postulate that some of the problems inherent in the separation of ownership and control can be remedied with a clear separation of decision initiation and implementation activities (managers or agents) from ratification and monitoring activities (directors) (Fama and Jensen 1983, p. 9).

It should be noted that occasionally directors also act in self-serving, self-maximizing ways[13]; therefore, principals may need mechanisms which assist them in ensuring that their own goals are being pursued (Dobbin and Jung 2010). Jensen and Fama (1983) hypothesize that directors have an incentive to develop reputations as experts in their monitoring (decision control) function. They argue that the director's human capital is devalued when monitoring breaks down, or when there is an outside takeover. The risk to their own human capital devaluation is seen to be a sufficient incentive for directors to act in the principal's interest, and to deter collusion with management (Fama and Jensen, 1983 p. 19). The risk of human capital devaluation thus acts as a type of self-regulating factor so that productive firm outcomes are a proxy of good governance in the market.

[13] This is not a universally accepted viewpoint. Alternative viewpoints are expressed by those who subscribe to a viewpoint of the board and management. A full explanation of this alternative is provided in the theory section 2.2.3. page 72 of the literature review.

As experience in a number of corporate board failures has shown, this threat is not always a sufficient deterrent.

More recent research shows (Butler, 2012; Dobbin and Jung, 2010; Carter et al.,2010; Fanto et al., 2011; Nielsen and Huse, 2010; Galbreath, 2011; Luckerath-Rovers, 2011) that diverse boards present a possible deterrent to self-serving behavior. For example, Butler (2012) argues that diversity can aid the board to help to eradicate CEOs'"stacking the board." A diverse board arguably can influence the board nomination process and curtail the CEO clone syndrome or CEO parity concept—that is, selecting board members who are the CEOs of other companies who are happy to aid the CEO in his agendas through their voting preferences (Butler p 76). This mode of literature informs this thesis study, specifically Research Question 2 : Directors perceive that board governance is positively impacted by having diverse members on the board.

Additionally, Adams and Ferreira (2009) argue that diversity is a tool for decreasing management self-serving behavior, risk reduction; and greater management due diligence. Their research indicates that women attend more meetings and are more likely to be assigned to monitoring-related committees than men (Adams and Ferreira p 301). However, they also give a caveat to these findings by explaining that women arguably monitor more aggressively than men; this excess monitoring in well-governed corporations could possibly lead to inefficiency and increased shareholder costs (Adams and Ferreira p. 292).

Jensen and Meckling discuss that there are costs associated with reducing the self-interested behavior of agents; however, these costs are necessary to make sure that agents behave in a manner most advantageous to the firm. Further, they say that agency costs include the costs of structuring, monitoring, and bonding a set of contracts with the agents. Additionally, as per Jensen and Meckling, agency cost include the firm value lost when the cost of full enforcement of this set of contracts exceed the benefits (Jensen and Meckling, 1976 p.32).

Agency theory has acceptance in much governance research as described in the literature discussed above; however, there are shortcomings that bear mentioning. The traditional view of agency relationship between the principal and the agent is grounded in an understanding of a 'singular' principal, such as shareholders. This agent relationship is based on the fiduciary responsibility to these owners. However, modern day corporations may have fiduciary responsibilities to a number of other entities. For example, bond holders, financing entities, and other members of the capital markets broaden the base and perhaps the prioritization of those to whom the firm has a financial obligation. Barclift (2007) argues the limitations of applying agency theory to the modern firm. These limitations arise primarily because of a fundamental conflict between the distinct interest of the corporation[14] and those of the shareholders. Barclif describes how other theories such as stewardship theory have merits as well, and that by combining multiple theories of governance it is possible to come up with a best fit theory.

Dobbin and Jung (2010) argue that since the 1980's most US corporations have adopted an agency theory incentive based model with unsuccessful results. This includes paying managers for increasing stock price through stock options (shareholder focus), and financing new expansion with debt in order to leverage the investment of shareholders which is thought to serve as discipline for executives tempted to use profits to expand into low-return ventures, and increasing the number of outside 'non-executive' directors to improve monitoring. They argue that while the average US firm has assiduously applied the agency theory principles that increase corporate entrepreneurialism and risk, it has not applied principles that bolster monitoring and foster executive self-restraint (Dobbin and Jung, 2010, p 54). According to Dobbin and Jung, agency theory in the form that has been adopted by American firms is a theory that contributed importantly to two major recessions within a decade by exposing the corporation to increased risk.

[14]Barclift (2007) discusses the corporation as its own separate entity with interests that may be in fact different than those of its shareholders.

Other researchers have argued that firms managed by owners themselves instead of managers fare no better than those managed by agents. Monsen, Chiu, and Cooley (1968) and Palmer (1973) found owner controlled firms to earn only slightly higher profits than management controlled firms, Kamerschent (1968) did not find that owner controlled firms fared better. Larner (1970) found small differences, with owner controlled firms having slightly higher profits. Grinstein and Michaely (2005) find no significant effect of institutional ownership on dividend payouts[15]. These researchers provide a reason to question whether the interests of the owner is always in the best interest of the firm.

Roberts (2002) and later Roberts et al. (2005) argue that there are theoretical foundations other than agency theory to describe and predict effective board governance. They believe that the traditional use of agency theory to explain effective board governance is short sighted. They also argue that a balance between control (agency model) and collaboration (stewardship model) is most effective for board governance.

2.2.2 Stakeholder Theory

The term stakeholder is widely used to describe the many groups of people that have a vested interest or 'stake' in an organization (Freeman, 1984; Key, 1999; Donaldson and Preston, 1995; Coates et al., 1995). Freeman (1984) was the first researcher to present stakeholder theory as a theory assessing the role of other internal and external actors, besides shareholders, who have interest in the firm's environment and behavior. The premise of stakeholder theory is that the firm has multiple constituents who have a vested interest in the firm's activities, and the interests of these constituencies may often diverge or even conflict with each other and with expressed interest of the firm. These stakeholders do not just comprise of financial stakeholders alone, but also those who are somehow directly or indirectly affected by the firm's decisions and behavior. Thus a firm's stakeholders and customers as well as those communities that experience the

[15] Dividend payouts are often used as an indication of management agency problems. According to this theory, "managers prefer to reduce or even cut dividend payouts since paying dividends reduces the amount of cash at the managers' disposal and this, in turn, exposes companies to potential external financial needs to encourage capital market monitoring and discourages inefficient investments" Francis et al. 2011.

firm's ecological, economic, political and social influence are stakeholders, direct and indirect, visible and invisible, voluntary and unconscious in the actions and decisions of the firm (Freeman, 1984, p. vi).

When first considering what theory explains best practice corporate governance behavior, stakeholder theory was the theory that seemed plausible for consideration. This is primarily because the stakeholder framework considers more than shareholder return on investment as the goal of the firm. Additionally, stakeholder viewpoint is based on a belief that various groups are important to the firm's survival and success. This would seem to suggest that stakeholder viewpoint would naturally lead to a belief that consideration of multiple groups and multiple interests, including diversity, is a beneficial element. As such, this researcher was curious as to whether the stakeholder viewpoint would support board diversity from the standpoint of representation, equality, and fairness, rather than increased returns.

Stakeholder theory as compared to agency theory has five differences as it relates to purpose, governance, governance process, performance matrix, and risk holders. These differences are detailed in the table below adapted from Kochan and Rubinstein (2000).

Table 2.3 Shareholder versus Stakeholder Model Comparison

	Shareholder	Stakeholder
Purpose	Maximize shareholder wealth	Pursue multiple objectives of parties with different interests
Governance	Principal-agent model, managers are agents of the shareholders	Team production model
Governance Process	Control	Coordination, cooperation, and conflict resolution
Performance Matrix	Shareholder value sufficient to maintain investor commitment	Fair distribution of value created to maintain commitment of multiple stakeholders
Residual Risk holder	Shareholders	All stakeholders

Freeman (1984) focuses on how executives can use the stakeholder approach to manage their organizations more effectively. His approach sought to broaden the concept of strategic management beyond its traditional economic roots, by defining stakeholders as "any group or individual who is affected by or can affect the achievement of an organization's objectives. The purpose of stakeholder management was to devise methods to manage the myriad groups and relationships that resulted in a strategic fashion." (Freeman and McVea, p 3) Freeman shows how modern corporations can use the stakeholder paradigm as a strategic management tool to improve its success in the marketplace through the anticipation and consideration of divergent stakeholder interests in the boardroom. The boardroom becomes a micro-ecology for diverse interests of the firm's real ecological environment (Freeman, p 196). Freeman's justification for the claims of stakeholders is based on the legal basic rights to certain groups. He acknowledges that not all rights are of equal status, and therefore stakeholder interests may not always prevail against contrary market forces merely because they are right-based.

Freeman's stakeholder approach to strategic management says that managers must develop and implement processes which satisfy all groups who have a stake in the business. The task in this process is to manage and integrate the relationships and interests of shareholders, employees, customers, suppliers, communities and other groups to ensure long-term success. A stakeholder approach emphasizes management of the firm's environment, relationships and the promotion of shared interests.

Freeman says that there are diverse groups who have a stake in the success of the firm. Many traditional views of management, including agency theory described above, focus singularly on shareholder rights. Freeman explains that exclusion of other important stakeholders may be appropriate in relatively stable environments. However, in an environment of constant change this focus has limitations. "The interests of key stakeholders must be integrated into the very purpose of the firm, and stakeholder relationships must be managed in a coherent and strategic fashion." (Freeman and

McVea, 2001, p 12) Freeman discusses the constant change that firms face in the external environment including globalization, competition, government turmoil, and their effect on the markets their serve. These factors are combined with influence of the media, and activist consumer, activist interest groups (Freeman, 1984 p10-22). Freeman argues that in this highly dynamic environment, managers must not ignore firm stakeholders, as groups that are ignored can prevent the accomplishment of the organization's purpose (Freeman, 1984 p. 52). As a response to this highly changing environment, Freeman purports the necessity for firms to manage relationships with stakeholders in a strategic manner in order to achieve firm objectives. Freeman developed the "wheel and spoke" stakeholder map with the firm 'FIRM" as the central focus, and the relationship with its stakeholders depicted by arrows to and from the various stakeholder groups. He attempts to describe how the external environment affects the manager's ability to achieve organizational goals. Freeman proposes a construct and an outlook which allows managers to deal strategically with actors in the external environment.

Figure 2.1: Freeman's Stakeholder Map shown with 12 example stakeholders (Freeman 1984, p. 25)

Freeman rejects the single aim of maximizing shareholder wealth, and instead stakeholder management is a task of balancing and integrating multiple relationships and multiple objectives. A stakeholder approach encourages management to develop strategies by looking out from the firm and identifying, and investing in, all the relationships that will ensure long-term success.

Donaldson and Preston (1995), using agency theory as the framework, provide a clear comparison and contrast of the stakeholder theory to the classical agency theory. The purpose of the Donaldson and Preston article is to describe and explain some of the more important distinctions, problems, and implications associated with the stakeholder concept, as well as to clarify and justify its essential content and significance. Central to the article is the belief that stakeholder theory is comprised of three distinct aspects. These aspects according to the authors are (1) descriptive stakeholder - it describes what a corporation is. The theory is sometimes used to explain specific corporate characteristics and behaviors, and how what they do with regard to their stakeholders, such as how corporations are managed, or how managers manage stakeholder relationships. (2) Instrumental stakeholder – predicts and tests connections between stakeholder management and corporate performance objectives those who follow it. An instrumental stakeholder theory of management must search out the different stakeholders and assess whether their rights and interest are fairly weighted in the decision-making and resource distribution activities. The third aspect they describe is normative. Normative stakeholder theory's primary concern is to ensure that all individuals and groups who have a share in the costs of the firm's activities play a role in the firm's decisions making. Those who follow a normative stakeholder theory of management are concerned with the moral or philosophical implications as to how corporations ought to manage their stakeholders. They believe the organization must search out the different stakeholders and assess whether their rights and interest are fairly weighted in the decision-making and resource- distribution activities.

In the analysis of the stakeholder model, Donaldson and Preston say “all persons or groups with legitimate interests participating in an enterprise do so to obtain benefits and that there is no prima facie priority of one set of interests and benefits over another” (p 69). They conclude that stakeholder model is the preferred model for describing the corporation primarily because of its normative value. The interests of all stakeholders have intrinsic value and only considering shareholders is 'morally untenable' (p.88). This perspective of a normative view is shared by Freeman as he writes about the normative view, but his take is slightly different. For Freeman, he writes “while the stakeholder approach to strategic management is put forth here as a normative theory, it is not normative in the sense that it prescribes particular positions of moral worth to the actions of managers. Instead, it presents a framework for discussing a host of different moral views” (Freeman, p. 210) Carney et al. (2010) also indicates the importance of the normative view as it relates to employee stakeholders. “To the extent that employees view the firm as an institution, they may evoke a normative orientation that encourages identification with the firm.” (Carney pp 496). This may be the behavior that these researchers believe to be most beneficial for stakeholders; however, it does not appear to be the behavior that boards and their firms adopt. For example, Donaldson and Preston (1995) say that the interest of all stakeholders have intrinsic value; however, it is unclear how the benefits and interests of *all* stakeholders shape the actions of the firm. While firm decisions are made with consideration of some stakeholders, it may be naïve to think that all stakeholder interests are considered. Furthermore, it may be difficult if not impossible to identify all stakeholders and how to quantify the value of those various interests. To assert that no prima facie priority of one set of interests and benefits over another exists, is to ignore the actions that firms and their boards take routinely. These routine actions present us with evidence that this is indeed not the case.

In the Freeman text, he too acknowledges this conflict. He states that the stakeholder approach offers no concrete unarguable prescriptions for what a corporation should stand for. Rather, it tries to make available the variety of flavors which are available for choice,

by surfacing the possible combinations of stakeholders, values, and societal issues (Freeman, p. 210).[16]

A larger concern of using a stakeholder theory model in this thesis research was the subjectivity involved in identifying all stakeholders and their relative importance to each firm. This subjectivity can leave firms without clear indications of which actions they should pursue, given the conflicting interests that are often present among various stakeholders groups. Jensen (2001) presents similar concerns regarding stakeholder theory. According to Jensen, "stakeholder theory should not be viewed as a legitimate contender to value maximization because it fails to provide a complete specification of the corporate purpose or objective function. To put the matter more concretely, whereas value maximization provides corporate managers with a single objective, stakeholder theory directs corporate managers to serve 'many masters' and, to paraphrase the old adage, when there are many masters, all end up being shortchanged. Without the clarity of mission provided by a single-valued objective function, companies embracing stakeholder theory will experience managerial confusion, conflict, inefficiency, and perhaps even competitive failure." (Jensen p.9) Additionally, Jensen believes that it is impossible to maximize in more than one dimension, and therefore stakeholder theory is fundamentally flawed because it violates the proposition that a single-valued objective is a prerequisite for purposeful or rational behavior by any organization. However, he does offer a proposal to clarify what he believes is the proper relation between value maximization and stakeholder theory. He calls this enlightened value maximization or 'enlightened stakeholder theory'. He concludes that aspects of stakeholder theory can be embraced, but long run value of the firm must be the criterion for making the tradeoffs among stakeholders (Jensen, p 9).

Sternberg (1999) also takes issue with stakeholder theory. Sternberg argues that stakeholder theory is misguided, gives no guidance on how multiple benefits to

[16] This dilemma is also observed in the research by Mitchell, Agle and Wood, 1997 (discussed on page 71) where they provide possible solutions to this issue.

stakeholders should be balanced, or even how stakeholder groups should be defined. Additionally, she disagrees with the sense that stakeholder management not only must take all stakeholders into account, but that management must be accountable to these stakeholders (Sternberg, p. 7). Additionally, she highlights a number of concerns with the stakeholder theory and particularly with stakeholder entitlements. Sternberg believes that although it is correct and ethical to consider the effects of a firm's actions on various stakeholders, it is impossible for firms to be accountable to all of its stakeholders. Sternberg goes further and argues that stakeholder theory is incompatible with good corporate governance because stakeholders as a class are too diverse in interest. She writes that a key element of good corporate governance is accountability. To be successful, according to Sternberg, good corporate governance must provide mechanisms for aggregating these accountabilities into measurements. Without a clear set of guidance to whose benefits should be balanced, or how to balance their divergent needs, it is impossible to have an effective standard to which managers and directors can be measured.

Heath and Norman (2004), set against a backdrop of corporate scandal including ENRON, argue that the breakdown of the governance relationship in the scandals of the Enron era was at heart a failure of these firms and their shareholders to protect themselves against agency problems. By exploiting information asymmetries and conflicts of interests on the board, the agents (senior executives) were able to act against the interests of the principals (p. 248) Heath and Norman seek to determine whether corporations that conform to a stakeholder governance paradigm may be less likely to engage in such excesses because of a natural altruistic commitment to stakeholder rights. Discussing the difficulty of stakeholder accountability they also discuss agency problems in modern firms, particularly the agency problems observed in corporate scandals such as Enron and whether stakeholder theory might offer a solution to these scandals. The central question posed in their paper is whether governance relations in firms that assume primary obligations not just to shareholders but to other stakeholder

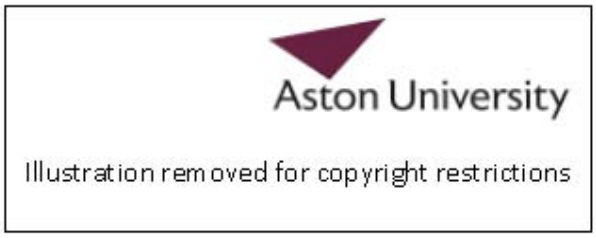
groups as well can be safeguarded from comparable agency problems (Heath and Norman, p 248). They do not believe that other governance models result in a safeguard from agency problems. They determine that while no single reason caused such scandals, the result of those scandals has been to strengthen accountability of executives to their boards and shareholders. They conclude that the employees, managers and shareholders of a firm all have a common interest in the success of the enterprise. However, this common interest does not necessarily generate a natural alignment of individual interests. Individuals can often derive personal advantage from actions that are contrary to the common interest. (p 252) They also determine that stakeholder management presents the management with the problem of multiple competing objectives. There are trade-offs between different objectives; thereby managers can explain the failure to meet one target as the ‘‘cost’’ imposed by their attempts to meet some other. Revenue shortfalls can be explained as a necessary consequence of maintaining employment. Layoffs can be justified as a necessary precondition for profitability. This makes it impossible for the principal to lay down any unambiguous performance criteria for the evaluation of management, which in turn leads to very serious agency problems (p 252).

Mitchell, Agle and Wood (1999) discuss the problem of balancing the often divergent interests of many heterogeneous stakeholders. They accept, as is highlighted by Sternberg, that there is a problem ranking the importance of stakeholders and their choices, however they believe that this is no reason to reject stakeholder theory as a legitimate management theory. They believe that instead, what is needed is a mechanism for determining the importance of the varying stakeholders. They suggest that the question of how managers prioritize competing stakeholder claims-goes beyond the question of how to identify all of the stakeholders, because the dynamics inherent in each relationship involve complex considerations that are not readily explained by the stakeholder framework as it currently stands. Instead, they believe that a theory of

stakeholder salience can explain to whom and to what managers actually pay attention (Mitchell et al, p 854).

Mitchell et al. discuss who is actually a stakeholder. To lead this discussion, they present several characteristics. These include: A) who are claimants versus influencers; B) which stakeholders have an actual relationship versus a potential relationship, C) the nature of the power, reciprocity and dependence of the relationship; and D) urgency of the need give the stakeholders immediate attention. By identifying and using these, in their view, the manager becomes the moderator of these relationship considerations. They recommend that stakeholders possess some combination of three critical attributes: power, legitimacy, and urgency. They predict that the prominence of a particular stakeholder to the firm's management is low if only one attribute is present, moderate if two attributes are present, and high if all three attributes are present (Mitchell et al. p 879).

Figure 2.2: Critical Attributes of Stakeholders, Adapted from Mitchell et al.



(Mitchell et al. 1999 p 879).

While stakeholder theory is concerned primarily with how to identify which stakeholder's interest take precedence in firm decisions, there also remains the question of how managers and directors share power when making these decisions. To determine who

has the ultimate power of decision-making is a question discussed within the context of stakeholder theory but also in stewardship theory.

2.2.3 Stewardship Theory

Agency theory, discussed above (page 50), says that agents or management will act in their own vested self-interest, if not governed by an entity assigned by the principal; therefore management actions will not maximize the profit to the owner. This is the basis of the principal agent argument for agency theory. Stakeholder theory argues that firms are accountable not only to shareholders, but also to other stakeholders of the firm. Stewardship theory is based on the assumption that organizational managers are essentially motivated to perform their tasks with the best interest of the firm in mind. Therefore, there are no apparent needs for any incentives or sanctions to get the managers to fulfill their tasks.[17] The parties are described as principal and steward, where the principal delegates responsibility to the steward to act on the former's behalf. In stewardship theory trust is considered to be its core (Mayer *et al.,* 1995). The stewardship theory purports that the board and management actually act as a single collective stewardship team. The board's role is to support and assist management in accomplishing the firm goals. "The executive manager, under this theory, far from being an opportunistic shirker, essentially wants to do a good job, to be a good steward of the corporate assets. Thus, stewardship theory holds that there is no inherent, general problem of executive motivation" (Donaldson and Davis, 1991, p 51). Stewardship paradigms and their advocates argue that, management recognizes that its own interest and those of the firm are virtually the same: what is good for the firm is good for the manager. Owners, by working towards the collective success of the firm; also meets the needs of the steward. For stewardship theory, managers seek other ends besides financial ones; these include a sense of worth, commitment to firm goals, job satisfaction, and a sense of accomplishment. Stewardship theory suggests that executives inherently seek to do a good job, maximize firm profits, and maximize shareholder returns. Not necessarily for financial self-interest, but because of a sense of duty to the firm. In an

[17] See the discussion of Agency Theory previous in section 2.2.1 for a full discussion of agency theory.

examination of Fortune 500 corporations, Kesner (1987) found a significant positive relationship between the proportion of inside directors and returns to investors, lending support that management seeks to advance the firm in a manner that also benefits investors.

Davis (1997) explains that in stewardship theory the underlying premise is that the behaviors of the executive are aligned with the interest of the owners. Davis also states that in the stewardship model, the interests of most stakeholders are addressed, since successful performance of the organization adds value to most organization stakeholders. This is in contrast to findings discussed in the review of the research by Sternberg, Jensen, Heath and Norman above, it is normal and quite likely that stakeholders can have competing interests. Furthermore, who defines 'successful performance', and who is the best judge of performance since in the stewardship model the board and management act as a cohesive team. For example, higher salaries for stake holding employees may cause the price of the firm's products to increase. This would not be in the best interest of customer stakeholders. Similarly, closing a plant location in one location and consolidating to another location may be best for financial results, but may result in decreasing tax revenues for government entities. Clearly, stewardship based structures may not correct the problem of competing accountabilities.

The stewardship theory has been used to support arguments for the appropriateness of the single CEO/Chairman position. "Specifically, as regards the role of the CEO, (stewardship) structures will assist them to attain superior performance by their corporations to the extent that the CEO exercises complete authority over the corporation and that their role is unambiguous and unchallenged." (Donaldson and Davis, p. 52) This situation is attained more readily where the CEO is also chair of the board, "Power and authority are concentrated in one person" (Donaldson and Davis, p 52). The authors here seek to provide support for this view by examining the issue of CEO duality and specifically a hypothesis of "CEO duality leads to higher return to shareholders." In the study, corporations whose board structures had a dual CEO-chair were compared with

those where the chair was independent from the CEO. The sample was a 1988 convenience sample of 337 U.S. corporations. Shareholder returns were measured by return on equity and gains to shareholder wealth by holding shares in the company. After controlling for industry, the research found that dual CEO structures outperform independent chair structures. Thus, contrary to agency theoretic expectations, CEO duality is associated with higher return to shareholders than is an independent chair of the corporate board. The authors assert that both agency theory and stewardship theory may be valid for some phenomena but not for others. Donaldson and Davis outlined contrasting approaches to the structure of corporate boards: agency theory and stewardship theory. Their view is that agency theory emphasizes control of managerial "opportunism" by having a board chairman independent of the CEO and by using incentives, such as stock options to bind CEO interests to those of shareholders. Stewardship theory stresses the benefits on shareholder returns by having roles of CEO and chairman held by the same person. The empirical evidence of their research is that the ROE returns to shareholders are improved by combining, rather than by separating, the role-holders of the chair and CEO positions. Thus, their results fail to support agency theory and lend some support to stewardship theory. In the conclusion, they indicate as follows, "The safeguarding of returns to shareholders may be along the track, not of placing management under greater control by owners, but of empowering managers to take autonomous executive action." (page 62)

While the authors suggest that stewardship view will result in cooperation between the board and management as a cohesive team, one of the primary problems with the stewardship theory is the lack of clear accountability. Specifically, if managers essentially report to themselves, who are they accountable to? Without accountability, it hinders the board's ability to perform its monitoring functions. Additionally, there are many real world examples of corporate abuse that indicate a substantial level of management self-interested behavior still exist in today's firm. Such examples are so rampant that countries have had to pass a variety of laws to protect against these transgressions.

These real world examples cannot be dismissed. Furthermore, the stewardship theory speaks more to cooperation and management actions in theory rather than what appears to actually guide the actions of executives in this thesis.

Stewardship theory focuses on management and director coordination, while agency theory, with it's focus on oversight and independence, continues to be the most dominant framework when studying board governance. However, discussed next is a less explored theory (Hillman and Dalziel, 2003, p. 383), resource dependency theory.

2.2.4 Resource Dependency Theory

Pfeffer and Salancik (1978) argue that in order to survive, an organization must acquire needed resources. Resource dependency theory explains that all organizations depend on other organizations for the provision of these resources, and seek ways to attain these resources while maintaining their autonomy. In the context of boards, resource dependency theory is based on the assumption that director relationships with those outside of the board result in capital consisting of both human capital such as experience, expertise, reputation; as well as social (relational) capital such as the network of ties to other firms and external groups (Hillman and Dalziel, 2003, p. 383). Additionally, resource dependence theory examines how this type of firm capital, which is based on board relationships, should provide resources to the firm. Board directors can be helpful in acquiring resources from important elements outside the firm, including financial capital, political capital, or various forms of influence being held by stakeholder groups (such as customers, suppliers, and communities). (p. 388) According to resource dependency theory, directors serve as both providers of resources, as well as monitors of managers (agency view).

Thus, in addition to their monitoring managers, directors provide expertise and resources including: (1) strategic advice and expertise; (2) communication channels to external organisations; (3) support from important elements outside the firm; and (4) legitimacy (Pfeffer and Salancik, 1978). Resources, in this context, are defined as anything that could be thought of as a strength or weakness of a given firm (Wernerfelt, 1984 p 172).

Resource dependence suggests that a board's provision of resources is directly related to firm performance (Hillman and Dalziel, 2003, p. 386). Zahra and Pearce (1989) describe the board's role from the framework of resource dependency. This includes company reputation, establishing contacts with the external environment, and giving advice and counsel to executives (p. 292). According to resource dependency theory, one way that directors assist the board is by reducing external dependency. Specifically, resource dependence literature argues that boards of directors are a primary method for absorbing critical elements of environmental uncertainty into the firm (Boyd, 1990). Hillman (2005) provides an example of the way that directors may provide resources to the firm. Hillman argues that because of the uncertainty government regulation creates for business; many firms have sought to "co-opt" government by creating linkages between the firm and politicians. Hillman found that firms in heavily-regulated industries were more likely to have directors who were former politicians than firms in who were in less-regulated industries. Hillman argued that the four major resources derived from directors identified by Pfeffer and Salancik (1978) also apply to directors who were also politicians. She argued that government officials can provide valuable advice and counsel regarding the public policy environment of a firm, communication links to existing government officials, bureaucrats, and other political decision makers; influence over political decisions; and legitimacy. Hillman compared two types of firms: a heavily-regulated group of firms and a less-regulated group of firms in terms of the number of politicians who were directors on corporate boards. She argued that resource dependence logic would suggest that the more heavily-regulated group would have more political directors than the less-regulated group due to differences in their environment. Hillman investigated whether the strength of the relationship between politicians on the board and heavily regulated industries would be magnified in the more heavily regulated firms.

Hillman found that ex-politicians serve as conduits of information and offer access to important political resources that are extremely beneficial to firms operating in highly regulated environments. Hillman's findings support the view that firms with government

officials on their boards enjoy better financial performance than those lacking such directors. This outcome not only supports resource dependency theory, but also supports the premise of social capital, and the resulting Research Question 4 in this thesis "Directors perceive that board members are chosen to improve board networks and board capital, and this enhances board social capital." Board capital can be helpful in acquiring resources from important elements outside the firm, such as financial capital influence and influence with political bodies or other important stakeholder groups (such as customers, suppliers, and communities).

Additionally, Hillman et al. (2007) found that women on corporate boards were consistent with the resource dependence theory. Specifically, large firms that face legitimacy pressures, companies operating in industries that are heavily dependent on female employees, and firms with ties to companies with female board members were likely to have women directors on their board. Thus, the make-up of boards appeared to mirror the constraints faced by firms. They argue that firms strategically select board members as a means to reduce environmental uncertainty. This literature guides Research Question 1 of this thesis, "Directors perceive that board appointments are impacted by demographic factors such as their race, gender, age, or nationality", and Research Question 4 of this thesis "Directors perceive that board members are chosen to improve board networks and board capital, and this enhances board social capital." Similarly, Pfeffer and Salancik (1978) argue that prestigious or legitimate persons or organizations represented on the focal organization's board provide confirmation to the rest of the world of the value and worth of the organization (p.145); this is an example of the legitimizing roll of the board as well as board signaling external stakeholders. This is considered in this thesis as Research Question 3, "Directors perceive board diversity is an important signal of board values to the marketplace."

2.3. Summary of Governance Theories

The application of each of the considered theories has merit. Each viewpoint results in a set of assumptions of how best to govern the firm. For example, if one adopts an attitude of agency theory type governance, the emphasis of good governance may take a strong preference for diligent board oversight of management, an almost singular focus on shareholder value in their decision making (Smith 1776), directors who are motivated by establishing themselves as expert directors and have an incentive to develop reputations as experts in their decision control (monitoring) function (Fama and Jensen 1983, p 9)

Conversely, if one adopts an attitude of stakeholder theory type governance, good governance may take a strong emphasis on how well the board manages the interests and needs of its many stakeholders. Stakeholder governance would result in a board that is successfully able to prioritize competing stakeholder claims (Mitchell et al., Year). A resource dependency theory of governance would result in a board that places emphasis on connecting the firm to information and contacts that will help the firm reduce its external dependencies (Pfeffer and Salancik, 1978). Lastly, if one adopts a viewpoint of stewardship theory type governance, good governance may take a strong emphasis on board and management collaboration, an assumption of trust of management, no need to separate CEO and Chairman (Donaldson and Davis 1991), and an assumption that everyone is working for the firm's best interest (Davis 1997).

The selection of these four theories for discussion does not seek to ignore the legitimacy of other theories, and provides an opportunity for subsequent research using these alternative frameworks.

> *"Corporate governance is the system by which companies are directed and controlled. Boards of directors are responsible for the governance of their companies. The shareholders' role in governance is to appoint the directors and the auditors and to satisfy themselves that an appropriate governance structure is in place. The responsibilities of the board include setting the company's strategic aims, providing the leadership to put them into effect, supervising the management of the business and reporting to shareholders on their stewardship." (Cadbury Report 1992, paragraph 2.5)*

Further guidance on governance is provided by the more recent Walker Report (2009).

> *"The role of corporate governance is to protect and advance the interests of shareholders through setting the strategic direction of a company and appointing and monitoring capable management to achieve this." (Walker Report 2009, paragraph 1.1)*

The corporate governance system a board adopts will influence the way the board operates (for example stewardship cooperation versus agency oversight), and the responsibilities the directors seek to fulfill (resource providing, stakeholder accommodation, etc.). However, the director's impact may be more than just what actions he or she takes on the board, but could also involve what other benefits may be accrued to the firm based on their board membership. One of these potential benefits is the social capital a board member may provide to the board based on their individual contacts. The next section discusses how this social capital may be influenced by diversity, and how it may assist the board.

2.4 The Theory of Social Capital as an Indirect Effect of Diversity

The notion of social capital is a simple one. It is the notion that belonging to a group can have benefits to the individual and community. Therefore, the goal of this section of the literature review was to answer the question of what is social capital and how it is another measure of how firm diversity has an impact on firm governance. It is within this context that the following literature is discussed. Social Capital is described by various researchers in slightly different ways. Bourdieu (1985) is credited with coining the term social capital, but many others have offered definitions of the term. Cyert and March (1963) explain that social capital is a view that suggests the potential benefits of relationships, networks, and trust for economic and political advancement. Firm executives and their experiences, values, specific knowledge, and preferences are reflected in firm-level decisions, which can influence firm strategic direction and outcomes (Cyert and March, 1963; Hambrick and Mason, 1984). Other researchers have described social capital in the context of the goodwill provided by social contacts. For example

Adler and Kwon (2002) explain that social capital is guided by a core intuition of goodwill. They explain it further as the sympathy, trust, and forgiveness offered by friends and acquaintances (Adler and Kwon pp 18), Lin et al. (1981) view social capital as the resources embedded within an individual's social network and which are accessible through direct and indirect ties. Portes (1998) defines social capital as "the ability of actors to secure benefits by virtue of membership in social networks or social structures" (p. 6). Social capital may be defined at the individual level, or at the group collective level such as a firm, organizational field, community or nation (Kilduff and Tsai, 2003). Grootaert (1998) says that in the mid-1990's social capital became a popular theory to explain a capital asset, together with natural, physical, and human capital, which explains the causes of economic development. What all of these definitions have in common is the position that in order to have social capital, an individual, group or organization must have relationships with others, and this relationship is the actual source of value of the social capital (Portes, 1998). In addition, each of the researchers cited here also appear to agree that social capital both enhances trust between parties, as well as is enhanced by trust between the parties involved. Trust has been discussed as a critical component in effective governance (Daily et al. 2003). Additionally, "Virtually every commercial transaction has within itself an element of trust, certainly any transaction conducted over a period of time. It can be plausibly argued that much of the economic backwardness in the world can be explained by the lack of mutual confidence." (Arrow 1972, p. 357)

Social Capital is different than human capital. Social capital refers to "the sum of actual and potential resources embedded within, available through, and derived from the network of relationships possessed by an individual or social unit" (Nahapiet & Ghoshal, 1998). Human Capital, although similar and perhaps overlapping, refers specifically to expertise, experience, knowledge, reputation, and skills. (Coleman, 1988) Board governance can be impacted by both types of capital, as each may bring value to the firm.

2.4.1 Bourdieu, Coleman, and Loury

As the origin of social capital research is often traced back to the work of Bourdieu, Coleman, and Loury (Portes, 1998, Walker et al. 1977, Nahapiet and Ghoshal 1998), this researcher thought it important to discuss each of these researchers within the section. Loury (1977) is credited with helping to introduce the term social capital within community studies. His early usage indicated the importance of social capital as a resource for the individual: these resources included those within family relationships and in community social organizations. Loury argued that economic models were flawed in their focus on individual inputs. He argued that the achievements of the individual were based on more than just his or her own efforts, accomplishments, and resulting human capital; but were also influenced by those relationships of the family and community. Loury argued that economic models were overly focused on individual achievement, without corresponding focus on the capital both material and educational passed on to people by their parents. Additionally, Loury argued that the employment prospects of young black individuals were limited based on their poorer connections in the labor force. While Loury's research was not primarily focused on social capital, and subsequently he is often discussed only briefly in social capital literature; his work is as important as Bourdieu or Coleman for this study. Loury discusses social capital in the context of racial discrimination and racial disparities, which has significant importance to this study regarding diversity. Loury argues that race and family background have an impact on social capital; therefore supporting the premises of this study that diverse board members may have different types of social capital which can be brought to the board.

Social capital has been defined in different ways; however, there is consistency in these definitions. Bourdieu (1985) in his development of this theory sought to explain how the interaction of physical, cultural and human capital, as well as their different distributions, perpetuate social inequalities. Using sociality texts as the framework, he defined social capital as "the sum of resources, actual or virtual, that accrue to an individual or a group by virtue of possessing a durable network of more or less institutionalized relationships of

mutual acquaintance and recognition" (Bordieu 1985, p 249). Bourdieu also defined social capital as "the aggregate of the actual and potential resources which are linked to possession of a durable network of more or less institutionalized relationships of mutual acquaintance and recognition" (p. 248). According to Bourdieu (1985), social capital has two components: 1) the social relationship between individuals that allows these individuals to claim resources possessed by their associates, and 2) the amount and quality of those resources. Bourdieu and Wacquant (1992) further define social capital as follows, "social capital is the sum of the resources, actual or virtual, that accrue to an individual or a group by virtue of possessing a durable network of more or less institutionalized relationships of mutual acquaintance and recognition" (Bourdieu and Wacquant 1992, p. 119). Bourdieu also developed a theory regarding capital and fungibility. He describes the types of capital as being economic capital (in its different kinds), cultural capital, social capital, and symbolic capital which is also referred to as prestige, reputation, renown, etc. He argues that all types of capital can eventually be reduced to economic capital or "accumulated human labor."

One of the first articles to introduce the concept of social capital to management scholars was written by Coleman (1988). Loury (reviewed above) is credited for paving the way for Coleman's analysis of the same process, namely the role of social capital in the creation of human capital (Portes 1998). Coleman established that relationships can have inherent value because of the access they provide to resources and opportunities. For Coleman, social capital has two main characteristics: structure and function. The structure is a network of social relationships, where function is to increase the productivity of the persons within the nexus. Essentially, Coleman (1988) sought to build a model of human action and rationality. His guide was the economic theory of the rationale man, and social decision-making (rules, obligations, norms associated with action). In his view social capitalization is not individualistic, but instead it involves a group. Social capital is like other capital in that it is productive. Coleman uses social capital to provide the bridge between economic theory of the rational man and sociology. In his research he argues

that physical capital is the most tangible, financial capital is more tangible than human capital, human capital is less tangible than financial capital and the lowest level of tangibility is social capital. All are a continuum of tangibility. However, Coleman believes that the other forms of capital are not relationship dependent and that in contrast, social capital exists because there is a relationship between human beings.

Social capital is a function of three important aspects:

1) There is an obligation or expectation – A does something for B, therefore B has an obligation and A has an expectation

2) Information channels – social structure implies/suggest there is some type of information

3) Social norms – that there are social norms in place that promote the good and inhibits the bad in the social setting. These social norms make social capital possible.

Coleman said that social capital was a structure of social networks, of people socially connected through a common purpose or interest with a common goal. Coleman's analysis of the relationship between human capital and social capital considers them different yet complementary. Human capital refers to the individual knowledge, skills and abilities of a person and social capital refers to the relations built between the individuals and their unique human capital. Therefore, individual human capital contributes to the collective accumulation of social networks through social interaction relationships.

Coleman argues that social capital refers to features of social structure that facilitate action. Among these are systems of trust and obligations, networks disseminating information, norms accompanied by sanctioning systems, centralized authority structures arising through transfers of control, and "appropriable social organization" that may be used for purposes distinct from those that led to establishing it (Coleman, 1988, p S98). He argues that a high degree of trustworthiness among parties to a relationship is essential for the existence of social capital.

In addition to the social capital bestowed to individuals and groups are described by Coleman previous researchers have shown that social capital is important to firm outcomes (Baker, 1990; Hitt et al., 2002; Palmer and Barber, 2001). One way that firms gain social capital with other firms is through individuals in those firms and their interaction with one another (Ireland et al., 2002). These types of interactions can be business related, although business interactions are not mandatory. The capital between firms can be influenced by the nature of the non-business connections between each firm's agents as well (Knoke 1999).

2.4.2. Portes

The contributions of the three researchers discussed in this section: Loury, Bourdieu, and Coleman have been discussed by other researchers. In a review article by Portes (1998), he provides a critical review of social capital research and findings. Additionally, he offers his own conclusions of research by Bourdieu, Loury, and Coleman, among other authors, and he summarizes that current social capital literature emphasizes the similarities between financial capital and social capital. Regarding the importance of social capital he states "nonmonetary forms can be important sources of power and influence, like the size of one's stock holdings or bank account (Portes ,1998, p 2). "There appears to be a growing consensus in the literature that social capital stands for the ability of actors to secure benefits by virtue of membership in social networks or other social structures" (Portes, 1998)[18]. These nonmonetary forms of capital are not based on monetary exchange, but instead on the exchange of favors, good will, or other beneficial exchanges that will bring value. The currency of social capital is favors: Members of the network barter directly or indirectly in favors, banking good will.

Portes suggests that it is plausible that when a board selects a woman or minority director, it is expecting to derive new types of social capital, and therefore experience

[18] For a full discussion of the various definitions of social capital, see the discussion at section 2.4 page 72 in the section on social capital.

increased board benefits. Are the backgrounds of these directors sufficiently different enough to realize social capital realized is different than a board that is non-diverse?

The early portion of the Portes article is devoted to a comparison and discussion of early social capital writers. He then distinguishes four sources of social capital and examines their dynamics. These four sources were value introjection, bounded solidarity, reciprocity exchanges, and enforceable trust. In addition to his review of the early writers of social capital, Portes provides his own theoretical basis for distinguishing between economic capital and social capital. While he admits that contemporary literature focuses on the similarities between the two, he explains that there are two important differences. First, the repayment of obligations are sometimes in a currency different from that with which they were incurred in the first place, these methods of repayment may be intangible items (such as allegiance or approval). Second, the timing of repayment is not specified. He specifically suggests that if a repayment schedule exists, the transaction is more appropriately defined as market exchange than as one mediated by social capital (Portes, p. 7).

Portes's discussion of social capital as a 'currency' is important, because it reinforces an issue related to this thesis. First, since social capital can be held and used by the individual just as physical currency, it is also plausible that the value of this currency may vary based on the environment. For example, some individuals such as ethnic minorities may have uniquely valuable social capital (Loury, 1977) in their social circles; however, that social capital may not have value in other environments. One reason unique types of social capital currency may not have value to the firm is based on resource dependency theory. The social capital that an individual possesses may not assist the firm in reducing environmental uncertainties, or in gaining information of use to the firm. Therefore, while diverse individuals may have different social capital, it is not necessarily a currency of value to the firm.

Portes also includes a discussion of the negative consequences of social capital. He summarizes these as: exclusion of outsiders, excess claims on group members, restrictions on individual freedoms, and downward leveling norms. It is plausible that these negative consequences may create a decrease in social capital, if social capital of the firm is reduced by virtue of a change in a director. For example, if a director with social capital connections to an elite group of potential customers exits the board, and is replaced with a director with connections who instead have excess needs and claims on the director, the overall social capital of the board may decrease.

Related to the concept of social capital, resource dependence theory describes corporate boards as a critical link between the firm, its environment, and the diverse resources on which a company depends. Terjesen et a. 2009 adopt a resource dependency lens which views firms as operating in an open system and needing to exchange and acquire certain resources in order to survive, creating a dependency between the firm and external units. Within the corporate governance literature, firms seek linkages with the most beneficial resources, and structure membership on the corporate board on this basis.

This link is necessary for good corporate performance. Using the board of directors as a linkage mechanism with stakeholders provides companies with at least four benefits (Pfeffer and Salancik, 1978, p.145): 1) linkage may provide the organisation with useful information, 2) linkage provides a channel for communication purposes, 3) linkage is an important step in obtaining commitments of support from important elements of the environment and 4), linkage has a value in legitimizing organisations.

A diverse group of board members may increase the diversity of social linkages and connections on the board given their unique and different network ties (Hagan 1988, Campbell 1988, Ibarra 1992). For example, research suggests that the perception of human and social capital differ for gender and racially diverse boards. Ibarra (1995), using qualitative interviews of managers, found that race has a stronger effect on the

perceptions of work related social networks than perceptions of gender-based networks. Race networks are perceived to be more diverse and therefore more beneficial to firms than gender networks. Additionally, findings by Hilde (2009) indicated that more pronounced community heterogeneity is associated with lower levels of social capital. This might also apply to heterogeneity on boards. According to Hansen (1999) and Uzzi (1997a), social capital networks provide access to new knowledge and facilitate the transmission of difficult-to-transfer knowledge. Based the research shared above, diversity on the board could assist in acquiring new knowledge, unique social ties, and higher level of social capital. However, it may be the case that these more diverse social connections may connect the board to new knowledge, unique social ties, and but reduced levels of social capital. This perhaps could be caused by connections to people or groups which are not valuable currency to the firm's business.

Some researchers have argued that social capital increases the probability of success for inter-firm cooperative ventures as a result of the development of trust and a willingness to share resources (Bouty, 2000; Hitt et al., 2000, Walker, et al. (1997). Additionally, stewardship theory, as discussed previously, argues that the relationship between managers and principals is one that should operate on trust. Under stewardship, trust is the foundational structure and functional core (Mayer *et al.,* 1995). The board's role is to support and assist management in accomplishing the firm's goals. Social ties can strengthen the trust between parties such as management and firm principles. Coleman (1988) also argues that a high degree of trustworthiness among parties to a relationship is essential for the existence of social capital (p S97). A group where there is extensive trustworthiness and extensive trust is able to accomplish much more than a comparable group without that trustworthiness and trust (Coleman 1988, p S101). Research points out the direct benefits of trust, both to executives and to firms. Trust between partners serves as a governance mechanism which promotes voluntary, rather than obligatory exchanges of resources (Uzzi, 1996). For example, Gulati (1995) found that trust

resulting from multiple alliance experiences with partners decreases the likelihood of costly equity-based governance mechanisms.

While the idea of building social capital through diversity has value to society as an information channel for social structures, to the corporate sector social capital has value as an information channel to improve firm corporate governance. This potential value will vary according to governance structure. In the public sector, for example, the emphasis will be on seeking social justice outcomes, while in the private sector the governance focus will be on board value creation in respect of organisational performance and shareholder return (Van der Walt et al., 2002). In a review article that investigated empirical studies on diversity and social capital, Van der Walt and Ingley (2003) discuss 18 different elements of diversity, these elements were chosen based on corporate governance literature identified by the authors (e.g. Smith, 2001a, 2001b; Wheeler, 2001; Cassell, 2000; McGregor, 2000). These elements were studied to determine which elements were motivating factors to offering board positions to people of different backgrounds. The motivating factors they found were categorized by their particular relevance to the type of organization listed. Seven types of organizations were studied which included private companies, public listed companies, state owned enterprises, crown companies, cooperatives, charities/trusts, and local government trading enterprises.

Figure 2.3: Board Positions Motivators, Van der Walt (2003 p. 227)

In the study, the authors explore the appointment of directors of different professional backgrounds, levels of independence, age, gender and ethnicity. Van der Walt and Ingley develop a guide describing what is meant by diversity on the board and its implications for decision-making. They place particular emphasis on how social capital considerations should encourage diverse boards. These considerations also reflect an agreement with resource dependency theory. Specifically, they say that as a group, a board of directors combines a mix of competencies and capabilities that collectively represents a pool of social capital for their organization. They also conclude that board activities that link the board to its environment reduce uncertainty and secure from external constituencies resources critical to the organisation's success (additional capital resources). These resources include access to capital and also prestige and legitimacy.

The researchers assert that firms should create more diverse boards in order to establish and maintain linkages to other businesses, government and social organisations (Van der Walt and Ingley 2003, pp. 229). Some of the arguments they discuss are the theoretical arguments which support a stakeholder and agency theory viewpoint; moral obligation by boards, corporate philanthropy, stakeholder representation, and corporate reasons. The authors purport, in a similar article, that the board is potentially an important strategic resource for the organization, especially in linking the firm to external resources, such as providing a linkage to a nation's business elite, access to capital, connections to competitors, or market and industry intelligence (Ingley and Van der Walt, 2001). Diversity in this context argues for a broader range of backgrounds among external directors in providing this resource. They conclude that while boards need to be reflective of their ownership and the wider social environment, diversity *per se* is insufficient criteria for building effective corporate boards. The authors propose that when selecting directors, boards need to focus first on merit and then, ideally, on selecting qualified individuals with demographic and professional attributes underrepresented on the board. They also recommend that boards need to recognize that social capital is a strategic resource and sufficiently diverse groups are more likely to contribute non-overlaping social capital networks, which may translate into greater external influence for the firm. So while boards need to focus foremost on merit criteria for director selection, they should be cognizant of the potential to add value by utilizing the social capital contributed collectively by their directors as a strategic resource for their organisation. The challenge for those representing minority voices in the boardroom, is to make their views heard. The challenge for boards is to bring together in a cohesive manner the balance of expertise and perspectives required for effective functioning and decision-making on the board.

Loury (1977) discussed the impact that race and income can have on the social and human capital attainment of individuals, but gender can also impact human capital attainment. Singh (2008) in a study for the European Management Journal, researched

how men and women directors differed in their human capital. While not specifically a social capital study, it does reveal some differences in directors which have social capital repercussions. For example, more women than men fell into the community influential category, and over a quarter of the women in the business expert category were additionally community influential. The study also found that women were significantly more likely than men to have a background in management consultancy and the public and voluntary sectors. There were other professional differences; for example men were significantly more likely to report a background in engineering; and females somewhat more likely to have been in financial institutions and the legal professions. These occupational differences represent differences in the human capital of the directors, but to this researcher they also may effect differences in the types of social networks that may be a part of the director's experiences. If men and women directors have different community affiliations and different occupational experiences, it seems plausible that this may lead to different types of social capital.

Fanto, et al. (2011) suggest that the social capital element of director selection is an important one. They argue that a board member with numerous connections can be a valuable resource to a board. They further explain, 'A typical director,…. may be the CEO of another firm, a director of several other firms, and a director of nonprofit organizations. These connections can be useful to the firm, for a director with them brings along knowledge of practices and strategies at other firms and can identify acquisition targets and financial options (Fanto et al. p 910). Fanto et al. also explains that connections to government that arise from government service can be particularly important in highly regulated industries or for those doing business with the government. They purport that these governmental connections can be another avenue to board membership for women and ethnic and racial minorities who have not had the normal experience as a CEO to qualify them for service (Fanto et al. p 911). Burt (2001), argues that social capital is the contextual complement to human capital that enables those who

are better connected to do better. Additionally, Burt argues that strong network resources do not always translate into productive social capital.

Network people or groups are connected to network members and groups, to whom they have an implicit obligation to the other members of the network, trust these certain others, are obligated to these certain others, and are dependent on exchange with certain others. Therefore, those who hold a position within these exchanges hold an asset (Burt, p. 32) which is social capital. He states simply, “Better connected people enjoy higher returns” (Burt, p. 32). However, Burt does not discuss that this may also be a liability. For example, membership in a group may obligate the members to more responsibilities than it gains them advantages. For example, a member of a non-profit community who is appointed to a corporate board may encounter constant requests from their community for donations and other favors. If these requests are not met, the individual may lose social capital with the non-profit community. However, if the requests are met, the firm may need to provide more charitable resources by virtue of the board member.

The significant portion of this writing as it relates to this thesis is the discussion of structural holes. According to Burt, the within group cohesion is stronger than between group cohesion. In the absence of any relationship between two groups, a structural hole exists. Structural holes can be filled by individuals who are members of both groups, or who are willing to serve as a go between or bridge between the two groups. Such individuals span the two groups and thereby often improve the social capital of both groups. Holes in the social structure “structural holes” create a competitive advantage for those individuals whose relationships span those holes. The theory describes social capital functioning as brokerage opportunities in a given network of relationships, or being the broker in relations between people or groups otherwise disconnected in social structure. According to this view, the manager or entrepreneur who creates a bridge between otherwise disconnected contacts has a say in whose interests are served by the bridge. Managers with contact networks rich in structural holes know about, are involved in, and exercise control over the more rewarding exchange opportunities. Burt’s views

(1992) are that emphasis should be placed on the opportunities for entrepreneurs to exploit the "structural holes" between dense pockets of relationships in the network. The structural constraints on what people know and can control, that have been created by the past relationships that presents the opportunities for brokers of these relationships. These brokers are thought to seek out partners with whom they can form unique, or "non-redundant," relationships that bring new information and the possibility of negotiating between competing groups. Through forming these new and unique relationships, entrepreneurs transform network structure. An individual fills the structural hole between the two groups, either as a leader or as a member of both groups. This individual then provides an opportunity of spanning of two individual closed networks, where they are now connected, and have enhanced social capital beyond what each group had separately. The wider the structural hole that has been spanned, the more inclusive the potential social relationship could be created. In this sense, an open network enhanced social capital, connecting a wider group of closed networks.

This thesis was partly interested in discovering whether directors are selected for their unique social ties, therefore at least in part, spanning those holes between the firm and potentially new markets, thus producing a competitive advantage. If this is the case, it is conceivable that diverse directors span different connections thereby spanning new and diverse structural holes. Organizations are related through their members' professional connections, joint suppliers and customers, and industry associations. These commonalities may be sources of information about competitor behavior, new technological developments, and other industry trends (Walker et al. 1997). According to the structural holes concept (Burt 2001), it is feasible that if diverse directors enjoy different types of network ties and belong to different types of social or community groups, the firm should acquire (with their appointment) the ability to span some of these structural holes. Burt asserts that contacts strongly connected to each other are likely to have similar and therefore redundant information. In contrast a contact with connections to different groups provides a bridge to information available in other groups. This gives

them an advantage in access to information. He reaches a higher volume of information because he reaches more people indirectly.

Consequently, this higher volume of information contains fewer redundant bits of information due to the diversity of contacts. Burt refers to the two indicators of this redundancy. He suggests that cohesive contacts (contacts strongly connected to each other) and equivalent contacts (contacts who link a manager to the same third parties) are likely to have similar information thereby providing similar benefits (Burt p.35). He continues by stating that bridge connections to other groups give an advantage with respect to information access. Burt does not suggest that information by itself is the value, but rather the information provides access to opportunities (resource dependency view) in a way that is faster and more efficient than those without the access to the same information.

A similar insight was provided in governance research conducted by Moldoveanu and Martin (2001). They identified three potential problems in firms that result in agency failings and consequently governance failures. One of these include agents that do not have the right information or competence to reach optimal conclusions (Moldoveanu and Martin 2001, p.6). This can be directly related to social capital. If diversity improves the bridge connections to other groups thereby assisting in filling 'structural holes, this may improve the problem identified by Moldoveanu and Martin regarding lack of the right information. The absence of this knowledge may prevent optimal firm performance; thereby preventing true maximization of return to firm principals. Assuming this as true, the firm should enjoy the benefit of the director's ability to bridge, and in addition, the individual should enjoy greater individual opportunities. This is an interesting consideration by Burt; and other researchers have also considered if diverse directors provide linkages or bridges to different types of groups. Singh, et al. (2008) found that women directors had a higher level of community influence. They found a statistically significant difference in the backgrounds of women and men directors. For example, women were more likely to be community leaders, thus falling into his 'community

influential category', and over a quarter of the women in the business expert category were additionally community influentials. In contrast, Fairfax (2005), when discussing the five rationales for board diversity, disagrees with this view point. She asserts that race may not be an appropriate proxy for differences of opinions, viewpoints, or experiences. Therefore, it is also possible that diversity may not provide linkages to different types of groups.

Not all studies have found social capital to provide significant advantages in the workplace. Hayes (2000) in an empirical study, tested the non-race based factors that accounted for differences in work-related experiences and outcomes between blacks and whites (Hayes p. 493). In the study, she tested racial disparity in human capital attainment and qualitative differences in an individual's social capital (social network characteristics such as demographic similarity and tie strength) (Hayes, p. 493). Results of the study indicated that black managers reported a slower rate of promotion and less promotion support than white managers. Manager race had both a direct and an indirect effect on these outcomes. Additionally, participation in company training and manager race significantly predicted reported promotion rates. Her analysis revealed that race moderates the relationship between human capital and promotion rate and suggests a type of treatment discrimination against blacks. Contrary to her predictions that social capital would be a prediction to promotion rate, social capital did not predict promotion rate. Social capital mediated the relationship between race and psychosocial support. Black managers reported having less social capital than whites, and social capital, was positively related to the receipt of psychosocial support. No differences were found between blacks and whites in their receipt of career-related support (Hayes, p. 493).

Having reviewed literature which establishes the importance that social capital can have on the firm's success; this researcher sought to establish if when a board selects a director, is it with an eye towards new social capital. Or is it the case that like the Danish study by Rose (2007), that because these diverse directors were chosen from a closely connected group, any abilities to bridge the firm to different groups and information is lost.

In this thesis, social capital was considered in two ways; first, if and to what extent was a director selected based on his or her ability to bring new or additional social capital to the firm by way of memberships in new or different organizations; secondly, after being selected to the board, did diverse directors bring different types of social capital to the board than non-diverse directors. So while previous research has looked at whether human capital attributes (education level, expertise, etc.) differ for diverse candidates, this researcher wanted to determine if social capital attributes differ for diverse candidates, and whether these attributes make a difference in how they govern their boards. These questions are considered as a means to determine if the social capital of diverse directors differs from that of majority directors.

2.4.3 Social Capital -Selection Criteria

Related to social capital and expectations is the subject of selection criteria and process. Literature on this subject is worth discussing due to the exploration of not only why directors are selected for the board, but also how they are selected for the board. While the nominating committee[19] of the board is often given the responsibility of identifying directors, for purposes of this thesis, the answer to the how question, can often be answered as with the help of a recruitment or executive search firm. As will be discussed in the findings section of this paper, recruitment firms play a part in the selection of the directors interviewed for this study. This researcher thought it would be helpful to include literature on the purpose of these firms and how they work. While a detailed discussion on recruitment firms is somewhat peripheral to the subject of this study, some analysis is warranted as a consideration of how executive recruitment firms might influence the selection process thereby impacting firm governance and/or social capital.

[19] 2. Nominating committees are charged with identifying individuals qualified to become board members, consistent with criteria approved by the board; developing and recommending a set of corporate governance guidelines applicable to the corporation; and overseeing the evaluation of the board and management (Peterson et al. 2007 p. 560)

The executive recruitment firm has been referred to in literature as a tertius gaudens or tertius iungens (Obstfeld, 2005, Burt, 1992). The tertius gaudens is the "third who laughs", meaning that he/she is in a position to take advantage of the opportunities generated by having two alters who, without the involvement of the tertius gaudens, would be otherwise unconnected. The agent who is tertius gaudens gains economic advantage because two agents in the network are in conflict. The third agent gains economic advantage (payment) from bringing the other two parties together (Obstfeld, 2005). *Tertius gaudens*, are able to earn wages from the market by stepping into the conflict and creating value from other agents in the network. Burt (1992) identifies a second form of entrepreneurship associated with *tertius gaudens*: the broker/negotiator between the conflicting parties. He says that the rents can be captured directly from the negotiations (both parties, presumably) or "to add value, strengthening the relations for later profit" (Burt, 1992 p 34.) To perform this task successfully, an agent must successfully link two parties that would not necessarily have contact with each other. This activity performed by recruitment firms can also be considered a way to bridge the structural holes that exist between firms and director candidates. However, it should be noted that recruitment firms also frequently perform services when the candidate is already known to the firm. In these cases, the firm is employed to formally vet the candidate, as well as add a buffer between the candidate and the firm. Simmel (1908) also explains the importance of brokerage including the concept of the *tertius gaudens* who acts as a brokers, play individuals off each other, and benefits from a structural position in the middle. As well has Burt (1992) in the context of filling structural holes.

Obstfeld (2005, p. 104) argues that a broker can engage in four types of action:

1. *Coordinating acting between two distant parties with no prospect of connection.*

2. *Actively maintaining and exploiting a separation.*

3. *Introduce or further facilitate pre-existing ties (which he calls brief iugens).*

4. *Introduce or facilitate interaction between parties while maintaining an essential coordinative role over time (which he calls sustained iugens).*

The opportunities available to the tertius gaudens stem from the information and control advantages offered by having two alters who can only access part of the information available in the network and have no direct link to share it, and therefore cannot bypass the tertius gaudens, who in effect controls what goes through. In that role, brokers can play their contacts against one another and, for example, get a better price for what they are buying without the two sellers being in a position to coordinate themselves to call a truce on price competition. Additionally, the broker is in a favourable position to extract knowledge from the two unlinked individuals and recombine it locally to come up with a new innovation (Vernet 2012, p 7).

Because of their ability to bridge structural holes and connect individuals who otherwise would not know each other in the marketplace, recruitment firms enjoy significant power to shape placement decisions. Findlay and Cloverdill (1998) refer to this power as the 'visible hand. Since the recruitment firm or 'headhunter' is first hired by the firm, and candidates are first selected by the headhunter, the headhunter enjoys enormous control and acts as a visible hand in the selection process. According to Findlay and Cloverdill, headhunters determine who the client will approve of based on 'hot buttons' and 'chemistry'. "Hot buttons" are the work related skills and experiences that the client is seeking, but is often unable to articulate. The client will recognize these skills in any potential client according to Findlay and Cloverdill. Chemistry is how headhunters perceive a potentials candidate ability to mesh with the firm's culture. Since the headhunter will not be paid unless they successfully place the client, the headhunter will regularly recommend candidates they feel will have chemistry with the client based on how similar the candidate is to the client (p 35). Based on their interviews with executives and recruitment firms, they estimate as much as 80% of a hire is based on chemistry regardless of technical expertise (p 118). If recruitment firms are looking for candidates that will be a good fit, then it may be their goal to find candidates who are most similar to

existing directors and therefore their placement methods could be potentially discriminatory and include factors such as race gender, age, appearance, and background. Headhunters do not exclusively recruit socially similar candidates, but those who do not fit similar characteristics will receive fewer opportunities.

Faulconbridge, et al. (2009) explores the topic of the gatekeeping role that executive search firms play in the labour market. In the study, they purports that executive search firms act as new, powerful governance agents in the networks that influence the contemporary movement of talent. Faulconbridge et al. give their outline of the process that executive search firms follow for candidates. This chronology includes:

- *Mapping the market – using a researcher and consultant's knowledge and contacts to list competing firms where suitable candidates could be found and to seek out background information on and contacts for suitable individuals.*
- *Using the firm's database to search for suitable candidates.*
- *Sourcing – using known contacts and individuals in the firm's database to elicit recommendations for possible candidates.*

  (Faulconbridge, et al. p 802)

The researcher's chronology provides us with significant insight into those elements that that influence firms and their governance. Firstly, a candidate must be known to the search firms, or those individuals who are known to the search firms in order to be considered. The researchers call this the 'reproductive' quality of the search firm. The researchers state, "headhunters have a reproductive role because in order to be successful in elite labour markets candidates need to be known to search consultants and/or part of their database and/or connected to individuals connected to headhunters." (p. 802). This phenomenon is often commonly described as "the old boys network." This has implication for governance, because directors are often selected with the assistance of a search firm, this may indicate that directors (whether diverse or non-diverse), may

very well have been a part of this exclusive network. This being the case, it may strengthen the understanding of why they were selected, but also whether these individuals are likely to provide governance which displays outsider status. It also reinforces the literature discussed above by Rose, that directors are selected from a small set of well-connected socially palatable candidates. The literature suggests that being a part of the insider group may be important to being selected to a board, and perhaps just as important is having a good reputation within these circles. Individuals gaining directorships are likely to have acquired reputations that signal competence and subsequently present a reduced risk to the oganizations who use their social networks to select and appoint new directors. A noticeable factor in the profile of female directors, in the FTSE 100 since the 1980s is that significantly more women than men have titles, whether academic (Dr. or Professor), aristocratic (Lady, Honourable), civic (Dame, Baroness), political, or Lady as consort title of an honoured man (Singh et al., 2008 p 50). It is plausible based on the research, that if directors are chosen based on their connectedness within a small group, and based on their reputations, it is unlikely that an individual who is well known for having contrary viewpoint, or a reputation for alternative viewpoints would make the list of a palatable board member for any headhunting firm and its clients. Additionally, since the directors are chosen based on this connectedness, it is possible that they would have similar social capital.

2.5 Summary of Theory Literature

The literature reviewed in Chapter 2 may differ in the approach and viewpoint of the role of the board of directors; however, what is consistent in the literature is that boards make a difference in the oversight of firms. In addition, some of the literature suggests that diversity may impact boards, but the reason for the impact depends greatly on the assumed theory of governance. Table 2.4 provides a summary of the literature including the prominent theory assumed as well as the research question of this thesis that is influenced by the literature.

Table 2.4: Summary Table of Theory Literature

Author, year	Agency	Stewardship	Stakeholder	Social Capital	Resource Dependency	Fairfax Equity Argument	Efficiency or Productivity Argument	Gender	Race	Research Question	Comments /Findings
Barclift, 2007	X	X	X								Argument is against agency because of its failure to consider the firm as a separate entity, suggests combining theories
Bebchuk 2004	X						X			RQ2	Corporate governance exist because of the Agency problems, or conflict of interest that exist between owner and manager.
Berle and Means 1932	X					X				RQ2	Discussed the problem on the separation of ownership and control
Burt 2001				X	X		X	X		RQ4	Strong and weak network ties and how they bring entity value.
Carter, Simkins, Simpson	X	X				X	X	X	X	RQ2	Empirical study examines board diversity and firm value
Davis 1997		X									Stewardship is valid successful performance of the organization adds value to most organization stakeholders
Donaldson and Davis 1991		X									CEO Duality is beneficial to return on equity. Agency and stewardship are valid depending on the firm.

Table 2.4: Summary Table of Theory Literature

Author, year	Agency	Stewardship	Stakeholder	Social Capital	Resource Dependency	Fairfax Equity Argument	Efficiency or Productivity Argument	Gender	Race	Research Question	Comments /Findings
Donaldson and Preston 2005			X			X				RQ3	Describing the three aspects of stakeholder theory
Fairfax 2005	X					X	X			RQ1	Board diversity cannot be sought for issues of firm performance, but instead on issues of fairness and representation.
Fama and Jensen 1983	X						X			RQ2	Discusses the classical elements of agency theory
Fama and Jensen 1983	X						X			RQ2	Focus in on board oversight
Faulconbridge et al	X			X				X	X	RQ5	Selection firms act as governance agents by influence over management talent access.
Fields and Keys 2003	X						X	X	X	RQ2	Diversity increases firm value
Freeman, 1984			X				X			RQ3	Defining and providing guidelines for the use of stakeholder theory in management strategy.
Hart 1995	X						X			RQ2	Explains the role of governance through the lens of Agency Theory

Table 2.4: Summary Table of Theory Literature

Author, year	Agency	Stewardship	Stakeholder	Social Capital	Resource Dependency	Fairfax Equity Argument	Efficiency or Productivity Argument	Gender	Race	Research Question	Comments /Findings
Hays 2000				X		X		X	X	RQ4	Tested racial human capital attainment by race and promotion rates.
Higgs Review 2003	X						X			RQ2	Emphasis on oversight to prevent management abuse
Hillman 2005			x	X	X					RQ 3, RQ 4	Boards seek ex-politicians to assist in reducing external dependency in highly regulated environments.
Hillman et al., 2002				X	X				X	RQ1, RQ2	Minority and women directors differ in their education level, experience, and occupations.
Hillman et al. 2007				x	X		X	x		RQ3, RQ4	Firms that face legitimacy pressures, companies operating in industries that are heavily dependent on female employees, and firms with ties to companies with female board members are likely to have women directors on their board.
Jensen and Meckling 1976	X						X			RQ2	There will always be a conflict between the owners and managers.
Jensen, 2001	X		X								Discussion against Stakeholder
Mitchell, Agle, Wood 1999			X			X	X			RQ3,RQ4	Guidelines for application of stakeholder theory. Power, legitimacy, and urgency.

Table 2.4: Summary Table of Theory Literature

Author, year	Agency	Stewardship	Stakeholder	Social Capital	Resource Dependency	Fairfax Equity Argument	Efficiency or Productivity Argument	Gender	Race	Research Question	Comments /Findings
Moldoveanu and Martin 2001	X						X				Limitations of Agency, and when it is likely to fail
Pfeffer and Salancik 1978				X	X			x	x	RQ1, RQ3, RQ4	External linkages should affect board composition. Also,the legitimizing roll of the board as well as board signaling external stakeholders.
Portes 1998				X				X		RQ4	Literature review on the on social capital including discussion of similarities of financial capital and social capital.
Ramirez 2003	X					X	X	X	X	RQ2	Diversity is a tool to prevent management abuse
Rhode Packel 2010	X						X	X	X	RQ1	Comparison of Board diversity research finding. Discusses the lack of critical mass and inconclusive results.
Richard et al. 2004					X	X					Cultural heterogeneity affects management performance.
Singh 2008				X	X			X	X	RQ4, RQ1	Examines the difference between men and women directors and their community influence

Table 2.4: Summary Table of Theory Literature

Author, year	Agency	Stewardship	Stakeholder	Social Capital	Resource Dependency	Fairfax Equity Argument	Efficiency or Productivity Argument	Gender	Race	Research Question	Comments /Findings
Sternberg, 1999	X		X			X					Discussion against Stakeholder accountability, but stakeholder acknowledgement is accepted
Van der Walt Ingley				X	X	X	X	X	X	RQ4	Social Capital reasons should encourage diverse boards to increase firm linkages
Westphal et al. 2000	X			X	X	X			X	RQ4	Prior experience on corporate boards increases reputation and influence. Influence increases when minority board members serve a minority role on another board and when they have indirect social ties to the through common memberships on other boards.

The governance model that a board adopts can effect how it operates. For example, when taking a traditional agency viewpoint, diversity is thought to increase oversight of management, and to quell management corruption These types of general director governance roles inform Research Question 2: Directors perceive that board governance is positively impacted by having diverse members on the board. However, when taking a stakeholder theory viewpoint, literature suggest that a board which is representative of its stakeholders is fair and most important to board governance. Stakeholder directors may be knowledgeable about the interests of the stakeholder group that they are drawn from. Additionally, firms with stakeholders on their boards are signaling their commitment to stakeholders in a visible way (Ayuso and Argandona, 2007, p.10). Therefore if stakeholder theory is assumed, boards must be diverse so that diverse stakeholders will be represented. Additionally, while stakeholder directors have a direct say in the strategy of the firm, other stakeholders receive signals about who is on the board and how their needs are being represented. The stakeholder viewpoint helps to inform Research Question 3, "Directors perceive board diversity is an important signal of board values to the marketplace." Resource Dependency, with its emphasis on director's ability to secure resources which reduce a firm's external dependencies, may suggest that board diversity is important to link the board to unique or different resources. These resources may be because of the director's social capital. A variety of contacts can result in a greater number of resources to the board. This viewpoint helps to inform Research Question 4, "Directors perceive that board members are chosen to improve board networks and board capital, and this enhances board social capital." These possibilities are discussed further in Chapter 3. Chapter 3 provides additional literature on how diversity may specifically impact governance.

CHAPTER 3. REVIEW OF BOARD DIVERSITY AND CORPORATE GOVERNANCE LITERATURE

3.1 Introduction

The previous chapter includes a discussion of the governance literature theories and their role in defining what we determine to be good governance. This chapter is intended to provide an overview of literature that informs the thesis on how diversity is thought to impact board governance. In discussing this related literature, this chapter seeks to present why board diversity could be important to firms, and if so what rationales do other researchers suggest make it important.

Diversity of the board is the important element in this chapter of the literature review. Diversity is defined as the "representation, in one social system, of people with distinctly different group affiliations of cultural significance" (Aghazadeh, 2004, p. 522).

Williams and O'Reilly (1998) view diversity as any factor that individuals use to classify themselves as different from others. Diversity can also be described as differences in culture. This definition (Azevedo et al., 2001; Shriberg and Kumari, 2008) includes nationality, gender, religion, socio economic position, generation, and regional diversity.

The term diversity can also be divided in two different categories. Forbes and Milliken (1999) and Milliken and Martins (1996) describe the categories as "visible" and "less visible." The visible types are those that can be observed and can be race, gender and age. In contrast, less visible diversity is comprised of non-observable attributes of an individual such as experience, skills and knowledge (Forbes and Milliken, 1999; Milliken and Martins, 1996). Different researchers have emphasized different diversity variables. Common variables are age, education, experience (Hambrick and Mason, 1984), gender, professional background, career and ethnicity (Ingley and van der Walt, 2003).

Therefore, there are numerous variables to measure and study; in this thesis, the focus is on diversity of race and gender.

3.2 Director Diversity Summary

As the business environment becomes more diverse regarding visible diversity characteristics, there has been an increased emphasis on how diversity of the board of directors impacts board oversight, and as such helps to reduce governance problems. As an example, the Higgs report discussed above mentions ways to increase women directors, such as selecting from a wider range of work experience as one of its suggestions to boards. In the US, the Securities and Exchange Commission has recently increased the visibility of diversity initiatives relating to U.S. public company boards of directors. In response to capital market requests for diversity disclosure, the SEC adopted a regulation, effective February 28, 2010, requiring public companies to disclose the following information: "[(1)] whether diversity is a factor in considering candidates for nomination to the board of directors, [(2)] how diversity is considered in that process, and [(3)] how the company assesses the effectiveness of its policy for considering diversity." [20]

A number of reasons for and against a diverse board of directors have been furthered in the existing research. These arguments are divided between those who suggest that board diversity should be approached from a business case; and those who purport that board diversity is purely a function of fairness and equity. For example, diversity is purported to help the board have a broad base of wisdom (Carver, 2002), additionally boards having qualified individuals who reflect a diversity of experience, gender and race may leverage these differences and work successfully together on behalf of the organisation (Andringa and Engstrom,1998). Selecting directors with different back grounds and skills offer different experiences and can make a valuable contribution to board decisions by providing unique perspectives on strategic issues (Bryan, 1995;

[20] Taken from the U.S. Securities and Exchange Commission Website. www.sec.gov/news/press/2009/2009-268.htm

Westphal and Milton, 2000). Diverse directors can also help firms gain competitive advantage with strategic decision making that enhances the diversity in their products and employees (Bilimoria and Wheeler, 2000). Biggins (1999) argues: "Diverse boards help to better represent all shareholders, nurture better appreciation of 'intangibles' like work/life issues, and can help recruit and retain top executive women and minorities" (1999, p. 2).

Those who argue that board diversity should not be pursued based on a business case model, argue that board diversity, like diversity in general, is a fairness issue. For example, Loury (1987) writes that considering an individual's race or gender in selections is necessary to overcome the economic consequences of private discriminatory practices (Loury, 1987 p. 277). Mehri et al. (2004) suggest that firms must pursue actions that consider equality, and that the Securities and Exchange commission should require disclosures about corporate actions taken to establish greater board diversity including what policies and procedures a corporation has enacted to promote race and gender diversity in boards of directors. These arguments may be supported by research by Lampkin et al. (2008) who found that board diversity is used by boards to signal to the marketplace that they firm is operating in a fair and equitable manner.

These factors can be identified as motivators for seeking or failing to seek diversity on boards. As an example, demographic trends and the available pool of qualified candidates are factors which motivate the appointment of diverse candidates to boards. Additionally, factors can include the individual characteristics of the directors and a variety of situational factors (Bilimoria and Wheeler, 2000; Burgess and Tharenou, 2002; Burke, 2000; Mattis, 2000). Burke (2000) argues specifically for several reasons to have more qualified women on boards. These reasons concern board structure and CEOs as the preferred choice for director selection, CEOs or former CEOs are preferred for board selection based on the belief that these individuals have the unique work experience needed to provide high-level advice, and can better understand executive challenges and performance evaluation (Biggins, 1999). As Discussed in chapter 2, according to Burke,

there are not enough qualified male CEOs to go around. CEOs currently on boards decline board invitations three times as often as do directors who are not current or former CEOs. Burke argues that to rely heavily on male CEOs results in lower quality men being selected for boards due to this small available pool of candidates. In addition, states Burke, male CEOs serving on boards have indicated a variety of constraints on their ability to contribute, such as lack of expertise, little time for preparation and lack of information. Given this research by Burke, the small pool of talent makes it essential for acceptable firm governance that appointment of board members go beyond the traditional pool of male CEO candidates.

Selecting the members of the board primarily from current and former CEO's often may make the board a homogeneous group of members. The board of directors is a body selected by the owners to act in the best interest of the owners: but, can the best oversight be achieved with a board that is homogeneous and from a narrow group of candidates? Some literature, as explained below, indicates that a homogeneous group is not the most effective group for optimal performance. As discussed previously, Fondas (2000) found that boards with larger proportions of women on them were less inclined to let CEOs dominate proceedings and more likely to engage in "power sharing" and that boards with one or more female directors have significantly more influence over management decisions than boards without female directors. According to Fondas, this may be due to a number of factors giving them a different "voice" or perspective, but in order for this perspective to have an impact on the board's decisions it has to be voiced in a setting where norms of collegiality, equality, consensus and private decision making prevail. In addition, women directors are usually outsiders (non-executives) and therefore more likely to be objective and independent. This independence, she suggests, may partially explain why the presence of women enhances board influence over management (pp. 173). Associated with the level of independence, a latent reason CEOs may resist appointing more women, according to Fondas (2000), is that doing so increases the number of outsiders on the board, thereby potentially diminishing the

CEO's power. It is not, however, discrimination against women per se, but a bias against independents and outsiders. Fondas highlights the importance of power dynamics in the boardroom, noting also that inside directors are subordinates of the CEO in the firm's management hierarchy and are thus subject to other power issues (pp 175).

Gul et al. (2011) argue that gender diverse boards result in more corporate transparency. In their study of US firms, they used the voluntary and continuous disclosure of "other" events in 8-K reports as the measure of public information disclosure. They found that gender diversity was associated with higher disclosure in both large and small firms.

3.3 Work Team Diversity

In group dynamics research, it has been indicated that homogeneous environments are not the best models for optimal performance. Positive attributes of diversity in work teams include creativity, innovation, and problem solving, therefore generating more informed decisions. (Gul et al. 2011,Roberson and Park 2007,Cox and Blake 1991, Hambrick et al. 1996). Negative consequences of homogenous groups include a lack of independent thinking "groupthink", lack of a diverse perspective, boards overly beholden to management, and boards which have not accessed a "deeper pool of human talent" (Ramirez 2003, p.849). Alternatively, heterogeneous groups have many positive results on performance. In this context, the word "groups" is referred to as a class of persons who share a common attribute in respect to either age, disability, gender, sexual orientation, race, religion or belief (Equality Act of 2006 c.3 Part 1 Section 10)

The literature on organizational demography and top management teams also suggests that diverse groups have the potential to generate original approaches to intellectual and decision-making tasks (Bantel 1994, Bantel and Jackson 1989; Williams and O'Reilly 1997).

Moldoveanu and Martin (2001) have identified three potential problems in firms which result in agency failings and consequently governance failures: 1.) agents that do not

have the right information or competence to reach optimal conclusions; 2.) agents that have incentives to act in a way that decreases firm value, or 3.) when decision making power, competence, and incentives are not aligned with each other (Moldoveanu and Martin 2001, p.6). If we make the assumption that, in general, women and racial minorities are endowed with greater knowledge of minority or women's groups; this enhanced knowledge would assist in increasing the competence of the board as it makes decisions which relate to these diverse groups. As the race and gender of the customers, employees, and suppliers that companies interact with become more diverse, this enhanced knowledge could assist with the board increasing its knowledge of these diverse groups. Specifically, the absence of this knowledge may prevent optimal firm performance; thereby preventing true maximization of return to firm principals. One related example of this potential benefit is sometimes referred to as the marketing rationale for board diversity (Fairfax, 2005). The marketing rationale purports that companies with diverse boards will successfully reach a broad range of customers and clients thereby increasing their profitability. However, a critical assumption of the marketing rationale is that diverse directors have a greater knowledge of diverse consumers than non-diverse individuals. It is also assumed that board members are active in management type functions such as marketing, which may not be the case in many firms.

3.4 Board Diversity Literature

There is a large body of literature related to board of director composition and its effect on corporate governance and or firm performance. Bhagat and Black (1999, director independence), Van der Walt and Ingley (2003p, professional background), de Villiers et al. (2011, director expertise) and Westphal and Milton (2000, minority director prior experience). A growing body of literature suggests that diverse boards of directors may govern differently than those boards that are homogeneous. The impact of board

diversity on governance is studied in Campbell and Mınguez-Vera (2008), Adams and Ferreira (2009), Ahern and Ditmar (2012), and Elstad and Ladegard (2010). In this cross-section of governance literature, differences between the various attributes of directors have been widely studied. Inclusive is literature that reviews the effects of elements such as demographic characteristics (Bantel 1994), board size (Dalton et al. 1999), percentage of outsiders on the board as compared to insiders (Beasley 1996), insider ownership percentage (Agrawal and Knoeber 1996), educational backgrounds (Hillman et al. 2002), gender and race (Brammer et al. 2007), community influence (Sing et al. 2008), etc. In most instances, differences in these attributes have some impact on the firm's governance. Diverse attributes, such as those in the studies listed such as race or gender, have an influence on boards and therefore result in differences in the way these directors govern. These differences are explored in literature which investigates board diversity, specifically related to women and or ethnic/racial minorities which make up the board of directors, and seeks to analyze the resulting effects of this diversity. These studies include: Butler 2012, Luckerath-Rovers 2011, Rhode and Packel 2010, Broome 2008, Singh et al. 2008, Rose 2007, Fields and Keys 2003, Carter et al. 2003, Ramirez 2003, Hillman 2002, Francoeur, Labelle, and Sinclair-Desgagne 2007, and Westphal and Milton 2000. Of particular relevance to this researcher's planned study, is the body of literature that studies benefits of diversity on the directorate, and the theorized reasons for such benefits. Critical study and empirical validation of the reasons cited for these benefits is crucial to establishing legitimacy of any resulting theories.

Fairfax (2005) argues that diversifying the board should be done because it is the right thing to do, and that attempting to make economic benefit arguments is not necessary. Fairfax groups the arguments for board diversity into five rationales. These include: the talent rationale, the market rationale, the litigation rationale, the employee relations rationale, and the governance rationale. Each rationale is explored for weaknesses. This discussion is important for this researcher's thesis, as it reveals a discussion of the reasons diversity is thought to be a benefit to corporate governance with a substantial

discussion of an opposing viewpoint. It is the further investigation of these rationales and comparison to other literature that this thesis seeks to accomplish.

While articles are mounting that theorize the link between improved firm governance or firm value to diverse boards, not all links have shown improved performance. Additionally, where diversity is shown to improve governance, it is difficult to determine if more capable board members increase firm value through their improved governance or if better run firms simply attract knowledgeable board members. This endogeneity problem[21] makes it hard to differentiate which characteristics of boards and directors affect firm value. So while this researcher acknowledges this problem, it is still important to consider the findings of these studies.

Carter et al.'s (2003) study of diversity and corporate governance offers some of the first empirical evidence examining whether board diversity is associated with improved financial value. The study uses the agency theory to explain the link between corporate governance and firm value. The study also presents in detail what has been previously written on diversity and governance as conceptual, but also seeks to use empirical evidence to confirm measurable economic benefits. The hypothesis tested in the study is "Board of Directors diversity does not affect firm value." In this study the authors find that there is a positive relationship between diversity and firm value.

Carter et al. (2003) controlled for various categories which included firm size, industry, and others. Using this model, the researchers were able to report findings based on various measures. Their findings indicate a significant positive relationship between the fraction of women or minorities on the board and firm value. Specifically they found a positive significant relationship between board diversity and firm value. Their results were positive after controlling for size, industry, and other corporate governance measures. One weakness of the work is that, although various studies are cited which

[21] An endogeneity problem arises when there is something that is related to one variable that is also related to another variable, and you do not have that something in your model. These omitted variables can bias results (Hamilton and Nickerson 2003)

discuss the theoretical benefits of board diversity, the study does not seek to prove or disprove any of the advanced rationales, such as the five rationales, regarding the question of “why” firm value might be created. Instead, the study only seeks to establish that economic value is created due to the diversity of the board. This is a gap in the research that this thesis hoped to help fill.

Carter et al. (2003), unlike Fairfax (2005), sought to demonstrate that economic value was created due to a diverse board. However, other researchers have attempted to not only determine if value is created, but also to theorize why diverse boards may contribute to enhanced governance. Ramirez (2003) puts forward the belief that the Sarbanes-Oxley Act was of minimal assistance in correcting the governance abuses it was enacted to address. He attributes the failings of Enron and others to a board plagued by groupthink. Consequently he argues that the homogeneous Enron board of directors, and the resulting groupthink was the true problem and that diversity helps groups to avoid groupthink (Ramiez p 859). Ramirez presents numerous explanations for the expected benefits of diversity in the boardroom. This includes a reduction in groupthink, increased decision-making quality, and a quelling of corruption. However, in addition to specific studies on governance, Ramirez furthers his case by discussing how groupthink is a substantial detriment to group success. The reasons he cites are that groupthink results in a strong need for members of the group to go along with group decisions, mindless adherence to group norms, and a failure of group members to challenge implicit or explicit assumptions. He argues that cultural diversity can enhance small group decision-making processes and reduce the inclination of small groups to devolve into a groupthink approach to issues. He also states that a groupthink dynamic plagues decision making within groups that share a high degree of similar experiences and characteristics. The result is mindless adherence to group norms and a failure to challenge implicit or underlying assumptions. Group members are seduced into compliant conduct by the need to achieve approval from the group as a whole (Ramirez p 840). Additionally, he

discusses companies where board homogeneity was mentioned as possible reason for governance failings[22].

Ramirez attempts to summarize the provisions of the Sarbanes-Oxley Act, using a historical narrative of the abusive actions which led to passage of the act. He encourages the reader to see Sarbanes Oxley as a key to force fundamental change in the way that boards do business. The narrative is also essential in assisting him in making the argument that the act does not address the perceived reason for the failings. His position is that boards fail due in part to a lack of independent thinking (groupthink) resulting in mindless adherence to group norms, lack of diverse perspectives, an excess of feeling beholding to management, and lack of access to a deeper pool of human talent. Ramirez's arguments reflect an agreement with the governance rationale and the talent rationale for board diversity. Ramirez's argument that diversity can be used to increase independent thinking and reduce groupthink is based on the assumption that diverse individuals will (by virtue of their diversity) have thoughts and opinions that are different than other directors. In contrast, Rose (2007) argues that women who rise to the position of board members may have similar social backgrounds and pedigree which moderate any potential impact of gender diversity. Additionally, Fairfax (2005) argues that women and minorities who are appointed to boards may be hesitant to voice opposition due to a lack of critical mass of women or minority board members.

Butler (2012) argues that the purpose of the board of directors is to monitor and evaluate senior management of the company. Additionally, she states that most American state laws, which typically establish that the obligations of the board of directors to its shareholders, specifically expect that a part of the duties of the director are care and

[22] One such article that Ramirez (2003) mentions is Jyoti Thottam, Crashing the Boards, Time.com, Feb. 10, 2003(statement of Harvard Business School Professor Rakesh Khurana), (showing that a variety of norms and social connections, including racial and gender homogeneity renders boards "high cohesion" groups, which leads to "a strong emphasis on politeness and courtesy, and an avoidance of direct conflict and confrontation"); and Susan S. Boren & Julie H. Daum, Raising the Bar in the Boardroom: New Expectations and Standards Warrant a Best Practices Review, Directors & Boards, June 22, 2002, at 55 ("The advantages of a board composed of directors who offer diversity of backgrounds, expertise, and outlook cannot be underestimated. Directors should not only bring a variety of knowledge and skills, but should differ enough intellectually from each other and management to encourage a culture of scrutiny and debate.").

loyalty towards shareholders. Butler maintains that a diverse group of directors may be a way to assist directors in fulfilling their duties of care and loyalty (Butler p 67). She describes the second prong of the board of directors' fiduciary obligation is the duty of loyalty, which requires directors to act in good faith to advance the best interests of the corporation. Acting in good faith includes: (1) not engaging in self–dealing and unlawful activity; (2) avoiding passiveness that enables the diversion of corporate assets and profits or causes other frauds upon the corporation; and (3) affirmatively acting with good intentions to monitor the corporation's affairs and the corporation's compliance with law (Butler p. 70).

Other researchers have disagreed with the attempt to link enhanced governance to diversity, and instead propose that board diversity is solely a moral and ethical issue. The previously mentioned Fairfax (2005) discusses the potential benefits cited in the other papers on the topic, but takes issue with most. She presents the potential benefits and her disagreement as five separate arguments. The article purports that board diversity is an admirable goal; however, not for the reasons often cited. Fairfax seeks to examine the viability of business rationales used to justify increasing board diversity. She discusses the often--cited potential benefits, and suggests that minority board members could not possibly be expected to deliver them. Fairfax believes that if companies increase their efforts to diversify their boards based on the assumed benefits, they will become disappointed when those benefits are not realized.

Fairfax spends considerable length on the five arguments for board diversity based on economic rationale. As mentioned previously they include: the talent rationale, the market rationale, the litigation rationale, the employee relations rationale, and the governance rationale. There are three rationales, where Fairfax differs with the arguments made by Ramirez. The first place they differ is the talent rationale. Ramirez (2002, p. 849) argues that if the board membership does not reflect society's demographics, and specifically the demographic mix of college educated individuals, then the board has not tapped into the greatest supply of talent in the marketplace for its

potential pool of directors. Fairfax disagrees with this rationale for board diversity. She points out that although firms gain a competitive advantage by acquiring talented employees and managers, any advantage to the firm by acquiring a diverse board is offset by directors who hold multiple board appointments. Therefore, no one board gains a competitive advantage with a director appointment, potentially undermining its impact. Another reason she disagrees with the talent rationale is that it fails to consider that given the narrow criteria for board members, there may be a lack of qualified diverse candidates (and white candidates) that meet these criteria.

The market rationale, discussed previously, is another rationale for diversity where Fairfax disagrees with other researchers (Dallas 2002, Catalyst 2004 p 3). The rationale purports that companies that employ a diverse group of people will successfully reach a broad range of customer and clients thereby increasing their profitability. Fairfax argues that this rationale is flawed, as firms do not need diverse directors to take advantage of the economic opportunities afforded by diversity. Fairfax points out that there are marketing firms, including firms that employ diverse individuals, who may perform this task more successfully than a single director.

One of the significant benefits of diverse boards assumed by researchers, such as Ramirez, is their willingness to express dissenting opinions, increase scrutiny, and consequently improve the quality of board decisions (Ramirez, 2002 p. 852). Fairfax describes this as the governance rationale. This rationale, which lies at the center of the Ramirez research, is that diversity on the board will lessen the risk of corruption by ensuring that there are directors who are "bold enough to ask the tough questions (Ramirez p. 842). Fairfax questions whether diverse board members would be willing to exercise "super outsider"[23] status, or assume the role of permanent Devil's Advocate. Specifically, Fairfax states "corporate officials often only seek to promote those people of color who are racially palatable and demonstrate a willingness to subordinate their group

[23] See above, Super outsider status is coined in the Fairfax paper to explain that minority board members are expected to be technical outsiders, but also outsiders socially; therefore this places them as the ultimate outsider with very different views.

identity for the good of the firm." (Fairfax p 836) This finding, if true, would weaken arguments put forth by Ramirez, Carter, as well as others that groupthink could be avoided by employing diverse boards. Groupthink would remain a problem if minorities are just as likely to go along with group decisions, adhere to group norms, fail to challenge implicit or explicit assumptions. Additionally, Fairfax suggests that this rationale fails to consider that even if diverse directors had views that were sufficiently different than others on the board, the governance rationale fails to consider the lack of a 'critical mass'[24] of diverse directors which would allow these directors to feel confident enough to voice dissenting opinions.

A Catalyst study (2006) of women directors found some support for the governance rationale when there is more than one woman on the board. In their interviews with FTSE 100 women directors about the presence of more than one woman on the board, and whether it made any difference, of the twelve who responded, ten women said it made a difference, while two felt it made no impact at all. Seven women said it made a big difference in terms of less stereotyping, three said it made some difference, ten women said it made a difference in the breadth of perspectives discussed, with a comment that this was particularly the case regarding corporate social responsibility and corporate communications. Six women agreed that having more women made for a more friendly atmosphere in the boardroom, making it seem less "abnormal", but it had no impact at all on their ability to make their contribution to the board (Catalyst 2006 p. 24). These results by Catalyst lends support to the governance rationale.

Lending support to Fairfax's argument against the governance rationale; Fanto et al. (2011) argue that candidates with significantly different opinions to the existing board members will in fact avoid board memberships with these firms. They argue that during the vetting process, there are informal 'go-betweens' which are third parties who are acquainted with the officers and board members of the corporation who casually raise the

[24] Studies show that minorities in a group feel more confident expressing meaningful views when there is a 'critical mass' or other minority members present that may support their viewpoints (Rand and Light 2004 p. 318, Fanto et al. p 929)

needed questions about the candidate's understanding of the implicit belief structure and codes of conduct of the board. A principled candidate who judges that the corporation cannot move far enough in the diversity direction, thereby putting his own reputation at risk, will gracefully withdraw from consideration. (Fanto et al., p 916) If this argument is true, then not only will diverse members fail to vocalize issues of disagreement, but it is possible that based on the opinion of Fanto et al., these candidates may self-eliminate themselves from board membership in the first place.

In the conclusion, Fairfax makes a normative view argument that a diverse board should be sought because of ethical reasons rather than an attempt to make an empirical argument based on improved firm performance. She argues that diversifying the board based on expectations of economic improvement will inevitably lead to failure of these directors to meet those lofty goals. Instead, she suggests that diversifying the board is simply the right thing to do, and that attempting to make economic arguments is futile. Fanto et al. (2011) also argue that justification of board diversity on the grounds of its contribution to shareholder value is flawed. They argue that directors of a US public firm are busy executives from other firms who gather together monthly to approve broad strategic directions of the firm. They suggest that the chief executive office and her team actually operate the firm; and that boards simply ratify their decisions and strategies. Fanto et al. believe that a board's contribution to firm value is likely to be minimal and hard to establish. They believe that diversity advocates should endorse justifications and normative frameworks other than shareholder value to support diverse boards. This view point is shared by others (Wheeler 2009, Zhang and Zhu 2012). As it relates to this thesis, questions were asked in the thesis to ascertain whether an acceptance or rejection of these rationales would be reflected in the answers given by the diverse directors under study.

One study which also rejects the governance rationale discussed by Fairfax, Fanto, and others listed is Casper Rose (2007). Rose sampled 1000 listed Danish firms to determine whether female board representation influenced firm performance. Rose was

unable to determine any significant link between firm performance, as measured by Tobin's Q and female representation. Rose found that gender diversity does not seem to be important for firm financial performance. A plausible reason stated is that "board members not originating from the traditional "old boy's club" may have decided to assimilate into the traditional circles by suppressing any special feature stemming from the board members' unconventional background. In other words, there might be a process of socialisation where the unconventional board members have adopted the behaviour and norms of the conventional board members/business leaders."(Rose p 411) Rose found that Danish board candidates are recruited from a small closely connected group of business people. To belong to this group of closely connected people, it is essential for women to be able to convince these members that they share the same norms and social values as members in the network. In this process, outsiders to these norms would not be considered as potential board members. The author of the study purports that due to the socialization that must occur for females to be accepted and promoted the male dominated Danish corporate environment, any potential performance enhancements due to gender advantages do not materialize.

The Rose study suggested no conclusive effects from an increase of women on boards. The lack of any performance differences of these boards was attributed to these Dutch women being conformists and attempting to assimilate in a male-dominated board context by suppressing any differences in opinions or attitudes (Rose 2007); however, another study on Norwegian corporate boards found a slightly different result. Elstad and Ladegard (2010) investigated how increasing the ratio of women directors on corporate boards is associated with decision-making dynamics; specifically they investigated the perceived participation and influence of the women on the board. Elstad and Ladegard studied a sample of 458 women on Norwegian corporate boards. They focus on the women directors' perceptions and experiences. Elstad and Ladegard suggest that women still tend to be perceived as an out-group in the board setting, which may pose a challenge to their participation and influence.

They argue that on the corporate board, women directors who are a minority may attempt to reduce their visibility by censoring their own opinions that are controversial or that may cause conflict. They also theorized that a larger ratio of women on the board would result in these women feeling less pressure based on visibility and consequently perceived self-censorship would diminish or disappear. They hypothesize: "The ratio of women on a board is negatively associated with perceptions of self-censorship, such that the higher the ratio of women, the lower will be perceptions of self-censorship reported by individual women." (Elstad and Ladegard p. 601) They also theorized that as the ratio of women increase, they would feel less excluded and perceive to engage in social interaction to a greater extent. They hypothesized, "The ratio of women on a board is positively associated with perceptions of social interaction with other board members outside the boardroom, such that the larger the ratio of women, the greater will be the perceptions of informal social interaction outside the boardroom reported by individual women." (Elstad and Ladegard, 2010 p. 602)

Their results indicated that women on boards perceived that they have good opportunities for contributing to board decisions, and they perceived a high level of influence on the decisions of the board. They also reported that they practice very little self-censorship. These findings, consistent with the governance rationale, suggest that women directors, when they have divergent views on the board, actually express these views and actively engage in discussion. Additionally, they found that the board members share information with each other. Women in their sample perceive that they have the opportunity to contribute to board decisions by openly sharing their views, readily obtain access to important information, and ultimately influence board decisions (page 608). Thus, unlike the perspective of Rose, and Fairfax, the women directors in the Elstad and Ladegard study did not perceive that there were major social barriers to their board participation, or practice conformity. Their findings did not support that women on the Norwegian boards seek to reduce their visibility by censoring their own opinions that are controversial.

Other studies (Gurin et al. 2006; Thomas 1993, Kunda 1999) have also argued that diverse individuals attempt to assimilate into the group and deemphasize their difference and emphasize their similarities. There are two main strategies that minorities use to distance themselves from their minority group: decategorization and assimilation. According to Gurin et al. (2006), in decategorization, minorities attempt to ensure that the dominant group perceives them as individuals rather than members of the minority group to avoid negative stereotypes associated with that minority group. Thomas (1993) found that black professionals may choose to stifle their racial identity by avoiding race-related discussions in their interactions with their white colleagues and supervisors. For example, Sinclair and Kunda (1999) found that Black professionals who have used decategorization are deemed more professional and are less likely to experience the negative racial stereotypes associated with their minority group. However, the decategorization process can have a negative impact on teams because minority professionals lose a part of their cultural identity and may be less likely to draw attention to differences in a number of ways, such as contributing novel or innovative ideas within their work group (Dickens and Dickens, 1991; Swann et al.., 2003).

This seems to possibly offer one explanation of why the Fama and Jensen 'human capital devaluation' deterrent may not be enough to prevent self-serving director behavior. Traditional agency theorist believe that in the owner/agent relationship, the agent is incentivized to develop an expert reputation. Jensen and Fama hypothesize that outside directors have an incentive to develop reputations as experts in their decision control (monitoring) function. They argue that the director's human capital is devalued when monitoring breaks down, or when there is an outside takeover. This risk of their own human capital devaluation is seen to be a sufficient incentive for directors to act in the principal's interest, and deter collusion with management (Fama and Jensen, 1983, p. 19). Fundamental to human capital valuation is reputation. However, if the perceived devaluation of human capital caused by outsider behavior is more risky to ones reputation than the devaluation of human capital caused by firm failure, the diverse

director may be encouraged to perform in accordance with group norms at the expense of the firm's governance to secure their reputation and assimilation within the network.

Literature above demonstrates that whether the five rationales for board diversity hold true is inconclusive. It will be essential to learn from the board members if they believe that diversity impacts the governing process. Moreover, another goal of the research is to determine if attributes such as race or gender, which continue to have a profound influence on individuals (no matter the level of socialization), result in differences in the ways these individuals govern. Director background differences in race and gender has been studied by Hillman (2002), Siciliano (1996) and Catalyst (2006). It has been published that the background of the white males who serve on boards and the women and minorities who serve on boards tend to be different (Hillman et al., 2002). Women directors tend to be significantly younger than their male peers, with an average age of 53.8, compared to 56.2 for male directors (Catalyst 2006 p 14). Catalyst also found that UK FTSE 100 women directors had shorter tenure 3.2 years for women and 4.8 years for men (Catalyst 2006 p. 14). We would expect that governance could differ for these boards, given the result of different demographic make ups and background experiences. Siciliano (1996) studied 240 YMCA organizations and determined that occupations diversity led to higher levels of social performance and that gender diversity compared favorably to the organization's level of social performance but a negatively on fundraising. The diversity in board member age groupings was linked to higher levels of donations. Hillman et al. (2002) determined that "Female and African-American directors are more likely to come from non-business backgrounds, are more likely to hold advanced degrees, and join multiple boards at a faster rate than white male directors." (Hillman et al. p.747) Hillman states,

"Our results indicate that directors bring a wide range of resources to boards. In our sample, female and racial minority directors bring more resources than the additional perspectives and legitimacy provided by their gender and/or race. They bring a variety of occupational expertise and knowledge, advanced education, and accelerated ties to other organizations."

However, the question for this researcher was not only if there *should* be differences in governance due to background experiences, but whether directors believe and perform as if there actually are differences. In a study by Westphal and Milton, their results show that the prior experience of minority directors in a minority role on other boards can enhance their ability to exert influence on the focal board (Westphal and Milton, 2000, p.366). Additionally as discussed earlier, Jensen and Fama hypothesize that outside directors have an incentive to develop reputations as experts in their decision control (monitoring) function. They argue that the director's human capital is devalued when monitoring breaks down, or when there is an outside takeover. This risk of their own human capital devaluation is seen to be a sufficient incentive for directors to act in the principal's interest, and deter collusion with management (Fama and Jensen 1983, p. 19).

Therefore a study, on board diversity should increase our understanding of whether this increased risk of reputation (human capital) results in minority directors who have an increased desire to fulfill their monitoring obligations well. If a minority director has more capital at risk than a non-minority director, all else being equal, it is possible that a minority director's investment towards the firm's success will be greater. If this is indeed true, the director's efforts may increase the possibility of a successful firm, and increase his reputation as an expert monitor.

Years of board experience, is another variable which has been shown to impact board performance. This variable is important when discussing diversity, as diverse board members tend to have less years of board tenure, than their white male peers (Catalyst

2006). In the UK and USA popular media, much has been made of the laws in Norway which require gender diversity on boards. Norway required public-limited firms to have at least 40% of board seats filled by women in 2003. Voluntary compliance in the country failed, so the law made it compulsory in 2006. In one study which has sought to analyze the effectiveness of this law, results suggested that the value of the companies dropped. However, further analysis revealed that the 40% quota led firms to recruit women board members that were younger and had different career experiences than the existing directors (Ahern and Dittmar 2011).

3.5 Diversity and Firm Performance Literature

Direct effect of diversity on firms

Existing diversity literature at other levels within the firm besides the board and firm performance indicates that diversity in the management ranks can also impact firm performance. The impact of diversity in top management teams on firm value is also inconclusive. However, whether management diversity is a positive or negative impact on firm value appears to be linked to the type of firm and what dynamic the firm operates within (Richard et al. 2004, Rhode and Packel 2010, Bantel and Jackson 1989, Richard 2000). Firms which operate in environments with high risk, and require high creativity appear to be impacted positively by heterogeneous management. Firms which require low creativity and have a need for quick decision making ability appear to benefit more from homogeneous management (Richard et al.,2004). Rhode and Packel (2010) perform an analysis on several studies that have attempted to understand the relationship between board diversity and firm performance, in an attempt to analyze the variable results. In their study, they sought to evaluate the case for racial, ethnic, and gender diversity on corporate boards of directors in light of competing research findings. They grouped the results of these boardroom diversity studies into distinct groups 1) Studies that show a positive relationship 2) Studies that show no relationship or a negative

relationship. Additionally, the article includes a section that explains the recent trends of diversity on boards, including information on race in addition to gender. They specifically identify trends of minority women, which are often missing in studies whose demographics include gender and race, but not break out of women minorities. These include concerns that women and minorities chosen for board membership may be those least likely to challenge the status quo, and therefore any potential benefits of differing opinions and dissent may be loss. Additionally, the lack of a "Critical Mass" of diverse directors on a board, which would allow those directors to function more as an integral part of the board fully empowered, rather than members who are seen as the 'different' person. Lastly, for those studies that show a positive link, there remains the problem of knowing whether the improved performance can be attributed to diversity. Moreover, there is a question of whether or not diverse boards help to make firms more profitable, or if more profitable firms tend to seek to diversity their boards[25]. Rhode and Packel determine that the results of the studies are inconclusive, and attribute the varied findings to the methodological shortcomings of many of the studies, including small sample size, short-term observations of performance, and the difficulty of controlling for reverse causation, endogeneity, and other omitted variables that may be affecting both board diversity and firm performance (Rhode and Packel, p 8). In addition to endogeneity and reverse causation problems, the researchers determined that there are numerous measures of firm performance with no one recognized measure making it difficult to argue a conclusive link between diversity and firm performance. With so many different measures of firm performance from which to choose, researchers are likely to find some values that show a positive relationship with board diversity and others that show a negative relationship. Based on their analysis of the study results, they find the link between board of director diversity and firm performance to be inconclusive. Their review does, however, find some theoretical and empirical basis for believing that when diversity is well managed, it can improve decision-making and can enhance a corporation's public image by signaling commitments to equal opportunity and inclusion. However, the

[25] Endogeneity problem discussed in note 25 above.

researchers also qualify their recommendations to include the perspective that to achieve such benefits diversity must extend beyond tokenism, and corporations must be held more accountable for the firm's progress.

In an attempt to gain further insight into other types of diversity and potential impact on firm performance, this researcher sought to identify other research where other types of diversity has been studied by management scholars. In addition to race and gender diversity, there are also cognitive diversity factors such as age, job tenure, and industry and occupational diversity. When studying corporate governance, the concept of diversity relates to board composition and the varied attributes, characteristics and expertise contributed by individual board members. The various types of diversity that may be represented among directors in the boardroom include age, gender, ethnicity, culture, religion, constituency representation, independence, professional background, knowledge, technical skills and expertise, commercial and industry experience, career and life experience (Milliken and Martins, 1996).

Pitcher and Smith (2001) investigate the impact of diverse management teams on firm performance. They investigate types of cognitive diversity with a focus on under what conditions diverse management teams may be beneficial to the firm. Pitcher and Smith highlight key relationships between teams and three strategic outcomes. These were identified as relationships between team heterogeneity and diversification, innovation, and performance. Pitcher and Smith chose these relationships, because in their view diversification (where to compete) is widely accepted as a key strategic choice; innovation is viewed as a key intermediate link to performance, and performance itself is of direct importance (Pitcher and Smith 2001).

Pitcher and Smith using a large study of strategic leadership based on eight years of close observation at the board and management committee levels inside one $20 billion global corporation. The researchers used observational and archival data and informal meetings, two rounds (1986 and 1990) of fifty formal semi-structured interviews. The

interviews explored views with respect to team functioning, strategy, structure, innovation, performance, and their potential relation to the personalities of the CEOs. The researchers segmented the top management team into three distinct groups based on the make-up of the team at specific points of time, and performed an analysis of the cognitive diversity factors of the top management team such as age, tenure, experience, and personality heterogeneity. In the study, one of the important findings of the research team was that personality traits, as well as power in the organization were very strong elements to consider when determining the impact of cognitive diversity on the firm. In their research, the degree of heterogeneity at various points in the organizations life span was measured, and was then assessed for the appropriateness of the firm's environment. The researchers found that the high heterogeneity team was correlated with a period of strategic creativity, specifically the top management team efforts to enter new markets and develop new products, and team heterogeneity seemed to be a winning combination in a turbulent, deregulating marketplace. Conversely their case study supported the hypothesis that the homogenous team was inappropriate to the turbulent competitive environment in which it operated, and the organization ultimately disappeared.

Simons, Pelled, and Smith (1999) investigate the effects of four types of demographic diversity on firm performance: functional background, education attainment, tenure, and age. Of these demographic variables, they classify functional, education level, and tenure diversity are generally more job-related because they largely capture experiences, information, and perspectives relevant to cognitive tasks (Simons, Pelled and Smith, pp. 663). The study was conducted by mailing questionnaires to CEOs and other top managers in manufacturing companies asking a variety of questions regarding demographic variables, as well as questions assessing their level of debate such as "To what extent did the group weight multiple approaches against each other?" and " …. Executives stated clear disagreement with each other." An important topic of this article, as it relates to this thesis, is the importance of group debate in being able to tap into any positive aspects of diversity. A central conclusion from the analysis of this article is that

teams may need debate to make constructive use of diversity. This need for debate is discussed as follows:

> "*Quality of decision making is difficult to measure in real-world groups but may be estimated by decision comprehensiveness. Debate may increase the tendency for diversity to enhance decision comprehensiveness. Without debate, a team's diversity may remain an untapped resource, existing but never used. If team members debate each other, however, they are likely to draw on their diversity-that is, on their divergent knowledge sets-to bolster their arguments. As they are confronted by new information from people with different backgrounds, members are forced to rethink their points of view and consider factors they had not previously considered. In this manner, the decision making process becomes more comprehensive." (pp. 664)*

Their results indicated that debate increased the tendency for diversity to enhance top management team performance. Further, debate-by-diversity interactive effects were strongest for more job-related forms of diversity. They concluded their article by stating that for diversity to benefit a company's bottom line, there must be a process by which the positive aspects of diversity are brought to bear. The researchers advocate fostering diversity in top management teams, because such diversity should help top management team members' debates become more constructive.

The first two articles of this section (Richard, et al., and Pitcher and Smith) support the theory that diversity has a positive impact on the firm in situations where creativity, proactivity and innovation is needed. The Simmons, Pelled, and Smith article purports that diversity is beneficial for corporate decision-making, but only primarily so when the diversity is task related and used to increase debate and enhance decision-making.

The group ‘conflict’ or debate that can result from the diversity is well suited to innovative ideas, and homogeneous groups may perform poorly in turbulent competitive environments. In this present thesis, the competitive environment that the directors operated in was not a variable that was studied. The element of governance, specifically oversight and selection were the identified elements of focus. However, what can be taken away from the literature focusing on firm performance that relates to this thesis; is that diversity often increases the level of conflict, and therefore may directly impact board communication and the dynamics between directors.

3.6 Summary of Literature

The foundations of the research have been built in Chapter 2 and Chapter 3 by important literature in governance research, diversity research, social capital, as well as literature which combines these works to study the relationship between diversity, director value, and board governance. Additionally, many of the studies focus on explaining the reasons diversity is thought to enhance governance by linking traditional diversity research and assuming that these advantages are similar for directors. Table 3.1 presents a summary of the key literature which focuses on director diversity and provides the link to the research questions.

Table 3.1 Summary of Board Diversity Literature

Author	Year	Theory Framework	Research Question	Description
Broome	2008	Stakeholder	RQ3	Boards sometimes seek to communicate firm values such as equality, progressiveness, and equal opportunity by signaling with board of director diversity.
Carter et al.	2003	Agency	RQ1, RQ2	Studied firm performance and director diversity using calculation of Tobins Q and evaluating firm performance.
Catalyst- industry report	2006	n/a	RQ1	Interviewed 12 Fortune 100 directors in their qualitative study of board diversity.
Catalyst- industry repot	2001	n/a	RQ1	In-depth interviews with 35 minority women in senior management positions.
Dalton et al.	1999	Resource Dependency	RQ 4	Board size may be a measure of an organization's ability to form environmental links to secure critical resources.
Elstad and Ladegard	2010	Agency	RQ1	Used mixed-method survey to document their study of board diversity.
Fairfax	2005	Agency	RQ2	Argues that economic rationales for board governance are flawed, and board diversity is important for fairness.
Hillman et al.	2002	Resource Dependency	RQ 4	There are a number of resources that directors bring to boards: expertise, different perspectives, ties to other firms, and legitimacy. They study how directors differ beyond race and gender by exploring differences in occupation and education level in order to capture diversity of expertise.

Lampkin Broome and Krawiec	2008	Agency	RQ2	Used semi-structured interviews with corporate directors to analyze the impact diversity has on board effectiveness.
Nielsen and Huse	2010	Agency	RQ2	Studied women and leadership/strategic activities on the board using mixed-methods to study board composition and governance.
Van der Walt and Ingley	2003	Resource Dependency	RQ4	Analyzed professional background of directors and industry ties. Argue that board activities that link the board to its environment reduce uncertainty and secure from external constituencies resources critical to the organisation's success.
Westphal and Milton	2000	Resource Dependency	RQ1,RQ4	Analyzed minority director prior experience using data collected from public databases.
Wheeler	2011	Resource Dependency	RQ4	Studied gender diversity using quantitative methods.

The literature in Chapter 3 does not provide a conclusive answer as to whether board diversity enhances governance, and if so how it may do so. However, it provides a basis for the research questions (see table 3.1), and a basis from which to analyze the results of the study. Several reasons are discussed in the literature that this study explores, but primary attention has been given to Fairfax (2005), and what she calls the five rationales for board governance. While Fairfax does not agree with these rationales, her research provides a framework for a comparison and contrast to other researchers in the chapter, as well as a framework for analysis in further chapters.

One such comparison has been made to Ramirez (2003). Ramirez argues that board diversity can be a crucial tool to guard against 'group-think" and the resulting cooperate ailments of corruption and abuse. Ramirez's position is most closely aligned to the Governance Rationale of board diversity that Fairfax describes. Neither Fairfax nor Ramirez offer empirical data to substantiate their claims, but do offer evidence from diversity and work-term diversity to bolster their positions.

Another area of disagreement in the literature, is whether any potential advantages of diversity are eliminated due to diverse directors modifying their positions in an attempt to assimilate into the majority group. Rose (2007) suggests that there are no performance differences based on diversity, because women conform and attempt to assimilate in a male-dominated board setting. This viewpoint is shared by others who argue that diverse individuals attempt to assimilate into the group and deemphasize their differences. (Gurin et al. 2006, Fairfax 2005, Thomas 1993, Kunda 1999) However research by Elstad and Ladegard (2010) indicated that women on boards perceived that they have high level of contributions, high levels of influence, and practice very little self-censorship. This would seem at odds with a view that women were conforming and modifying their positions.

My aim was to contribute to this literature by offering first person accounts of directors that attempt to acquire additional knowledge regarding their perceptions of diversity and thus compare their perceptions with the cited rationales in the literature. Additionally, my

aim was to provide an analysis of the director responses in the UK and US, which would provide an opportunity to learn more about the similarities and differences that might be revealed from such a two country study. By focusing on the reasons why the advantages may exist, and providing narrative interview data to support these reasons, this study hopes to make a stronger link between diversity and improved board governance, and a greater understanding of how these perceptions may differ between the UK and US.

CHAPTER 4 – METHODS AND PROCEDURES

4.1 Introduction

This chapter presents a discussion of the approach used by this researcher to conduct this thesis research. Somekh and Lewin (2005) argue that the approach taken to collecting, recording and analyzing data depends on the methodological framework for the research. "How the researcher understands 'being in the world' (ontology) and the nature of knowledge (epistemology), will fundamentally shape both the observation process and analysis of the data collected" (p.141). The ontological question under consideration in this dissertation pertains to the nature of the relationships between perceptions of members of boards of directors and diversity as embodied in race, gender, and social networks. Of course, given the tenuous and often opaque relationships between human thoughts and behavior and between what a human says in an interview or survey and what he or she actually believes, how a researcher comes to understand what is real or true raises a series of at least three epistemological questions: 1) can the researcher ever know the truth in this situation? 2) If, the truth is knowable how can this researcher know it? That is, 3) are there methodological approaches that will allow me to approach the truth about my subject matter? My research sought to know about how board director perceive the value of racial and gender diversity as an influence on their, and other board members decision making.. Specifically, I came to know what they perceived based on interviews and survey, and the interpretation of that data.

This chapter will explain the methods and instruments used in this mixed-methods multiple study of board of director members and the opinions and perceptions of the how diversity impacts the board's governance. The purpose of this study as identified in Chapter 1 and developed in the literature review of Chapters 2 and 3, is to analyze the opinions and perceptions of directors on the influence of board diversity on governance and board of director social capital. The result of this analysis provides an understanding of how directors perceive diversity impacts governance and how diversity may be one aspect of social capital. Chapter 4 is divided into seven sections: 1) The Introduction

gives the reader an overview of the methods used to collect the data for this study and provides a brief summary of why the methodology was adopted; 2) Example of Methods by Others; 3) Mixed-Method Research Design provides a discussion of the advantages and disadvantages of mixed-methods research including qualitative and quantitative methods. This section offers the reader an opportunity to understand why mixed-method is appropriate for answering the questions in this thesis; 4) Data Collection provides an explanation of data collection procedures for this thesis study; 5) Survey Construction – This includes a description of the survey construction and the basis of how the questions were designed; 6) Survey Distribution Methods and Data Analysis; and lastly 7) Interviews include a description of interview methods including an explanation of the interview guide and interview protocol that was used. This chapter, along with Chapter 5, provide an understanding of the complete methods used by this study to analyze board diversity, governance, and director perceptions.

4.2 Examples of the Variety of Methods Used in Board Research

It is apparent to this researcher that not one research method provides a clear best framework for studying board governance, and thus a mix of methods was the best choice for this thesis. Therefore, this thesis incorporates the diversity of methods used in those studies reviewed throughout this thesis and other studies. Using a variety of methods, as has been done is this thesis, is considered a mixed methods methodology or triangulation. The table below provides a sample of board diversity research using a variety of methods.

Table 4.1: Methods Used in Board Research

Author	Year	Quantitative	Qualitative	Comments
Dalton et al.	1998	X		Analyzed the correlation between director diversity and its effect on corporate governance and performance. Conducted a meta-analysis of data from 85 studies.
Hillman et al.	2002	X		Collected demographic information on directors using descriptive statistics to analyze their occupations and experience.
Bhagat and Black	1999	X		Used regression and correlation of director data to study director independence and firm independence.
Van der Walt and Ingley	2003		X	Analyzed professional background of directors using theoretical arguments presented in a variety of previous research.
Westphal and Milton	2000	X		Analyzed minority director prior experience using data collected from public databases.
Carter et al.	2003	X		Studied firm performance and director diversity using calculation of Tobins Q and evaluating firm performance.
Wheeler	2011	X		Studied gender diversity using quantitative methods.

Nielsen and Huse	2010	X		Studied women and leadership/strategic activities on the board using survey data to study board composition and governance.
Lampkin Broome and Krawiec	2008		X	Used semi-structured interviews with corporate directors to analyze the impact diversity has on board effectiveness.
Catalyst	2006		X	Interviewed 12 Fortune 100 directors in their qualitative study of board diversity.
Elstad and Ladegard	2010	X	X	Used mixed-method survey to document their study of board diversity.
Catalyst, Industry Report	2001		X	In-depth interviews with 35 minority women in senior management positions.

Previous research (Westphal et al., 2000; Hillman et al., 2002; Ramirez, 2003; Rhode Packel 2010; Dalton et al. 1998) suggests that diverse boards of directors may govern differently than those boards that are homogeneous. These studies employ a variety of research methods in an attempt to answer the questions surrounding board of director governance. Dalton et al. (1998) analyzed the correlation between director diversity and its effect on corporate governance and firm performance. They conducted a meta-analysis of data from 85 studies and found no consistent evidence of a relationship between board structure and financial performance. Those studies analyzed by Dalton et al. included a variety of quantitative studies that looked at the correlation between board structure and firm performance. Hillman et al. (2002) studied diverse director education and perspectives using quantitative methods by collecting the demographic information on directors and using descriptive statistics to analyze their occupations and experience. Bhagat and Black (1999) used regression and correlation of director data to study director independence and firm performance. Van der Walt and Ingley (2003) analyzed professional background of directors using theoretical argument presented in a variety of previous research. Westphal and Milton (2000) analyzed minority director prior experience using data collected from public databases. Carter et al. (2003) studied firm performance and director diversity using calculation of Tobins Q and evaluating firm performance. Wheeler (2011) studying the business case for gender diversity using quantitative methods, Nielsen and Huse (2010) studying women and leadership/strategic activities on the board using mixed method survey data, and others research diversity of the board's composition and governance using quantitative data. Other studies have employed a variety of qualitative methods and mixed-methods to study board composition and governance. Lampkin et al.(2008) used semi-structured interviews with corporate directors to analyze the impact diversity has on the board effectiveness. Catalyst (2006) interviewed 12 Fortune 100 directors in their qualitative study of board diversity, and Elstad and Ladegard (2010) used a mixed-method survey document in their

study of board diversity. The research by Elstad and Ladegard, similar to this thesis, investigates diverse directors on corporate boards, and decision-making dynamics. Specifically they investigated the perceived participation and influence of the women on the board. Elstad and Ladegard studied a sample of 458 women on Norwegian corporate boards, focusing on the women directors' perceptions and experiences. Their survey is considered mixed-methods, as it includes both likert scale and open ended questions. Given the similarity in the types of information this thesis sought; a similar survey (one using a likert scale and open-ended questions was designed for this thesis. Key literature which shows the diversity of methods is found starting on page 134.

A variety of criteria are offered as a basis for selecting one research method over another. The next section details the advantages and disadvantages to this study and appropriateness of the mixed-method approach.

4.3 Mixed Method Research Design

In research design literature, there are normally two methodological approaches discussed for data collection and analysis: qualitative and quantitative. The results from qualitative analysis can vary to a considerable degree from the knowledge gained through quantitative inquiry. Morse (1991) indicates that in choosing a research method, it is important to determine the characteristics of the research problem. The key issue is whether the theory is developed inductively from the research, thus making it primarily qualitative, or used deductively as in quantitative inquiry. McCracken (1988) describes the differences between the two types of methods as a difference in how the categories are defined. He argues that the quantitative goal is to isolate and define categories as precisely as possible before the study is undertaken, and then precisely determine the relationship between them. In contrast he argues that the qualitative researcher expects the nature and definition of the analytic categories to change during the course of the project. He concludes that for a quantitative study, well-defined categories are the means of the research and for a qualitative study they are merely the objects of the research (McCracken, p.16).

It is not necessary that these two paradigms compete against one another; hence the purpose of utilizing mixed methods. Some researchers believe that qualitative and quantitative research can be effectively mixed in the same research project (Corbin and Strauss, 1990; Johnson and Onwuegbuzie, 2004; Patton, 1990; Morse 1991). According to Morse (1991), the process of using at least two methods to investigate a research question is called triangulation. Triangulation is used when a single research method is inadequate. It is used to ensure that the most comprehensive approach is taken to solve a research problem or to ensure the validity of the instruments used (p 120). Additionally, according to McCracken (1998), the interview should not be used in isolation since it can be unreliable and sometimes misleading. He argues that in addition to the interview, the researcher must be prepared to take full advantage of quantitative methodologies. This section will attempt to describe the fit of the method with an overview of the methods and describe the reason that mixed-methods were chosen for this study.

This thesis was conducted using the across stage-mixed-model design because the mixing took place across the stages of the research process (Johnson and Onwuegbuzie 2004, p 20).

Figure 4.1: Stages of the Thesis Research Model

Aston University

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This thesis is also considered within-stage-mixed-model design, as a questionnaire was used which included a rating scale (quantitative data collection) and several open-ended questions (qualitative data collection) (Johnson and Onwuegbuzie 2004, p 20). This thesis has three stages: First, this researcher gained access to director information from the Manifest Database, then used statistical (quantitative) methods to analyze information about the population of UK directors in order to learn more about the population from which the survey participants were selected. Second, a quantitative and qualitative research phase in which a research instrument was designed and mailed to collect data from corporate directors. These data were analyzed to answer questions of director perceptions about board governance, diversity, and social capital. This stage was followed by a second, qualitative stage. In this stage a sub-set of directors were interviewed in person and on the phone to collect their opinions and their perceptions on board diversity, governance, and social capital. The details of each of these stages are in both this Methodology Chapter and Chapter 5, which discuss the full dataset of 3066 FTSE 350 directors that was accessed for this project as opposed to only those interviewed or submitting a survey.

4.3.1 Qualitative Research Methods Discussion

The methods traditionally categorized as qualitative include interviewing, action research, grounded theory, observation, and case study research. When using these methods, usually the goal is to seek a deeper insight into the problem than is available from other more quantitative methods. Very often the goal of qualitative research is to seek the answer to questions such as the following: “Why did a subject act in a specific way?” “How did the subject feel about an event or problem?” “What were the results of those actions?” While quantitative methods could be characterized as being based on numbers and surveys to accept or reject a hypothesis, qualitative methods are focused on seeking discovery. In some cases they are meant to formulate a hypothesis rather than accept or reject a hypothesis. According to Morse (1991 p. 120), characteristics of a qualitative research problem are: (a) the concept is “immature,” due to a conspicuous lack of theory and previous research; (b) a notion that the available theory may be inaccurate, incorrect,

or biased; (c) a need exists to explore and describe the phenomena and to develop theory; or (d) the nature of the phenomenon may not be suited to quantitative measures. When making the distinction between quantitative research and qualitative research, Cooper and Schindlerf 2006 explain it as follows: “Qualitative research – sometimes labeled interpretive research because it seeks to develop understanding through detailed description – often builds theory but rarely tests it” (Cooper and Schindler, p.198). In some ways the researcher discovers the hypothesis during the process of the research using the inductive reasoning method.

Advantages and Disadvantages of Qualitative Study

Many of the advantages of qualitative methods can be realized when using the case study, interview, or observation methods. For example, in this thesis, further information was sought about perspectives of directors regarding diversity. Using qualitative methods allowed this researcher to look deeply into the answers of each particular director’s interview, or open-ended survey response in a way that the director quantitative survey questions were incapable of capturing. These qualitative responses allowed the directors to give answers or alternatives that were not pre-determined and thus allowed for answers which did not conform to a specific set of alternatives. Webb (1995) argues specific preferential outcomes:

- *It is possible to ascribe the views to individual respondents, allowing for more precise interpretation;*
- *It affords the opportunity to build a close rapport and a high degree of trust, thus improving the quality of the data;*
- *It allows for easier expression of non-conformity.*[26]

Therefore, this researcher determined that because this study included a need to study relationships between directors it would be advantageous to use some qualitative techniques to possibly capture non-conforming information. Previous research on board

[26] Taken from Stokes, David and Bergin, Richard (2006) Methodology or "methodolatry"? An evaluation of focus groups and depth interviews. Qualitative Market Research: An International Journal, 9(1), pp. 26-3. ISSN (print) 1352-2752

of director diversity, such as that described in the introduction of this chapter, has used qualitative techniques to determine the influence that diversity may have on the board.

Qualitative research methods are thought to be best suited for building or extending theory versus testing theory. In prior studies on diversity, other researchers have sought to test a hypothesis of whether or not diversity improves board performance[27]. This thesis builds further theory about which rationales given for board diversity appear valid from the perspectives of directors. The thesis is designed to understand director attitudes towards diversity and governance. An advantage of qualitative over quantitative methods is that they are better at evaluating attitudes and prejudices and how they affect or do not affect actions (Strauss and Corbin 1998, p. 10). In this thesis, it was important that issues involving attitudes, thoughts, and emotions be assessed. Accordingly qualitative methods, specifically qualitative interviews, were conducted and other inductive information sought in the open-ended survey questions in an attempt to obtain intricate details about these types of phenomenon.

Miles and Huberman (1994) discuss some of the disadvantages of qualitative studies. These disadvantages are labor intensiveness, frequent data overload, distinct possibility of researcher bias, time demands of processing and coding data, the adequacy of sampling when only a few cases can be managed, the generalizability of findings, and the credibility and quality of conclusions (Miles and Huberman, p. 2).

Another disadvantage that is often discussed is cost. A qualitative study uses many methods that require the researcher's time on each occasion that data are collected. While many surveys were mailed at one time using quantitative techniques, each time an interview was performed, this researcher was present to conduct it. Because of the close geographical proximity of UK interviewees most of the interviews were conducted in

[27] A number of these articles are discussed in chapters 2, page 47 and 3, page 100 of this thesis study including Field and Keys 2003, Burke 2000, Fondas 2000, and others.

person rather than by telephone[28], the lodging and transportation costs were nonetheless substantial. US directors were widely disbursed. Hence, two interviews were performed in person and the remaining eight interviews were conducted over the telephone in order to minimize the cost of the thesis.

One possible qualitative method, observation, was not used in the completion of this study. This researcher considered that it would be helpful to observe boards in the course of their work in an effort to observe anything that could possibly be learned. However, observational techniques can be extremely time-consuming, as most observation methods are performed over extensive lengths of time. The time constraints and access requirements of an observation study of directors would have been impractical for this dual-country PhD study, in addition, due to the confidential nature of board meetings, board observation would have been impractical as well.

Another disadvantage of qualitative methods can be the inability to make generalities or causal statements. Shaughnessy et al. (2006) argue that it is difficult to infer causality using qualitative methods because extraneous variables are generally not controlled. Additionally, because replicating the results on different populations often proves difficult to accomplish, they argue it can be difficult to generalize (Shaughnessy et al. 2006, p. 334). The goal of this study was to discover new knowledge; however, using qualitative methods these findings are not always reproducible, and therefore the application or extension of the findings to a larger population is questionable. In this thesis, though it is agreed that the inability of generalizing the results over a large population is a shortcoming, the depth of the information gained from the interviews provides additional insights that could not have been determined from the survey questionnaire alone. Winter (2000) argues the merits of qualitative research, even without the ability to generalize.

[28] Sturges and Hanrahan (2004) argue that telephone interviews can be used successfully in qualitative research.

> *"In a very general sense, qualitative research concerns itself with the meanings and experiences of the 'whole' person, or localised culture. On the other hand, quantitative research attempts to fragment and delimit phenomena into measurable or 'common' categories that can be applied to all of the subjects or wider and similar situations. Hence, quantitative research, whilst able to claim validity for wider populations and not just merely samples, is restricted to measuring those elements that, by definition and distortion, are common to all. This raises the question of 'at what cost' are we exchanging accuracy for generalisability"*
>
> *(Winter 2000, 58 paragraphs)*

As a way to combat some of the disadvantages of the inability to generalize the interview findings, it was determined that self-reported questionnaire type surveys would be included as well thereby triangulating and strengthening the results. The survey used in this thesis was comprised of a number of quantitative type closed-end questions with a small number of open-ended optional qualitative questions (Billot, 2013). For purposes of simplicity, the survey used in this thesis is considered largely quantitative and discussed as a quantitative instrument.

4.3.2 Quantitative Research Methods Discussion

In quantitative methods, the researcher locates an instrument to use in measuring or observing attitudes or behaviors of participants in a study. Scores are collected on these instruments to confirm or disconfirm the theory (Creswell, 2003, p. 127). Survey instruments such as questionnaires or tests can be used to measure attributes such as race, age, etc., or to measure opinions and attitudes through scales. Often the scores are collected via survey and other numbers based instruments. Pinsonneault and Kraemer (1993) provide a definition and information on research based on surveys. They explain that the purpose of a survey is to produce quantitative descriptions of some aspects of the study population (p 6). Survey research is a quantitative method requiring standardized information from and/or about the subjects being studied.

Advantages

Two important advantages of quantitative methods are low cost and ease of analysis. The use of a survey is ideal for obtaining information from large numbers of the population and gathering demographic data (Lewin, 2005). Many surveys can be sent

inexpensively by post or electronically. This is in contrast to the time and expense of training and sending interviewers to each participant. Self-completed questionnaires were an inexpensive way of collecting data from a widely dispersed group of board directors. Surveys are considered to require minimal investment to develop and administer (Glasow, 2005), specifically costing less than interviews (Pinsonneault and Kraemer, 1993, p 14).

Quantitative methods are usually based on numerical values to questions. Because of this, a quantitative method is likely to have an advantage in the ease of making observations and deciphering information. While qualitative methods, which allow the respondent to elaborate on questions and may allow flexibility, closed-end survey questions can be answered more easily and create fewer scoring problems (Shaughness et al., 2006, p. 178).

Other quantitative methods include experimental designs, where at least one independent variable is manipulated to see whether or not it has an impact on the dependent variable. Pre-test can be conducted before the experiment begins and a post-test after it has been completed. These data are used to identify differences between two or more groups on measurements of the dependent variable (Lewin, 2005, p. 216). Cross-sectional design is often used in survey research and involves the collection of quantitative data on at least two variables at one point in time and from a number of cases (Lewin, p. 16.) These data are then used to look for group or entire case associations or relationships or in subgroups sharing characteristics such as females and males in this thesis (Lewin, p. 16).

Babbie (2010) lists a number of specific strengths of using quantitative methods:

- *Allows for a broader study, involving a greater number of subjects, and enhancing the generalization of the results;*

- *Allows for greater objectivity and accuracy of results. Generally, quantitative methods are designed to provide summaries of data that support generalizations about the phenomenon under study. In order to accomplish this, quantitative research usually involves few variables and many cases, and employs prescribed procedures to ensure validity and reliability;*

- *Applying well-establshed standards means that the research can be replicated, and then analyzed and compared with similar studies;*

- *You can summarize vast sources of information and make comparisons across categories and over time; and,*

- *Personal bias can be avoided by researchers by keeping a 'distance' from participating subjects and employing subjects unknown to them.*

Disadvantages of Quantitative Methodology

Pinsonneault and Kraemer (1993) argue that there are a number of problems that plague quantitative research such as survey research (1) single method designs where multiple methods are needed, (2) unsystematic and often inadequate sampling procedures, (3) low response rates, (4) weak linkages between units of analysis and respondents, and (5) over reliance on cross-sectional surveys where longitudinal surveys are really needed (p 77). In addition, they warn that surveys may be inappropriate than other methods such as case studies and naturalistic observation when detailed understanding of context and history is desired. Another disadvantage of using quantitative methods is the difficulty in finding out why individuals choose to act in a certain way, which is at the core of this thesis. Bell (1993, p. 11) argues “Surveys can provide answers to What When Where and How, but it is not so easy to find out why.”

Other disadvantages of quantitative methods have been discussed by other researchers (Brians, 2011; McNabb, 2008; Sharpe, 2008) These disadvantages include:

- *Quantitative data is more efficient and able to test hypotheses, but may miss contextual detail;*
- *Uses a static and rigid approach and so employs an inflexible process of discovery;*
- *The development of standard questions by researchers can lead to "structural bias" and false representation, where the data actually reflects the view of the researcher instead of the participating subject;*
- *Results provide less detail on behavior, attitudes, and motivation;*
- *Researcher may collect a much narrower and sometimes superficial dataset;*
- *Results are limited as they provide numerical descriptions rather than detailed narrative and generally provide less elaborate accounts of human perception;*
- *The research is often carried out in an unnatural, artificial environment so that a level of control can be applied to the exercise. This level of control might not normally be in place in the real world thus yielding "laboratory results" as opposed to "real world results"; and,*
- *Preset answers will not necessarily reflect how people really feel about a subject and in some cases might just be the closest match to preconceived hypothesis.*

(Taken from Babbie, 2010)

4.4 Data Collection Process

The first step in the data collection process was to determine the best way to access corporate directors. This initial concern was accessibility to a list of the names of corporate directors and their relevant contact information. The first step was to contact

those organizations that could possibly provide access to director contact information and interaction opportunities with directors. This researcher used internet search engines to identify industry groups and organizations that provided services to directors, particularly those organizations servicing women and non-white directors. Through those means, several industry groups were identified that provide such services. Two such organizations that seemed promising were the National Association of Corporate Directors (NACD) and the Alliance for Board Diversity (ABD). The NACD is a US based nationally recognized organization with 13,000 US corporate directors in its membership. Its focus is on director development, director education, director resources, and director connections[29]. The ABD is a collaboration of three organizations focused on increasing management diversity both in the US and abroad. The organizations represented in the ABD are Catalyst (see p 134), The Executive Leadership Council, and the Hispanic Association on Corporate Responsibility. These organizations' focus is supporting and advancing the interests of executive women and minorities in the workplace, including increased diversity and fair representation on corporate boards.[30]

By contacting both the ABD and NACD, this researcher was able to get a list of their activities and meetings that were open to the public. The ABD conferences and meetings proved difficult to attend. The timing of the ABD annual meeting did not allow for sufficient time to meet the data gathering deadlines, and it was held a great distance away from this researcher's home. Additionally, after contacting the organization, this researcher learned that opportunities to contact directors within their membership would be limited by their privacy policies. The NACD proved to be a more useful for contacting directors because there were meetings close enough to attend and thereby meet directors. The NACD has chapters throughout the US, including a chapter in the Raleigh, North Carolina area, which is a city within a three-hour drive of this researcher's office. When speaking to the NACD representative, the representative told this researcher that it

[29] The information and focus of the NACD was found on their website at http://www.nacdonline.org/AboutUs/?navItemNumber=556

[30] The focus of the ABD was taken from the Catalyst website at http://www.catalyst.org/media/alliance-board-diversity-fact-sheet.

was permissible to join and attend the meetings. During the course of the data collection, this researcher joined the organization as an academic and was able to attend three meetings of the NACD, resulting in several director interviews. However, because of privacy constraints, the NACD was not able to provide a contact list or database of directors.

The second option pursued in an attempt to secure contact information for directors and access to directors was to approach research centers that specialized in research on senior management or directors. This option was pursued in hopes that one of the organizations would be willing to share their contact list or director database. Contact was made with the Catalyst Organization in the US and its UK counterpart, the University of North Carolina Chapel Hill Center for Banking and Finance, and Cranfield University's International Centre for Women Leaders. None of the contacted organizations was willing to share director information or databases. These contacts, however were helpful for learning of scholarly conferences in academic fields, which overlap with gender, race, and corporate governance, which provided additional insights by way of conference attendances and resulting exposure to other researchers. This researcher attended two scholarly conferences on Director Diversity, using the opportunity to listen to other researchers, as well as to directors. The information gained at the conferences allowed the researcher to attain a greater understanding of the research issues surrounding the subject of board of director diversity and governance. Additionally, this researcher was made aware of issues confronting directors as they perform their duties, as well as of the potential impediments confronting researchers as they conduct diversity research. One major impediment is that the limited number of blacks and other non-white board members makes the access problem even more daunting, as there are less directors available in this pool of directors to contact. A second major impediment is the lack of ethnic and racial information collected by public access databases. These conferences also gave the participants awareness of the different kinds of diversity issues being studied and to discuss coordinating future research with international academics with

similar interests.

This researcher initially felt it would be beneficial to be able to categorize directors by race or ethnicity as well as gender. A search through available databases revealed that no independent database existed that captured director race or ethnicity. In consultations with the thesis supervisor, it was decided that a possible method for collecting racial attributes of directors would be to download the annual reports for US Fortune 500 companies and UK FTSE 350 and to review the director photos. This researcher thought that race could be determined by viewing the photographs and developing a database of the results. Over 50 company annual reports were downloaded; however, it became clear that the poor quality of photographs made phenotypic identification impossible. Additionally, even when it was obvious that a director was not white, this researcher was not familiar enough with the subtle differences in appearance that may sometimes distinguish the race of one person of color from another. After downloading more than 50 company annual reports and searching each one for photographs of directors, it became clear that it would require a substantial amount time to download the reports and search for photographs. In addition, this investment in time and effort would not result in a thorough assignment of director race. Without knowing which racial group a director belonged to, and given the amount of time to look and evaluate photographs, the researcher, in consultation with the advisor, abandoned the activity.

Through discussions with thesis supervisors, it was decided that the contact information and some demographic information for the UK directors was accessible in the Manifest Database. Manifest Ltd is a proxy-voting agency based in the UK that collects data on many aspects of firms, including their board of director members, governance information, composition of the boards of directors, biographical director and officer information, executive and director compensation, and ownership structure. There were no identified cost-effective means of acquiring the contact information of the US directors; therefore, it was decided that for the questionnaire survey portion of the study only the UK directors would be contacted. The qualitative portion of the study, which would

consist of interviewing both UK and US directors, would provide opportunities for comparisons and allow for some insights based on analyzing how the US directors interviewed may have different perspectives from the UK directors interviewed.

4.5 Survey Questionnaire Construction

Literature indicates that surveys have been used to gather board director perceptions and opinions in other board of director related research. For example, survey data have been used to gather perceptions of chief executives and chairmen on women directors (Ragins et al., 1998; Nielsen and Huse, 2010; Elstad and Ladegard, 2010; Catalyst/Opportunity Now, 2000, Catalyst, 2006). This researcher determined that a survey could provide perspectives from directors and thus sought to develop the survey that could best provide answers to the research questions. The survey questions were developed using theories from board diversity rationales.

The literature review significantly influenced the questions included in this survey. Particularly important was research from Fairfax (2005) and Ramirez (2003). Fairfax argues against what she sees as the cost-benefit business rationales for diversity on corporate boards. Fairfax argues that many of the cost-benefit analysis are faulty. Ramirez argues that many of the same analysis are sound and benefit corporate governance. [31] These divergent viewpoints encouraged this researcher to seek input from directors and find out their viewpoints and perceptions of board diversity, including many of the rationales discussed in the Fairfax and Ramirez research. For example survey questions were developed to assess if diversity benefits things such as social capital to the board, benefit relationships with stakeholders, or goodwill with diverse employees.

In addition to the research of Fairfax (2005) and Ramirez (2003), other researchers Forbes and Milliken (1999), Pettigrew and McNulty (1995), and Roberts et al. (2005) also

[31] A full review of Fairfax and Ramirez is available in the Chapter 3 Literature Review section 3.4 of this thesis.

triggered theories concerning board diversity and governance. The literature was analyzed to identify theories on board diversity as well as governance and social capital. As this analysis took place, it became clear that there are numerous theories that have been put forth regarding board diversity and governance as well as theories on social capital and diversity. Therefore, after much consideration, a series of questions were designed that would assist in determining why board diversity may be important for the governance of boards. The first section of the survey included demographic questions about the director's age, years on the board, race, education, and number of other directors on the board (McIntyre 1999, p. 74). The second section of the survey was designed to capture director perceptions on the selection process. The third section was designed to capture perceptions on diversity. The fourth section was designed to capture director perceptions on employee relations matters.

Table 4.2: Literature Supporting Survey Questions			
Question Topic	Question	Links to Theory	Literature
Selection Process	Do you believe that the following attributes were an asset, hindrance, or not relevant in terms of your appointment to the board: Race? Nationality? Age? Gender?		Sealy et al. 2007. UK based study. Women directors have different demographic characteristics. Sheridan and Milgate, 2005. Australian study -Women directors partly attribute their selection to high visibility. Fairfax, 2006. – US study - White women, appear to be faring better than any other disadvantaged group with respect to boards Minority women only account for 3% of the total available board seats. Thus, the vast majority of women board members are white. In addition, women appear to be better represented on corporate boards than all minority directors combined.
Selection Process	Influence that I have in organizations comprised mostly of those of my: 1.) Race 2.) Gender was very important in my being appointed for this board.	Social Capital Resource Dependency	Sheridan, 2001. Australian study. Women who successfully obtain board positions have long- standing, close relationships with other female directors. Catalyst, 1995. US study- Women directors are good at networking with other women. Singh et al., 2006. UK study Women often act as speakers at networking events, which women find very inspiring, and an opportunity to gain encouragement.

Table 4.2: Literature Supporting Survey Questions			
Question Topic	Question	Links to Theory	Literature
Selection Process	Prior to your appointment to this company's board, how many other boards did you sit on with an existing director of this company?	Social Capital	Pfeffer and Salacik, 1978. US study. Board linkages provide advice/counsel, legitimacy and communication channels. Hillman, Shropshire and Cannella, 2007. US study. Women's appointment to boards is linked to organization size, industry type, firm diversification strategy and the network effects of linkages to other boards with female directors. Westphal and Milton 2000. US study. Minority directors are more influential on the board if they have direct or indirect social network ties to majority directors through common memberships on other boards.
Diversity (impact on independence)	Questions about the number of the board, and the number of executive versus non-executives on the board.	Agency	Singh et al., 2008. UK study, Women are significantly less likely to be Executive Directors.
Diversity	What is your assessment of your relationship with the CEO of this company?	Agency	Westphal and Sterns, 2006. US study. Managers who display ingratiatory behaviour toward their CEO are more likely to be appointed to boards of other firms where their CEO is a director or is indirectly connected through a board interlock network. This behaviour can help overcome the barrier of demographic minority status such as gender.

Table 4.2: Literature Supporting Survey Questions			
Question Topic	Question	Links to Theory	Literature
Diversity	Normally, how often do you agree (without much debate) with most board members on important company issues.	Agency	Zelechowski and Bilimoria, 2004.US study. Women have different experiences of the workplace, marketplace, public services and community, and therefore women directors bring a different voice to debates and decision-making. Ramirez, 2003. US study. Presents numerous explanations for the expected benefits of diversity in the boardroom including reduction in groupthink.
Diversity	The types and nature of community group memberships I hold seem very different as compared to others on the board.	Social Capital	Harper, 2002. UK study. Dimension of social networks may be understood by evaluating the number of cultural, leisure, social groups belonged to.
Diversity	My appointment to the board provided linkages between the company and new demographic groups.	Social Capital Resource Dependency	Hillman et al., 2002 US study. Examine how firms seek to increase their resources and survival by becoming more central in networks and linkages to other firms.

Table 4.2: Literature Supporting Survey Questions			
Question Topic	Question	Links to Theory	Literature
Diversity	I have strong relationships with important company stakeholders (customers, bankers, special interest groups,	Social Capital, Stakeholder	Bilimoria, 2000. Important US groups, such as union pension funds with many female members, voice concerns about the lack of diverse boards. This would increases pressure on Chairs and CEOs to appoint female directors. Brammer et al. 2007. UK study. Close proximity to consumers plays a more significant role in affecting board diversity than does industry workforce, reflecting the influence of a firm's external business environment.
Diversity	Please select how often your opinion is sought primarily because of the following: race? gender? nationality? age?	Stakeholder	Mattis, 2000. US study. CEOs fear appointing a women to the board due to a belief that women are unqualified and a concern that they will have a "women's agenda." Daily et al. 1999. US study. Women are the primary decision makers when it comes to major consumer purchases. Women directors may suggest new ways of bringing products to market, based on their personal experience as female consumers.

Table 4.2: Literature Supporting Survey Questions			
Question Topic	Question	Links to Theory	Literature
Employee Relations	It is absolutely essential to have a diverse board if the company wants to send a message that it is: Socially responsible. Providing equal opportunity. Complying with equal opportunity laws. Progressive Concerned about the product needs of certain demographic groups.	Stakeholder	Catalyst, 1995. US study. Having women on the board, particularly in executive positions, makes it more difficult to claim that there is significant sex discrimination in the firm. Terjesen et al., 2009. Cross country study. Indicate that some firms address the visible lack of diversity by appointing a single non-executive/outside director, rather than addressing the longer-term issue of an underdeveloped talent pool Broome et al. 2008. US study. Adding female and minority partners to a law firm or female and minority members to a corporation's senior management team are considered credible signals of the absence of a glass ceiling,
Employee Relations	The composition of this board sends a message to the employees regarding workplace equality.	Stakeholder	Bilimoria, 2000. US study. Female board member presence signals that a corporation values the success of its women.

Table 4.2: Literature Supporting Survey Questions			
Question Topic	Question	Links to Theory	Literature
Employee Relations	It is important to senior female management at this company that there be diversity on the board.		Bilimoria, 2006. US study. Find a positive relationship between female corporate board members and, number of women officers, number of women officers holding line jobs, presence of a critical mass of women officers, women officers with high-ranking or clout titles and women among the top corporate earners. Sealy, 2008. UK study. Determines whether roe models are important for senior women, and investigates how organizations select and profile top women, including FTSE 350 non-executive directors.
Employee Relations	This company board has pursued activities which make directors visible to the employees.	Stakeholder	Broome 2008. US study. Signaling justification for board diversity must demonstrate that board diversity is sufficiently costly and visible, as compared to other potential signaling mechanisms available to firms, such as affirmative action programs, community service, advertising campaigns, and the like.
Employee Relations	My presence on the board is beneficial for employee morale.		Singh, 2008. UK study. Senior women reported feeling very optimistic about their careers if there were women directors on their board, rising to 69% when there are female executive directors.

Table 4.2: Literature Supporting Survey Questions			
Question Topic	Question	Links to Theory	Literature
Employee Relations	There are vocal external special interest groups that monitor board diversity levels at this company.	Stakeholder	Bilimoria, 2000. Important US groups, such as union pension funds with many female members, voice concerns about the lack of diverse boards. This would increases pressure on Chairs and CEOs to appoint female directors. Brown, et al. 2002. Canadian institutional shareholders are interested in board diversity, as they seek to invest in firms with good governance.
Employee Relations	My opinion is sought on issues that would affect the organization's level of staff diversity?	Stewardship	Burke, 1997. Canadian study. Women directors feel that their presence makes the board more sensitive to women's issues.
Employee Relations	It is important to senior racial or ethnic minority managers at this company that there be diversity on the board.		Singh, 2008. UK Senior women reported feeling very optimistic about their careers if there were women directors on their board, rising to 69% when there are female executive directors.

Table 4.2: Literature Supporting Survey Questions			
Question Topic	Question	Links to Theory	Literature
Employee Relations	Had your company experienced any discrimination claims or lawsuits filed against it within 3 years prior to the appointment of a woman or ethnic minority to the board (to the best of your knowledge)?		Catalyst, 1995. US study. Having women on the board, particularly in executive positions, makes it more difficult to claim that there is significant sex discrimination in the firm. Keys et al., 2003 US study. Analyze the market reaction to discrimination lawsuit filings for which publicly traded corporations are defendants. Cox and Blake, 1991. US study. A diverse workforce helps to dispel negative publicity that arises from discrimination lawsuits that otherwise would be likely to drive away potential employees and customers.
Employee Relations	In your opinion, how important is your performance on this board to your professional reputation in other business settings and/or boards?	Stewardship	Westphal and Sterns, 2006. US study. Managers who display ingratiatory behaviour toward their CEO are more likely to be appointed to boards of other firms where their CEO is a director or is indirectly connected through a board interlock network.
Employee Relations	Does your company mention diversity or equality specifically in its mission statement?	Stakeholder	Bartkus and Glassman, 2008. US study. Inclusion of specific stakeholder groups in missions is likely the result of institutional pressures, while specifying social issues such as diversity and the environment in missions is related to policy decisions.

Additionally, during the initial development of the survey, literature was explored to evaluate aspects of diversity that were less studied. Specifically, the issues of social network impact and social capital expectations were explored based on this review, as they impact the capital resources available to the board. For example, Harper (2002) suggests that understanding certain information may help to identify a person's social networks. "Dimension of social networks may be understood by evaluating the number of cultural, leisure, social groups belonged to. This includes frequency and intensity of involvement, and involvement with voluntary organizations" (Harper 2002). In this thesis, research questions were asked that would assess whether the director had different types of social networks from others on the board thereby helping the researcher to understand if the director brought new social capital to the board.

This literature was consulted in conjunction with director feedback in the pilot interviews to design survey questions. This researcher sought director input in the design of the survey. Director input was also sought to glean whether there were additional rationale for diverse boards that could be included as survey questions. For example, in April 2009, this researcher conducted a pilot study with two interviews of US American directors to help develop, pilot, and finalize the survey. These directors were interviewed face-to-face at a banking industry conference in Salzburg, Austria. One of the directors was a US white female and the other a US African-American male. Both directors gave interviews and feedback on the draft survey questions. These interviews assisted in identifying areas needing clarification, eliminating some of the questions to make the survey less time consuming, and adding the social capital aspect to the inquiry. Both directors indicated social capital related reasons that diversity would be a benefit to the board; so this area was added to the questionnaire.

Based on the literature describing the potential rationales for board diversity (Fairfax, 2005; Catalyst, 2004; Ramirez, 2003) and initial director feedback, a six-page survey

consisting of twenty-nine questions (three of which were comment sections) was developed (see appendix). The survey was further checked for grammatical accuracy and designed to conform with the standard British English grammatically.

The survey was divided into four categories of questions: demographic and board membership, selection criteria, diversity, and employee relations. The first series of questions were related to individual and company demographics. These demographic questions included[32]:

1. What is your age?
2. What is your nationality?
3. How would you describe your racial ethnic group?
4. What is your highest level of education obtained?
5. How many boards other than this one do you currently serve on?
6. How many years of professional work experience do you have?
7. How long have you served as a board member of any company?
8. How long have you served as a board member of this company

Gender was not asked of the respondents[33], since this researcher was attempting to limit the number of questions, and gender was provided in the Manifest Database.

The second series of questions was related to selection criteria used in their own board appointment by their board at the time they joined the board. The second series of questions also explored their perceptions about their interactions on the board. All

[32] A commonly held assumption of board selectors is that women lack adequate human capital for board positions (Burke, 2000), Demographic information was sought to assist in gathering information such as board experience, educational attainment, and amount of professional experience. (Singh, Terjesen and Vinnicombe 2008)

[33] This later became a problem. The file downloaded from the Manifest Database was unreliable.

questions, except for the general information questions and open-ended questions, captured responses using a five- point Likert scale (Lewis, 2005). A Likert scale was developed to scale the answers (Lewis, 2005). The goal was to capture attitudes, and a Likert scale is thought to be an excellent method of capturing present attitudes of the respondents. Likert (1932) indicates that in dealing with expressions of desired behavior rather than expressions of fact the Likert scale statement is appropriate for measuring present attitude (Likert, 1932). Responses ranged from “strongly agree” to “strongly disagree.”

The third series of questions was designed to answer questions about the impact of diversity on board governance, and the fourth category of questions asked about the impact of the director’s board membership on employees.

Once the list of questions was developed based on literature, feedback from directors, and agreed upon with the supervisors of this project; a survey cover letter was developed by the researcher and approved by supervisors. The questionnaire, accompanied by this cover letter on Aston University letterhead, was sent to 3066 directors. The salutation of the cover letter addressed to each director by name (see Appendix 1). The cover letter asked for the director’s cooperation in completing the questionnaire and returning it in a post-paid return envelope. The letter contained a personalized color signature of both the researcher and the primary supervisor. The cover letter explained that the survey was a multi-country research project studying board of director diversity. Contact information for this researcher, as well as one of the thesis supervisors, was provided in the cover letter.

This researcher consulted survey response rate literature to guide the specifics of the survey printing and mailing in hopes that this would improve response rates. Greer et al. (2000), investigating survey response rates, found that the most important factor influencing survey response rate was the content (subject matter) of the study, followed by survey sponsorship (university versus commercial entities), and postage paid return envelopes. A postage paid return envelope was provided for the director to encourage

completion and return. Greer and Lohtia (1994) found that mean response rates for a university or academic honor society are significantly higher than those for a marketing research firm or an unidentified sponsor. Therefore, the cover letter included university letterhead as well as the logo of the US institution, Benedict College, where this researcher is employed. The survey was printed on colored paper, which has been shown in some studies to increase response rates (LaGarce and Kuhn 1995).

4.6 Survey Distribution and Data Analysis

The first step in the survey data collection process was to download database listings of all 4767 directors from Manifest Database of 462 of the largest UK companies. The firms in the database were ranked according to their 2009 market value as reported by the London Stock Exchange. Once all UK directors were downloaded from the database, this researcher needed to determine how many of the directors would be contacted and by which method. From this initial list of 4767 directors, there were 932 directors of trusts and private companies that were eliminated. This left 3835 traded firm directors. From this list, the researcher decided to restrict the study just to the top 350 firms as ranked by the London Stock Exchange or the "FTSE 350." There were 3066 names of directors representing these firms. This researcher restricted the analysis to major FTSE 350 companies because they were large multinationals and were subject to the rules, market expectations, and regulations of the corporate governance systems. In this thesis, this researcher was interested in ascertaining director perceptions on diversity, what factors were associated with diverse directors being selected by boards of top tier of firms, and how these things impact governance. Additionally, the FTSE 350 is often used in research to define large UK firms (McKnight and Weir, 2009, Sridhar Arcot et al., 2010).

The 3066 names, which were based on the FTSE 350, included duplicates for those directors sitting on multiple boards on the list. This researcher considered removing duplicates. However, it was decided that board dynamics and specifics would be different for each board. Therefore, the decision was made to retain the list including

duplicates, so that each director of the FTSE 350 boards would be contacted and director data collected with respect to each board.

As discussed above, surveys were sent to 3066 directors in the UK post. In the cover letter, the directors were given the option of either completing the survey on-line using the Internet based survey tool called “Survey Monkey”, or returning the survey in the postage paid envelope. Fourteen of the seventy-three respondents completed the on-line version of the survey. The computer IP addresses of these inputs were collected via the Survey Monkey system. Fifty-nine responses were returned via the UK post to the Aston University Business School. Each survey that was returned via post was entered into Survey Monkey as mentioned above. Once all of the data were in the Survey Monkey system, the data were downloaded into an Excel spreadsheet which was then loaded into SPSS Statistics. The response rate on the survey was 2.34%. While this researcher had hoped for a larger response rate; given the high profile positions, and busy schedules of most FSTE 350 board of director members, it was a relief to have enough surveys returned to be able to perform an analysis. This researcher considered whether a reminder or other attempt of contacting the non-responsive directors might be helpful. However, due to the cost of sending another correspondence via post this was not done.

The survey questionnaire was sent by post to each board member using the company’s address as listed in the Manifest Database. As stated above, some directors received more than one survey because they sat on boards of more than one of the corporation included in the mailing of the FTSE 350. The survey and cover letter (Appendix) were mailed with instructions to return the survey by April 30th. The materials were mailed to the corporate address listed in the Manifest Database. The researcher generated a unique five-digit number which was printed and affixed to the top of the survey. Additionally this resulted in the same director being assigned multiple five-digit director numbers. The returned surveys were reviewed for duplicate submissions. No director completed multiple surveys. Directors were invited to complete either the enclosed survey and return it to Aston University, to return it via a free fax number provided, or to

complete the survey on-line electronically using a program created in “Survey Monkey.” The on-line version of the survey required the five-digit director number in order for the respondent to access the survey, while the surveys returned in the post included the pre-printed number on the first page. Seventy-three surveys were returned: the fifty-nine by post discussed above and fourteen on-line. No surveys were returned via fax. Because of the large numbers of directors, and cost associated with postal mailing, a follow-up mailing was not done.

Each survey that was returned via post was entered into the Survey Monkey, which as noted earlier, housed those survey’s completed online. This was done to ensure a single medium where all surveys would be collected. After all surveys were entered into Survey Monkey and checked for accuracy, the data were downloaded into SPSS statistics for analysis. Additionally, the open-ended survey responses were analyzed, and those directors who on the survey had indicated their willingness to be interviewed were entered into a tracking sheet. The tracking sheet included columns with the following information: Unique five-digit identifier, date of meeting, or dates of attempted contact, contact phone number provided, email provided, name and title of director, director company/companies, headquarters location, and agreed meeting location. The original tracking sheet is not included in the study due to confidentially concerns; however, the original is made available to the supervising parties of this study, and a sample of this document is included in the Appendix.

The twenty-six survey questions collected a variety of demographic, quantitative, and qualitative information. However, many of the questions were multi-part questions, and those sections asking for additional comments were not numbered. Therefore, the actual questions that directors were asked to answer was actually 71. SPSS Statistics created a variable for each defined question. The result of the twenty-six questions was 71 variables. In addition to the 71 variables created by the SPSS database from the 26 questions, this researcher added a gender variable for each respondent. Performing a merge function between the full 3066 directors in the dataset and the dataset created

from the survey populated the gender variable. To merge the gender data into the survey file, the respondent ID variable was used as the key since it was a unique identifier in both data files.

Once the data file of the survey information was loaded into SPSS, and the gender variable added, the data were validated for accuracy. The data were validated by visual inspection to determine if any fields were improperly input or loaded incorrectly. This inspection led to the deletion of one director or SPSS "case," which was empty except for the respondent ID. The director apparently signed on to survey monkey system, input the respondent ID from the survey, but then elected to answer no other questions. As this case was blank with the exception of the respondent ID field, the decision was made to eliminate this case from the dataset. Additionally, a visual inspection was performed to ensure that all empty fields were assigned the 'missing value' sign from the SPSS statistics system.

On several places in the survey, the answers allowed the director to select "other" as an option and then allowed an open input field for the answer. These open input fields were used for the qualitative analysis (Billot et al., 2013 p. 51), but were not helpful for the SPSS statistics analysis. For the SPSS statistics program, these answers for "other" were coded as 9999 to make sure that they were distinguishable as answers selected as "other".

Several new variables were created by recoding variables into rankings or groupings that might be helpful in an attempt to understand the profile of the 3066 directors. These variables were recoded and given the code of "R" at the end. Kachigan argues that when contending with variables which have a large number of values, little is accomplished by making a frequency distribution of each value (Kachigan, 1986 p. 33). Consequently, he suggests that the solution is to create intervals of values of the variable in question and then make a frequency tally of the number of observations falling within each interval (p. 33). Once the variables in this thesis were recoded, these recoded variables allowed this

researcher to study the impact of the variables in groupings that would assist in the analysis.

Open-ended Data response collection

Open-ended responses from the surveys were reviewed in the Excel database and analyzed. The demographic data were quantified and the open-ended written responses were identified through analytical deduction and were organized and coded according to the themes (Billot et al., 2013 p. 52). The interviews guide notes were also coded and organized into the themes and resulting key issues. Comparisons were made with the themes and key issues on the open-ended survey responses and interview data.

In addition to the perceptions gained from the survey data, the survey responses served as the primary medium to secure participants for the interview portion of the study in the UK. The UK directors that were interviewed were self-selected based on their positive response to a survey question asking that they consider being interviewed for further feedback.

4.7 Interviews

In order to gain the advantages of using qualitative and quantitative research methods, this researcher supplemented data from self-report questionnaires with semi-structured interviews for more in-depth analysis. The benefit of this multi-study, mixed-methodological approach to research is that in aggregate it may provide a consistent set of findings and knowledge thereby providing evidence which is together stronger than it would have been individually using a single method. According to Jick (1979), triangulation allows researchers to be more confident of their results. This is the overall strength of the multi-method design. “Triangulation has vital strengths and encourages productive research. It heightens qualitative methods to their deserved prominence and, at the same time, demonstrates that quantitative methods can and should be utilized in complementary fashion” (Jick p 609).

Interviews were performed in a semi-structured manner, thereby giving the director narrative space to amplify or develop her or his response. This type of interview exchange is often referred to as collecting a narrative. Holstein and Gubrium (1995) suggest that the goal of the interview should be to encourage the interviewee to offer narrative accounts. They argue that the aim of an interviewer should be to 'activate narrative production' by 'indicating – even suggesting – narrative positions, resources, orientations, and precedents" (Holstein and Gubrium, 1995 p. 39). Narratives assist in communicating people's lives and experiences. "Narrative is the discourse form which can express the diachronic perspective of human actions. It retains their temporal dimension by exhibiting them as occurring before, at the same time, or after other actions or events" (Polkinghorne, 1997, p.9). Gause (2008) asserts the most appropriate form for describing human interaction and engagement is through narrative and that human behavior and socialization are at the basic level communicated through a series of stories and events. Narratives are the natural mode in which human beings make sense of their lives in time. "Perhaps the most essential ingredient of narrative accounting (or storytelling) is its capability to structure events in such a way that they demonstrate…a sense of movement of direction through time" (Gergen and Gergen, 1986, as quoted in Polkinghorne, 1997, p.9). "People do not deal with the world event by event or with text sentence by sentence. They frame events and sentences in larger structures" (Bruner, 1990. p.64, as cited in Polkinghorne, 1997 p. 12). Polkinghorne (1997) states, "A narrative report however displays the acceptability of a claim rather than argues for it…researchers speak with the voice of the storyteller…they speak in the first person as the teller of their own tale" (pp.15-16). The analysis of the resulting data is the process of working inductively to find commonalities among the participants. An advantage of using narratives is to help solve the difficulty in finding out why individuals choose to act in a certain way (Bell, p.11). It can be difficult to gather information on diversity perceptions with a survey. One reason such difficulty exists is that subjects may not answer questions about race and gender in a truthful manner on a survey. One reason is the concept of social desirability, especially as it relates to race and sex (Shaughnessy et al.,

2006, p.181). Respondents tend to answer questions in the way that they feel that it is appropriate to answer rather than the way they actually feel. Surveys have a risk of such behavior because behavior observation and non-verbal signals, which give additional clues about attitudes is not possible. Quantitative methods are assumed to be objective but only if participants are honest. The advantage to narrative/interview methods is that the interviewer can use observation techniques to gauge the honesty of the participants and any obvious discomfort the participants may encounter. However, neither methodology can ensure that respondents` beliefs are consistent with reality. Specifically, research (Kahan et al., 2007 p. 129) indicates that individuals insensitivity or oversensitivity is influenced by race and gender.

Given this narrative strategy, many of the discussion questions within the interviews conducted can be analyzed for the potential information that answers the question asked, but also the selection of key issues that begins to reveal itself to the researcher from director narratives during the interview itself.

4.7.1 The Interview Guide

On the final question of the UK survey directors where asked if they would be willing to be interviewed in addition to the survey submission. Those that agreed were contacted using their preferred method of contact. Sixteen of the directors responded positively to this request. This researcher contacted all sixteen of the directors who had responded positively to this request. Of the sixteen UK directors who responded positively, ten were able to be interviewed. Eight of the directors were interviewed in person, and due to scheduling limitations on the part of the director, two were interviewed via telephone. Two of the six who were not interviewed declined to be interviewed, and four did not respond to repeated efforts to contact them by the contact information they provided on their survey.

A survey was not distributed in the US, and therefore the method used in the UK study to secure directors could not be used in the US. In the US, directors were recruited

primarily at NACD conferences, and by referrals from individuals within the business community. This process was extremely difficult due to a lack of access to directors and time consuming. This researcher found that there is a considerable gate keeping system for Fortune 500 directors. Calls to the company secretary of the firms resulted in rare returned calls and no positive responses to be interviewed. This researcher had to rely on professional contacts as well as the NACD conferences. Additionally, once there was a successful interview contact, this researcher asked the interviewed director for any referrals of other directors. This method is referred to in the literature as snowball sampling (Atkinson and Flint, 2004). Using the snowball method, with NACD conference contacts, this researcher was able to secure 10 US interviews.

Due to all survey and interviews being voluntary, the researcher could not ensure a cross-section of male and female, white and non-white, experienced and inexperienced directors. The planned sample was to consist of 20 directors in the US and 20 directors in the UK. The sample was reduced in size to 10 UK directors and 10 US directors due to the high degree of difficulty in securing large company board directors for research activities. The final UK interviewees included eight white males and two white women. The final US interviewees consisted of two white men, three white women, one black woman, and four black men. The experience level of the UK directors interviewed included two chairmen of top UK boards, five executive directors, and five non-executive directors. The experience level of the US directors interviewed included three chairmen of top US boards. All directors in the US were non-executive[34].

While all directors volunteered to be interviewed, this researcher acknowledges the difference in the nature of selection between the UK directors and the US directors. The UK directors were contacted based on their positive response to the researchers survey

[34] The terms executive and non-executive in the context of directors is a UK category. In the US, the terminology most often used for directors employed by the company is "inside" directors, and those directors who are not employed by the company are referred to as "outside" directors.

that was sent to all FTSE 350 directors. In contrast, three of the US directors interviewed were met at a NACD meeting. Therefore these three directors, by virtue of their attendance at the meeting, had shown an interest in director education. The listing of the directors is included as Table 4.3; however, the confidential full list of names and companies of the directors is contained in an appendix of the study at the Aston University School of Business, as well as with the researcher. The anonymity of the directors has been preserved while providing the reader an understanding of the participants by providing a general description and positions held of the directors in Table 4.3. As some of the directors held multiple board positions, the individuals represented fifteen different public boards in the United Kingdom, and thirteen different public boards in the United States. The boards that these directors sit on represent a cross section of industries. The interviewees had sufficient experiences and responsibilities to speak with authority about their experience on boards and/or their selection to the board. As this study focuses on the perceptions of directors rather than the organizations themselves, it did not limit interviews to one individual from a company. Nonetheless, no single company was represented by more than one of its directors.

Table 4.3: Table of Interviewed Directors and Selected Demographics

Gender	Race	Position	*	Interview	Director Identifying Number	Age	Firm Country
Male	White	Chairman	N	6/24/10	11583	67	UK
Female	White	Executive Director	E	7/21/10	12069	54	UK
Male	White	Director	E	7/1/10	12778	52	UK
Male	White	Non-executive Director	N	6/24/10	12806	53	UK
Male	White	Executive Director	E	6/2/10	10929	52	UK
Female	White	Non-executive Director	N	6/22/10	12018	48	UK
Male	White	Executive Director	E	6/30/10	12512	44	UK
Male	White	Director & Company Secretary	E	6/25/10	12427	60	UK
Male	White	Chairman	N	6/29/10	12982	60	UK
Male	White	Senior Non-executive Director	N	6/28/10	10963	61	UK
Total Market Value of Firms represented							Over $13 billion
Male	Black	Chairman	N	4/22/09	25151	71	US
Male	White	Chairman	N	9/2/09	23851	69	US
Female	White	Director	N	4/21/09	24161	74	US
Male	Black	Director	N	9/9/09	29602	61	US
Female	White	Director	E	3/16/10	28772	61	US
Male	Black	Director	N	3/1/10	26082	48	US
Female	Black	Director	N	12/9/09	29290	60	US
Male	Black	Director	N	4/12/11	27242	66	US
Male	White	Chairman	E	8/1/01	22152	73	US
Female	White	Chairman	N	9/16/10	23690	68	US
Total Market Value of Firms represented							$356 billion

* "N" indicates a non-executive and "E" indicates an executive.

An interview guide was developed to provide some structure for the interview. The template of the Interview Guide was presented to the thesis advisor and approved prior to the interviews. All directors were questioned using the interview guide as a starting point. The interview guide included questions of the directors on the method of their selection to the board, social ties, professional ties, and other board experiences. The questions were chosen based on the diversity literature (see literature table on page 150), as well as general governance literature. Governance literature discusses agency, stakeholder, and stewardship, as the three primary theories of governance. As discussed previously in Chapter 2, no one system of governance is agreed upon as the best method for every company. As such, the interview questions were designed to represent the perspectives of all three theories[35].

Questions in the first section of the guide were asked to gain an understanding of the respondents' perception of the decision-making process that lead to their appointment to the board (Sealy et al., 2007; Sheridan and Milgate, 2005, Sheridan, 2001). Additionally, these questions addressed the perceived value of social networks in their own selection to the board (Harper, 2002). The second series of questions were selected to ascertain the director's attitude about his or her qualification for the board as well as any self-imposed pressure they felt regarding their own board performance (Elstad and Ladegard, 2010; Westphal and Sterns, 2006). The third section of questions was designed to elicit the director's involvement and feelings about their participation on the board and board dynamics (Zelechowski and Bilimoria, 2004). Specifically, these questions were designed to initiate discussion of how director diversity may impact interaction with other directors. In addition, these questions were designed to assess how the director of his or her board feels about diversity on the board. Lastly, a set of questions were asked to ascertain the director's perception of his or her impact on the employees and executives in the firm (Singh, 2008). All questions on the interview guide were asked of all directors regardless of gender or race, and provided a starting point for the interview.

[35] Interview questions based on specific governance theory literature is listed in table 4.4 below.

Table 4.4: Interview Guide Questions and Comments on Literature

Selection Process Questions	*Comments*
1. How were you selected to be a board director? What was the course of events?	Several industry governance reports give guidance on the best way to select new directors. These include selection of independent directors (Cadbury, 1992), directors from outside of the personal connections of incumbents, and directors who may not have former PLC board experience (Higgs, 2003).
2. Do you feel that race or gender was a factor in your being appointed to the board?	Sheridan and Milgate (2005) argue that high visibility women are more likely to be appointed to boards.
3. Was the company specifically looking for a minority or woman director at the time of your selection?	The Higgs report (2003) suggests that boards should seek to increase women and ethnic minority members by considering backgrounds other than former PLC directors. Additionally, Ramirez (2003) argues many benefits of intentionally diversifying the board.
4. Was your race or gender an added advantage to your being selected?	Broom and Krawiec (2008) argue that boards intentionally select women and minorities to signal to the marketplace that the firm is providing equal opportunity.
5. Has race or gender been a factor of consideration in the appointment of other female or minority members of the board?	Broom and Krawiec (2008) and Higgs (2003), see above.
6. If your board is diverse, were there any events preceding the board diversifying that helped explain a willingness to diversify (market focus change, public relations)?	Higgs Report (2003) Says that the board's composition sends important signals about the values of the company to its external stakeholders about firm equality. Catalyst (2005) argues that having women on the board, in executive positions, makes it more difficult to claim that there is significant sex discrimination at the firm. Cox and Black (1991) argue that a diverse workforce helps to dispel negative publicity that arises from discrimination lawsuits that otherwise would

	drive away potential employees and customers. A diverse board may serve in a similar role.
7. Did you have connections through your primary current or past employer that were helpful in being selected for the board? How important were they?	Hilllman et al. (2007) argue that women's appointments to boards is influenced by linkages to other boards with female directors.
8. Was there a perception that your influence in clubs and civic activities would be important to the board?	Hillman et al. (2002) examine how firms seek to increase their resources and survival by becoming more central in networks and linkages to other firms.
9. Did you have connections with board members that were helpful in being selected for the board? How important were they?	The Higgs Report (2003) argues that selecting board members from personal contacts results in new directors that are very similar to incumbents. However Pfeffer and Salacik (1978) argue that board linkages are helpful for advice, counsel, and communication. Westphal (2000) argue that minority directors are more influential on boards if they have social network ties to majority directors on other boards.
10. Did you have connections with the CEO that were helpful in being selected for the board? How important were they?	The Cadbury Report (1992) recommended that the majority of directors be independent of management and free from any business or other relationship which could materially interfere with their independent judgement (Cadbury Report 1992).
11. Was a search firm used for your appointment to the board?	Faulconbridge, et al. (2009) purports that executive search firms act as powerful governance agents in their director selection role.
Qualifications Questions	
1. What steps have you taken to ensure you are qualified for the board (formal education, director classes, etc.)?	The Sarbanes –Oxley Act suggest that directors follow guidelines from the NYSE requiring continuing education and training of directors. (Lander 2004, p 68)

2. How important was your board performance in your being asked to sit on other boards?	Agency theory explains that risk of director self-serving behavior is reduced by fear of their own human-capital devaluation when monitoring breaks down (Jensen and Fama 1983). The fear of this devaluation acts as a self-regulating factor on performance and thus governance.
3. Do you feel like you have more pressure to perform your duties as a director well than others may feel on the board? Why?	Fama and Jensen argue that directors perform their monitoring duties well because of market pressure to perform well (Jensen and Fama 1983)
Diversity's Impact on Board Capital Questions	
1. Have you seen tangible benefits to diversity on the board?	Researchers, as well as Industry reports have argued benefits to diversity on the board including Higgs (2003), Zelechowski and Bilimoria (2004), Catalyst (1995), Bilimoria (2006), and Singh (2006).
2. What is your assessment of your relationship with the CEO?	Agency Theory argues for a board that is independent of management influence therefore encouraging monitoring of executives. Dobbins and Jung (2010) argue that firms have not applied principles that bolster monitoring and executive self-restraint. Stewardship theory argues that there is no apparent need for executives and the board to be independent (Donaldson and Davis, 1991).
3. What is your assessment of your relationship with other directors?	Stewardship theory suggests that good governance includes a strong emphasis on board and management collaboration (Donaldson and Davis 1991). The Higgs Report (2003) supports some stewardship behavior's such as strong collaboration between executive and independent directors.
4. How agreeable are you with other board members? Do you normally find much	The Higgs Report (2003) says that directors should constructively

debate with other directors, or normally agree right away?	challenge and contribute to the development of strategy. Additionally, it instructs non-executive directors to scrutinize the performance of management. The Walker report (2009) says Challenging the executive needs to be embedded, a responsibility laid at the door of non-executive directors
5. Has your being appointed to the board provided a link from the board to new and different demographic groups?	Hillman et al. (2002) determine that firms increase resources by becoming more central in networks and linkages.
6. How often is your opinion sought because of your race or gender?	Daily et al. (1999) argue that women are primary household products decision makers and therefore women directors may suggest new ways of bringing products to market based on experiences as female consumers.
Employee Relations Questions	
1. What is the impact of your appointment on employees?	Higgs Report (2003) Says that the board's composition sends important signals about the values of the company such as a commitment to equal opportunities which can be of motivational.
2. What is the impact of your appointment on senior executives?	Bilmoria (2000) argues that female board member presence signals that the corporation values the success of its women.

4.7.2 Interviews - Interview Protocol

Each interview was conducted using a series of confidential, semi-structured questions and lasted of 40 to 60 minutes in length. This researcher conducted each interview personally. In conducting the study, the researcher maintained professionalism, and confidentiality, assured each director of anonymity, and did no harm or in any way took advantage of the study participants. At the beginning of the interview, the director was read the confidentiality agreement and ethics guidelines and asked if he or she understood. Each director verbally accepted the terms of the agreement. The researcher then explained the purpose of the interview and gave a brief description of the research topic. The focus was articulated to the interviewees as a chance to hear from the directors about their perceptions on governance, diversity, director selection process, and various elements of board dynamics. These semi-structured interviews were conducted according to an interview guide and designed to reveal the inner-workings of the board and its members. Interviews were not restricted to the Interview Guide, and directors were free to elaborate and offer additional information. The intent was to gather a 'richer' set of data by proving a mix of open and closed ended questions. All director answers were collected by taking written notes. Literature recognises that tape-recorded interviews can be a source of angst for those who are taped because recorded data is undeniable (DiCicco-Bloom and Crabtree, 2006). Therefore, a tape recorder was not used in order to create a more relaxed, informal setting and to encourage honesty in the director responses. It was decided that a tape recorder would have been detrimental to a director discussing any sensitive topics and perhaps impacting the richness of the data (Opdenakker, R 2006, paragraph 10;). Furthermore given the sensitivity of some of the questions and the high profile of the interviewees, it is likely that tape recording would have negatively impacted director participation. Therefore the resulting answers from

these interviews in chapter 7 were recorded in the researchers notes are reported as closely as possible to the statements made by the directors.

During the interview, deeper understanding was sought by asking probing questions such as “why,” “please explain further,” and “what is your opinion on that.” At the conclusion of the interview, each director was asked an open-ended question designed to provide additional insight into pertinent areas not discussed during the interview. Additionally, they were asked to provide any additional information not covered in the interview that they thought might be helpful for the study or that might enhance the study of governance.

Each interview was accompanied by meticulous note taking. This allowed the researcher to immediately capture the full interview in a way that would assist in analysis. The director’s answers were copied from the interviewer’s notes into Microsoft Word before any subtle elements of the interview could be forgotten. This step assisted in making sure that valuable insights were not lost later due to mistakes such as not being able to read the handwritten notes or forgetting elements of the interview. Once these notes were transcribed into Microsoft Word, they were read and reread to perform a content analysis (Elo and Kyngas, 200 p. 109), added to or compared to the analysis of board diversity, and categorized into patterns and themes. The lists of categories were grouped under eventual key issues (McCain 1988, Burnard 1991). The aim of grouping data was to reduce the number of categories by collapsing those that are similar or dissimilar into broader higher order categories (Burnard 1991, Dey 1993). This researcher began cross-interview analysis by creating a meta-matrix in an Excel database, assembling data from each director, to verify themes and pattern clarification. Using the variable-oriented analysis (Miles and Huberman, p 130), this researcher once again used the variables specified in the central research question: “corporate board culture,” “perspectives regarding diversity,” and “social capital.” Looking across blocks of columns I was able to make comparisons and contrasts across categories. A conceptual framework emerged that showed the representation of the common perceptions and opinions regarding the

themes that will be described in the key issues of the results section. The insights that were provided are discussed in the results section of this thesis. As is the expected case in qualitative studies, these open-ended questions were also helpful in forming future research questions and helping to identify gaps in existing literature.

After each interview, the researcher constantly analyzed data gained from observations and interactions with the participants. This researcher began using a form of analytic induction (LeCompte and Preissle, 1993), reviewing the data looking for categories and relationships among the categories. After each interview this researcher documented and classified incidents, observations, and comments and made continual comparisons with perspectives from other directors.

4.8 Summary

This chapter has explained the methods and instruments used in this mixed-methods multiple study of board of director members and their opinions and perceptions of the how diversity impacts the board's governance. Research methods and procedures were outlined. While there is some concern that the information may not be reliable (when repeated similar results may not be achieved). The strong evidence suggesting differences in director perceptions discussed in the Conclusion, Section 9.1 suggests a robustness that may be the same if the study was repeated again with different directors. There is also a validity problem (Heckman, 1979). Firstly, the study did not use a random sample of directors. Secondly, the US directors were solicited at governance conferences, so there is selection bias. Thirdly, there is a selectivity bias in that people who were more likely to discriminate were less likely to respond the request to complete the survey or be interviewed (p.153).

The next chapter presents a description of the full dataset of directors [for the UK section of the study] and the Manifest Database from which respondents` details were collected. This will include demographic information on the directors and make-up of the boards this thesis studies. This chapter, along with Chapter 5 describing the full dataset, together

form an understanding of the complete methods used by this study. The chapters are designed to be combined for a full view of the methods.

CHAPTER 5 – FULL DIRECTOR DATASET PROFILE

5.1 Introduction

The purpose of this chapter is to describe the methods used to develop the full director dataset used for board director analysis. The chapter includes a description of variables used, and details of all of the directors in the dataset. Demographic details are discussed, as to provide an understanding of the directors who were mailed a survey. Together, with Chapter 4, this chapter serves to explain the methodology of the thesis study.

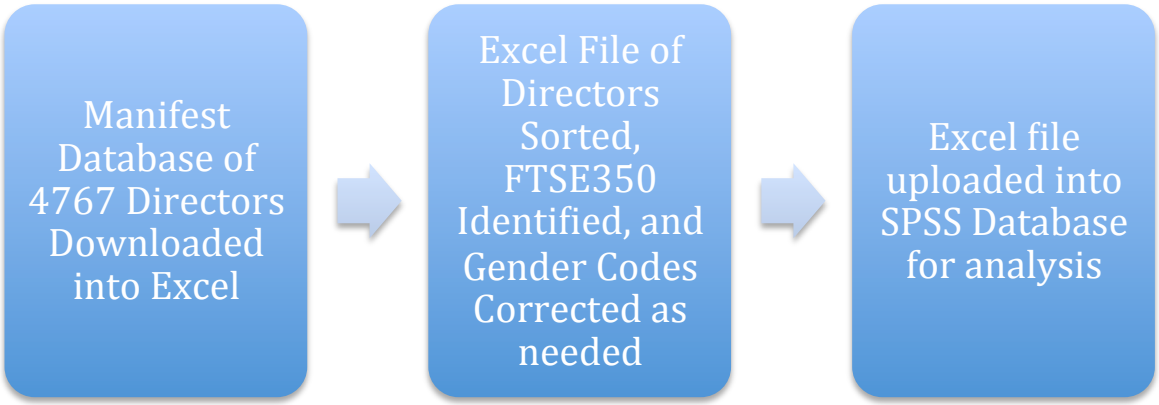

Figure 5.1: Process to Develop Full Director Dataset

5.2 Method for Developing Director Profile Dataset

As described in Chapter 4 in the description of the survey data collection, the first step in the data collection process was to download database listings of all 4767 directors from Manifest's database consisting of 462 largest UK companies. From this initial list of 4767 directors there were 932 directors of trusts and private companies that were eliminated from further study. This left 3835 directors of traded firms. From this list, the researcher decided to restrict the study just to the top 350 firms as ranked by the London Stock

Exchange, or the “FTSE 350.” There were 3066 names of directors representing these FTSE 350 firms. The Manifest director information was not only used for director contact information, but was also used to analyze UK directors and their boards. This researcher hoped that by analyzing various characteristics of the directors in the full dataset of firms such as their age, board tenure, position, and industry; as well as the various characteristics of the firms including size, industry, and gender diversity, it would be possible to understand any important characteristics of the full set of directors thereby helping to understand the resulting 72 directors who returned their surveys.

The first step in this analysis was to validate the gender code of each of the 3066 directors. Once all of the data were download from the Manifest database into the Excel spreadsheet, this researcher reviewed the gender code of the directors in the following way. First, the gender was reviewed by performing an Excel sort on all directors by the gender field. This resulted in a list of directors by gender, with the names of those missing a Manifest database gender code being sorted to the bottom of the list. There were 228 directors missing gender. By doing a visual inspection of the first names of the directors, gender was identified for 180 of the originally missing 228 directors. Where names were androgynous, an internet Google search on both the director name and firm name was done to determine the gender of the director. Using this method, the gender was able to be determined for all 228 directors missing gender code.

The second step was to validate the gender codes of the remaining 2778 directors to ensure that they were correct. By performing a visual comparison of the gender code to the first names, there were 19 names of the 2778 that appeared to have been assigned an incorrect gender by the Manifest database. The gender of these 19 directors was validated by performing a Google search on both the director name and firm name together. This resulted in correcting the gender of 16 directors, and validating that the three names that appeared incorrect were in fact correct.

The contents of the Excel spreadsheet were then loaded into SPSS. This created a

SPSS dataset with 3066 records, each with 29 variables. Six of these variables had no observations, leaving 23 variables. In addition to these variables, this researcher created another 26 variables needed for either analysis, data validation, or other calculations.

Analysis of the firms began once the data were downloaded into SPSS, existing variables validated, and any needed variables created. For any numerical variables, the mean values and standard deviations were calculated. The data were analyzed by Chi-square test in an attempt to get a profile of the firms that the surveys were mailed to.

5.3 Variables for Full Dataset

The important downloaded variables and their descriptions are listed below:

Table 5.1: Variables in the Dataset Analysis

Variable	Description
Rank	The company rank by market value in 2009
Manid	The ID of the company used in the Manifest system
Gender	Female or male
Ref	The five digit code assigned by this researcher to identify each director who would choose to later return a survey
Name	Company name
First_name	The first name of the director
Surname	The surname of the director
Position	The position of the director in the company if an executive director, or the position of the director on the board if a non-executive director.
Executive	Whether the director was executive or non-executive. Executive was indicated by “-1” and non-executive indicated by “0”
Firstdirdate	The date the director was appointed to the board
Date_of_birth	The director’s date of birth
Sector_def	The sector or “Industrial code” of the company

In addition to the variables above that were generated by SPSS software after the Excel spreadsheet upload, this researcher also created 23 variables that were needed in the

analysis, and created 3 recoded variables to capture specific ranges of information from the original variables.[36] The relevant researcher-created variables and their descriptions are listed below:

Table 5.2: Researcher-Created Variables in the Dataset Analysis

Variable Name	Description
Data_inputyr	The date the information was downloaded from the Manifest database. All cases were 17-Mar-2010.
Age	A variable created in SPSS using the SPSS date and time function. [37]
Oil_energy	Variable created for oil_energy companies. 1 if oil industry, 0 otherwise.
Construction	Variable created for construction companies. 1 if construction industry, 0 otherwise.
Industrial_other	Variable created for industrial companies. 1 if industrial_other, 0 otherwise.
Business_serv	Variable created for business services companies. 1 if business services, 0 otherwise.
Consumer_gd	Variable created for consumer goods companies. 1 if consumer_gd, 0 otherwise.
Bld_man	Variable created for building and manufacturing companies. 1 if building and manufacturing, 0 otherwise.
Medical	Variable created for medical companies. 1 if medical 0 otherwise.
Rec_ent	Variable created for recreation and entertainment companies. 1 if recreation and entertainment, 0 otherwise.
Utilities	Variable created for utility companies. 1 if utilities, 0 otherwise.
Banking_fin	Variable created for banking and finance companies. 1 if banking and finance, 0 otherwise.
Tech	Variable created for technology companies. 1 if technology, 0 otherwise.
RankR	A variable created to rank companies into groups of similar sizes.[38]

[36] See Kachigan, 1986 p. 33. A full discussion of grouping variables is available in the Methods chapter beginning on page 133.

[37] This function calculates the number of time units between two dates. Director age was calculated with the date_of_birth variable which was subtracted from the Data_inputyr variable. This resulted in the age if the director when this data were collected.

FemaleperR	A variable to recode and group percentage of female directors into six subsets, from 0-6. 0 if percentage of female directors = 0 1 if 0<percentage female ≤10% 2 if 10%<percentage female ≤20% 3 if 20%<percentage female ≤30% 4 if 30%<percentage female ≤40% 5 if 40%<percentage female
AgeR	A variable created to recode the age variable into five subsets. These subsets also match the age groupings in the questionnaire answers. 1 if 21≤ age ≤ 35 2 if 36 ≤ age ≤ 45 3 if 46 ≤ age ≤ 55 4 if 56 ≤ age ≤ 65 5 if 66 ≤ age
Boardtenure	A variable created in SPSS using the SPSS date and time function. [39]

5.4 Details of the Full Dataset of Directors

As stated previously, ethnic diversity was not an aspect of diversity that this researcher could capture from Manifest. Therefore it became important to focus on gender as the studied aspect of diversity in the firms. Various crosstabs using gender as one of the variables were analyzed to seek information about how gender affected other variables. One of the first tasks in analyzing the firm data was to determine the percentage level of gender diversity of each firm in the dataset. The first step was to analyze crosstabs on the two variables, the firm name variable and gender variable. This provided an output with the list of firms, and the number of males and the number of females. This output

[38] The rankings were based on market value of the company. The groups were created with 50 companies in each group, resulting in seven groups. The companies were assigned a value of 1-7 based on their size and these groupings.[38]

[39] This function calculates the number of time units between two dates. Director board tenure was calculated with the dateappointed variable which was subtracted from the Data_inputyr variable. This resulted in the board tenure as of the date of download.

was then used to calculate the percentage of women at each firm. It was possible to assign each firm a percentage reflecting the number of women directors of the firm. This variable was assigned the name femaleper. This variable was checked for accuracy in two ways. First, the list of percentages was compared to the original crosstab to make sure that the number of women in a particular firm was correct. Second, using the syntax editor the list of percentages was checked to make sure that every firm was assigned the correct percentage. The new variable created, femaleper, was used to analyze firm diversity and variable characteristics of the firms in the FTSE 350.

5.4.1 Grouping director of firm characteristics for analysis

Since gender was determined to be the aspect of diversity that this researcher could access and therefore could study, various crosstabs mentioned above were run in SPSS to gain insight into how gender might have impacted the study results. By acquiring an understanding of relationship between gender and various aspects of the board, it was possible to assess how these relationships might influence the results of data collected for this thesis. All of the following analyses and their results are based on the 3066 directors that comprised the FTSE 350.

Firm Rank Groupings

As the original Rank variable was based on market size, the firms were first recoded[40] into equal size intervals for ease in understanding what aspects of market size might impact diversity. FTSE rank 1 thru 50 were ranked as group 1; FTSE rank 51 thru 100 were ranked as group 2; FTSE group 101 thru 150 were ranked as group 3; FTSE group 151 thru 200 were ranked as group 4; FTSE group 201 thru 250 were ranked as group 5; FTSE group 251 thru 300 were ranked as group 6; and FTSE group 301 thru 350 were ranked as group 7.

In addition to the ranking of the firms by market size, the firms were also recoded into ranges based on their level of gender diversity. This ranking allowed the researcher to

[40] See Kachigan, 1986 p. 33. A full discussion of grouping variables is available in the Methods chapter on page 133.

study how firms with similar levels of diversity may or may not have other similar characteristics. The Femaleper variable was recoded into FemaleR. Consistent with the rankings and ranges used in previous diversity literature (Alliance for Board Diversity, 2008), firms that had no (0%) gender diversity were given a value of 0. Firms that had gender diversity percentages ranging from 0.1 to10% were assigned a 1. Firms that had gender diversity percentage ranging from 10.01% to 20% were assigned a 2. Firms that had gender diversity percentages ranging from 20.01% to 30 % were assigned a 3. Firms that had gender diversity percentage ranging from 30.01% to 40% were assigned a 4. Firms that had gender diversity percentage over 40% were assigned a 5 (Alliance for Board Diversity, p. 8).

Director age groupings

Previously Hillman et al. (2002) and Catalyst (2006) found that there was a significant difference in the ages of female and male directors. In addition to the ranking of the firms by size and level of gender diversity, director age was another variable that this researcher sought to understand whether there were relationships between age and level of diversity. In this thesis analysis, Director age was calculated as of the date of survey completion. After calculating the ages of the directors, the resulting ages were recoded into groups (Kachigan, 1986 p. 33). This recoding allowed the researcher to study the age information in ranges that paralleled the age grouping on the survey questionnaire that the directors were mailed. An analysis of director age, or average age of the entire board performed to determine if age was somehow related to gender diversity of the full group of firms; specifically are diverse boards in the dataset any older or younger than non-diverse boards in the dataset. To accomplish this analysis, a variable was created to recode the age variable into five subsets. These subsets also match the age groupings in the questionnaire survey mailed to all the directors. The value of “1” was assigned for ages of 21-35; the value of “2” was assigned for ages of 36-45, the value of “3” was assigned for ages of 46-55; the value of “4” was assigned for ages of 56-65; and the value of “5” was assigned for ages over 65.

A number of studies show that industry type and percentage of female directors are coorelated. For example: retail, finance, media, banking, and health care (Brammer et al, 2007; Hillman et al, 2007; Sealy et al, 2007) were shown to have a larger percentage of female directors than other types of firms. This researcher also determined that it would be helpful to analyze if the type of industry was somehow related to the level of board gender diversity.[41] To accomplish this analysis, the forty-four original Industry Classification Benchmarks (ICB's)[42] were group into eleven industry groups (Catalyst, 2004; Spenser 2006). These industries were: Oil and Energy, Construction, Industrial and other, Business Services, Consumer Goods, Building and Manufacturing, Medical, Recreation and Entertainment, Utilities, Banking and Finance, and Technology firms. The table above lists the variable names of each of these sectors.

Lastly, this researcher sought to determine if there was a difference in board tenure between male and female directors. Catalyst (2006) found a significant difference in board tenure between female and male directors. Director board tenure was calculated with the date appointed variable which was subtracted from the Data_inputyr variable. This resulted in the board tenure as of the date of the survey.

5.5 Gender Diversity

One of the first analyzes was performed in order to find the numbers and percentage of gender diversity for all directors in the 350 firms studied, as well as the level of diversity in the 350 firms. The results indicate that there were 252 women, and 2814 men serving as directors on UK boards. Women made up a total 8.2% of all board members, and men make up 91.78% of board members. Additionally, there were still a large number of UK firms with no gender diversity on their boards. By running the crosstab on the femaleper variable, this researcher was able to assess the level of diversity in UK firms. In the

- [41] Firm industry was mentioned as being related to level of firm diversity in an article by Jeff Green, *Women Lose Out on U.S. Boards as Europeans Get Quota Help*, BLOOMBERG, June 16, 2011, http://www.bloomberg.com/news/2011-06-16/women- losing-out-on-u-s-boards-as-europe-gets-help-from-quotas.html?cmpid=msnbc.

[42] The ICB is an industry classification system is maintained by FTSE International Limited. More information on the ICB classifications are available at http://www.icbenchmark.com.

group of FTSE 350 firms, 44.6% of firms had no women directors.

Table 5.3: Gender of Directors in Dataset

Number of Directors in Full Dataset of Firms		Percent
Female	252	8.2%
Male	2814	91.8%
Total	3066	100.0%

The following table shows the distribution of percentages of female directors as well as the correlation distribution. Perhaps the most striking finding is that there are almost 45% of the 350 firms without any females, which is almost as many as those with females (55%). There were 44.5% of firms that had no gender diversity. Additionally 15% of firms had between 1% and 10% of their boards made up of females, and 31.8% of the firms had between 10.01% and 20% female directors. Lastly 9.2% of firms had between 20.01% and 50% female directors.

Table 5.4: Level of Diversity in Full Dataset of Firms

% of women directors at the company	No. of directors with the gender % on their board[43]	Percent	Cumulative %
.00	1365	44.5	44.5
6.30	16	.5	45.0
6.70	30	1.0	46.0
7.10	70	2.3	48.3
7.70	78	2.5	50.8
8.30	48	1.6	52.4
9.10	66	2.2	54.6
10.00	150	4.9	59.5
11.10	225	7.3	66.8
11.80	17	.6	67.4
12.50	240	7.8	75.2
13.30	15	.5	75.7
14.30	175	5.7	81.4
15.40	26	.8	82.2
16.70	102	3.3	85.6
17.60	17	.6	86.1
18.20	44	1.4	87.5
20.00	100	3.3	90.8
21.40	28	.9	91.7
22.20	45	1.5	93.2
25.00	108	3.5	96.7
27.30	22	.7	97.4
30.00	30	1.0	98.4
33.30	27	.9	99.3
42.90	14	.5	99.7
50.00	8	.3	100.0
Total	3066	100.0	

5.6 Positions Held by the Directors

A crosstab was run on gender and board position to observe the types of positions that UK women directors hold on their boards relative to their male colleagues. The position designation was taken from the position field in the Manifest database and was the position of the director in the company if an executive director, or the position of the

[43] Measure the % of directors who encounter this level of diversity at their firms. This information is intended to assist the reader in understanding the level of diversity the directors in the population are exposed to. For example, while women make up over 8% of directors, there remains over 44% of directors with no diversity on their boards.

director on the board if a non-executive director. This field is a company input field, and the company is free to write their own position name; therefore the position names varied significantly by firm. There were a total of 46 unique positions listed within the field, however it was evident that many of these positions reflect the same position with slightly different versions of the name. For example, Chairman was sometimes listed as Board Chair. To assist in analyzing the types of positions held by directors, these 46 position titles were analyzed and collapsed by this researcher into similar categories resulting in 9 positions. They were Non-executive Director and Senior Non-Executive Director, Chairman, Director, CEO, Chairman and CEO, Chief Operating Officer, Chief Financial Officer, Finance Director, and Other Executive Directors.

The results indicated that 4 women, or 1.1% of Chairman were women. In comparison, women made up 8.2% of the directors. In contrast, men made up 98.8% of Chairman while making up 91.8% of the directors. The Cadbury Code, as well as other UK governance reports[44], discourages the appointment of joint CEO and Chairman roles. The results of the database analysis indicate that 12 men have joint Chairman/CEO's roles, and no women directors held the joint position of Chairman and CEO.

[44] For a full discussion of these codes, please see page 31 in the Literature Review in this thesis study.

Table 5.5: Distribution of Board Position by Gender

	Women	Percentages	% of Chairmen *	Men	%	% of Chairman *
Non-executive or senior non-executive director	210	83%		1397	50%	
Chairman	4	2%	1.14%	334	12%	98.857%
Director	16	6%		365	13%	
Non-Exec roles	230	91%		2096	74%	
Chief Executive Officer	10	4%		315	11%	
Chairman and CEO	0	0%		12	0%	
Chief Operating Officer	2	1%		41	1%	
Chief Financial Officer	0			8	0%	
Finance Director	9	4%		301	11%	
Other Executive Directors	1	0%		41	1%	
Executive roles	22	9%		718	26%	
Total Positions	252	100%		2814	100%	
Total Director Roles						3066

As the table above shows, a higher percentage of women (91%) than men (74%) are non-executive directors, thereby supporting literature (Burgess and Tharenou, 2002; Singh et al., 2008) which indicated that women are more likely to fulfill non-executive board roles rather than executive board roles.

5.6.2 Director Age

A crosstab was run on gender and age ranges to observe whether there was a difference

in age ranges between the men and women directors. The results indicated that women directors in the dataset are younger. The average age of women directors was 54.6, versus an average age of men directors of 57.4. Additionally the Chi-square 2-tailed t-test indicates that the difference in age between men and women directors is statistically significant at the 5% level. This result supports literature by Catalyst (2006) indicating that women directors tend to be significantly younger than their male peers, with an average age of 53.8, compared to 56.2 for male directors (p 14).

Table 5.6: Director Age By Gender

Gender	N	Mean Age	Std. Deviation
Female	232	54.58	6.584
Male	2654	57.43	8.236

5.6.3 Board Tenure

The dataset was also analyzed to determine if there was a difference in board tenure between the women and men directors. Catalyst (2006) found a significant difference in board tenure between female and male directors. The results of this thesis supported the Catalyst results, as the analysis indicated that women had a mean tenure of 3.66 years on their boards, while the men had a mean tenure of 4.80 years of experience. A Difference of Means t-test found that males and females have significantly different numbers of years of board experience. Males have more experience than females. Similarly, Catalyst found that UK FTSE 100 women directors had shorter tenure 3.2 years for women and 4.8 years for men (Catalyst 2006, p.14).

Table 5.7: Board Tenure by Gender and T-Test

Gender	Number	Mean years of Board Tenure
Women	237	3.66
Men	2701	4.80

Board Tenure and Gender		Means t-test						
		T	Df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	95% Confidence Interval of the Difference	
							Lower	Upper
Board Tenure	Equal variances assumed	-3.819	2936	.000	-1.135	.297	-1.717	-.552
	Equal variances not assumed	-6.467	410.931	.000	-1.135	.175	-1.480	-.790

5.5.4 Firm Size and Gender Diversity

Another analysis was performed in order to find whether firm size was related to diversity. Catalyst (2006) indicated that as firm size increases diversity increases. Additionally, the Research Institute of Credit Suisse indicated that companies with three or more women on the board have a market capitalization three times greater than that of companies with no women board members (Credit Suisse p10 [45]). The Chi-square t-test indicated that there was a statistically significant difference at the 5% level between firm size and

[45] This Thesis includes a number of references to the Credit Suisse study. It is noted for this and other references to Credit Suisse, that while the study provides an extensive review of thirteen existing peer reviewed journal articles including; Goldin and Rouse 1997, Bohnet, van Geen and Bazerman 2012, Adams and Ferreira 2009, Beaman 2009; it is not peer reviewed academic journal research.

percentage of women on the board thereby providing support for the Catalyst and Credit Suisse studies. Additionally, by running a crosstab on the femaleper variable, and market size using the market range variable (RankR), this researcher was able to determine if firm size seemed to influence gender diversity. The results indicated that in 5 out of 7 categories, the higher the market capitalization, the higher percentage of women directors at those firms. Range 1, comprised of the FTSE 50, averaged 12.4% women on their boards compared with Range 2 (FTSE 51-100) having 10.3% women directors, Range 3 (FTSE 101-150) 7.3% of women directors, and Range 4 (FTSE 151-200) 5.1% of women directors. However in Range 5 and range 6, the percentage does not decrease. Range 5 (FTSE 201-250) 8.5% women directors, Range 6 (FTSE 251-300) 7.5% women directors, and Range 7 (FTSE 301-350) 3.6% women directors. These results of a crosstab run on gender and market size of the firm (the gender variable and RankR variable) indicated that generally speaking, as firms in the database decrease in size, the percentage of women directors on their board decreased.

Table 5.8: Women Directors and Firm Size

	Total	Percentage of women directors	Number of women directors	Percentage of men directors	Number of men directors	Percentage of women in range
FTSE 50 / Range 1	587	12.4%	73	87.6%	514	28.9%
FTSE 51-100 / Range 2	484	10.3%	50	89.7	434	19.8%
FTSE 101-150 / Range 3	450	7.3%	33	92.7%	417	13.1%
FTSE 151-200/Range 4	408	5.1%	21	94.9%	387	8.3%
FTSE 201-251 / Range 5	386	8.5%	33	91.5%	353	13.1%
FTSE 251-300 / Range 6	387	7.5%	29	92.5%	358	11.5%
FTSE 301-350/Range 7	364	3.6%	13	96.4%	351	5.2%

Table 5.9: Chi-Square Tests – Firm Size and Board Diversity

	Value	Df	Asymp. Sig. (2-sided)
Pearson Chi-Square	33.019[a]	6	.000

5.6.5 Board Size

A consistent finding is that the larger the board, the greater the number of female directors (Sealy et al, 2007; Brammer et al, 2007; Singh, 2008). Another analysis was done in order to find the whether board size was related to diversity. Catalyst (2006)

indicated that as board size increases, diversity increases. This thesis research also found a correlation of board size and the percentage of women directors. Board size and women on the board were found to be statistically significant at the 5% level for a Chi-square 2-tailed t-test.

5.6.6 Director Exposure to Diversity

The dataset was analyzed to access the degree to which directors are members of boards that are diverse. This is a slightly different issue from determining the number of women who serve on boards. By determining the degree to which directors are members of diverse boards, the researcher was able to get a better idea of the number of directors in the dataset who do not serve on boards with women, or with few women. For example, while women make up a total of 8.2% of all directors, there are still 44.5% of directors who serve on boards without any women. The number of directors who do not sit on diverse boards could have negatively affected the number of respondents to the survey, as well as how the directors answered the survey. In addition, 14.9% of directors serve on boards where women make up less than 10% of the members. Consequently, 59.4% of directors serve on boards where women make up less than 10% of the members. This was an important insight for this research, as it provided data that suggested that many of the directors who were being sent the survey would have limited experience with diversity on their boards. In addition, those directors who did serve on diverse boards; do not have experience on a board where women make up a significant percentage of directors. There were 31.3% of directors who served on boards with between 10%-19.9% of women on their boards, 7.6% of directors who served on boards with between 20%-29.99% of women on their boards, and .9% of directors who served on boards with between 30%-39.99%. Lastly, although several European Union Countries have adopted a diversity goal of 40% women directors, only 0.7% of UK directors served on boards with 40% or more women directors.

Table 5.10: Director Exposure to Diversity

	Percentage of Directors who serve on these types of boards	Number of Directors who serve on these types of boards
No women on the board	44.5%	1365
0 < % women on board≤10%	14.9%	458
10%< % women on board≤20%	31.3%	961
20%< % women on board ≤ 30%	7.6%	233
30%< % women on board≤40%	0.9%	27
40%< % women on board	0.7%	22

The lack of firms with boards that are comprised of 40% or more women is of concern. There have been recent actions in European Countries that have instituted quotas for women directors. The Norway requirement of 40% women directors is discussed in the Literature Review of this thesis. Additionally, more recently, the European Union Commission proposed a European Union law which aims to attain a 40% objective of women in non-executive board member positions in large publicly listed companies by 2020. Norway, Spain and France, have introduced mandatory quotas (Credit Suisse 2012 p 25) for women directors in addition to the European Commission's proposal for a 40% objective. The low numbers of UK women directors, especially the lack of boards with women making up over 40% of the board is of greater concern given the direction of the rest of the European Union; however, UK MP's overall are not supportive of the measure[46].

5.6.7 Industry

An analysis of the number of women directors as compared to males for each firm industry was performed on the database to determine if board diversity might be influenced by the industry of the firm. Research by the Research Institute of

[46] Reported by the BBC on 12 March 2013 at http://www.bbc.co.uk/news/uk-politics-21755429

CreditSuisse, of MSCI ACWI firms,[47] reported that industries whose products or services are closer to final consumer demand (such as healthcare and financials) had a higher proportion of women on the board. In contrast heavy industry and technology (IT) had a much lower proportion of women directors. More than 50% of the IT and Materials companies in their sample have no women on the board (p 9). The database used for this thesis had similar attributes. The boards with the largest number of women, which was three, were Astra Zeneca (pharmaceuticals), AVIVA plc (insurance), British Airways (airlines), British American Tobacco (tobacco), Diageo plc (alcoholic beverages), ITV plc (television and media), HSBC Holdings plc (banking and finance), J D Wetherspoon plc (Pub chain), J Sainsbury PLC (supermarkets), MITIE Group plc (outsourcing), Pearson PLC (publishing and education), Prudential plc (Insurance), Quintain Estates and Development plc (property and development), Southern Cross Healthcare Group plc (health and social services), and Unilever plc (consumer goods).

An industry analysis was performed on the firms in the dataset for this thesis research. The industry with the largest percentage of women directors was consumer goods at 12.6%, followed by building firms at 12.1%, recreation and entertainment firms of 11.9% women directors, and medical of approximately 11.3% women directors. Utilities firms had 11.2% women directors, and construction had 9.1%. Banking and finance firms had 7.6% women directors, and business services had 6.6% women directors. Similar to the Credit Suisse study technology firms, industrial firms, and other firms further from direct consumer demand had lower percentages of women director. Technical firms had 5.2% women, oil and energy firms had 4.7% women directors, and industrial firms had 2.4% women directors. The Chi-square t-test revealed that several of the industries analyzed had differences between the percentages of female and male directors that were statistically significant at the 5% level. These industries included Oils and Energy, and Industrial Other which both had statistically significant lower rates of women directors, as well as Consumer Goods, and Recreation and Entertainment which both had statistically

[47] MSCI ACWI IMI covers over 9,000 securities across large, mid and small cap size segments and across sector segments in 46 Developed and Emerging Markets.

significant higher rates of women directors.

Table 5.11: Women Directors by Industry

Industry	Number of Females	Total Number of Directors in Industry	Percentage of Industry Female Directors	Significance Level
Recreation and Entertainment	49	363	11.9%	.004
Consumer Goods	51	353	12.6%	.001
Oil and Energy	19	389	4.7%	.002
Industrial	6	243	2.4%	.000

5.7 Summary

This chapter has provided a summary of the total population of directors that were sent a survey for this thesis. The profile of the directors provides a view of selected characteristics of the full dataset, thereby providing further data on the types of directors in the total population of survey recipients, and the types of boards that these directors serve on. This knowledge is important as a framework for viewing the results of the thesis survey and interviews, as it provides an overview of diversity as it relates to some UK board demographics such as gender and age, position of directors by gender, industry, firm size, and board tenure. For example, the results of this analysis indicate that almost half of the 350 firm directors were on boards with no female board members. This result suggest that many of the directors in the population, and therefore amongst the respondents, may have little exposure to diversity in the boardroom. Additionally, less than 2% of FTSE 350 firms had 30% or more women directors. Given the small number of firms with more than 30% women, it is plausible that most of the boards of the respondents do not have a critical mass[48] of female directors on their boards. This may have resulted in boards where the female members made no significant impact on the

[48] Rand and Light (2004 p. 318), and Fanto et al. (p 929) argue that minorities in a group feel more confident expressing meaningful views when there is a 'critical mass' or other minority members present that may support their viewpoints.

board, and thus the directors saw no benefit to diversity. Lastly, only 1% of female directors in this group held the title of Chairman. This would suggest that the directors in the population, and thus the respondents, were on boards where women were not in the top leadership role. This could have also influenced the ability of the women directors to substantially influence board dynamics.

Women who were directors were more likely than male directors to serve as non-executive directors, with 91% of women versus 74% of men directors serving as non-executives; however the results were not significant at the .05 level. Additionally, no statistical significance was found between the number of non-executive directors on boards and the level of board diversity.

There was a significant difference in director age, with an average age of female directors of 54.6 versus and average age of male directors of 57.4. Additionally female board members had less board experience. The average numbers of years on the board for women was 3.66 years, versus men at 4.80 years of experience.

Firm size appears to have affected the level of diversity. Generally, as firms in the database increased in market size, the percentage of women directors on the boards increased, with almost 50% of all women directors sitting on the top 100 firms of the FTSE 350. Additionally, board size appears to have influenced diversity, as the correlation between board size and the percentage of women directors shows a positive statistically significant correlation. Industry appears to affect board diversity. Women are more likely to serve on boards in Consumer Goods and Recreation and Entertainment, and less likely to serve on boards in Oil and Energy and Industrial industries.

CHAPTER 6 –RESULTS OF SURVEY RESPONSES

6.0 Introduction

The previous chapter provided a detailed view of the demographic attributes of all directors that were mailed the survey. This chapter will describe the responses of the thesis survey. First, the demographic section will provide a detailed view of the demographic attributes of the responding directors such as gender, race, age, nationality, education, and years of experience. Second, it will provide an analysis of the survey responses, and will provide a brief statement of the findings. Lastly, the third section will provide a detailed discussion of the findings and links to existing literature.

The directors were given the option of returning the survey via post, fax, or completing it online. Of the 3066 surveys mailed to the directors, seventy-three surveys were returned. Fifty-nine surveys were returned in the post and fourteen were completed on-line. One of the on-line surveys was essentially blank, so it was eliminated from the analysis. No surveys were returned via fax. A follow-up mailing was not done.

The survey was organized into four sections. The results are organized and presented based upon these four sections of the survey, and the resulting six "Key Issues".

- 6.1 Demographic Results – Survey Section 1: "About Me"
- 6.2 Key Issue 1: Director Perceptions of Diversity in the Selection Process: How and Why are Board Members Selected? - Survey Section 2: "Selection Considerations"
- 6.3 Key Issue 2: Director Perception of Benefits of Diversity to Firm Governance – Survey Section 3: "Diversity"
- 6.4 Key Issue 3: Director Perception of Social Capital - – Continued Survey Section 3: "Diversity"

- 6.5 Key Issues and Themes of Director Perception of Diversity, Employee Relations, and Other Issues – Survey Section 4: “Board Diversity and Employee Relations”

Table 6.1: Summary of Survey Key Findings

Section Number	Key Issue	Finding	Statistical Result
6.1	N/A	Women directors are younger than their male counterparts.	Director age and Director gender are strongly correlated at the two-tailed 0.05 level.
6.2	1	Most directors did not believe that their selection to the board was impacted by demographic characteristics such as gender, or race.	Varied by characteristic
6.2	1	Nationality was one demographic factor where some directors believed there was an impact to selection.	23% of British Directors believed that their nationality was an asset. 25% of non-British perceived that their nationality was a hindrance.
6.2	1	Some younger directors were more likely to believe that age was an asset to their selection.	42% of directors between the ages 36-55 felt that their age was an asset to selection.
6.3		Directors did not believe that demographic factors such as gender and race had an impact on board governance.	Varied by characteristic
6.4		Directors disagreed that personal connections with other board members were important in their being appointed to the board.	Over 65% of men and 66% of women either disagreed or strongly disagreed
6.4		The majority of directors perceived that consulting firms were important to their appointment.	52% of males and 67% of females agreed that a consulting firm was important to their appointment
6.3	2	Male directors perceived themselves as having better relationships with the CEO than did female directors.	83% of male directors reported a very good or good relationship with their CEO. 42% of female directors reported having a very good or good relationship with their CEO.

Results indicated that at the time of the survey, a large number of UK boards had little or no diversity. Thirty boards or 41.7% of the boards represented by responding directors had no female directors.

Overall, directors do not believe demographic attributes such as gender, race, age, or nationality were a factor in their own selection for the Board. No racially diverse directors believed that their race was an attribute or hindrance to their board selection; however, a small number of Non-British directors believed that their nationality was a hindrance to their selection, and a small number of British directors felt that their nationality was an asset. Some younger directors felt their age was an attribute to their selection, and some women felt that their gender was an attribute to their selection. Additionally, the demographic data gathered from the survey indicated that women directors are younger than their male counterparts.

Male directors appear to have better relationships with the CEO than do female directors. Eighty-three percent of male directors reported good or very good relationships with the CEO versus 42% of women. These results may indicate that female directors do not form strong relationships with the company CEO to the extent that male directors form them.

Results also indicate that male directors do not perceive that the diversity of the board is essential to signaling that the board is providing equal opportunity, is progressive, and is concerned about the needs of certain demographic groups. Female directors were more likely to agree or strongly agree that board diversity provides a signal to stakeholders about board values.

Where possible, results that lend support to existing literature have been mentioned within the section. There has been no attempt to separate the literature based on the country of researcher or subjects. This was not attempted, as governance literature from

one country is commonly used to support research outcomes based in another country (Terjesen et al., 2009; Singh, 2008; Hillman and Dalziel, 2003). Additionally, the survey research was performed on FTSE 350 directors[49]. These directors manage firms which are often multinational in nature as to customers, employees, and shareholders. Because of this international focus of these firms, it would seem appropriate to compare results to literature from countries other than the UK. More research is necessary to determine whether governance literature can be used successfully to support research across multiple countries.

6.1. Demographic Results – Survey Section 1: "About Me"

6.1.1 Gender Diversity of Directors and Survey Respondents

Results of the survey analysis indicated that the gender of the respondents is similar to the gender composition of the UK board directors in total. The percentage of women directors who completed the survey was 11.11% of the total. As of 2008 the percentage of women directors in the UK was 11.8% (Sealy, Vinnicombe & Singh, 2008). In comparison, as discussed above in the analysis of all FTSE 350 firms, women made up a total 8.2%. The table below presents the number of women respondents completing the survey.

Table 6.2: Gender of Survey Respondents

Number	Percent	Cumulative Percent	
Male	64	88.9	88.9
Female	8	11.1	100.0
Total	72	100.0	

[49] FTSE 350 directors were sent surveys and interviewed. The Fortune 500 US directors were only interviewed.

By performing an analysis of the boards that the responding directors sit on, it was determined that the diversity of those boards was very similar to the diversity of the boards in the full dataset of firms. Of those directors responding to the survey, 30 directors or 41.7% of the boards represented had no female directors. In comparison, in the group of FTSE 350 firms, 44.6% of firms had no women directors.

Table 6.3: Firms by Percentage of Female Directors

Firm percentage	Number of firms	Percent	Cumulative Percent
= .00	30	41.7	41.7%
0< % ≤ 10	13	18.1	59.7%
10< % ≤ 20	26	36.1	95.8%
20< % ≤ 30%	3	4.2	100.0%
Total	72	100.0	

6.1.2. Age of Directors

The majority of respondents, or 80% were between the ages of 46 and 65. Seven directors (10%) were between the ages of 36-45, and seven directors (10%) were over 65 years old. Generally the age range of the directors seems consistent with the age range expected for professionals who have worked long enough to attain the position of director at a FTSE 350 company. A 2009 joint survey conducted by RTF Navigator[50] indicated that the average age for FTSE 350 directors was 58.

[50] RTF Navigator conducted an analysis of corporate pay for the Daily Telegraph, The Sunday Telegraph, and telegraph.co.uk which included information on director age.

Table 6.4: Respondent Age by Gender

	Gender		Total	Percentage
	Male	Female		
36-45	5	2	7	10.0%
46-55	19	4	23	33.0%
56-65	32	1	33	47.0%
65+	7	0	7	10.0%
Total	63	7	70	100.0%

Similar to what was found in the analysis of the full data set, women directors are younger than their male counterparts. This age difference between women and male directors is statistically significant at the two-tailed 0.05 level. Women directors tend to be statistically significantly younger than their male peers, with an average age of 53.8, compared to 56.2 for male directors. This supports findings by Catalyst that female directors tend to be younger than male directors (Catalyst, 2006 p 14). Arguments have been made that the lack of boardroom diversity can be attributed to the lack of women "in the management pipeline", and that over time this would diminish. This finding supports this assumption, as it shows women directors are younger, thereby having less time in the management pipeline than their male counterparts. Figure 6.1 below presents the age distribution of the 70 respondents who provided their age.

Table 6.5: Director Age and Director Gender

		Gender	Age
Gender		1	-.296*
	Sig. (2-tailed)		.013
	N	72	70
Age		-.296*	1
	Sig. (2-tailed)	.013	
	N	70	70

*. Correlation is significant at the 0.05 level (2-tailed).

6.1.3. Nationality Diversity

Diversity in nationality was not analyzed in the full dataset, as this was not collected in the Manifest database. However, these data were collected from the survey respondents. The vast majority (88.57%) of survey respondents listed British as their nationality. Of those not listing British as their nationality were two South Africans, and one each of the following nationalities: Austrian, Belgian, English (director did not select a nationality of British, but instead wrote in 'English' in the open comments), New Zealand, Spanish, and Swedish. As discussed previously in the study, the lack of diversity in the respondents results in findings that are primarily the opinion and perceptions of British directors. All responding women directors were British. Table 6.6 details director nationality by gender.

Table 6.6 Director Nationality by Gender				
	Nationality	Male	Female	Total Directors responding
	British	56	8	64
	Austrian	1	0	1
	Belgian	1	0	1
	New Zealand	1	0	1
	South African	2	0	2
	Spanish	1	0	1
	Swedish	1	0	1
Total		63	8	71

6.1.4. Racial Ethnic Group of Directors

As was the case with nationality, the race of the directors in the full database of 3066 directors was not available; however, race was asked in the survey. The racial homogenity of the respondents mirrored the lack of diversity in UK boards, as 91.4 percent of respondents identified themselves as White British. All women survey respondents listed White British as their racial ethnic group. Table 6.7 below details the racial profile of the respondents.

Table 6.7 Diversity By Racial Ethnic Group and Gender				Total
		Male	Female	
Racial Ethnic Group	White British	57	7	64
	White Irish	1	0	1
	White and Black African*	2	0	2
	White Asian**	1	0	1
	Other	2	0	2
Total		63	7	70

*Mixed Race of White and Black African ** Mixed Race of White and Asian

6.1.5. Director Level of Education

Almost all respondents had at least a Bachelors Degree, while almost half had a Masters Degree or higher. Singh et al. (2008) study multiple human capital dimensions of new directors of FTSE 100 firms in the UK, and find that women are more likely to have MBA degrees. This was not the case for this respondents of this survey. Table 6.8 details the education of the directors.

	Table 6.8 Highest Level of Education by Gender				Total
	Male	%	Female	%	
A levels	4	6%	0	0	4
Bachelors	28	45%	4	57%	32
Masters	26	42%	3	43%	29
Doctorate	4	6%	0	0	4
Total	62		7		69

6.1.6 Director Years of Professional Work Experience

The respondents were highly experienced with over 95% of the males having over 20+ years of professional work experience, and all directors having over fifteen years of

professional work experience. Women in the survey had slightly less work experience than men with 85% having 20+ years of professional work experience. However, women respondents were significantly younger than men therefore this accounts for their less years of experience. To determine whether women's younger age accounted for their less years of experience, the analysis was completed after standardizing the experience by the age. This analysis confirmed that there was no statistically significant difference in experience once standardized per unit of age. There was no statistically significant correlation between gender and years of work experience at the.05 significance level.

6.1.7. Director Years of Professional Board Experience

There were a variety of experience levels related to board experience, with over 50% of all respondents indicating over fifteen years of board experience. Respondents' experience levels were fairly equally distributed, indicating their wide range of experience. The respondents were asked "How long have you served as a board member of ANY company (total years of board experience). This length of time was used as a proxy for years of board experience. There was no statistically significant difference in board experience between men and women at the .05 significance level.

Table 6.9: Gender and Experience

		Gender	Years of Board Experience
Gender		1	-.227
	Sig. (2-tailed)		.058
	N	71	70
Total years of Board Experience.		-.227	1
	Sig. (2-tailed)	.058	
	N	70	70

6.2 Key Issue 1: Director Perceptions of Diversity in the Selection Process: How and Why are Board Members Selected? - Survey Section 2: "Selection Considerations"

Questions were asked to reveal the perspectives and opinions of directors towards

diversity and their selection for the board. Questions were asked to determine whether directors felt that there was any demographic characteristic that made an impact on their appointment to the board. The demographic characteristics that the directors were asked about were gender, race, nationality, and age. Literature (Portes, 1998) suggests that when a board selects a woman or minority director, it may be expecting to derive new types of social capital and experience increased board benefits. Overall, most directors did not believe that their selection to the board was impacted by demographic characteristics. Of all demographic characteristics, only age and having a nationality other than British were perceived by some directors to have hindered their board selection. Additionally, younger directors were more likely to believe that their age was an attribute to selection, one of women felt that her gender was an attribute to their selection, and 25% of British directors felt that their nationality was an attribute.

6.2.1.1 Key Issue 1: Director Perceptions of Gender in the Selection Process

One of the demographic characteristics studied was gender. Overall, directors did not believe that gender contributed in any way to their board selection. When asked whether gender was an asset, hindrance, or not relevant; the majority of directors responded that their gender was not relevant in their selection to the board. Males did not believe that gender was relevant to their board selection. Ninety percent of male respondents believed that gender was not relevant to their board selection. No female directors believed that their gender was a hindrance, and specifically 1 of the 6 female directors who responded to this question perceived that her gender was an asset to being appointed to the board.

6.2.1.2 Key Issue 1: Director Perceptions of Race in the Selection Process

Another of the demographic characteristics studied was race. Overall, directors did not believe that race contributed in any way to their board selection. When asked whether race was an asset, hindrance, or not relevant; almost all directors responded that their race was not relevant in their selection to the board. For those directors who identified themselves as racially diverse, none of those directors responded that race was relevant

as an asset or hindrance in their selection to the board.

Ninety-five percent of male respondents believed that race was not relevant to their board selection. None of the women respondents believed that race was relevant to her board selection. A small percentage (4.8%) of white males responded that race was an attribute to their board selection, and 95% perceived that race was not relevant. None of the non-white directors perceived that race was relevant in their board selection.

6.2.1.3 Key Issue 1: Director Perceptions of Nationality in the Selection Process

The third demographic characteristic studied was nationality. Overall, directors did not believe that nationality contributed to their board selection. When asked whether their nationality was an asset, hindrance, or not relevant; the majority of directors responded that their nationality was not relevant in their selection to the board. However some directors did perceive differences due to nationality.

Results indicated that 76.7% of British directors perceived that nationality was not relevant to their selection; however, 23.3% of British directors believed that their nationality was an asset to their board selection. Moreover, results indicated that 75% of those directors who identified themselves as having a nationality other than British perceived that nationality was not relevant in their selection to the board; while 25% of the Non-British directors perceived that nationality was a hindrance to being selected for the board.

These perceptions provide some indication that while most directors do not perceive that demographic characteristics are an asset or hindrance, there is some suggestion from the results that nationality is one of two areas (age was the second) where there may be perceived differences due to demographic characteristics. These results suggest that British directors perceive nationality as either not relevant or an asset. In contrast, non-British directors perceived nationality as either not relevant or a hindrance. However, it was not statistically significant difference at the .05 two-tailed t-test level.

Table 6.10: Relevancy of Nationality to Selection

		Nationality	Relevant to selection (Nationality)
Nationality		1	.086
	Sig. (2-tailed)		.485
	N	70	68
Relevant to selection		.086	1
	Sig. (2-tailed)	.485	
	N	68	68

6.2.1.4 Key Issue 1: Director Perceptions of Age in the Selection Process

When asked whether their age was an asset, hindrance, or not relevant to their selection to the board; more directors believed that age mattered than they believed that race, gender, or nationality mattered in their selection to the board. Approximately 67% of both men and women of all ages felt that age did not matter in their selection to the board; however, approximately 30% of both men and women directors of all ages felt that age was an asset to being selected.

Younger directors were more likely to believe that age was an asset, as 42% of directors between the ages 36-55 felt that their age was an asset, though 57% felt age was not relevant. Of those over 56 years old, over 70% felt age was not relevant. Some directors over 66 years old felt that age was a hindrance. In this age group, 14% of directors answered that they believed their age was a hindrance to their being selected for the board. These results suggest that younger directors believe that age is a demographic characteristic that directors consider in selecting members. The difference in answers between different age groups was not statistically significant at the .05 level.

Table 6.11: Correlations Age Relevancy to Selection

		Age	Relevant to selection (Age)
Age		1	.194
	Sig. (2-tailed)		.112
	N	70	68
Relevant to Selection (Age)		.194	1
	Sig. (2-tailed)	.112	
	N	68	68

6.2.2.1 Key Issue 1: Director Perceptions of Group Affiliations in the Selection Process

In addition to whether a particular demographic characteristic was relevant to their board appointment, directors were asked about whether their group affiliations may have been relevant to their selection. This research sought to determine whether directors perceived that their group affiliation and influence, particularly those that were made up of those with similar demographic characteristics, was important to board selection thereby indicating a potential social capital impact to board appointments. As shown in the tables below, directors did not generally perceive that their group affiliations impacted their selection to the board. These results suggest that directors may not believe that their social capital based on demographic groups or affiliations was important. There are several reasons why this may be the case. First, social capital literature (Coleman, 1988) suggests that social capital may be the least tangible type of capital (the most tangible being financial capital and human capital). Therefore, directors may not be aware of their own capital and how capital based on demographic groups may have been important to their board selection. Second, Portes argues that social capital depends on the ability of actors to secure benefits by virture of membership in social networks or other social structures (Portes, 1998). These directors may not believe that there are benefits to the firm because of these memberships.

Table 6.12: Director and Influence in the Section Process

		Influence that I have in organizations comprised mostly of those of my race was very important in my being appointed for this board.					Total
		Sdisagree	2	Neutral	4	Sagree	
Gender	Male	47	2	7	3	1	60
	Female	4	1	1	0	0	6
Total		51	3	8	3	1	66

		Influence that I have in organizations comprised mostly of those of my race was very important in my being appointed for this board.					Total
		Sdisagree	2	neutral	4	Sagree	
Race	White British	46	3	8	3	1	61
	White Irish	1	0	0	0	0	1
	White and Black African	1	0	0	0	0	1
	White Asian	1	0	0	0	0	1
	Other	2	0	0	0	0	2
Total		51	3	8	3	1	66

		Influence that I have in organizations comprised mostly of those of my gender was very important in my being appointed for this board.					Total
		Sdisagree	2	neutral	4	Sagree	
Gender	Male	46	4	7	2	1	60
	Female	5	1	0	0	0	6
Total		51	5	7	2	1	66

6.2.2.2 Key Issue 1: Director Perceptions of Personal Connections in the Selection Process

Directors were asked questions to determine whether their personal connections with other board members or the CEO were important in their being appointed to the board. These questions were asked to attempt to determine whether these types of personal connections and friendships are important to directors being appointed to boards. A majority of directors did not perceive that connection to board members or the CEO were important to their being appointed to the board.

Table 6.13 Personal Connections and Appointment

	Personal connections with other board members were important in my being appointed to this board.					Total
	Sdisagree	2	neutral	4	Sagree	
Male	35 94.6%	5 71.4%	12 92.3%	6 85.7%	3 100.0%	61 91.0 %
Female	2 5.4%	2 28.6%	1 7.7%	1 14.3%	0 0.0%	6 9.0%
Total	37 100.0%	7 100.0 %	13 100.0 %	7 100.0 %	3 100.0%	67 100.0 %

6.2.3 Key Issue 1: Director Perceptions of Director Connections in the Selection Process

Directors were asked a series of questions regarding the nature of their connections with other board members prior to their selection. This researcher sought to determine if directors sat on other boards with the existing directors of the board prior to their appointment, and if so what types of board connections were most prevalent. The most prevalent category across all categories of connections was “None, followed by “one” indicating that generally, most directors did not sit with other members of the board on other boards prior to their appointment. These results indicate that these directors were not selected due to their personal connections with other board members. This suggests that the directors were chosen from different social groups. Choosing directors from different social groups can be an advantage for firms, as individuals with similar social networks often have similar information and therefore provide redundant information benefits (Burt, 2001), resulting in a minimal change in the firm’s social capital. For these surveyed firms, the lack of personal connections between directors can be beneficial.

Table 6.14: Director Board Connections		
	Men	Women
Director sat with no other board member on a PLC board prior to their appointment.	86%	67%
Director sat with no other member on a Non-Profit or Charity board prior to their appointment.	82%	80%
Director sat with no other member on a Cultural or Civic board prior to their appointment.	90%	100%
Director sat with no other member on a Political or Charity board prior to their appointment.	98%	80%
Director sat with no other member on any other type of board (not mentioned above) prior to their appointment.	91%	100%

Table 6.15: Director Board Connections – By Board Type

		Prior to your appointment to this company's board, how many other PLC boards did you sit on with an existing director of this company?			Total
		0	1	2	
	Male	53	6	2	61
		86.9%	9.8%	3.3%	100.0%
	Female	4	2	0	6
		66.7%	33.3%	0.0%	100.0%
Total		57	8	2	67
		85.1%	11.9%	3.0%	100.0%

		Prior to your appointment to this company's board, how many other non-profit or charity boards did you sit on with an existing director of this company?				Total
		0	1	2	3	
	Male	50	5	5	1	61
		82.0%	8.2%	8.2%	1.6%	100.0%
	Female	4	0	0	1	5
		80.0%	0.0%	0.0%	20.0%	100.0%
Total		54	5	5	2	66
		81.8%	7.6%	7.6%	3.0%	100.0%

6.2.2.3 Key Issue 1: Director Perceptions of Outside Consulting Firms in the Selection Process

Most directors did perceive that consulting firms were important to their appointment. When asked if an outside consulting firm or search firm was important to their being appointed to the board, 52% of the males perceived that an outside consulting firm or search firm was important to their being appointed to the board. Approximately 33% of males strongly disagreed that a consulting firm or search firm was important to their being appointed to the board.

When asked if an outside consulting firm or search firm was important to their being

appointed to the board, the majority of females perceived that an outside consulting firm or search firm was important to their being appointed to the board. This result is consistent with Burt (1992) who argues the importance of these firms due to their ability to bridge structural holes. This result supports that recruitment firms enjoy significant power to shape placement decisions. Findlay and Cloverdill (1998) refer to this power as the 'visible hand.

The results support that outside consulting firms and recruitment firms play a very important part in board appointments in the UK, and thus in the level of firm diversity.

Table 6.16 Consulting Firm Influence on Selection

	An outside consulting or search firm was important in my being appointed to this board.					Total
	Sdisagree	2	Neutral	4	Sagree	
Male	20	3	6	10	22	61
	90.9%	100.0%	100.0%	90.9%	88.0%	91.0%
Female	2	0	0	1	3	6
	9.1%	0.0%	0.0%	9.1%	12.0%	9.0%
	22	3	6	11	25	67
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

6.3 Key Issue 2: Director Perception of Benefits of Diversity to Firm Governance – Survey Section 3: "Diversity"

A group of questions were asked to determine the level of comfort directors feel with other directors. Additionally, questions were asked to determine whether directors engage in debate when discussing firm issues. Both types of questions were analyzed by gender to determine if gender diversity might result in directors who were more likely to offer disagreement and debate on the board. Additionally, while a high degree of comfort with the CEO or other directors does not necessarily mean that a director is unwilling to provide dissent, research presented in Chapter 3 (Ramirez, 2003) does indicate that these characteristics may result in group-think or a general lack of

governance. Additionally, agency theory suggests that the primary duty of the board is to monitor management. Consequently, according to agency theory, a board which is overly comfortable with the CEO may be at risk of not meeting their management oversight duties.

6.3.1 Key Issue 2: Director Perception of CEO Relationship – Survey Section 3: "Diversity"

Results indicated that 83% of male board members perceived themselves as having a very good or good relationship with their CEO. In contrast only 42% of female board directors perceived themselves as having a very good or good relationship with their CEO. These results may indicate that female directors do not form strong relationships with the company CEO to the extent that male directors form them. Agency theory emphasizes control of managerial "opportunism" by having board members who are thoroughly independent Donaldson and Davis (1991) and do not beholden to management.[51] Taking an agency theory viewpoint; if women do not form strong relationships with the company CEO, this may strengthen governance of the firm. Additionally, no male directors, and only one female director categorized their relationship with the CEO as uncomfortable.

As to their relationship with other directors, all males perceived that their relationship with the majority of other directors was one with a high degree of comfort or an acceptable level of comfort. All female directors perceived that their relationship the majority of other directors was one with a high degree of comfort or an acceptable level of comfort.

6.3.2 Key Issue 2: Director Perception of their willingness to express disagreement with other Directors – Survey Section 3: "Diversity"

The majority of the male directors (78%) indicated that they agree without much debate on important company issues. All female directors indicated that they agree without much debate on important company issues. This result provides support for Rose, 2007,

[51] A full discussion of agency theory is provided in chapter 2 of this thesis.

and 2010, who argue that because of issues such as similar socialization of directors and self-censorship of their opinions, that women directors do not provide any additional governance through debating or voicing dissention. Additionally, it provides support for Fairfax, (2005) who argues against the position that women will provide the role of "super-outsider" on the board. This result does not provide support for an often given rationale for board governance, which Is that diversity would lead to more debate on the board, and will result in a board that is less likely to engage in group-think (Ramirez, 2003).

6.4 Key Issue 3: Director Perception of Social Capital - – Continued Survey Section 3: "Diversity"

One aspect of this thesis was to determine if the social capital of the firm was improved by the presence of diverse directors. To determine if this might be true, directors were asked about new links or "bridges" that the company experienced because of their appointment. Both the men and women directors were split on this question.

Only 12% of the male directors agreed that their appointment to the board provided new linkages between the company and new demographic groups. Women directors were split in the middle with their answers. While 56% of the women disagreed or strongly disagreed that their appointment to the board provided linkages between the company and new demographic groups, there were 42% who agreed with this statement. As only 12% of male directors agreed that their appointment to the board provided new linkages between the company and new demographic groups, versus 42% of women who agreed, these results do provide some support for the resource dependence view argued in previous literature (Fondas, 2000; Bilimoria and Wheeler, 2000) that women directors build the board's links to its environment, bringing strategic input (and social capital) to the boards on which they serve. Additionally, the results suggest support that diversity assists the board in increasing the diversity of social linkages and connections given their unique and different network ties (Hagan 1988, Campbell 1988, Ibarra 1992).

6.4.2 Key Issue 3: Director Relationships - – Continued Survey Section 3: "Diversity"

One aspect of this dissertation study was to determine if the social capital of the firm was improved by the existing relationships of directors, and if there were differences by gender. Questions were asked to determine if social capital of the firm was improved by the relationships of directors with stakeholders such as suppliers and important customers. To determine if this might be true, directors were asked about their relationships with important company suppliers, customers, and bankers. Kim and Cannelle (2008) argue that external social capital can be assessed determining the relationship between individuals and important company stakeholders (customers, bankers, suppliers). The majority of directors did not believe that these relationships were particularly strong, indicating a lack of social capital between these directors and these types of stakeholders.

6.4.3 Key Issue 3: Director Opinions - – Continued Survey Section 3: "Diversity"

One potential benefit to the board diversity is the possibility of having a diverse set of opinions. Improved corporate governance is possible through directors having and sharing a broader and different range of opinions (Fondas and Sassalos, 2000). While the survey did not determine whether these diverse directors gave opinions influenced by their diverse characteristics; the survey did ask directors if their opinions were sought out due to their demographic differences. For example, according to the Marketing Rationale (Fairfax 2005) it would not be usual if when discussing an issue related to women, that a woman director may be asked "as a woman, what do you think about the marketing of this product to our women customers". Or, similarly, according to the Employee Relations Rationale (Fairfax 2005) it is plausible that minority directors would be specifically asked for their opinion on an employment issue that concerned minorities. When asked how often their opinion is sought because of their race, gender, age, or nationality; the majority of men and women directors indicated that this seldom if ever occurs. Consequently, director answers to these questions did not provide support for

the Employee Relations or Marketing Rationale for board diversity.

6.4.3.1. Key Issue 3: Director Opinions based on Gender – Continued Survey Section 3: "Diversity":

Results indicated that 97% of males and 86% of females were never asked for their opinion based on their gender.

6.4.3.2.1 Key Issue 3: Director Opinions based on Race – Continued Survey Section 3: "Diversity":

Results indicated that 98% of white Directors were never asked for their opinion based on their race, and none of the non-white directors are asked their opinion based on their race.

6.4.3.2.2 Key Issue 3: Director Opinions based on Nationality – Continued Survey Section 3: "Diversity":

Results indicated that 91% of British Directors were never asked for their opinion based on their nationality. In contrast 57% of the non-British directors were never asked their opinion based on their nationality, 29% indicated that they are seldom asked their opinion based on nationality, and 14% are often asked their opinion based on their nationality. This result suggests that nationality is an area where boards seek a diverse point of view. It may also suggest that issues of nationality is an area where UK boards seek a diverse viewpoint. However, due to the small number of non-British directors, this perception is one that is for future research.

6.4.3.2.3 Key Issue 3: Director Opinions based on Age- – Continued Survey Section 3: "Diversity":

Results indicated that 95% of Directors between 46-55 were never asked for their opinion based on their age, and 71% of those between 35-45 indicated that they are never asked for their opinion based on their age. Additionally, 28% of these directors between 35-45 indicated that they are seldom asked for their opinion based on their age.

Results indicated that 71% of the Directors aged over 55 were never asked their opinion based on their age, However, 14% of those over 65 indicated that they are often asked their opinion based on age, and 20% between 56 and 65 are seldom asked their opinion based on age. These results suggest that age is not an area where directors seek a diverse point of view when making decisions.

6.4.4 Key Issue 3: Director Perceptions on Board Signals – Continued Survey Section 3: "Diversity"

Broom and Krawiec (2008) argue that one of the reasons boards diversify, is to signal to the marketplace that the firm is providing equal opportunity, considering the needs of certain demographic groups, and to signal that the firm is forward-looking or socially responsible. This survey asked directors questions that provided insight into potential board signaling behavior. These questions were designed to determine if diversity influenced the perspectives of the directors regarding the importance of these board signals. While results indicated that there were differences between female and male directors, the results in this area were not statistically significant at the 5% level.

6.4.4.1 Key Issue 3: Director Perceptions on Board Signals to Special Interest Groups- – Continued Survey Section 3: "Diversity"

One such group that the board could potentially signal regarding diversity on the board is special interest groups who are interested in the diversity of the firm. If these types of groups are perceived by the directors as important and vocal, and the firm feels as though their board diversity is monitored by these firms; it could potentially suggest a need to signal to these firms that the board is diverse, providing equal opportunity, and values diversity. However when reviewing director opinions, surveyed directors did not perceive that these type of groups monitor company diversity.

Results indicated that only 27% of the male directors and 14% of female directors who perceive that there are special interest groups that monitor the diversity of their boards.

6.4.4.2 Key Issue 3: Director Perceptions on Board Signals on Social Responsibility– Continued Survey Section 3: "Diversity"

When asked whether the board diversity was essential to send a message that the board was socially responsible, the director's answers reflected broad opinions across all answers. However, more women directors either agreed or strongly agreed with this statement than men.

Results indicated that only 21% of male directors believe that it is absolutely essential to have a diverse board if the company wants to send a message that it is socially responsible. Thirty-five percent were neutral, and 42% disagreed.

In contrast 43% of female directors believed that it is absolutely essential to have a diverse board if the company wants to send a message that it is socially responsible. Approximately 30% disagreed with this statement, and the remaining females directors were neutral. There are differences in the numbers represented by genders, however there were no statistically significant differences.

6.4.4.3 Key Issue 3: Director Perceptions on Board Signals on Equal Opportunity– Continued Survey Section 3: "Diversity"

A slight majority of female directors agreed or strongly agreed that the diversity of the board was essential in sending a message that the board was providing equal opportunity. Male directors did not agree that this was essential.

Results indicated that only 21% of male directors believed that it is absolutely essential to have a diverse board if the company wants to send a message that it is socially responsible. Thirty-two percent of the male directors disagreed or strongly disagreed with this statement.

Fifty-seven percent of female directors agreed that it is absolutely essential to have a diverse board if the company wants to send a message that it is providing equal opportunity. Female directors who did not indicate agreement were neutral (42%), and no female directors disagreed.

6.4.4.5 Key Issue 3: Director Perceptions on Board Signals on Progressiveness Continued Survey Section 3: "Diversity"

Results indicated that 34% of male directors believed that it is absolutely essential to have a diverse board if the company wants to send a message that it is progressive. Thirty-six percent of the male directors disagreed or strongly disagreed with this statement.

Results indicated that 42% of female directors agreed that it is absolutely essential to have a diverse board if the company wants to send a message that it is progressive. Female directors who did not indicate agreement were neutral (57%), and no female directors disagreed.

6.4.4.6 Key Issue 3: Director Perceptions on Board Signals on Demographic Group Concerns Continued Survey Section 3: "Diversity"

When asked whether the board diversity was essential to send a message that the board was concerned about the product needs of certain demographic groups, the director's answers reflected broad opinions across all answers.

Results indicated that 21% of male directors agreed that is essential to have a diverse board if the company wants to send a message that it is concerned about the needs of certain demographic groups. Forty-four percent of males disagreed with this statement and 34% were neutral.

Forty-three percent of female directors agreed that is essential to have a diverse board if the company wants to send a message that it is concerned about the needs of certain

demographic groups. Twenty-nine percent of females disagreed with this statement and 28% were neutral.

6.5 Key Issues and Themes of Director Perception of Diversity and Employee Relations – Survey Section 4: "Board Diversity and Employee Relations"

The Employee Relations Rationale and Litigation Rationale for board diversity argue that a diverse board of directors will assist the firm in signaling to the marketplace and to its own employees that the company is fair in its employment practices. Directors were asked if the composition of the board sent a message to employees about the firm's values. When asked whether the composition of the board sends a message to employees regarding equal opportunity, director's answers reflect divided viewpoints. While 42% of women were of the opinion that the composition of the board did send a message to employees regarding equal opportunity, 28% were neutral. Similarly 38% of the male directors either agreed or strongly agreed with this statement, but 42% of the male directors were neutral. These results suggest that director's perceptions lend support to the Employee Relations Rationale for board diversity.

Additionally, directors were asked if they felt it was important to senior female management that there was diversity on the board. The majority, or 57%, of female directors and nearly half of the males (48%) either agreed or strongly agreed that diversity of the board was important to senior female managers. These results suggest that director's perceptions lend support to the Employee Relations Rationale for board diversity.

Similarly, directors were asked if they felt it was important to senior racial or ethnic minority managers that there was diversity on the board. Only White British Directors disagreed that this this was important. The 50% or greater of the other racial minorities responding agreed or strongly agreed that diversity on the board was important to senior racial or ethnic minority managers.

Consistent with the Employee Relations Rationale for board diversity, these results indicate that directors perceive that board diversity is important to employees. They indicated that this is especially important for female employees and senior managers that were either racially or ethnically diverse. Additionally they also believe that the diversity of the board sends a message to employees about equal opportunity. However, results were contradictory when asked about their own presence on the board, 71% female directors were neutral as to whether their presence on the board was important to employee morale. Only 14% of women agreed that their presence on the board was important to employee morale, while 47% of men agreed that their presence on the board was important to employee morale. Of those who indicated their nationality as something other than British, 72% believed that their presence on the board was important to employee morale. However, although some directors agreed that their presence on the board was beneficial to employee moral; their agreement to this question does not necessarily indicate that the director believed that their presence was important due to their race, gender, or nationality.

Not only do directors generally perceive that board diversity is important in helping to communicate company values such as equal opportunity (Litigation Rationale), but directors agreed that the board takes steps to make sure that the board and its composition are visible to employees. The majority of directors, 86% of males and 71% of females, indicate that their board pursues activities that make them visible to employees.

Another way that boards communicate with their stakeholders is through their mission statement. Directors were asked if their mission statements mention diversity or equal opportunity. Almost 86% of male directors indicated that no such mentions are made in the mission statement, versus 58% of female directors. However 41% of the female directors indicated that the company mission statement did mention diversity or equality

in its mission statement. When analyzing the level of diversity of the board and whether the company mentions diversity or equality in its mission statement, generally speaking the larger the percentage of women directors on the board, the more likely that the company included such statements in its mission statement. Sixty-six percent of the firms with 30% or more female directors include statements of equality or diversity in their mission statement. Forty percent of firms with between 10-20% female directors include such statements in their mission statement, 33% of firms with between 0-10% female directors included this in their mission statement, and 34% of firms with no female directors included statements of equality or diversity in their mission statement. These results suggest that having more women directors on the board improves the likelihood that a firm would have statements of equality or diversity in their mission statement. However, it cannot be determined whether those companies with such values were more likely to appoint women directors, or boards with a greater percentage of women directors were encouraged by their women directors to include these statements in the mission statement.

Amongst the variety of reasons for diversifying the board is the possibility that the board had some type of discrimination lawsuit in the years prior to the appointment of a woman or ethnic minority to the board (Litigation Rationale). Eighty-five percent of male directors indicated that there was no such lawsuit, or that they were not aware of any such lawsuit (8.3%). However almost one third of the women directors indicated that they were aware of discrimination lawsuits in the three years prior to the appointment of a women or ethnic minority to the board, and 42.8% of the women directors answered that there had been no discrimination lawsuits prior to the appointment of a female or minority to the board.

Professional Reputation

The directors were asked questions to assess the degree to which they perceived the directorship as presenting a perceived risk to their reputation. Directors were asked whether they believed that their performance on the board would impact their reputation.

When asked how important their performance on the source board was to their professional reputation in other business settings or boards, most directors felt their performance was very important. Seventy-one percent of women directors and approximately 85% of male directors rate the importance of their performance as either high or very high importance to their professional reputation. None of the directors rated their performance as unimportant to their reputation and other boards. Fama and Jensen (1988) suggest that the need of directors to establish reputations as expert directors would help in encouraging directors to perform excellent in their governance function.

Open Comments

In addition to the survey questions using the likert scale method, respondents were given the option of giving open-ended answers at several points in the survey. Most comments on these questions were administrative or repetitive in nature, as they provide information already given in the survey itself. These open-ended questions are presented in the appendix.

6.6 Conclusion and Detailed Discussion of Survey Findings

When analyzing the demographic characteristics of the surveyed directors, the male and female directors were similar in their experience and educational attainment. However, female directors were younger than their male counterparts. This result supports previous literature (Catalyst, 2006; Ferreira, 2010; Sealy, 2007) and may support the argument that as time passes, the number of women in UK pipeline will increase and board diversity will increase. Additionally, it shows that women directors are younger, thereby having less time in the management pipeline than their male counterparts.

The racial homogenity of the respondents mirrored the lack of diversity in UK boards, as 91.4 percent of respondents identified themselves as White British. Existing literature reflects this dynamic, only 27 out of FTSE100 companies had ethnic minority directors as of 2007 (Singh, 2007) and there is little ethnic diversity in UK corporations in general

(Brammer, Milllington & Pavelin, 2007). Sealy, Vinnicombe and Singh (2008) found only 4.7% ethnic minority directors on the boards of FTSE100 companies.

Most respondents believed that gender was not relevant to their board selection. No female directors believed that their gender was a hindrance, and in fact one of the female directors responded that her gender was an asset to being appointed to the board. In contrast only 4.8% of male directors believed their gender to be an asset. While literature supports that *some* high-profile women have many board appointments available to them[52] (Farrell and Hersch, 2005; Sealy et al., 2007), literature does not implicitly support that women have a preference in board appointments, but instead discusses barriers to their appointments (Terjesen, 2009, Catalyst and Opportunity Now, 2000). However, in an analysis of director interviews performed by Broome and Krawiec (2008), many of the women directors interviewed indicated that their boards were actively seeking a woman at the time of their appointment, providing support that those women who are already on boards may not have experienced a barrier to their appointment.

Most directors did not perceive that their connections with the CEO or other board members were important to their appointment to the board. Only 10% of the male directors agreed or strongly agreed with this statement, while no women directors were of the opinion that these types of connections were important to their selection. This finding provides some support that recommendation by The Higgs Report (2003) are being followed by boards, and directors are not being selected from the personal contacts of existing directors. Additionally this finding suggest that directors are not chosen from similar social networks thereby increasing the opportunity for their boards to increase social links to new networks (Burt, 2001).

Seventy-five percent of non-British directors responded that nationality was not relevant in their selection to the board. However there were 25% of the non-British directors that responded that nationality was a hindrance to being selected for the board. Similarly,

[52] Women hold significantly more multiple directorships; 5% of women, but <1% of men have two or more seats Sealy et al, 2008.

amongst British directors, 23% believed that their British nationality was an asset to their board selection. Of all of the demographic traits, being British was a characteristic that majority directors considered an asset for the British and hindrance to selection for non-British. While neither percentage was a majority opinion, it is an interesting result. There are a number of possible reasons for this perception including former British Colonization, nationality bias in other areas of the culture, and a long history of turmoil amongst British countries. This result presents a very interesting area for further study. While literature discusses such things such as minorities preferring to be called English or British (Condor et al., 2006), and citizenship and national identity (Abell et al., 2006) in the UK, this researcher did not find literature discussing relevancy of British versus non-British board members or other management related literature. This is an area for future research.

The results support that outside consulting firms and recruitment firms play a very important part in board appointments, and thus in the level of firm diversity. Directors did perceive that outside consulting firms were very important. This importance supports arguments by Findlay and Cloverdill (1998) who refer this important role as the 'visible hand'. Since the consulting firms are first hired by the firm, and candidates are first selected by the consulting firm, the consulting firm has enormous control and acts as a visible hand in the selection process.

Results indicated that generally directors did not sit on boards with other directors of the firm prior to their appointment. These results may indicate the lack of connections that the directors shared with board members prior to their appointments. The lack of directors who sat on boards with other directors may be a particular disadvantage for women and minority directors. Westphal (2000) found that minority directors are more influential on the board if they have direct or indirect social network ties to majority directors through common memberships on other boards. Westphal found that demographic minorities can avoid out-group biases that minimize their influence on the board if they have prior experience on other boards with other directors. The lack of these connections for survey respondents indicate that diverse directors in the study may

not have these leveraged opportunities to maximize their influence on boards by forming direct and indirect social networks with white male directors. However, consistent with resource dependency theory; the lack of connections suggest that with these appointments, the boards may have acquired new information or contacts to assist them in strategic management of the firms.

When asked about the number of other boards that the directors sat on with existing members of the board prior to their appointment, the number was none, or low. The majority of directors responding indicated that they did not sit on boards with directors on other PLC boards, non-profit boards, civic or cultural boards, or political or governmental boards.

However, a closer inspection of these results reveals that two of the women did sit on one other board with a member of a PLC board prior to appointment and one of women sat on three or more non-profit or charity boards with existing directors. This may suggest that firstly, one successful route to corporate directorship for women is to first seek appointment on non-profit or charity boards, and second, knowing at least one other member of a PLC member is helpful for women to gain board appointments.

This result may support literature by Hillman (2002), who reported that diverse candidates may often come from non-business backgrounds such as governmental and university posts and thus enjoy stronger connections in other types of institutions such as non-profits and possibly their boards.

Results did not support that directors perceive group memberships provided them social capital that was important to their being selected for the board. The combined results from these questions indicate that directors did not perceive that social capital gained from influence in groups comprised of members of their same gender, nationality, or race influenced their board appointment. In addition, Directors did not believe that personal connections, group memberships, or social connections provided any new links to the

board. There was no statistically significant difference between gender and whether the director perceived that their appointment provided new links.

Over 82% of the females either disagreed or strongly disagreed that personal connections that they had with the CEO were important to their being appointed to the board. Additionally, when comparing the perceived strength of a board member relationship to his or her CEO, 42% of female board directors compared to 83% of male board members perceived themselves as having a very good or good relationship with their CEO. No male directors categorized their relationship with the CEO as uncomfortable, but one of the women described her relationship with the CEO as somewhat uncomfortable. The differences between genders was not statistically significant, however, these results may suggest that male directors perceive their relationships with the CEO slightly better than female directors. Westphal and Sterns (2006) argue that managers who display ingratiatory behaviour toward their CEO are more likely to be appointed to boards of other firms where their CEO is a director or is indirectly connected through a board interlock network. The survey results may suggest that women directors may not display these behaviors thereby reducing their opportunities for other boards by virtue of CEO connections.

As to their relationship with other directors, all directors perceived that their relationship the majority of other directors was one with a high degree of comfort or an acceptable level of comfort.

Agency theory focuses on board oversight of management, and thorough deliberation of management decisions. Prior research suggests that female directors will provide more deliberation and debate on the board than male directors (Ramirez, 2003). The results of the survey did not provide support for this argument. All female directors, and most male directors indicated that they agree without much debate on important company issues. However, this result supports arguments by Fanto that directors are appointed and join boards where they have similar opinions. Fanto et al. (2011) argue that candidates with

significantly different opinions to the existing board members will in fact avoid board memberships with these firms. The answers that the directors gave regarding their agreement without much debate may lend support to Fanto et al. However, this lack of debate may signal that boards are not leveraging diversity to its full extent. Debate in top management groups has been shown to improve decision-making. According to Simmons (1999), debate may increase the opportunity for diversity to enhance decision comprehensiveness by drawing on diversity. They argue that debate forces members to rethink their points of view and consider other factors. Without debate on important company issues, the diversity of these boards could be an untapped resource to improve firm decision-making and governance.

Director opinions

One potential benefit to the board diversity is the possibility of having a diverse set of opinions. Improved corporate governance is possible through directors having and sharing a broader and different range of opinions (Fondas and Sassalos, 2000,; Maznevski, 1994). Previous research has found that homogenous boards do not notice how similar opinions are of directors because the values are the norm for them. Additionally, women have different workplace experience, as well as different experience in their communities, services, and the marketplace, and therefore women directors "bring a different voice to debates and decision-making." (Zelechowski and Bilimoria, 2004)

While the survey did not determine whether these diverse directors gave opinions influenced by their diverse characteristics; the survey did ask directors if their opinions were sought out due to their demographic differences. When asked how often their opinion is sought because of their race, gender, age, or nationality; the majority of directors indicated that this seldom if ever occurs. However, 29% of non-British directors indicated that they are seldom asked their opinion based on nationality, and 14% are often asked their opinion based on nationality.

Special Interest Groups, and other benchmarking bodies may serve as monitors of diversity. However, only one of the female directors perceived that special interest groups monitor board diversity. Twenty-five percent of the male directors perceive that these types of groups monitor the diversity of their boards. Broome et al. assert that perceptions of interest groups have the power to influence corporate performance (Broome, 2008 p 17). Klarsfeld (2012) argue that industry standards, benchmarking exercises and best practice guidelines by these types of groups are examples of autonomous rules that gain a quasi-regulatory character. Therefore, it is possible that directors would consider these factors when they make board decisions on director appointments. Without the belief that these types of stakeholder groups monitor diversity, the directors may perceive there to be one less reason to diversify boards.

When asked whether board diversity was essential to send a message that the board was progressive, the male director's answers reflected broad opinions across all answers. However, proportionately more women directors either agreed or strongly agreed with this statement than men. Additionally, no women disagreed or strongly disagreed with this statement compared to 37% of men who either disagreed or strongly disagreed that board diversity was essential to send a message that the board was progressive.

Broome et al. (2008) argue that, although their actions may be inconsistent, boards sometimes seek to communicate firm values such as equality, progressiveness, and equal opportunity by signaling with board of director diversity. They argue that firms may attempt to employ board diversity as a signal that the firm is forward-looking or socially responsible in some way, a signal most often relevant to regulators, the public, or other interest groups (p. 24). Similar to Broome et al., agreement with the signaling benefits of diversity was inconsistent with the surveyed directors. More female directors believed that the composition of the board sends a signal of the board's values. Female directors were more likely than male directors to agree that board diversity was essential to send a message that the board was providing equal opportunity, that it was socially responsible,

progressive. These results suggest that gender may influence the perspectives of the directors regarding the importance of these board signals. However, while results indicated that there were differences between female and male directors, the results were not statistically significant at the 5% level. There are several reasons given in the literature that may explain why most surveyed directors may not feel the need to signal board diversity. For example, Fairfax (2005) questions the extent to which relevant corporate constituencies are aware of board composition. These survey results indicate that this may be a plausible explanation for these directors, as only 14% of female directors, and 25% of male directors perceive that special interest groups monitor board diversity.

Chapter 7 – Interview Results

7.0 Introduction

Chapter 7 contains the results of the interviews with the twenty directors in the UK and US—ten in each country. After this introduction, the first section of this chapter provides the demographic characteristics of the UK and US Directors that were interviewed. The next sections provide the results of the interviews, which are presented as four issues: Key Issue 1: Director Perceptions of Diversity in the Selection Process: How and Why are Board Members Selected? Key Issue 2: Director Perception of Benefits of Diversity to Firm Governance, Key Issue 3: Director Perception of Social Capital, and 4: Director Perceptions Gained from Director Open-Ended Dialogue. This introduction provides a summary of the results that are explained further in the sections of this chapter that follow. It is noted here that the findings serve as tentative insights into some of the issues influencing racial and gender diversity on board governance as perceived by corporate board members in the UK and US.

First, the results indicate that in general white male directors across countries did not believe that race or gender was a consideration in their own appointment to the board. Females and blacks; however, were more likely to perceive race or gender as having influenced their appointment. Moreover, female and black directors believed that their race and gender had a positive influence on their appointment. Second, directors of all race and genders did believe that their boards considered race and gender as an attribute to select other diverse directors. Their answers also reflect that boards use various types of diversity, including race, gender, work experience, and political ties as part of the criterion for board selection.

Results of the interviews indicated that recruitment firms played a much larger part in the appointment of the UK directors than the US directors. Recruitment firms were involved in the placement of seven of the ten UK directors interviewed for this study, while only three of the ten US directors were selected with the assistance of a recruitment firm.

Results also indicated that three of the five black US directors were selected with the help of a recruitment firm versus none of the white US directors.

Results of the interviews indicate that directors are split on whether race and gender diversity contributed positively to board governance and decision-making. In general, UK male directors were more likely to believe that race and gender *per se* made either no contribution to the board effectiveness or only a very modest one. US directors were, however, almost unanimous in their belief that there were positive tangible benefits to diversity with respect to board governance. It should be noted that when directors support board diversity, they uniformly support race and gender diversity from a business rationale rather than from an ethical or moral perspective. Benefits of diversity mentioned by the interviewed directors were an increase in boardroom debate thereby improving the quality of decisions, drawing from a larger talent pool, a focus on employee issues, a focus on needs of diverse customer groups, and assisting the board to reach consensus.

With respect to diversity, most UK directors professed that they did not believe that social capital was a consideration in their own appointment to the board. US directors were more likely than their British counterparts to report that social capital or network ties were helpful for their board appointment. Whereas UK directors emphasized having directors with different network ties on the board (some having financial ties, while others having political ties, etc.), the US directors reported being assisted by each having similar networks. UK female directors appear to provide new connections between different demographic groups and their boards; thereby increasing board social capital.

Interviewees raised a wide range of other observations during their interviews, among those that stood out as recurring themes, or as remarkably insightful, or as passionately held were the following: most directors have formal governance training; the need for directors to form consensus on board decisions rather than providing extensive debate; and the need for boards to have skill or functional diversity in their appointments.

7.1 Demographic Data for Interviewees

The demographic characteristics of the interviewed directors reveal that all directors were middle-aged and highly experienced. The US group was older than the UK group, and had a longer tenure on their board. Additionally, the US group of directors was significantly more diverse than the UK group. The largest racial demographic in the UK were white males (8/10), while the largest demographic in the US were black males (4/10). The smallest demographic was the one black female. The number of blacks is not representative of boards in the US[53]; however, given the lack of minority board members in the UK group, the number of blacks was important for providing a racial minority perspective in the study.

7.1.1 Age

Of the ten UK directors who were interviewed, six were between 46-55 years old, one was between 36-45 years old, two were between the ages of 56-65 years old, and one director was over 65 years old. The average age was 55 amongst the UK directors.

Of the ten US directors who were interviewed, all but one was 60 years old or older. The average age was 65 amongst the US directors, versus 55 for the UK directors.

7.1.2 Nationality

Nine of the ten UK directors interviewed identified themselves as British, and one was US American. All ten of the US directors were US American.

7.1.3 Racial Ethnic Group

There was no racial diversity amount the UK group as 100% of directors interviewed identified themselves as white.

The racial diversity of the US Directors interviewed was much less homogeneous than the UK group. The group of directors interviewed included four black males, two white males, three white females and one black woman.

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[53] In the Fortune 500 companies, ethnic minorities held about 7% of board seats (Minority Business Roundtable, 2009) and ethnic minority women held 3.2% of board seats (Catalyst, 2008).

7.1.4 Gender

The gender diversity of the UK directors included two women and eight men interviewed. The US directors included four women and six men.

7.1.5 Years of Professional Work Experience

The UK directors interviewed were highly experienced. All ten of these directors had over twenty years of professional work experience.

The US directors interviewed were also highly experienced. As with the UK director group, all of the directors had over twenty years of professional work experience.

7.1.6 Years on the board

Like the survey participants, directors were very experienced, but the UK directors tended towards the lower number of years of experience on the company board of the survey. Over 44% of the UK directors had been at the company being surveyed for less than 3 years.

Like the UK interview participants, US directors were very experienced. However, contrasting the UK directors, the average length of time on their board was over 10 years, compared to the UK interviewed directors where over 44% of the directors had been at the company being surveyed for less than 3 years.

7.2 Interview Results

Table 7.1 Interview Results		
Section	**Finding**	**Additional Comments**
7.2	White males did not believe that their race or gender were attributes to being selected for the board.	6/8 UK white males did not believe that race or gender impacted their board appointment. 2/8 UK white males perceived their gender to be a hindrance for board appointment 2/2 US white males perceived that their gender and race had no impact.
7.2	Directors did believe that race and gender are considered in the appointment of diverse directors.	7/8 white UK males, and both UK women believed that race or gender is a consideration for diverse directors. 9/10 US Directors believed that race and gender are considered in the appointment of diverse directors.
7.3	Recruitment firms play a much larger part in the recruitment of directors in the UK than in the US; however, results suggest that they may be more important in the recruitment of diverse directors.	7/10 UK Directors were selected with the assistance of a recruitment firm. 3/10 US Directors were selected with the assistance of a recruitment firm. All three of these directors were black.

7.4	Generally, UK white male directors did not believe that there were tangible benefits of diversity to firm governance.	3/8 white male UK directors believed that there were tangible benefits to diversity to firm governance. All white females, US white males, and black males believed there were tangible benefits to diversity.
7.5	UK directors were less likely than US directors to believe that social capital was a consideration in their own appointment to the board.	Only 2/10 UK directors believed that social capital was a consideration in their own appointments, while 9/10 US directors believed social capital was a consideration in their own appointment.
7.6	UK white female perceived their appointment provided new social capital to the firm, white males and most black directors did not perceive new social capital due to their appointment.	2/2 white females perceived they provided new social capital versus no white males, 1/4 black males, and 0/1 black females.
7.7	Most directors described having attended some type of informal or formal training in governance	The majority of directors in both countries had attended some type of governance training.
7.7	White male directors reported that they were less likely to engage in board debate than diverse directors. Overall, men seemed to say they are more likely to seek consensus than to engage in boardroom debate.	4/10 white males indicated they engage in boardroom debate versus 4/5 white women, 2/4 black males, and the one black female.
7.7	Most boards appear to make board appointments that increase the functional diversity on their boards.	9/10 white males, 4/5 white women, 3/4 black males, and one black female reported functional diversity is sought with board appointments.

7.2.1 Key Issue 1: Director Perceptions of Diversity in the Selection Process: How and Why are Board Members Selected?

This researcher was interested in whether the directors would perceive that race or gender was a consideration in their own selection to the board, and if their companies seek race or gender diversity as one of the selection criteria for board members in general. Section 1, questions 2-5 of the Interview Guide* sought to find out the director's perceptions of this issue, and together provide a key theme of these results. Results indicated that in general white male directors did not perceive that race or gender was a criterion for their own selection; however, they said that race or gender had been a factor of consideration in the appointment of other female or minority members of the board. One of the two UK white females, and all three of US white females perceived that gender was a factor in their being appointed to the board. All of the black males believed race was a consideration in their own appointment, but the black female did not believe race or gender was a factor in her own appointment.

**Interview Guide Section I.*

2. Do you feel that race or gender was a factor in your being appointed to the board?

3. Was the company specifically looking for a minority or woman director at the time of your selection?

4. Was your race or gender an added advantage to your being selected?

5. Has race or gender been a factor of consideration in the appointment of other female or minority members of the board?

7.2.1.1 Director Perception of Selection Process UK:

Race and Gender Diversity as a UK Criterion for Own Board Appointment

In general, white males in the UK did not believe that their race or gender was a consideration in their selection for their board. Specifically six out of eight white males in UK believed that their board did not consider race or gender diversity a criterion in their own selection to the board. The two white male UK directors who believed that their race or gender was considered by their board did not view their race and gender as positive attributes. In both cases, the directors believed that being a white male was a disadvantage to their selection. One of these two directors said,

> Gender was probably a bit of a hindrance. One of the other candidates was a female. Right now there is a drive for diversity, so being a white male probably made me less desirable.

The other white male who believed that his race or gender was considered, believed that his board would have preferred to appoint a woman. These two statements are interesting in that although white males make up the substantial majority of directors on UK boards, these two directors felt that as males they were disadvantaged by their gender. The results may indicate that UK white male directors would be unwilling to pursue steps to increase diversity on the board such as quotas, or targeted recruiting, if they already perceive that they have no advantage in the selection process or perceive themselves disadvantaged.

White women directors were split on whether they thought gender was a consideration in their own board appointment. Additionally, some directors seemed to express conflicting opinions on whether gender was an asset or a hindrance. For example, a woman director (#12018) who expressly claimed that her gender was considered to be an asset by the board went on to say,

> My gender was an attribute; however, that was not why I was chosen. My gender was an additional asset but I also had to be better than the males.

It is possible to derive from, “I had to be better than the males,” that the director is actually stating that she not only had to be as good as her male peers, but that the cost or penalty of being a female was that she had to be better than her male counterparts. A

similar conflicting opinion was also repeated by one of the male directors (#12806) who stated that

> diversity is considered in board appointments, but skill is always the first criteria,

then he went on to say

> unlike male directors, the women appointees always seem to need to have a clear skill.

So while the director admitted that gender is a consideration, thereby suggesting it was an attribute, he also mentioned the need of women directors to have a clear skill.

7.2.2.2 Director Perception of Selection Process US:

Race and Gender Diversity as a Criterion for Own Board Appointment

Both white males in US believed that their board did not consider race or gender as a criterion in their own selection to the board. While all three white females in US believed that their boards did consider race/gender diversity as a criterion in their own selection to the board, they did not believe that it was the primary selection factor. The women interviewed mentioned very specific technical skills that they had which assisted them in being selected for the board. One female director (#23690) mentioned that she had a very distinct specialty skill that improved her likelihood of selection.

> They needed specific skills with the Asian government officials. I had experience doing US China trade agreements and knew the players in that market.

Another female director (#28772) explained that having a technical skill as the primary reason for her board appointment;

> I did a presentation on stock selling where the Chairman of “X” company was in the audience and saw my work. When they had an opening on the board he remembered me and called.

Additionally, this director explained her extensive skills also included managing retail operations. She felt that these experiences made her a valuable member of the board of another retail company. The third US white woman (#24161) felt that her appointment

was made due to her gender, and her visibility in the media. In answering the questions she said,

> Yes very much. There was media attention on diversifying boards and I was a visible woman with the experience and education. It was serendipity. I was at the right place at the right time. I had the qualifications, but also I had been in the media with several articles at that time. I had been in an important government post, had industry experience, and was an academic. This experience and visibility, along with there being an emphasis on appointing women to boards was instrumental to my being selected.

The answers given by the US women support the statement of UK Directors (#12018) and (#12806), that women must have a clear skill and be better than the male directors. While their boards may have been searching for a diverse appointment, the results may suggest that the board was unwilling to make the appointment without the diverse director meeting extremely narrow and high criteria.

Only one of the four black males in the US believed that their board did not consider race or gender as a criterion in his own selection. He stated that race and gender were not a factor. Director (#25151) mentioned that while the company was not specifically seeking to diversify its board, they felt that his appointment would be good for public relations.

> They were not looking for an African American, but the company realized that my appointment would be very helpful for public relations.

The other three black males did believe that their race/gender was a factor in their own selection. One black male director (#29602) believed that race, as a secondary consideration, was an attribute for his selection. He explained,

> The “X” company was looking for both marketing and big company experience with diversity as a second criteria. So while I wasn’t chosen for my race, it certainly helped me and did not harm my chances to be appointed. They believed that I would bring a fresh perspective.

Another black male director (#26082)) had similar comments. He felt that his race was an attribute, but that there were many other positive attributes that made him qualified for the board.

> Yes my race was a positive factor in my being selected for the board, but it is not the only factor. With my selection, and that of other diverse members of the board

> diversity has been expressed in multiple areas other than race. For example, I also can give the board the local government perspective, and insights to local and state politics.

The African American woman (#29290) interviewed believed that her board did not consider gender or race as a criterion for her selection. This director believed that her appointment was only due to her past experience. She responded,

> Neither race or gender played a part in my selection for the board, the board wanted someone with regulatory experience, and I was well respected in the industry for my regulatory expertise.

Although the director did not believe that gender or race was a consideration for her appointment, results from other interviews indicate that both race and gender are considered to some degree in board appointments. It is unlikely that characteristics such as race or gender would not be noticed and thereby considered in her appointment. However, this director's comment does support the comments made by other directors regarding a clear skill. She was very clear that she was chosen for specifically for her regulatory experience.

In summary, White males did not believe their gender or race was an attribute to their selection. Eight of the white males believed that neither race nor gender impacted their selection. There were two white males (both UK) who believed their gender had an impact, but both perceived the impact to be a disadvantage. While UK directorships held by women stands at relatively low 11.8% of all directors (Sealy, Vinnicombe and Singh, 2008) and the results of this thesis indicates that 44.5% of UK directors served on boards where there were no women, there was still a concern on the part of these white male directors that diversity may come at a cost to them. These males felt that they were at risk to be disadvantages for board appointment due to a preference of boards for women candidates. Kahan et al. (2007) describe this as the "white male effect"; a pattern showing that certain white men fear various risks less than or more than women and minorities. For example, their research on risk perception demonstrated that a group of affluent, highly educated white males, who also tend to hold very hierarchical and individualistic norms, tend to misperceive (more so than white females and minorities) the

risks of certain activities in a manner that is consistent with their worldviews. Their research indicates that the risk perceptions of these males tends to be highly skewed in favor of activities that may be seen as advancing their status in society, and highly skewed against activities that tend to threaten their social status. Women or minorities on boards may be the type of activity that threatens the social status. Therefore, while these white males may have felt at risk for lack of board opportunities, based on the level of board diversity, it may be that these were misperceptions.

These thesis findings, support the research of Kahan et al., as they suggest that white males do not believe that they enjoy any white male privilege based on their gender or race, and instead may believe that they are at a disadvantage. These results are also consistent with the findings of this thesis's UK survey[54]. As was discussed in Chapter 6 previously, most directors did not find gender or race as important to their selection to the board. Specifically, 90% of UK white males surveyed did not believe that gender was relevant to their selections to the board and 95% of these males did not believe race was relevant in their selection to the board.

In contrast, although female and minority board participation remains low, both white female directors in the UK and US, and black male directors in the US believed their gender was an asset to their board selection. These results provide an interesting observation about directors where the majority group does not perceive their potential advantage, and the minority group does not perceive their potential disadvantage. As previously discussed in Chapter 6, the results of the UK survey were slightly different, as only one of the six females who answered the questions believed gender to be an asset. The other female respondents did not perceive that their gender was relevant to their board selection. However, consistent with the interviews, no female directors perceived their gender as having been a hindrance to their board selection.

[54] Chapter 6, page 201 contains the results of this researchers UK survey.

7.2.2.3. Race and Gender Diversity as a Criterion for Other Women or Minority UK Board Appointments

Seven out of eight white males believed that race or gender has been a factor of consideration in the appointment of a woman or minority as a criterion for board selection. White males in the UK did perceive that race or gender has been a factor of consideration in the appointment of a female or minority. After speaking to the directors, it was important to note that while their boards had used race or gender as a factor of consideration, in their statements it was apparent that these characteristics were not the primary criterion considered in appointments. One white male UK director (#12427) who mentioned that his board considered diversity in their appointments indicated that his goal is to have both the most qualified person, and a female candidate. In his interview he stated,

> The first goal was to make sure we chose the most qualified individual, a secondary consideration of the board was a preference for a female candidate. In that particular instance, the female candidate was by far the best qualified and was appointed.

A similar comment was made by another white male UK director (#10929),

> We are aware of the need for diversity, but it is not a driver. Any candidate we consider must have executive level experience and it *(selection)* is based on whoever is the best candidate.

Another UK director (#11583) mentioned that they also look at diversity as a positive attribute in their selections,

> We specifically look at gender diversity with every appointment, but we do not have minority diversity. We have not had many minority candidates. Well, we once had a minority candidate for an executive position that I fought for, but for a variety of reasons the board did not agree. I should have pushed the issue harder.

The director did not want to elaborate on the issues, but clearly thought that the minority candidate may have been a good board candidate. Although this director specifically mentioned his board's willingness to strive for diversity in its selections, he was unwilling

to attach any particular traits to women directors. When asked if he had seen any positive benefits to women being on the board, he said,

> In my case yes, but specifically because of the specific woman. The person is excellent and just happens to be a woman. Her positive traits are not because she is a woman.

As discussed previously, there was one male director who communicated a belief that female candidates may have to rise to a different standard to be considered for board appointments. One UK female director (#12069) expressed,

> The Chairman and CEO of my company have been seeking another woman to join the board. While diversity is one of your positive qualities, it is not in the company's actual selection criteria.

She also expressed her opinion on the lack of diversity on UK boards as it relates to the number of women with the expertise to sit on boards,

> The emphasis on diversity on boards has increased. There is an incorrect perception that there are not enough qualified women for boards, but given the latest banking crisis there is a perception that the qualified men in control made a mess.

During the conversation, the director explained that although it is was conventional wisdom that there were not qualified women for directorships, she felt that obviously the men in charge were not qualified enough either. Had they been qualified enough, the country would not have been facing the banking crisis occurring at the time. In essence, the level of expertise and experience that women were being held to was clearly not being met by the men on boards at the time.

The other white women director (#12018) added that positive discrimination, or even quotas could be a good thing. During her interview she stated

> It is a tragedy that British firms are not more diverse. Boards should be balanced and have more breadth and depth. The only way to accomplish this may be quotas. I know this is highly unpopular, but I know of no other way that diversity can be achieved. You have to have a broad range of skills and viewpoints and diversity helps to accomplish that.

According to this UK female director, there may even be a need to introduce quotas into the UK. However, these types of measures are not popular in the US or the UK. There

have been recent actions in European Countries that have instituted quotas for women directors. The Norway requirement of 40% women directors is discussed in the Literature Review of this thesis. Additionally, more recently, the European Union Commission proposed a European Union law which aims to attain a 40% objective of women in non-executive board member positions in large publicly listed companies by 2020. Norway, Spain and France, have introduced mandatory quotas (Credit Suisse, 2012 p 25) for women directors in addition to the European Commission's proposal for a 40% objective. The low numbers of UK women directors, especially the lack of boards with women making up over 40% of the board is of concern given the direction of the rest of the European Union; however, UK MP's overall are not supportive of the quotas [55]. The other female director (#12069) did not perceive that quotas were needed. Instead she agreed that diversity was one of your positive qualities, but also mentioned in the conversation that when they are seeking new director candidates, they do not alert their consulting firms that diversity is one of their selection criteria. Without deliberate measures, it is unclear how the director may have thought more diversity could be accomplished.

7.2.2.4. Director Perceptions of Selection Process US: Race and Gender Diversity as a Criterion for Other Women or Minority US Board Appointments

Both of the white males interviewed in the US believed that race or gender has been a factor of consideration in the appointment of a woman or minority to the board. One (#22152) simply stated, that yes it had been considered. The other white male director (#23851) also believed that race and gender were considered in the appointment of female or minority members. When he was asked about the appointment of diverse candidates, he mentioned,

> Yes. The skills must be present, but diversity is something we are aware of and is one of the consideration factors.

[55] Reported by the BBC on 12 March 2013 at http://www.bbc.co.uk/news/uk-politics-21755429

All three of the white female directors interviewed in the US believed that race or gender has been a factor of consideration in the appointment of a woman or minority to the board. One of these females (#23690) explained how the board works with recruitment firms to assist with this effort

> Our governance committee has a view which is extremely beneficial to diversity. As a board we decide what skill sets we need on the board. Then we ask a recruiter to give us an equal number of male and female candidates with those skill sets. We also ask them to bring us diverse candidates. Then we decide on who is the best fit.

Another women director (#28772) offered that she has been asked for help to recruit women. When asked if diversity is considered in board appointments she said

> I have specifically been asked by the board to recommend women of color. Additionally, I have consistently brought the names of other women to the board of directors for potential board members.

These comments support alternatives suggested by Krawiec et al. (2013), as they detail methods that board directors gave to increase board diversity. These suggestions included limiting some searches to women or minority candidates, and identifying the skill sets needed for new board members and then look specifically for women or minorities who have that skill set, rather using diversity as a “plus” factor.

All four Black Males felt that race or gender had been used as a criterion for other women or minority US board appointments. The comments of these four directors indicate that their boards are very diverse, each having more than three diverse members. Their boards also actively include diversity as a board selection criterion. One of these directors (#26082) explained that his company has a commitment to diversity. He offered,

> Yes, the CEO was very committed to diversity. Senior management is committed to diversity. The new CEO brought in an African American and a female board member. Now the board is very diverse and includes three African Americans and two women.

Another of these black males (#29602) said,

> Generally speaking the board is always trying to ensure they are diverse. I have served as chair of the governance committee, and we selected a female at a time when gender was being considered.

One of these black male directors (#27242) added that the board is diverse and offered why they use diversity as a selection criterion,

> Yes, our company operates in major metropolitan areas with significant minority populations. We operate from Western PA to Detroit and all major metropolitan areas. Having a diverse point of view is helpful from a business point of view. It adds a certain richness to the discussion and vibrancy.

The black female director did not believe that race or gender had been a factor of consideration in the appointment of women or minorities. However, she voiced that she was new to the board and perhaps it had not happened during her tenure.

7.3. Director Recruitment Methods: How were you recruited?

Recruitment firms played a much larger part in the appointment of the UK directors than in the US. This involvement by the recruitment firms ranged from simply performing due diligence on candidates who had been identified by the board in advance, placing advertising for the company in the search for a new director, to replacing an entire board. Recruitment firms were involved in the placement of seven of the ten UK directors interviewed for this study. Only three of the ten US directors were selected with the help of a recruitment firm. Results also indicated that three of the five black US directors were selected with the help of a recruitment firm versus none of the white US directors. One possible reason may be found in the process explained by Director (#23690), who explained that when they are looking for diverse directors they turn to recruitment firms and ask for equal numbers of male and female candidates as well as minority candidates. This may suggest why black directors appear to be selected more with the help of recruitment firms. It may also suggest that diverse directors lack the correct social and professional networks to become known to boards without the help of recruitment firms.

7.3.1 Director Recruitment Methods: How were you recruited: UK?

Six of the eight white male directors mentioned being recruited to the board by a recruitment firm. One white male director, (#10929) indicated that his entire board had

been selected and replaced by a recruitment firm. This indicates the significant power that recruitment firms play in the placement of UK directors. One of the UK directors (#10963) suggested that the lack of diversity on UK boards might be partly the fault of the recruitment firms. He said that recruitment firms generally showed *"insufficient imagination in where they find these candidates."* This director also said he would like to see qualified candidates being drawn from a "wider pool."

One of the two white female directors (#12018) was selected with the assistance of a recruitment firm. She indicated,

> It was an advertised position. I was vetted and went through a professional process with the recruitment firm. Advertising of board positions makes this process less "Old Boy" than it used to be.

As discussed in Chapter 6 previously, the UK Survey results provide some support for the interview results on the importance that recruitment firms play in the appointment of UK directors. Most UK Directors did perceive that consulting firms were important to their appointment. When asked if an outside consulting firm or search firm was important to their being appointed to the board, 67% of the women and 52% of the men perceived that an outside consulting firm or search firm was important to their being appointed to the board.

7.3.2. Director Recruitment Methods: How were you recruited: US?

Neither of the white males was appointed to their boards with the assistance of a recruitment firm, and none of the white female directors were appointed to their boards with the assistance of a recruitment firm.

In contrast, two of the four black male directors were appointed to their board with the assistance of a recruitment firm, and the black female director was appointed with the help of a recruitment firm. However, she indicated that she had already been selected by the board, and the recruitment firm was hired to simply perform the background due diligence.

In summary, seven of the ten UK directors were appointed with help of a recruitment firm. The reliance on recruitment firms was also observed in the UK survey. In the survey, 52% of UK males and 67% of UK females perceived that an outside consulting firm was important to their being appointed to the board. In contrast, only three of the ten US directors were selected with the assistance of a recruitment firm. All three of these US directors were black. Considering that recruitment firms were involved in the appointment of three of these four black directors, may suggest that the social capital of black professionals may not be as strong as white professionals and therefore they are unable to secure the necessary contacts to secure board appointments without this intermediary. These results may indicate support for findings by Hillman et al. (2002) who argue that white males who serve on boards and the women and minorities who serve on boards tend to be different. Additionally, Hillman et al. (2002) determined that female and black directors are more likely to come from non-business backgrounds, which may contribute to their different contacts. Two of the four black directors did not have corporate backgrounds at the time of their appointments. Burt (1992) indicates that recruitment firms can also be considered a way to bridge the structural holes that exist between firms and director candidates. These results suggest that structural holes may be broader between diverse candidates in the US, than they are for majority directors. One possible reason for this difference may be the high levels of segregation amongst black in the US (Fieldhouse and Cutts, 2010).

Lastly, results indicate that recruitment firms enjoy significant influence in the appointment of UK directors. Consistent with Findlay and Cloverdill (1998), candidates are first selected by the headhunter, and the headhunter enjoys enormous control and acts as a visible hand in the selection process.

7.4 Key Issue 2: Director Perception of Tangible Benefits of Diversity to Firm Governance

7.4.1 Introduction

This researcher was interested in whether the directors would perceive that there were tangible benefits to race or gender diversity on firm governance. Section 3, question 1 of

the Interview Guide asked, Have you seen tangible benefits to diversity on the board? Following are the results of the directors' perceptions of the benefits of race or gender diversity, and provide a key theme. UK directors were less likely than were US directors to believe that there were tangible benefits of diversity to firm governance.

7.4.1.2 Director Perceptions of Whether There Are Tangible Benefits of Diversity: UK

Only three out of eight white male directors interviewed in UK perceived that there were tangible benefits to diversity on firm governance. While white male directors were willing to discuss the beneficial aspects of specific individuals, they were not willing to discuss it in the context of race or gender diversity, preferring instead to only think of differences in the context of individual personality traits. The resolution of this contradiction perhaps lies in understanding that viewing people through the filter of gender or race can be socially unacceptable in the UK, and is seen by many as stereotyping. Directors explained the impact of diversity on the board; however, several of the directors were careful to classify these differences as, "It is not because she is a woman, it is because she is so smart." One of the white male directors (#10929) who answered yes was asked about these benefits to the board. He said,

> Personnel issues are something women are more concerned about. In fact, the woman director suggested flexible work schedules."

The other two other white male directors explained that the positive impacts were due to the individual. One (#12427) said,

> The board has not changed in my opinion by the woman director. The woman member on the board is about the same as the others on the board, but because she is so smart, she is more likely to challenge other directors.

This male director went further to add,

> When the board has brought on their first woman director. There were no specific benefits of diversity; the woman on the board is just a first class director.

Another said, (#11583) It has more to do with people and them as individuals.

White males who thought there were benefits to race or gender diversity offered some of

the following comments,

> I feel more comfortable when women are present. They don't show off as much.

(#10963) He also said,

> all the women were highly qualified and slightly more imaginative than male directors.

Another UK director (#12806), he said,

> Females lead the discussion in a 'female' tactful way. They produce a more open environment than male directors.

This was a mutual perception of another male director (#11583) who explained,

> Women are more likely than male directors to say "I don't understand?" Men will often wait until after the meeting to admit that they did not understand and seek greater clarification. Additionally, women seem to be better at asking questions in a way that is tactful and doesn't agitate the other directors.

The benefits ascribed to women by these directors supports literature on gender differences in leadership roles. For example, females are thought to exhibit more communal leadership characteristics than males. These communal behaviors 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 and Johannesen-Schmidt, 2001). Additionally, Eagly and Johnson (1990) found that females tend to be more democratic and participative and less autocratic and directive as compared to male leaders.

Both of the white female directors in the UK believed that there were tangible benefits to diversity on the board. One of the women directors (#12069) explained a communal behavior when discussing that she had a reputation for being sympathetic to staff. She said that the staff, and therefore the board, seek her opinion often on softer staff issues. This director indicated that her presence on the board made the board more focused and serious, as she keeps them on track. Lastly, she felt that they respected her asking penetrating questions. However, similar to the white male UK directors, she was unwilling to classify any of these behaviors as being because she is a woman, or that it is

something that women often do. Instead she preferred to speak in the context of how her personal attributes made a difference on the board. One of the UK woman directors (#12018) expressed am opinion about how she has benefited the board,

> I will often question and I am not as eager to follow.

7.4.2.3 Director Perception of Whether There Are Tangible Benefits of Diversity US

Both white male US directors perceived that there were tangible benefits to diversity. One of the white male US directors (#23851) interviewed provided comments that highlight how diversity can benefit the board,

> I have also seen value on the board specifically because of their diverse attributes. This includes diversity of race and nationality
>
> (he mentioned a director who had been a politician in an impoverished Latin American country)
>
> which gave us additional insight into the consumer needs of the poor, and how the company could market and serve impoverished people better. Additionally, I have seen value contributed by a female board member who was also a mother who brought a female consumer focus to the board that otherwise we would not have had
>
> (she was a wife and a mother who used the company products).

With his statement, the white male director was able to describe the impact of several types of diversity including race, gender, and nationality. In each case, he was also able to make a connection to a business decision that was improved because of this diversity. The other white male director (#22152) said,

> It is subjective; but yes. You can't measure it, but diversity in general is a positive factor.

All three of the white female US Directors indicated they have seen tangible benefits to diversity. For example, one US white female director (#24161) said

> As a woman, I was able to provide relevant input regarding how women were being presented in the firm's advertising (many years ago). I let them know that as their products were being marketed to women, it was important that they realize how sexist the advertising was.

She also added that there was not always a view on the board that the minority market

was an important market (years ago), she helped to convince the board that these other groups should be marketed to. Her selection sent a strong message to other women at the company that it provided equal opportunities for women there. The women in the company were impressed with her, and impressed with her willingness to take the time to meet with women in the company. Another US white female director (#28772) mentioned how important a diverse perspective has been valued by her boards,

> Yes, where the business is female orientated, I certainly feel that my gender diversity is very important. Consumer products have been a key place. However, on my other non-consumer products board I bring value. I seem to have a focus on human resources where the men did not.

The perspective of this director supports the Marketing Rationale for board diversity sited in literature. (Dallas 2002, Catalyst 2004 p 3). The rationale purports that companies that employ a diverse group of people will successfully reach a broad range of customers and clients thereby increasing their profitability. Additionally, board of director best practices suggests that a substantial number of directors, consider it important to have minority representation on the board. The reason is "to better reflect the changing marketplace and the growth in minority market segments."[56]

All four of the black male Directors perceived that there were tangible benefits of diversity on the board. One black male US director (#26082) provided a perspective on how diversity can benefit the board.

> There is added perspective which makes for a richer perspective and contribution. It is more holistic. Without that diversity, it is not the same. The CEO or chair may ask you occasionally to give your personal insight into an area directly affecting minorities. Without this perspective the board discussion would be less thorough.

A similar perspective is offered by another African-American male (#27242),

> Having a diverse point of view is helpful from the business point of view. It adds a certain richness and vibrancy to the discussion.

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56 Korn Ferry,26th Annual Board of Directors Study (1999) Service industries such as motels, restaurants, telephone, and airlines that have substantial minority employees are found to have more minority representation on boards, indicating a labor stakeholder orientation. Also in Fryxell G & Lerner L (1989).

Both of these directors had either experience or directorships in the Banking sector which is a service related industry. In industries which are consumer service related, literature supports the importance of diversity on the board (Korn Ferry, 1999).

The black female director in the US did not agree that she had seen tangible benefits of diversity. She added that she was new to the board and therefore had no opportunity observe such benefits.

In summary, both US white male directors, all white female directors, and all black male directors reported having seen tangible benefits to diversity on firm governance. Only three out of eight UK white male directors perceived that there were tangible benefits to diversity on firm governance. Of the three directors reporting benefits, it is interesting to note that one was an American in a UK firm, and that the other has worked extensively in the US in various executive positives. It is possible that perhaps those two directors had developed a more Americanized viewpoint of diversity and its benefits. There are several possible reasons why the other UK white male directors did not perceive tangible benefits of diversity. First, is the possibility that there was no actual change to the board. Second, it is the case that most of these directors were not willing to attribute any such benefits to diversity. Third, the extent of the impact of diversity may depend on the board's needs. Richard, et al, (2007) and Pitcher and Smith (2001) suggest that diversity has a positive impact on the firm in situations where creativity, proactivity and innovation is needed. Richard et al. (2007) suggests that diversity and performance may not have a simple relationship and instead are impacted by the firm's environment. It is plausible, that the boards that these directors served on did not have an environment that benefitted from diversity.

For those directors who perceived tangible benefits to diversity, all perceived those benefits to be economic benefits to the board. None mentioned the normative view argument that a diverse board should be sought because of ethical reasons, thereby in

direct conflict with arguments by Fairfax (2003) and Wheeler (2009) that board diversity should be based on reasons of fairness or equity rather than economic.

7.5 Key Issue 3: Director Perception of Social Capital

7.5.1 Introduction

This researcher was interested in whether the directors would perceive that social capital was a criterion in their own selection to the board, or if their companies seek new social capital when appointing new board members. Section 1, questions 2-5 of the Interview Guide* sought to find out the director's perceptions of this issue, and together provide a key theme of these results.

Results of the interviews indicated that most UK directors do not believe that social capital was a consideration in their own appointment to the board. However, their answers also reflect that boards seek various types of social capital and network ties including political connections, financial market contacts, work experience, and political ties as part of the criterion for board selection.

US directors were more likely than their British counterparts to report that social capital or network ties were helpful for their board appointment. Whereas the UK directors emphasized having different network ties on the board, the US directors reported being assisted by having similar networks and not new social networks. This was represented by either knowing someone with ties to the board, having similar interest or similar industry activities. This result is consistent with Krawiec (2013) who while interviewing US board members found that board placement in the United States still largely functions through personal and professional connections that they refer to as the "who you know" phenomenon.

Amongst UK directors, both female directors perceived that their board membership provided new links to different demographic groups. UK male directors did not report these new links.

Section 1 Questions number one, seven, eight, nine, and ten of Section I had the potential of revealing directors perceptions whether social capital their own or others' board appointment. The questions used in the interviews were discussed to either directly or indirectly provide an opportunity for the directors to give their perceptions of social capital and selection:

Section I

Question One: How were you selected to be a board director? What was the course of events?

Question Seven Did you have connections through your primary current or past employer that were helpful you in being selected for the board? How important were they?

Question Eight: Was there a perception that your influence on clubs and civic activities would be important to the board?

Question Nine: Did you have connections with board members that were helpful in being selected for the board? How important were they?

Question Ten Did you have connections with the CEO that were helpful in being selected for the board? How important were they?

7.5.2 Director Perceptions of Social Capital UK: as a Criterion for Board Appointment

Only two of the eight white males in UK perceived that social capital assisted in their being appointed to the board. One of these Directors who indicated that social capital assisted in his being appointed mentioned political ties. He felt that his political connections made him a more valuable selection. He also indicated that he had connections in "The City" which is important for a chairman in enabling the firm to access

capital. This director also highlighted his board's preference for social capital in appointments saying,

> "One of the woman on the board has political connections. The other woman has 'City' connections. It is important that the directors do not have the same social networks."

A similar result is found in the answers of the UK female directors, neither of the two white females perceived that social capital or network ties assisted in their being appointed to the board.

These interview findings are also supported by the results of the UK survey. The survey results did not support that Directors perceive group memberships provided them social capital that was important to their being selected for the board. The combined results from these questions indicate that directors did not perceive that social capital gained from influence in groups of the same gender, nationality, or race influence their board appointment.

7.5.3 Director Perception of Social Capital US: as a Criterion for Board Appointment

Both of the white male US directors perceived that social capital or network ties were helpful in their appointment to the board. One white male US Director (#23851) stated,

> I got a call from an old friend. The friend was not a board member, but was a friend of the CEO of a company looking for another director. At the time, I was looking to get off of the boards I was serving on, but decided to meet with the CEO at the request of my friend.

Another white male US Director (#22152)) said,

> I have been on many boards over the years, and there is no one way of being selected that stands out. On a few boards I was recruited by a head hunter but for several others I have been asked to serve by someone that I know.

Director (#23851) thought that his connections with his two primary employers played a huge role.

> There were other things that made a difference, but work connections were the most significant to being asked to join the board.

Director (#22152) thought this his employment connections were most important to being selected for the board. His background included significant leadership positions in the financial services industry. He felt like this financial services experience is very good for companies to have on their boards.

All three of the white female US Directors perceived that similar social capital or network ties were helpful in their appointment to the board. One white woman director (#28772) explained her selection as,

> I was CEO/President of a smaller firm. At a conference I gave a presentation to a group of industry professionals. In the audience was the Chairman of the board I currently sit on. He was impressed by my work that when they had a board opening he contacted me.

A similar experience is reflected in another woman's interview (#23690),

> I had many years of experience and had been a CEO/President of a small firm, I was giving a presentation at an industry event about a technical implementation that I had had led at another company. In the audience was the Chairman of my current board. He invited me to be on the board because the implementation I spoke about was related to an issue that his company was facing.

Three out of the four black male US directors perceived that similar social capital or network ties were helpful in their appointment to the board. One (#25151) US black male Director explained his appointment,

> I was in the right place at the right time. I had served on a board of a university and that board position gave me exposure to corporate partners. These interactions allowed these corporate individuals to become acquainted with my expertise. These corporate partners were also people that I ran into at city symphony performances.

The director was convinced that his familiarity with directors in professional and social settings was important to being selected. He emphasized that his casual interactions at cultural performances was probably a strong deciding factor in allowing other directors to see him less of an outsider and "someone who could fit in."

Another example of the social capital criterion for selection is revealed in the answer given by another black male US Director. In the interview with Director (#26082) he communicated that he was selected for the board based on the diversity of his

experience, influence he held in the local government, and contacts with state politicians. His contacts were different from the remaining board members.

> Because of my role at "X" company, I became very knowledgeable about state politics. I also became friends with a number of state politicians. These are very important contacts to the "X" industry. When I was appointed to the board, there was an expectation that I could help the company understand the politics of state government.

Additionally this director said,

> Almost everyone on the board is from outside the state. It was my social contacts to the state political leaders which was missing on the existing board.

His political affiliations and political skill were instrumental in his being appointed. A closer look at these two director interviews reveals two distinctly different approaches to their appointment to a company board. In the first instance Director (#25151) was chosen based on his similar social capital, or his social palatability "sameness" and ability to fit in with the other board members (same industry, same cultural interest). However, in the second example Director (#26082), was chosen because of his unique social network. In this instance the board was deliberate in its attempt to appoint a director who could provide a bridge to a different network thereby increasing its ability to access new networks. One possible explanation for this difference is that the first board could have been happy with their existing board composition and networks, and thus was searching for a board member who would be most like them. However, the actions of the second group supports literature that suggests that a diverse group of board members may increase the diversity of social connections on the board given their unique and different network ties (Hagan 1988, Campbell 1988, Ibarra 1992). The second board may have been actively seeking change or seeking access into other network groups, and therefore was seeking a board member who could provide links to these new networks.

The black female director perceived that social capital or network ties were helpful in her appointment to the board. Similar to the US white women, her social ties were based upon industry groups. The black woman director (29290) mentioned a similar experience as the white women above

> I have been very active in industry professional organizations. I have made myself very visible in these circles and gave training courses to professionals in the industry. I have established myself as an expert in this industry. However, it is not only important to be at the meetings to establish myself as an expert, it is key to be in the same "circles" where these individuals are. This assisted in my being asked to sit on a board.

7.6 Key Issue 4: Director Perception of Social Capital in Appointment:

Has your being appointment to the board provided a link from the board to any new and different demographic groups?

7.6.1 Director Perception of Social Capital in Appointment UK: Has your being appointment to the board provided a link from the board to any new and different demographic groups?

None of the UK male directors thought that their appointment provided any new links to different demographic groups. However, both female directors, agreed that their appointment to the board provided a link from the board to new and different demographic groups. In each case, these directors answered that they were not selected for their ability to provide links to new or different groups; however, both believed that they provided these linkages once on the board.

The first white female director (#12018) felt that her networks were very different and therefore this was an asset she brought to the board. One example was an introduction to the women of the company to new networking groups that she was familiar with. This included activities sponsored by Cranfield University, who she stated had a number of research initiatives in board diversity. She felt that these networking opportunities were very helpful in encouraging women to network more. The other female director (#12069) also felt as though her presence on the board resulted in new networks. She is on boards of different cultural organizations, university women's studies programs, as well as boards in other countries. These are all new networks for the board and a source of information that enhances her technical expertise.

While none of the UK males perceived that they had provided new demographic links to the board, both UK females perceived their appointment had provided such links. These differences between the UK male and female directors were also observed in the UK survey data discussed previously. In the survey only 12% of male directors agreed that their appointment provided linkages between the company and new demographic groups, while 42% of females agreed that their appointment provided linkages. These results suggest that, consistent with Burt (2001), diverse individuals may provide new social capital by virtue of their different demographic links. Burt argues that individuals spanning two groups often improve the social capital of both groups. Holes in the social structure "structural holes" create a competitive advantage for those individuals whose relationships span those holes. Results of this thesis's interviews and surveys indicate that female directors in the UK may create a competitive advantage for their boards due to this social spanning.

7.6.2 Director Perception of Social Capital in Appointment US*:*

Has your being appointment to the board provided a link from the board to any new and different demographic groups?

Neither of the US white males perceived that their appointment provided any new links from the board to any new or different demographic groups, and none of the white female US directors perceived that their appointment to the board provided a link to any new or different demographic groups.

Three of the four black male directors did not perceive that their appointment had provided new links between the board and any new and different demographic groups. The black male who believed that he provided new links was a director who was very prominent in the minority community. His board, and therefore his company, has been able to reap the benefits of his ties to major community groups. Much of the business of the company is consumer related, and his ties have allowed the company to secure several new exclusive distribution agreements with these large community groups.

The black female director did not perceive that her appointment had provided a link from the board to any new or different demographic groups.

In summary, US directors were more likely than UK directors to perceive that their social contacts and network ties were important to their being appointed to the board. Consistent with their answers about whether race or gender was a consideration their appointment, UK directors were more likely to attribute their appointment solely to functional diversity (skills, experience, expertise).

Both UK white women directors believed that their appointment brought new social capital or different network ties to new or different demographic groups. However, only one white woman (UK), and one black male (US) felt their social capital was important to enhancing board capital. These mixed findings provide inconclusive results. The UK female results support arguments by Loury (1977) and by Pfeffer and Salancik (1978) who argue that one of the indirect effects of diversity is the opportunity for the firm to access the diverse groups of contacts, relationships, and social ties that diverse directors may bring. Additionally, they support arguments by Burt (2001) that diverse directors will allow the firm to bridge structural holds between the firm and its environment.

In addition, US director answers indicate that directors were more likely to be chosen to increase homogeneity of social groups rather than diversity. This may account for the lack of perceived new social connections among these directors and their boards. Additionally, this lends support to Rose (2007), who argues that because diverse directors are chosen from closely connected groups, any ability to bridge the firm to different groups or information is lost or significantly attenuated.

Directors indicated that when they were chosen to diversify the board, diversity was primarily functional diversity such as experience and skills. The directors' answers revealed that boards prefer to have a variety of competencies from a variety of functional backgrounds on the board. Functional diversity has been shown to improve decision making for boards. Simmons, Pelled, and Smith (1999) argue that diversity is beneficial

for corporate decision-making, but only when the diversity is task related and used to increase debate. They also argue that when members debate they are likely to draw on their diversity and on their divergent knowledge sets-to bolster their arguments. As members are confronted with new information from diverse sources, they are often forced to rethink their points of view and consider factors not previously considered. The directors in this thesis research indicated that functional diversity is sought by boards; however, the extent of its advantage may be modest as indicated by the number of directors that said that they do not often or intensely engage in board deliberations, but instead follow a path to quick consensus.

7.7 Director Perceptions Gained From Director Open-Ended Dialogue

7.7.1. Director Governance Training

Most directors described having attended some type of informal or formal training in governance. Six of the ten UK directors, and seven of the ten US directors had attended formal director governance training[57]. One of the UK directors spoke about his extensive training in governance, but he was the exception in the group. Others mentioned attending some seminars annually on governance or director performance issues. When asked specifically about whether they had any governance training, other directors indicated that they focused on being the best at their particular vocation. Singh and Vinnicombe (2004) found that FTSE 100 firms with women directors adopted and reported the new governance practices recommended by the Higgs Review earlier than firms with all male boards. One of the differences they found for these firms included having director induction and training, a regular review of board performance and the balance of board skills, knowledge and experience, and director succession planning structures, including approval for the use of external search consultants (Singh and Vinnicombe, 2004). Supporting governance training literature, the two UK women

[57] When soliciting interviews for the US study, the NACD meetings were one of the places that this researcher used to meet directors. This perhaps biases the US group of directors since these directors were met in a board governance educational setting.

directors, both indicated that they had received governance training. Additionally, all of the US women directors indicated having attended governance training.

Six of the ten UK directors indicated having had formal governance training. One of these directors (#10963) described extensive training, "

> I have done quite a few of those courses. Prior to appointment I volunteered to take a chartered director course. It is a long course and is run by the Institute of Directors (18 months). I have also taken director training offered internally by the company."

When asked about governance training, one of the white male directors explained that he preferred to focus on technical training, "I have joined a variety of professional accounting bodies and feel that this is very important to being able to stay current on financial issues."

In the US, one of the two white males had governance training. He had not taken board classes, but had read board materials and articles as well as other informal reading on boards. He had also spent time reading about board case history, and observing board leaders and other board members who had been successful. One of the three US White Female directors had formal board training. In addition she discussed that because she was President and CEO (#23690) she was qualified to be on the board, but that she continues to go to board education classes.

All four Black Male directors had pursued formal board governance training. One of the black male directors (#27242) mentioned that he is a member of the NACD and was in the first class awarded the certificate of professionalism. He also completes 30 hours of director education classes per year. Another of the black male directors (#25151) mentioned that at the time he was appointed to the board, there were not formal Directors Education classes, but now that they exist he has taken advantage of them. He mentioned that at the beginning of his tenure as a board member he had to come up to speed with some business terminology due to his non-business background. Director (#29602) spoke of ongoing governance training. This included board training once each

year for 5 hours per year, reading board publications and magazines, subscriptions, business case studies, best practices, and governance information. He also said that he tried to learn from talking to other board members. The last of the black male directors (#26082) also had governance training. In addition to informal board education, he has had board training and certification from NACD. He also mentioned that he had served on 12 or 13 other boards previously so that gave him additional experience.

The black female director had attended governance training. She had also taught a two-day Bank Directors course, and she has attended bank Director's College by the State Bankers College. The director mentioned that her involvement in this training was important to her becoming well known and respected in the industry. Her comment was,

> It is about who knows your skills, and who can validate your skills.

7.7.2. Director Debate: Quick Agreement or a Tendency to Debate

Section III, questions 3-4* from the Interview Guide allowed the directors to discuss whether they normally engage in debate or find immediate agreement on board issues. Results indicated that directors across countries, gender, and race were very much committed to reaching consensus. The answers do not clearly reveal whether this drive to reach consensus supersedes director's willingness to participate in dialogue that would enhance the board's strategic decisions. Additionally, the interviews suggest that board members employ a variety of methods to reach consensus such as pre-meetings. Lastly, there were some directors, both male and female who felt that the women on their board challenged board members more than other directors and asked a great number of questions.

> **Section III*
>
> *3. What is your assessment of your relationship with other directors?*
>
> *4. How agreeable are you with other board members? Do you normally find much debate with other directors, or normally agree right away?*

7.7.2.1 Director Debate UK: Agreement Right Away or a Tendency to Debate

Four of the eight white male directors indicated that they do not engage in debate and instead come to quick agreement on most issues. One UK director (#11583) said,

> We are not very likely to challenge others on the board. Perhaps we could challenge a bit more than we currently do. We generally very quickly come to a consensus. We don't often have votes. In three years there has only been a vote two or three times. Normally a consensus is reached.

Another UK white male director (#12778) also explained the importance of reaching consensus,

> We all are aware that we all must reach a consensus. We all challenge each other equally.

However, later in the conversation the director gave a slightly different perspective when he offered

> We do not challenge others much and agree often to the decision.

UK Director (#10929) described his personal style as follows,

> All of the individuals must work to reach a consensus. We all tend to challenge each other equally.

However, later in the discussion the director indicated,

> I do not challenge much of what is suggested at board meetings and I agree often with the other directors.

One of the UK chairmen (#11583) in the study described his role of leadership as consensus building. In his interview he stated,

> As a chairman, you have to be able to lead to consensus.

This statement was very revealing to this researcher, as he did not state that his job was to necessarily lead to the best decision, but only to lead to consensus. However, his importance placed on consensus could have been because of the question topic of

consensus, and the subject on the top of this mind. However, the statements on consensus highlight the importance that consensus building was given with the directors interviewed in the UK. Another white male chairman (#12982) qualified his statement to include which items were more likely to be debated. He indicated that debate was more likely on big issues,

> We are more likely to have extensive debate on significant items such as five-year plans. These types of issues call for more discussion and debate and lead to better decisions.

Two of the UK white male directors gave specific details regarding the methods used to reach consensus on the board. These discussions are examples that consensus is sometimes reached after debate. One of the UK Chairman (#11583) interviewed explained his process as the following:

> I have smaller informal meetings with directors prior to the board meeting. This is where the discussion really takes place. Since as the chairman I am a non-executive, these 'telephone' meetings are even more important and often serve as pre-meetings.

Another example of how consensus is reached came from UK director (#12778)) who said,

> There is normally much debate around key issues, finding alignment once a debate is in process can sometimes be hard. If there is not a possibility of alignment we take the issue away and are asked to do additional research and present again at a later date.

Both of the white women UK directors said that they did not agree right away, and debated issues on the board. One of the women directors (#12069) reported that everyone on her board debated a lot. Additionally, this director indicated that her executive team gains consensus prior to the board meeting.

> Prior to the meeting we get together as a team and agree on our position. When we go into a board meeting, we want to be a united front as executive staff.

The other woman (#12018) reported that she engaged in debate on her board; and that she believed women debated more than the male directors. She described it in this way,

> Women seem to be less eager to just follow. They are more likely to ask "Why" or Please Explain.

The opinion of this director was supported by a UK male director (#11583) who said,

> Women are more likely to say I don't understand than most men directors. Men will often wait until after the meeting to admit that they did not understand and seek greater clarification. Additionally, women seem to be better at asking questions in a way that is tactful and doesn't agitate the other directors.

7.7.2.2 Director Debate US: Agreement Right Away or a Tendency to Debate

Neither of the white male directors indicated that they engaged in much debate with their boards and instead emphasized the need to reach consensus. One of these directors reported that they do not agree right away, but also focuses more in the discussion on the need to reach a consensus. This director (#23851) acknowledge that while they may not reach a quick agreement, they are very aware of the need to respect others opinions and reach a consensus,

> You must always be conscious of the relationship. The most important element in the relationships on the board is mutual respect. The current board is a very cohesive team. There is not necessarily a quick agreement, but there is always an emphasis on relationship and consensus.

Two of the three of the white female directors indicated that they engage in much debate with their boards, but also emphasized that they are focused on reaching consensus One US women director (#28772) cautioned about how much it may be appropriate to debate, and said,

> It just depends on whether it is worth fighting for. I pick my battles. Some women are not listened to because they take insignificant things and pick a battle over every one of them. Consequently they are then not listened to.

Another US woman director (#23690) believed that women are well suited to help being the board to consensus. She said,

> I have noticed that women tend to be consensus builders. Women will often drive decisions to a consensus.

Two of the four black male directors agreed that they engaged in debate and did not normally reach immediate agreement. One black male US director (#25151) said,

> Although I often do not immediately agree with everything, it is important to realize that consensus is very important. I debate a lot at board meetings, but I always come to the consensus.

Another US black male (#26082) expressed a similar perspective,

> I challenge management but am not disruptive. You have to actually bring value to the board. I give a different perspective. I do not agree right away, but I don't debate.

The black female (#29290) did not agree that she normally agreed right away. She explained,

> I evaluate based on my own independent analysis and the specific issues. There is discussion among all directors. I operate independently.

Women in both countries were more likely than men to say that they challenge the prevailing opinion of the board. This behavior is consistent with good governance according to Higgs (2003, p. 27) that says, non-executive directors should constructively challenge and contribute to the development of strategy[58]. Additionally, this result supports Ramirez's (2003) argument (p 859) that benefits to diversity include a reduction in groupthink, increased decision-making quality, and helps to avoid mindless adherence to group norms, and a failure of group members to challenge implicit or explicit assumptions. It also supports Elstad and Ladegard (2010) who argue that women directors do not reduce their visibility by censoring their opinions. In contrast, these results do not support arguments by Fairfax that diverse directors lacking of a critical mass of diversity on the board would not feel confident enough to voice dissenting opinions. The results of this thesis research are also mixed. While the interview results indicate that diverse directors were more likely to engage in debate and board discussion, the survey results did not corroborate these findings. The UK survey results found fundamentally conflicting outcomes. The women who completed the survey did not share this opinion of themselves. Of the seven women who chose to answer the question, all indicated that they agreed with most decisions without much debate either always or almost always. One can conclude from this analysis that either 1.) The women did

[58] Five of the six women directors interviewed act as Non-executive directors on their boards.

debate more than other members of the board, but failed to recognize this trait in themselves, or 2.)The women did not debate very often. Results from the UK survey indicated that no group indicated that they were likely to debate an issue prior to agreeing. This was determined by testing the director answers for all groups on the question "Normally, how often do you agree (without much debate) with most board members on important company issues. The majority of directors (76.8%) indicated that most of the time they agree without much debate. 19.6% of the directors indicated they agree about half the time without much debate, and 3.6% said not that often. No director of any demographic felt as though they debate often prior to agreement on important company issues. This may raise warning signs that directors may be relinquishing some of their responsibilities of due diligence in favor of reaching consensus, possibly seeking social palatability (Rose 2007). Alternatively, it may signal that the informal channels of communication; often outside and prior to board meetings, is where many of the debates are held.

7.7.3. Director Functional Diversity: Experience and Expertise

Functional diversity was mentioned often by UK and US directors, in the context of making sure that the board had a diverse set of experiences (previous experience as a CEO, CPA, etc.). Director answers also indicate that boards acknowledge a need to have a variety of expertise on their boards, (law, accounting, marketing, etc.) and therefore seek to find diversity in the technical expertise of their boards. Results indicate that directors believed that expertise and experience should be the primary reason to select a director. Directors agree that their own appointments were primarily based upon their experience and technical expertise. Additionally, based on their answers describing why they were appointed, is a tendency to accept functional diversity as a positive for the board. Directors indicated that when they were chosen to diversify the board, that

diversity was primarily functional diversity. The directors' answers revealed that boards prefer to have a variety of competencies from a variety of backgrounds on the board.

This emphasis on expertise and experience was consistent with both the UK and US directors. However, when the US Directors were asked the same questions, they were more likely to include other factors in their selection besides expertise and experience. The US directors were also keen to explain the particular competency or skill they were chosen for with their appointment, and in three cases (#25151, #23851, #22152) mentioned individual connections that were helpful in their gaining board positions. Like those in the UK, US directors also communicated that they were selected first for their expertise. However, eight of the ten US director's answers indicated that other factors were important. Unlike the UK directors who were hesitant to discuss any reasons other than skill as a basis for their appointment, the US directors often added more dimensions to their appointment criteria. Eight of the ten directors included information on either individuals that they knew through social connections to the board, organizations that they were a part of, or access to networks important to the board. Therefore, the US directors appeared to acknowledge that there were other elements that influenced their appointment to the board. So while the US directors answers were consistent with expertise being the primary selection criteria, eight of the ten offered other factors that may have influenced the selection.

7.7.3.1 Director Functional Diversity UK: Experience and Expertise

Seven of the eight UK male directors perceived that their boards sought to provide functional diversity with their appointments, while one of the two white female UK directors perceived that their boards sought to provide functional diversity to the board with their appointments.

7.7.3.2 Director Functional Diversity US: Experience and Expertise

Both of the US white male directors perceived that their boards were seeking functional diversity with their appointments. One of these directors provided financial expertise for his board, and the other director mentioned that his board was seeking someone with former CEO experience.

Two of the three white women perceived that their boards were seeking functional diversity with their appointments. These two women mentioned giving industry presentations that were key to their appointments, in both cases their general participation in industry events and speaking engagements led to there being known as an expert within the field that their boards sought to provide functional diversity to the board.

Three of the four black male US directors perceived that their boards were seeking functional diversity with their appointments. For example, one of the directors mentioned his financial competency and auditing background, and another mentioned his background as a marketing specialist. Another director, (#29602)African-American male, mentioned that several of the boards he was on had been looking to diversify, but also indicated that his functional skill set in marketing and large company experience was primary.

> "In the case of "X" company and "Y" company they were looking to add more diversity to the board. "X" company had one African-American female and wanted an African American male. Hoever,"Y" Company was looking for both marketing and big company experience with diversity as a second criteria."

Whether specific expertise in an area, or experience, most directors discussed being selected for the board on the basis of their having these traits.

The black female director perceived that her board was seeking functional diversity with her appointment. She mentioned that her board was seeking to add a board member who could provide regulatory expertise.

These results support findings by Krawiec et al. (2013) who found during interviews that directors were able to give numerous concrete examples of the benefits of functional

diversity on their boards, but had difficulty defining specific examples of the benefits of demographic diversity.

7.8 Closing Summary

The perspectives of the US and UK Directors were somewhat different across many interview questions. The Directors differed in the way their were recruited, their perception of whether there are tangible benefits to diversity on the board, the length of time the board spends in deliberation versus reaching consensus, and whether race or gender diversity was a selection factor when being appointed. There are a number of factors that could have contributed to this development. Firstly, the directors in the US group were extremely diverse. The US group comprised 4 black males, 1 black female, 3 white females, and 2 white males. In contrast the UK group comprised 8 white males and 2 white females. So while the UK answers are provided mostly by white males; the answers from the US directors are provided mostly from diverse individuals. Second, since the US directors interviewed were in large part diverse, the boards they sit on were diverse. Sitting on a corporate board that is diverse may give a director a different perspective, than sitting on one that is not. Thirdly, in the US and the UK there may be country specific expectations for diversity on the board. For example, when the UK boards were asked if there were pressures from special interest groups that might affect their board's diversity, they said no. However, for several of the US board members, they mentioned that board diversity is sometimes good for public relations indicating there may be public pressure for board diversity in the US that impacts US boards.

It appears that when boards are diverse, they are deliberately diverse. There are several perceptions that indicate this may be the case. First, when asked if race or gender was considered in the appointment of a woman or minority director, almost all directors indicated that it was a consideration. This result suggests that when boards consider diverse directors, that diversity is an element of the selection process. Second, a majority of black directors in the US were chosen with the help of a recruitment firm; suggesting a deliberate search for diversity. This result is supported by one of the US white female

directors who explained that her board asks the recruitment firm to present a slate of equal numbers of male and female candidates. The black male directors in the US also explained a selection process that included intentional seeking diverse candidates. Board diversity does not seem to just happen without board members who are committed to diversity, and boards will only intentionally seek diversity if they feel diversity has tangible benefits.

While women, black males, and US white males perceived there to be tangible benefits to diversity, most UK white male directors did not see tangible benefits to diversity, and some felt that board diversity was at a cost to them. This may partly explain why 40% of UK boards had no gender diversity. Additionally, this perception does not suggest than an increase in UK board diversity is imminent without a change in perceptions, as those white male directors in the UK may not intentionally seek diversity in their boards.

Similarly, results in the US suggest that board appointments continue to be influenced by sharing similar social networks. This may impair the board's ability to benefit from diverse forms of social capital that diverse directors could have brought, limit the board's exposure to potential board members who do not share the same social networks, as well as partly explain the small number of minorities on boards, and suggests the increasing board diversity is only possible when specific actions to increase diversity are taken.

As compared to the results of the survey, the demographics of the interviewees are consistent with those of the survey respondents with respect to age, years of experience, and board tenure. Three key interview issues and findings serve to support the results of this thesis's UK survey[59], but one area provides conflicting results. First, findings within Key Issue 1 suggest that white males do not believe their race or gender is an advantage in the board selection process. These results are also consistent with the findings of this thesis's UK survey. Second, both the interviews and surveys reflect that UK directors believe recruitment firms are important players in the board appointment process (Key

[59] Chapter 6, page 201 contains the results of this researchers UK survey.

Issue 4). Third, results of both the interviews and the UK survey indicate that women directors may provide new and different types of social capital and networks to the board, consistent with literature on diversity and structural holes (Key Issue 3). However, regarding Key Issue 2, while interview answers by women directors, consistent with prior literature, indicate that women tend to question and seek debate more than male directors, which may improve the board decision-making process, and provide tangible benefits to diversity, this result was not supported in the UK survey data.

The inconsistencies between the UK Interviews and UK Surveys are probably the result of strong cultural norms or expectations. For example, it may be culturally inappropriate for UK directors to attribute leadership differences or benefits to gender. Contrary findings may be due to small sampling problems, as there were only 8 women in the survey and 6 in the interviews. These women may not have been representative on Key Issues. Lastly, the ideas may not have been strongly held by interviewees and possibly varied from one time period to the next.

Chapter 8 Director Perceptions of Social Capital as a Rationale for Board Diversity

8.1 Introduction

This chapter is intended to provide reflections and analysis of the thesis data from a social capital perspective. The goal of the chapter is to provide a theoretical contribution to existing social capital literature (Kim and Cannella, 2008; Westphal and Stern, 2006; Burt, 2001; Peng, 2004) and provide a discussion about how directors perceive board social capital and diversity. The chapter includes a discussion of how social capital impacts the board, and whether it provides a rationale for board diversity. Additionally, it will present an analysis of the survey questions and interview questions from the viewpoint of social capital.

8.2 Social Capital's ability to enhance Board Governance

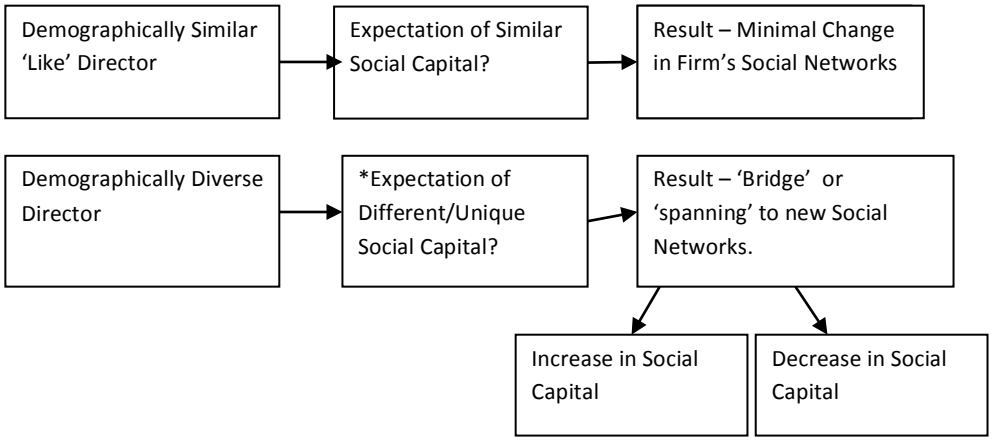
Five economic rationales commonly given to support board diversity are 1) attracting diverse customers (marketing rationale); 2) developing policies that provide equal opportunity and fairness for employees and signal to the market that the company operates fairly (legal rationale); 3) providing an example to employees and outsiders about company values (employee relations); 4) ensuring that new and different professionals are on the board (talent rationale) thereby providing a diverse viewpoint for the board; and 5) preventing board group-think (super-outsider or governance rationale) (Fairfax 2005, Dallas 2002, Catalyst 2004). The goal of this chapter is to explore theoretically whether director social capital enhances any of these five rationales, or whether social capital can be considered as a plausible sixth rationale.

Board directors can directly or indirectly increase overall shareholder or stakeholder value. The five rationales of board diversity are primarily thought to directly increase firm economic value. However, the social capital provided to the board by virtue of the directors provides another potential rationale for board diversity. This can include

providing additional resources such as legitimacy, advice and counsel, and links to other organizations (Hillman and Dalziel, 2003), or other attributes associated with social capital that the director may bring to the firm due to his or her selection to the board. This social capital may also serve as a resource to span or bridge structural holes or weaknesses. Burt (2001) suggests that demographically diverse directors may have unique social ties they can use to assist in spanning structural holes between the firm and potential new markets, or supplies thus providing a potential competitive advantage. This potential social capital benefit has not yet been discussed within the existing five rationales, and presents an argument for a potential sixth rationale.

To determine if directors perceive that board appointments were made with the expectation that directors would bring an increase in firm social capital, directors were asked questions via surveys and interviews which would help to determine if they perceived that this was the case.

Figure 8.1: Board Expectations when Selecting Directors



In developing Figure 8.1, this researcher considered the following relationship between social capital and board selection: board members, all other things equal, can either be selected because their social network is similar to other board members ("Like Directors")

in which case their social network serves a reinforcing function to board capital. This should result in minimal change in firm social networks. Or, board members can be selected because their social network is different than other board members ("Demographically Diverse Directors"). The selection of a Like Director is likely to arise when the firm has established a productive business niche and is interested in intensifying the links between the firm and existing social network (Kim and Cannella, 2008). Furthermore, in addition to actively searching for like directors because of their similar demographic characteristics, the firm's business niche also intensifies the attractiveness of like directors. This effect is distinct from any natural tendency to select new members that the current directors are already closely connected to (Westphal and Stern, 2006). Selecting an additional board member whose social network is similar with that of existing board members can signal to the firm's client that the firm is investing in its existing social relationships, and seeking to strengthen its existing partnerships rather than exploring new relationships. However, individuals with similar social networks often have similar information and therefore provide redundant information benefits (Burt, 2001), resulting in a minimal change in the firm's social networks (Figure 8.1 top box on right hand side). So while the incumbent directors may desire to select candidates who are closely linked to them, firm strategic direction may lead them to select those who are best suited to the particular strategy in which the firm is pursuing (Kim and Cannella, 2008). The danger is that in reinforcing existing social links and networks, the firm may be reducing the total amount of information available to the board for decision-making.

Consequently, if the firm chooses a board member whose social network is dissimilar to that of the existing board members ("Demographically Diverse Director" box on lower left), then the firm is exhibiting a desire to bridge to new clients or simply attempting to avoid further investment in homogeneous social capital. Thus, the selection of different social capital may suggest 1) a strategic change in direction, 2) simply a desire to search for additional clients or opportunities, or 3) an effort to avoid board inflexibility due to a narrow range of social capital. Additionally, firms who need to increase their legitimacy,

such as young firms, may have a greater need for social networks outside their existing network (Hillman and Dalziel, 2003; Kim and Cannella, 2008). The option to explore a more heterogeneous mix of social networks via the directors; puts the firm in a position to bridge to new social networks and increase firm sales and profits (Burt, 2001). As discussed in Chapter 2 of this thesis, Burt (2001) argues that individuals who belong to different types of groups may provide a bridge between those groups. His theory describes social capital functioning as a broker in a given network of relationships between people or groups otherwise disconnected in social structure.

Demographically diverse directors can potentially span to new social networks as they may provide linkages or bridges to different types of groups (Portes, 1998). Hillman (2002) found that female and racial minority directors bring more resources than the additional perspectives provided by their gender and/or race. They also accelerated ties to other organizations. These accelerated ties are a source of social capital. Moreover, consistent with resource dependency theory, Provan (1980) finds that firms who are able to attract andentice powerful members of the community onto their boards are able to acquire critical resources from the environment. Women directors have been shown to have greater community influence, and also have statistically significant differences in their backgrounds as compared to male directors (Singh, et al. 2008).

If a change in type of social capital is effective, then the firm experiences an increase in its value, which is depicted by the lower right hand box in Figure 8.1 labeled “Increase in Social Capital”. Alternatively, if the investment in a different or unique social network decreases firm value (Woolcock, 1998), it translates into a negative return on its investment in the new and dissimilar social network, which is depicted by the lower right hand box in Figure 8.1 as a decrease in social capital. This decrease can be caused by potential negative consequences of social capital such as excess claims on group members (Portes, 1998). Moreover, Peng (2004) finds that while resource-rich directors have a positive influence on firm performance, resource-poor outside directors do not.

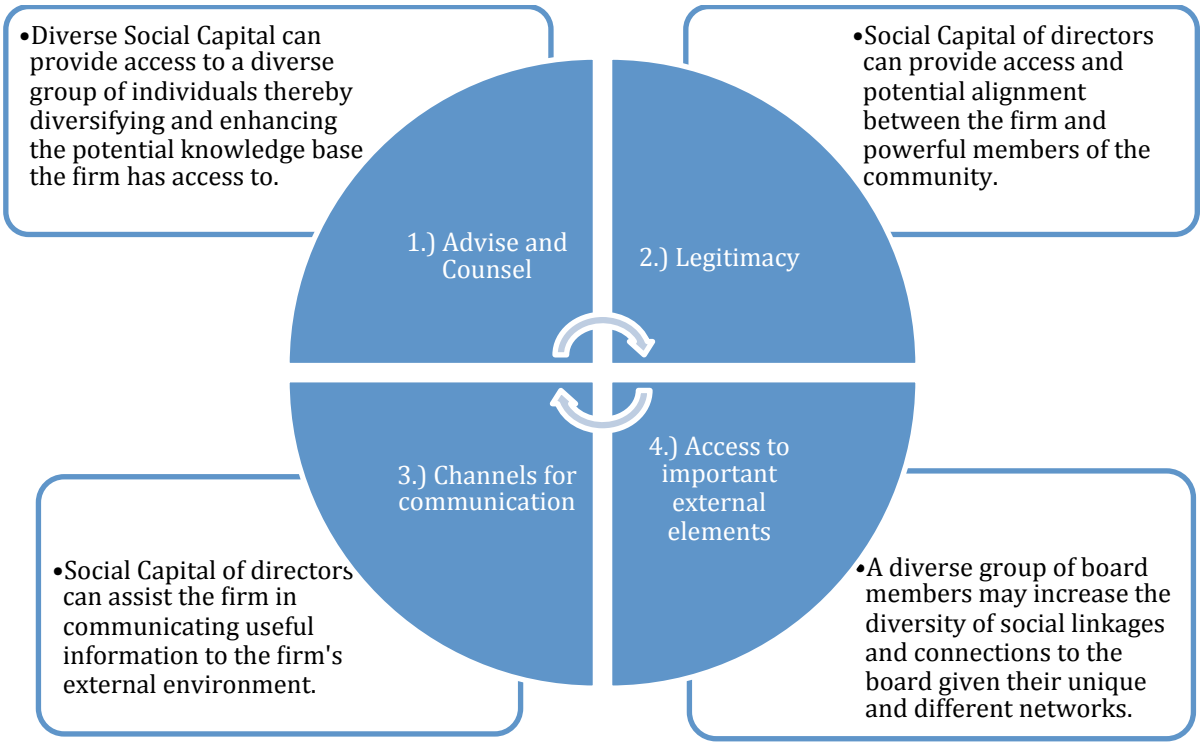
This is reflected in Figure 8.1 in the bottom right box as bridge or spanning to new social capital which decreases capital.

If Figure 8.1 holds true, and diverse directors bridge to different connections thereby spanning new and diverse structural gaps; then one of the indirect effects of diversity, and thus a potential sixth rationale, is the opportunity for the firm to access the diverse groups of contacts, relationships, and social ties that diverse directors may bring. Social ties with key external constituencies may result in strategic ties that the firm can leverage for resources (Pfeffer and Salanik, 1978).

In order to determine whether social capital could really be considered a sixth potential rationale for board diversity, it is helpful to determine if theoretically social capital not only is beneficial to the board and consequently the firm, but more importantly how it is beneficial to governance. Figure 8.2 is provided as a way to display how social capital may improve governance.

Figure 8.2 How Social Capital May Improve Governance

Per Resource Dependency Functions (adapted 1. to 4. From Pfeffer & Salancik, 1978)



Resource Dependency Theory argues that the role of board members include providing the firm with certain resources (Pfeffer and Salancik, 1978). Figure 8.2 shows how social capital can contribute to the board's four main governance roles: Quadrant (1) advice and counsel, Quadrant (2) legitimacy, Quadrant (3) channels for communicating information between external organizations and the firm, and Quadrant (4) preferential access to commitments or support from important elements outside the firm. Each of these resource areas can be aided by social capital.

The director's role of advice and counsel, Quadrant 1, shows how these governance roles can be positively impacted by social capital. Diverse social capital can provide access, via its bridging function, to a diverse group of individuals thereby diversifying and enhancing the potential advise and counsel available to the firm. These new social networks may contribute new sources of unique, or "non-redundant" relationships (Burt 1992) that bring new information and advice. Quadrant (2) shows how the legitimizing role of directors can be positively impacted by social capital. Prestigious or legitimate

persons or organizations represented on the board provide confirmation to stakeholders and customers of the value and worth of the organization (Pfeffer and Salancik,1978). The social capital of directors can provide access and potential alignment between the firm and powerful members of the community (Provan, 1980). This is shown to be particularly true for firms who need to increase their legitimacy and may have a greater need for social networks outside their existing network (Hillman and Dalziel, 2003; Kim and Cannella, 2008). Quadrant (3) shows how social capital can improve the communication role of directions. Social Capital of directors can assist the firm in communicating useful information to the firm's external environment by increasing information channels via the diverse social connections of directors. Social networks expand both the epistemic environment (what is known) and the rate at which that environment is accessed (how rapidly). Information can be expected to spread across actors in the same market, but it will circulate within networks before it circulates between networks (Burt 1992). A diversity of board social networks can assist the board in spreading information within networks of diverse groups, thereby helping to spread the firms information in a faster more efficient manner. Quadrant (4) shows how social capital provides the firm with improved access to commitments or support from important elements outside the firm. A diverse group of board members may increase the diversity of social linkages and connections to the board given their unique and different networks. It is not unusual for people within the same social networks to seek commitments or support from those within that social network. Choosing diverse directors can assist in broadening the number of potential contacts that are able to provide commitment or support to firm objectives.

These benefits of diverse social capital make it a plausible contender for inclusion as a sixth rationale for board diversity (see Figure 8.3). However, to further investigate whether social capital should be considered an additional rationale; this researcher sought to determine whether there was a common denominator that social capital shred with the five rationales for board diversity. Firstly, each of the board diversity rationales

assumes that race or gender benefits the board in some specific way. The rationale describes *how* it is beneficial, or more specifically what function it serves in improving governance. Looking specifically at functionality, this researcher determined that each of the rationales performs an important function of bridging a specific gap to necessary firm resources. Figure 8.3 serves to show how each rationale helps to acquire needed resources.

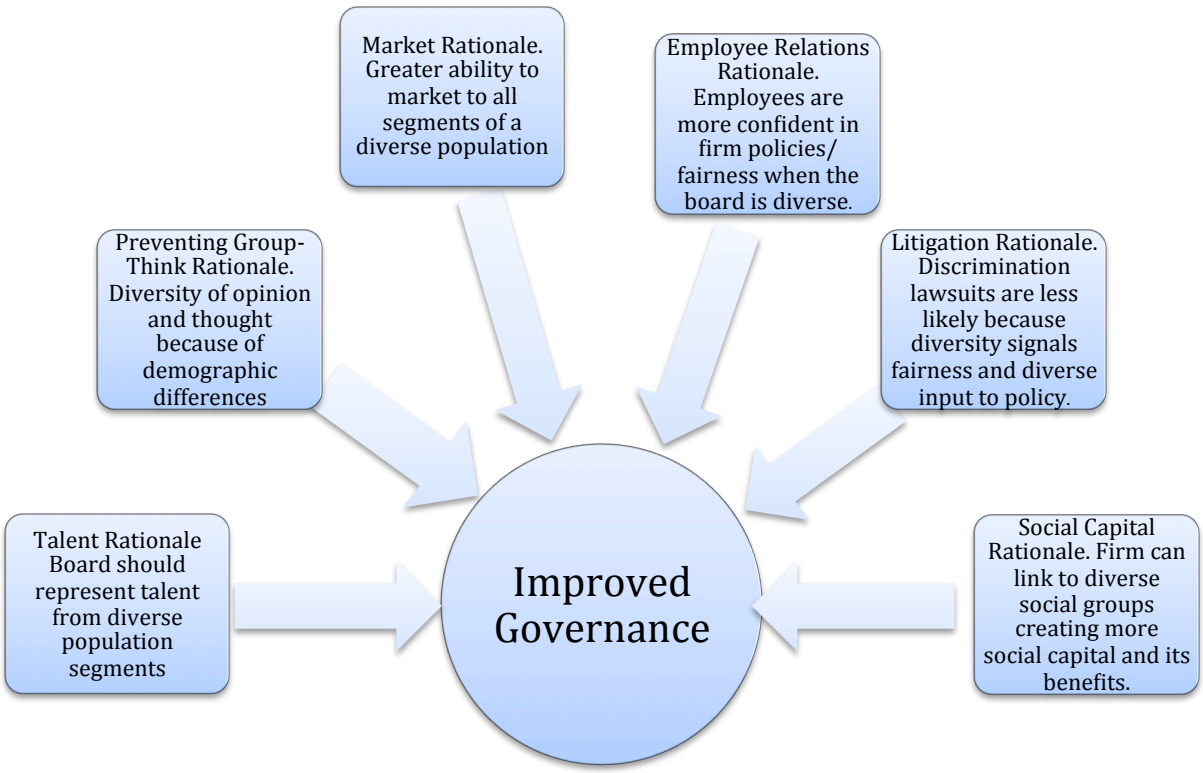


Figure 8.3 Rationales for Board Diversity (Fairfax, 2005) including proposed new Social Capital Rationale

Each of the board diversity rationales acts as a potential bridge to fill gaps in the resources needed by the corporation for the most effective governance. For example, the talent rationale (first box in Figure 8.3, counting clockwise from lower left) argues that given the diversity of the labor market, firms cannot ignore portions of the labor pool when accessing talent. Corporations that ignore portions of the labor pool may miss out on the

talented individuals in that ignored labor segment. The firms that ignore segments of the labor pool, will not have the most talented group of directors. Board diversity; by insuring that the board is accessing all segments of the labor pool for board positions, functions as a bridge to better talent who would otherwise be under-utilized.

The second box in Figure 8.3, is the rationale that board diversity aids in helping the board to make better quality decisions. This argument assumes that heterogeneous groups make better quality decisions (Carter et al.), and therefore a board that is not diverse will not be at their optimal decision making capabilities. This rationale argues that the function of board diversity is to bridge the board to a diverse set of directors, which is necessary for optimal decision-making.

The third box in Figure 8.3 is the marketing rationale. This rationale argues that firms with diverse directors will be better at marketing to diverse populations, as well as developing products which will appeal to those populations. Board diversity functions as a method for insuring that the firm creates the best marketing strategies. Without diverse board members, the firm will not have this necessary resource.

The fourth rationale is presented in fourth box of Figure 8.3. This rationale is referred to as the employee relations rationale, and argues that a diverse board will facilitate company policies which reflect the concerns of all employees, and diverse board members will act as a signal that the firm is operating fairly. These fair policies will assist in maintaining a satisfied workforce that believes the firm to be fair, and therefore will produce higher productivity. The function of this rationale for board diversity is to bridge this gap to diverse perspectives to the board when policies are written. Without these diverse board members, the board will not have access to these diverse perspectives.

The fifth rationale is the litigation rationale. Related to the employee relations rationale, this rationale assumes that there is a gap in the directors knowing what types of policies the firm should pass. The assumption is that diverse directors have a perspective, and sensitivity to issues of discrimination that can get the board sued. Therefore, these

diverse directors can anticipate the problems and appropriately suggest actions which will help the firm to avoid discrimination litigation. Therefore the function of this rationale is to provide the board with a bridge to these diverse perspectives. Without these diverse members of the board, the board would not have these members to perform this important function.

The final box, representing the new sixth rationale, is social capital. Like the other six rationales, the rationale assumes that race or gender benefits the board in a specific way. Like the other rationales, the rationale describes *how* it is beneficial, and what function it serves in improving governance. Looking specifically at functionality, this researcher determined that, like the other five rationales, diverse social capital performs the important function of bridging a specific gap to necessary firm resources.

As shown in Figure 8.1, the primary role of diverse social capital is to bridge the firm to diverse networks and social ties. These could be in the form of personal relationships of the directors, diverse clubs or other social activities, or other non-employment based contacts. These diverse social contacts present an opportunity for the board to access the benefits accrued to them by virtue of these unique groups.

Consistent with the other five rationales that function as a bridge to new social capital, this analysis suggests that social capital should be considered as a sixth rationale for board diversity. Social Capital serves a role in governance (figure 8.2), and rises to the standard of other rationales for board diversity.

Researchers have noted the difficulty in isolating social capital from human capital (Coleman, 1988 and Nahapiet and Ghoshal, 1998), and have determined that the two are conceptually and empirically difficult to define and disentangle. However, in order to narrow the range of social capital variables, this researcher restricted the definition of social capital in this study to connections by virtue of personal relationships, club memberships, and other non-employment based contacts. Previous research has looked at how a variety of human and social capital attributes (education level, expertise, etc.)

differ for board candidates (Lester et al., 2008). This researcher chose to determine if the specific social capital attributes identified above differ for diverse candidates, and whether these attributes make a difference in how they contribute to their boards. These questions are used to determine if the social capital of demographically *diverse* directors differs from that of *like* directors. This thesis was not designed to attempt to directly measure social capital; therefore those questions, both in the survey and the interview guide, that may give some insight into board member's perceptions of social capital do so indirectly. Results of my research indicate that most UK directors do not believe that social capital was a consideration in their own appointment to the board. However, their answers also reflect that boards do seek various types of work experience and human capital. For example, consistent with Lester et al. (2008), director answers reveal that various resources are sought from directorial appointments including political connections, financial market contacts, and work experience, as part of the criterion for board selection.

In closing this section, however, it also seems that social capital, like race and gender, is an attribute of a board director. As a consequence, although social capital can have an impact on board governance along with the five board diversity rationales, what should also be apparent is that social capital, also like race and gender, is an element of diversity unto itself.

8.3 UK Survey Results – Social Capital Questions

The UK Survey of FTSE 350 directors included a several questions designed to indirectly gain the perceptions of directors regarding the importance of social capital in their selection and their board governance, as well as determine whether social capital is another board diversity rationale.

Table 8.1: Social Capital Related Survey Questions			
Question Topic	Question	Characteristic	Literature
Selection Process	Influence that I have in organizations comprised mostly of those of my "*varying characteristic"* was very important in my being appointed for this board.	Race Gender	Sheridan, 2001.Women who successfully obtain board positions have long- standing, close relationships with other female directors. Catalyst, 1995. Women directors are good at networking with other women. Singh et al., 2006. Women often act as speakers at networking events, which women find very inspiring, and an opportunity to gain encouragement.

Selection Process	Personal connections with the CEO were important to my being appointed to this board. What is your assessment of your relationship with the CEO of this company?		Kim and Cannelle, 2008. Question suggested by Kim and Cannelle to determine level of internal social capital. Internal social capital influences director selection because incumbents will naturally favor and trust others like themselves and others to whom they have close interpersonal relationships.
Diversity	The types and nature of community group memberships I hold seem very different as compared to others on the board.		Harper, 2002. Dimension of social networks may be understood by evaluating the number of cultural, leisure, social groups belonged to.
Diversity	My appointment to the board provided linkages between the company and new demographic groups.		Hillman et al., 2002 examine how firms seek to increase their resources and survival by becoming more central in networks and linkages to other firms.

Diversity	I have strong relationships with important company stakeholders (customers, bankers, special interest groups		Bilimoria, 2000. Important US groups, such as union pension funds with many female members, voice concerns about the lack of diverse boards. This would increases pressure on Chairs and CEOs to appoint female directors. Brammer et al. 2007. Close proximity to consumers plays a more significant role in affecting board diversity than does industry workforce, reflecting the influence of a firm's external business environment. Kim and Cannelle, 2008, external social capital can be assessed by asking questions about important company stakeholders (customers, bankers, suppliers)

Information on which type of board social capital the firms were seeking was investigated in this thesis using Likert questions as suggested by other researchers (Kim and Cannella, 2008). Kim and Cannella suggest the following questions as a measure of board social capital:

1.) Do outside directors have good relationships with the CEO? Thesis survey question #11-5, #16.

Survey answers indicated that 83% of male board members perceived themselves as having a good or very good relationship with their CEO. In contrast only 42% of female board directors perceived themselves as having a very good or good relations with their CEO. These results may indicate that male directors have stronger social capital with those internal to the board such as the CEO, whereas female board members may be more distant to the CEO and perhaps have higher external social capital[60]. Research indicates that individuals with high external social capital will be distant from other dominant coalition members (Kim and Cannella, 2008).

2.) Does the board have members who know important suppliers of the company? Thesis survey question #19-3.

Survey answers indicated that 27% of the male directors agreed or strongly agreed that their relationship with important company suppliers was strong. Additionally, only 14% of female directors agreed or strongly agreed that their relationship with important company suppliers was strong. These results suggest that social capital connections to company suppliers is not sought amongst boards, and directors generally do not believe that they have these connections.

[60] Kim and Cannella label the ties to those inside the organization as internal social capital, and the ties to those outside the organization as external social capital (p. 284).

3.) Does the board have members who know important customers of the company? Thesis survey question #19-4.

When asked about company customers, over 50% of the male directors indicated that they did not have strong relationships with important company customers; however approximately 30% of males either agreed or strongly agreed that they did have strong relationships with important company customers.

Similar to males, approximately 42% of the female directors indicated that they did not have strong relationships with important company customers; also similar to males, approximately 30% of female directors either agreed or strongly agreed that they did have strong relationships with important company customers.

These results do not suggest a difference in social capital with customers between males and females.

4.) Does the board have members who know important bank officials in the company's local business community? Thesis survey question #19-5.

When asked whether they had strong relationships with important banking and finance groups, the males's answers were broadly spread across all categories. Approximately 57% of males had strong opinions (either strongly disagreed or strongly agreed).

When asked whether they had strong relationships with important banking and finance groups, the female answers were broadly spread across all categories. Approximately 41% of females had strong opinions (either strongly disagreed or strongly agreed).

In addition to these questions and answers above, director survey answers did not support that they perceive that group memberships provided them social capital that was important to their being selected for the board. Figure 8.1 is not supported from the survey answers, as the combined results from these questions indicate that directors did not perceive that social capital gained from influence in groups comprised of members of

their same gender, nationality, or race influenced their board appointment[61]. In addition, Directors did not believe that personal connections, group memberships, or social connections provided any new links to the board. There was no statistically significant difference between gender of director and whether the director perceived that her or his appointment provided new social capital links.

8.4 UK and US Interview Results – Social Capital Questions

With respect to race and gender diversity, when asked questions designed to determine information about social capital, most UK directors professed that they did not believe that social capital was a consideration in their own appointment to the board. US directors were more likely than their British counterparts to report that social capital or social ties were helpful for their board appointment. Whereas UK directors emphasized having directors with different networks on the board (some having financial ties, while others having political ties, etc.), the US directors reported being assisted by each having similar networks. This was represented by either knowing someone with ties to the board, having similar cultural interests, or similar industry activities.

No question, except possibly Interview Guide question number eight asks the respondent to directly take an explicit aspect of social capital into consideration. The first section of the Interview Guide questions number one, seven, eight, nine, and ten had the potential of revealing director's perceptions whether social capital influenced their own or others' board appointment:

Section I

Question One: How were you selected to be a board director? What was the course of events?

[61] See section 6.2 for a full discussion of director's perceptions about whether demographic characteristics were important to their board appointment.

Question Seven: Did you have connections through your primary current or past employer that were helpful to you in being selected for the board? How important were they?

Question Eight: Was there a perception that your influence on clubs and civic activities would be important to the board?

Question Nine: Did you have connections with board members that were helpful in being selected for the board? How important were they?

Question Ten Did you have connections with the CEO that were helpful in being selected for the board? How important were they?

Director Perceptions of Social Capital as a Criterion for Board Appointment

Only two of the eight white males in UK perceived that social capital or social ties assisted in their being appointed to the board, and neither of the two white females perceived that social capital or social ties assisted in their being appointed to the board.

One of the two white male directors who indicated that social ties assisted in his being appointed mentioned political ties. He felt that his political connections made him a more valuable selection. Consistent with resource dependency theory, he also indicated that he had connections in "The City" which is important for a chairman in enabling the firm to access capital. This director also highlighted his board's preference for political and employment based social capital in appointments saying, "One of the woman on the board has political connections. The other woman has 'City' connections. It is important that the directors do not have the same social networks." This director's answer suggest that social contacts may be important, but more importantly it seems to support a resource dependency theory view, as his answers reflect a focus on connections which link to other organizations rather than other people. His explanation for the connections

in “The City,” suggest that the board was seeking the “links to other organizations,” such as those discussed by Hillman and Dalziel (2003, p. 383). While he did not specifically discuss why his political connections were important to the board, it is plausible to infer that his political connections are often important for resource dependency benefits discussed by Lester et al. 2008, and Pfeffer and Salancik (1978) including the following: (1) advice and counsel, (2) legitimacy (3) channels for communicating information between external organizations and the firm, and (4) preferential access to commitments or support from important elements outside the firm.

As only two of ten UK directors believed social capital expectations were relevant in their selection, it does not appear that Figure 8.1, describing how directors chose “like” or “demographically diverse directors” is supported by the survey results for UK director selection.

Both of the white male US directors perceived that social capital was helpful in their appointment to the board. One white male US Director (#23851) stated,

> I got a call from an old friend. The friend was not a board member, but was a friend of the CEO of a company looking for another director. At the time, I was looking to get off of the boards I was serving on, but decided to meet with the CEO at the request of my friend.

Another white male US Director (#22152) said,

> I have been on many boards over the years, and there is no one way of being selected that stands out. On a few boards I was recruited by a head hunter but for several others I have been asked to serve by someone that I know.

Director (#23851) thought that his connections with his two primary employers played a significant role.

> There were other things that made a difference, but work connections were the most significant to being asked to join the board.

Director (#22152) thought that his employment connections were most important to his being selected for the board. His background included significant leadership positions in the financial services industry. He felt that financial services experience was very good

for companies to have on their boards. This director's perception provides support for (Lester et al., 2008), who argue that directors from backgrounds such as banking and finance bring important social capital to boards, and thus are sought after by firms (p.1010). Providing support for figure 8.2, the second director's answer suggests that directors perceive certain types of social capital, such that accumulated in a banking career as important for board social capital. This director's answer provides support that boards may seek new or different types of social capital with their appointments for purposes such as accessing important external groups or channels for communication (Pfeffer and Salancik). However, this director, a black male, did not provide support with his answer that his social capital due to his diversity was sought with his appointment. His answer does not provide support for Figure 8.1 Demographically Diverse Director scenario.

Consistent with Figure 8.2, all three of the white female US Directors indicated that social ties were helpful in their appointment to the board; however, in these cases the emphasis was on providing new technical knowledge or human capital rather than social capital. One white woman director (#28772) explained her selection as,

> I was CEO/President of a smaller firm. At a conference I gave a presentation to a group of industry professionals. In the audience was the Chairman of the board I currently sit on. He was impressed by my work that when they had a board opening he contacted me.

A similar experience is reflected in another woman's interview (#23690),

> I had many years of experience and had been a CEO/President of a small firm, I was giving a presentation at an industry event about a technical implementation that I had had led at another company. In the audience was the Chairman of my current board. He invited me to be on the board because the implementation I spoke about was related to an issue that his company was facing.

Three out of the four black male US directors perceived that social capital or network ties were helpful in their appointment to the board. One (#25151) black male US Director explained his appointment,

> I was in the right place at the right time. I had served on a board of a university and that board position gave me exposure to corporate partners. These

> interactions allowed these corporate individuals to become acquainted with my expertise. These corporate partners were also people that I ran into at city symphony performances.

The director was convinced that his familiarity with them in professional and social settings was important to being selected. He emphasized that his casual interactions at cultural performances was probably a strong deciding factor in allowing other directors to see him less of an outsider and "someone who could fit in." This director provided one of the direct indications that his social ties were more important than those gained through other ties such as employment. His answer also reveals that his similarity was being sought rather than his uniqueness.

Another example of the social capital criterion for selection is revealed in the answer given by another black male US Director. In the interview with Director (#10614) he communicated that he was selected for the board based on the diversity of his experience, influence he held in the local government, and contacts with state politicians. His contacts were different from the remaining board members.

> Because of my role at my company, I became very knowledgeable about state politics. I also became friends with a number of state politicians. These are very important contacts to the (removed) industry. When I was appointed to the board, there was an expectation that I could help the company understand the politics of state government.

Additionally this director said,

> Almost everyone on the board is from another state. It was my social contacts to the state political leaders which was missing on the existing board.

Consistent with Figure 8.2, suggesting that boards seek social capital of directors to provide access to powerful members of the community, as well as channels of communication; his political affiliations and political skill were instrumental in his being appointed. His answers provide support for Lester et al. (2008), who argue that political social capital is valuable to firms.

A closer look at these two director interviews reveals two distinctly different approaches to their appointment to a company board. In the first instance Director (#25151) was

chosen based on his similar social capital, or his social palatability "sameness" and ability to fit in with the other board members (same industry, same cultural interest). However, in the second example, consistent with Figure 8.3, Director (#10614), was chosen because of his unique social network. In this second instance the board was deliberate in its attempt to appoint a director who could provide a bridge, or 'spanning' to a different network thereby increasing its ability to access new networks. One possible explanation for this difference is that the first board could have been happy with their existing board composition and networks, and thus was searching for a board member who would be most like them. This would be a "LIKE director" with no marginal increase in social capital. However, the second board may have been actively seeking change or seeking access into other network groups, and therefore was seeking a board member who could provide links to these new networks. This would be a "demographically diverse director" with an expectation of an increase in social capital. While social capital appears to have influenced the selection process; Director (#25151) is a "Like Director" (see Figure 8.1); while Director (#10614) appears to fit the "demographically diverse director" in the above exhibit. In both cases the possible element of diversity was not their race, but instead their diversity of social networks, thus not supporting diverse social capital as an additional rationale for board diversity (Figure 8.1 and Figure 8.3).

The black female director perceived that social capital or network ties were helpful in her appointment to the board. Similar to the US white women, her social ties were based upon industry groups. The black woman director mentioned a similar experience as the white women above,

> I have been very active in industry professional organizations. I have made myself very visible in these circles and gave training courses to professionals in the industry. I have established myself as an expert in this industry. However, it is not only important to be at the meetings to establish myself as an expert, it is key to be in the same "circles" where these individuals are. This assisted in my being asked to sit on a board.

The emphasis that this director places on being in the same circles as other directors does not provide support that her board was looking for different social capital.

Director Perception of Social Capital: Has your being appointment to the board provided a link from the board to any new and different demographic groups?

None of the UK male directors thought that their appointment provided any new links to different demographic groups. However, both UK female directors, one executive one non-executive, agreed that their appointment to the board provided a link from the board to new and different demographic groups. In each case, these directors answered that they were not selected for their ability to provide links to new or different groups; however, both believed that they provided these linkages once on the board.

The first white female director (#12018) felt that her networks were very different and therefore this was an asset she brought to the board. One example was an introduction to the women of the company to new networking groups that she was familiar with. This included activities sponsored by Cranfield University, who she stated had a number of research initiatives in board diversity. She felt that these networking opportunities were very helpful in encouraging women to network more. The other female director (#10614) also felt as though her presence on the board resulted in new networks. She is on boards of different cultural organizations, university women's studies programs, as well as boards in other countries. These are all new networks for the board and a source of information that enhances her technical expertise. The answers of both women provide support that consistent with the resource dependency view and Figure 8.1 and 8.3, women's presence on boards serves the organisation's interest to build links to its environment, bringing strategic input (and social capital) to the boards on which they serve (Fondas, 2000; Bilimoria and Wheeler, 2000).

Gender diversity may provide new and different social capital to the firm, and therefore provide support for the "demographically diverse director" in Figure 8.1 above, and suggest that consistent with Figure 8.3, increased social capital may provide a rationale for gender diversity.

Neither of the US white males perceived that their appointment provided any new links from the board to any new or different demographic groups, and none of the white female US directors perceived that their appointment to the board provided a link to any new or different demographic groups.

Three of the four black male directors did not perceive that their appointment had provided new links between the board and any new and different demographic groups. The black male (#25151) who believed that he provided new links was a director who was very prominent in the minority community. His board, and therefore his company, has been able to reap the benefits of his ties to major community groups. Much of the business of the company is consumer related, and his ties have allowed the company to secure several new exclusive distribution agreements with these large community groups. This black male director (#25151), answered that he was not chosen for his different social capital (see answer above); however, consistent with literature (Van Der Walt and Ingley 2003), as well as Figure 8.1 above, as it appears that the outcome was new social capital and new resources available to his firm. This outcome suggests additional social capital as a rationale for board diversity.

The black female director did not perceive that her appointment had provided a link from the board to any new or different demographic groups.

US directors were more likely than UK directors to perceive that their social contacts and network ties were important to their being appointed to the board. Consistent with their answers about whether race or gender was a consideration in their appointment, UK directors were more likely to attribute their appointment solely to human capital (skills, experience, expertise), rather than to contacts or networks.

Both UK women believed that their companies gained ties to different social groups via their presence on the board, but none of the UK male directors believed that their appointment brought new social capital or different network ties to new or different demographic groups. One black male (US) felt his social capital enhanced board capital;

however, the other seven other diverse individuals did not share these views. These results do not provide strong support to the argument that one of the indirect effects of diversity is the opportunity for the firm to access the diverse groups of contacts, relationships, and social ties that diverse directors may bring. Thus whether or not enhanced social capital is a rationale of board diversity is also inconclusive. Additionally, they do not support arguments by Burt (2001) that diverse directors will allow the firm to bridge structural holds between the firm and its environment.

In addition, US director answers indicate that directors were more likely to be chosen to increase homogeneity of social groups rather than to increase their diversity. This may account for the lack of perceived new social connections among these directors and their boards. Additionally, this lends support to Rose (2007), who argues that because diverse directors are chosen from closely connected groups, any ability to bridge the firm to different groups or information is lost or significantly attenuated. If this is the case, diverse directors who may provide a bridge to different groups and enhanced social capital to the firm are not the types of directors being asked to join boards. Therefore, opportunities for social capital to be a viable rationale for board diversity are somewhat diminished.

Directors indicated that when they were chosen to diversify the board, diversity was primarily functional diversity such as experience and skills. The directors' answers revealed that, consistent with resource dependency theory, boards prefer to have a variety of competencies from a variety of functional backgrounds on the board. However, answers were not consistent with Van der Walt and Ingley (2003), and did not provide support that firms create demographically diverse boards in order to establish and maintain linkages to other businesses, government and social organisations (Van der Walt and Ingley 2003, pp. 229).

UK directors were not selected for the types of social capital studied in this thesis (personal relationships, club memberships, and other non-employment based social

contacts). Although the sample size is too small to support any strong conclusions, given that both of the UK women indicated that they were able to provide new social networks to the board, it may be the case that women belong to or are more active in more organizations, both professional and social, than their male counterparts; and therefore women are more likely to be more valuable to board for their social capital than men.

8.5 Closing Summary – Social Capital Questions

In theory, increased social capital as manifested in intensifying or extending social networks would seem to be a decision that firms may need to give more explicit attention to. In particular, if firms select "Like Directors" who offer essentially identical external social capital to incumbent directors, they are likely to enhance the firm by strengthening existing social networks The firm, however, must be careful that strengthening of existing relationships does not become a source of redundant information (Burt 2001). For a given configuration of board social capital will not yield identical effects on firm performance in all environmental conditions (Kim and Cannella, 2008). Instead, a firm will determine its social capital needs based on the firm's strategic plan, which includes its need to bridge to new groups, or lack thereof.

Boards may not be aware of the advantages that diverse social capital may have for the board, or they may not believe contacts outside of their established social network to be valuable for the board. Boards do not appear to recognize that social capital is a strategic resource and sufficiently diverse groups such as women, may be more likely to contribute non-overlapping social capital networks, which may translate into greater external influence and thus additional resources for the firm. When and if boards adopt this view, it may be possible that social capital becomes a legitimate sixth rationale for board diversity.

CHAPTER 9 - CONCLUSION

9.1 Introduction

Boards of Directors play an important part in company oversight and strategic management. Boards are a key mechanism in the shaping of firm governance. Because of the critical role of boards, directors are often blamed for firm problems and credited with the power to improve corporate governance (Aguilera, 2005 p. S39). Board diversity can be an important element of whether the board can operate effectively. The Higgs Review explicitly discourages homogeneous boards, and suggests that diverse boards may improve governance. It states, "the current population of non-executive directors is narrowly drawn" (Higgs, 2003, p. 13), and they are mostly "white males nearing retirement age with previous PLC director experience" (Higgs, 2003, p. 42). Higgs also argues that "a commitment to equal opportunities which can be of motivational as well as reputational importance is inevitably undermined if the board itself does not follow the same guiding principles" (Higgs, 2003, p. 42).

This thesis has sought to provide an understanding of how directors in the UK and US perceive board diversity may improve firm governance. Specifically it contributes to what we know about the roles and importance of race and gender in board governance. Based upon the survey and interview samples of UK directors and the interview sample of US directors, it was found that although the perceptions of individual directors often vary considerable by demographic characteristics and geographical location, white male directors, whether UK or US, are more likely than other directors to view gender and race as inconsequential in board governance. It should be noted, however, that the similarities of responses among white males on both sides of the Atlantic have different causes: For example, minorities occupy a more prominent place in the US (30 percent of the population) than they occupy in the UK (9 percent) (Goodhart, 2004). Additionally, UK culture seems to generally support an attitude of being both colorblind and genderblind in the workplace and elsewhere in society; whereas US

culture has a history of recognizing and justifying the existence of racial and gender differences (May 1999). This recognition in the country may be due to the long turbulent history of racial turmoil in the US (Peterson et al., 2007). For example, due to the history of slavery, along with the 'Jim Crow'[62] apartheid laws in the 1950's and 1960's; US culture is accustomed to acknowledging inequalities, even if still at times rather grudgingly. Thus in the US, unlike the UK, efforts to adopt a colorblind perspective in the workplace are often viewed askance by vocal and visible political and religious groups long-committed to investigating and uprooting racial and gender bias. In the United States, dozens of advocacy groups are dedicated to promoting board diversity, by measuring it, studying it, or providing training or mentoring to potential female or minority board members (Conley 2009).

This chapter contains reflections and concluding thoughts of the research I undertook to investigate board diversity and governance. The goal of the research was to provide an academic contribution to existing literature (Fairfax, 2005; Ramirez, 2003; Forbes and Milliken, 1999; Pettigrew and McNulty, 1995; and Roberts et al., 2005) of director perspectives about diversity and how it may impact firm governance. This thesis, in particular, sought to contribute to what we know about director's opinions on whether or not diversity matters (Field and Keys 2003, Burke 2000, Fondas 2000), and if it does, why and in what ways? The evidence from the empirical findings of my research has been revealing in the complexity of attitudes on board diversity. The evidence suggests that this complexity occurs due to perception differences by virtue of one's race, gender, and cultural norms of one's country. In addition, this thesis research provides results from the UK and US, which allows for the comparison and contrasting of board governance and diversity attitudes across the two countries.

[62] Jim Crow laws in the US were a system of laws intended to completely racially segregate public, and private services and facilities during 1950 and 1960's. These laws resulted in "Whites Only" signs across most the Southeastern US for public services such as toilets, water-fountains, restaurants, hotels, and leisure events.

The US corporate governance system has more in common with the UK than it does with other major industrial nations (Cheffins, 2001). Comparison literature between UK and US governance are not as commonplace as single country analyses or comparisons between the Anglo-American systems such as the US and UK and Continental systems. Aguilera et al. (2006) states, "Scholars of corporate governance understand the world to be divided into two systems, the Anglo-American shareholder system and the Continental European/Japanese stakeholder system. "……"Less attention has been paid to differences in corporate governance within the "Anglo-American" system" (Arguilera et al., 2006, p. 147). Performing a search on the Social Science Research Network using the words "United States, United Kingdom, and Governance" only resulted in 23 papers. These papers include those that discuss the direct difference between UK and US governance, and those that compare the governance systems of other countries or areas against the UK and US (shareholder orientated model) type systems. For example, Cheffins and Thomas (2001), compare the shareholder rights and executive pay differences between the UK and US and Aguilera et al. (2006) compare the major provisions of the UK and US governance systems included CSR differences. Cheffins (2001) compares the UK and US governance systems to continental Europe. Armour et al. compare UK and US corporate director litigation (2009), and Aguilera (2005) compares the UK and US type systems to continental Europe and Asia (stakeholder oriented model) in a discussion of institutional governance (Augilera, 2005, p. S41). Buchanan (2012) compares UK and US shareholder proposal rules and relate the differences in rules to differences in proposing activities. However, within this search, this researcher could find no evidence of a similar contribution such as hers, which is a direct comparison and analysis of UK and US director perceptions on board diversity.

This thesis also takes a critical look at the issue of social capital, and whether firms consider the social capital of directors in their appointment decisions. It examines whether firms are the beneficiaries of new and different capital by virtue of diverse director appointments (Van der Walt et al., 2002; Van der Walt and Ingley, 2003; Scott,

1991, López-Fernández and Sánchez-Gardey, 2010, Loury, 1987), and if these observed benefits differ between the UK and US, or male and female. Based on the findings, boards may not thoroughly consider the diversity of social networks of diverse directors in their selection criteria. This lack of consideration of social capital due to demographic diversity in director appointments suggests that boards do not seek to enhance board capital through director contacts and networks. Given this, they may be missing out on the ability of diverse directors to bridge structural holes (Burt 1992) from the board to new diverse connections. The apparent ignoring of diversity's impact on social capital in board appointments may be a result of directors not recognizing the important value that diverse networks could bring to the board, or perhaps it is a result of not seeing the additional networks created by diverse directors as helpful to the firm[63]. However, there is some indication that UK boards may benefit from social capital of directors.

The purpose of this chapter is to provide summary reflections, conclusions, contributions and implications of the thesis research. This chapter is divided into four sections. First, the introduction, second, a reflection on the research approach of the study is discussed, and third a brief discussion of critical research as it relates to the findings of this thesis. These three sections are followed by a summary of the key findings of the thesis in relation to the research questions provided above. This summary also encompasses the discussions of the main contributions to knowledge. The final section is a listing of the implication of the research, including a discussion of the limitations of the study and recommendations for future research.

9.2 Reflection on Research Approach

As discussed in Chapter 4, this thesis research was conducted based on the belief that a method that incorporated both conversations with directors and surveys would result in a

[63] See the discussion on how social capital could possibly be decreased as a part of discussion of Figure 8.1 in Section 8.2.

richer dataset (Corbin and Strauss, 1990, Johnson and Onwuegbuzie 2004, Patton 1990, Morse 1991). According to Morse (1991), the process of using at least two methods to investigate a research question is called methods triangulation. Methods triangulation is used when a single research method is inadequate. It is used to ensure that a more comprehensive approach is taken to solve a research problem than either of the methods can separately provide (p 120). The methods used for this thesis project were selected to provide a triangulation of results therefore strengthening their separate contributions. This thesis employed interviews and surveys to construct a detailed, intensive understanding involving multiple data sources (Creswell 2007, Patton 2002). The use of interviews and surveys also allowed this researcher to develop a better understanding of the interactions of gender, race, and national culture on UK and US boards both in the way board members select new directors, and in the way the boards govern.

The interview process allowed this researcher to gather data based on one-on- one dialogues. Follow-up questions could be asked, and a rapport could be established with individual directors. The one-on-one interviews proved advantageous when interviewing black and female directors. I am a black female, and it appeared that the black, and or female directors became comfortable and more open in their responses as the interview progressed. It is also possible, however, that my race and gender may have negatively impacted the willingness of males and whites to respond candidly (Sattler, 1970). It is possible that white male interviewees were not as forthcoming with their answers if they felt as if their views were not socially desirable (Sattler, 1970, Kantowitz et al., 2005, p.70).

While the interviews allowed for gathering of more detailed answers, the survey method allowed for a great quantity of directors answers to be collected. The advantage to this was the larger number of responses and therefore the ability to generate statistical results. A mixed-method approach was taken utilizing a statistical review of the directors of the FTSE 350, a survey mailed to UK directors, and semi-structured interviews with UK and US directors. As discussed previously in Chapter 4, the director contact details in the

UK were downloaded from the Manifest database. All directors in the UK FTSE 350 were mailed a survey for completion and asked to participate in the director interviews. The US directors were contacted through conference attendance and director referrals. The results were analyzed to look for often-mentioned perceptions, gender or country specific particulars, and perceptions which might support previous research or provide new insights.

9.3 Reflection on Literature

Good governance is a function of environment the firm operates in, the lifecycle of the firm, expectations of the marketplace, and guidance from governmental and policy directives (Combined Code 1998). The literature review of this thesis provided a theoretical framework for the discussion of what is good governance and the perceived influence of race and gender on good governance. The governance framework is discussed within the context of four theories: Agency Theory (Moldoveanu and Martin 2001, Brown and Brown 2002), Stakeholder Theory (Donaldson and Preston 1995, Jensen 2001), Stewardship Theory (Mayer et al., 1995), and Resource Dependency Theory (Pfeffer and Salancik, 1978); all four are discussed in Chapter 2. In addition, the literature provides suggestions on how board diversity impacts board governance, including various often-repeated rationales for board diversity (Fairfax 2005, Dallas 2002, Catalyst 2004). Some of the purported rationales include the idea that diverse directors will help the firm to: 1) attract diverse customers (marketing rationale); 2) develop policies that provide equal opportunity and fairness (legal rationale); 3) provide an example to employees about company values (employee relations rationale); 4) signal to the market that the company operates fairly (signaling rationale) and 5) ensure that new and different professionals are on the board (talent rationale) thereby providing a diverse viewpoint for the board and preventing board groupthink (super-outsider or governance rationale). This thesis furthers these studies, as it provides director perceptions on whether these

rationales hold true in the opinions of the boardroom directors, whether other rationales are worth considering (such as diversity enhancing social capital), and whether there is a difference in the perceptions based on gender, race, or country. The results are inconclusive, as there is no one director perception, and director viewpoints differed widely depending on a number of issues such as race, gender, and the country where the director resides.

The literature reviewed in Chapter 2 and 3 also discussed the relationship between social capital, board diversity, and firm governance. Just as financial capital provides benefits to the board, so can social capital. Previous researchers have shown that social capital is important to firm outcomes (Baker, 1990; Hitt et al., 2002; Palmer and Barber, 2001). One way that firms gain social capital with other firms is through individuals in those firms and their interaction with one another (Ireland et al., 2002). Furthermore, social networks of individuals hold value. This value is often the ability to bridge between the social networks of the individual and the other organizations they belong to (Burt 1992). Overall, data analysis revealed that directors perceived that unique and diverse social capital; based on demographic characteristics, is not sought by boards. Directors did not perceive that they were selected to provide new social capital based on their demographics, nor did they perceive that their social capital based on groups or affiliations was important to their selection. However, there are some difference between the UK and US answers regarding appointments.

Burt (1992) suggests that emphasis should be placed on the opportunities to exploit the "structural holes" between dense pockets of relationships in networks. Thus organizations should to seek out partners with whom they can form unique, or "non-redundant," relationship. A director can serve to fill the structural hole between two groups, either as a leader or as a member of both groups. This individual then provides an opportunity of spanning of two individual closed networks, where they are now connected, and have enhanced social capital beyond what each group had separately. This structural holes argument was used in the data analysis to determine if boards

consider social capital in their appointments. UK directors reported that they were not familiar with other board members or the CEO prior appointment, which was somewhat different than what US directors communicated in their interviews. US directors frequently mentioned during their interviews that they first met someone on the board, via a meeting or through previous contacts, and that individual was important to their gaining a board appointment. This provides some evidence, that in the UK directors are chosen who may assist in spanning structural holes for the organization, while in US this may not be the case. Consequently, there is a need for future research on how social capital may effect board appointments in different countries.

The five rationales for board governance have been used in the data analysis to determine whether in the perceptions of the directors support these rationales. The results, discussed in Chapter 6 through 8, suggest that director answers indicate support for the Employee Relations Rationale for board diversity, as well as the Litigation Rationale for board diversity. However, the Governance Rationale; while it is argued by many researchers (Ramirez 2003, Catalyst 2004, Butler 2012, Singh et al. 2008); was not supported. The analysis of the data in this thesis did not provide support for this rationale. Directors did not indicate that their board contributions were based on their gender or diverse backgrounds, and survey and interview were inconclusive in determining if diverse directors provided more debate or oversight to the board. Additionally, diverse directors did not indicate that their opinions, based on their diverse backgrounds, were important to the board.

In this dissertation, because of the lack of clarity within the governance literature concerning the relative importance of the alternative and often times competing theories of governance theories as well as a lack of a clear theoretical relationship between diversity and governance, the theory was more helpful in constructing helping to constructing the survey questions than in estimating the size, direction, or significance of racial and gender differences on board governance.

9.4 Conclusions on the Research Questions

The primary purpose of the thesis was to answer the broader question of whether directors perceive gender or racial diversity as valuable to the governance process. Moreover, if diversity is valuable to the directors, what are their perceptions of why it is valuable and what rationales do they use? Additionally, it was to examine if social capital considerations might influence the director selection process, and board governance. To answer these broad questions, five research questions were developed, that were to be answered by results of a survey and interviews. The survey was mailed to all UK directors of the FTSE 350, resulting in a total of 72 director responses. Ten of these directors also agreed to be interviewed. Additionally, 10 US directors agreed to be interviewed, resulting in 20 directors interviewed and 72 director survey responses. The analysis and findings of this thesis are based on these survey and interview responses.

Research Question 1 - Directors perceive that board appointments are impacted by demographic factors such as their race, gender, age, or nationality.

White males remain the undisputed majority in boardrooms; however, white males do not believe their race or gender have an impact on their board selection. Instead, consistent with other research (Jost and Banaji 1994), they perceive that their majority status is based on superior experience and expertise. The empirical evidence of the research reveals that these results were consistent across the findings of this thesis's UK survey, and the UK and US interviews. Generally, white males did not believe that demographic attributes were important to their appointment. Instead, UK white males were consistent in their view that their appointment was only based on their experience and expertise. There were only two exception areas where there was some hint that white males may have perceived that demographic differences mattered. The UK survey results suggested that some British directors believed that nationality was an asset to their selection, and some non-British directors believed that their nationality was a hindrance to their selection. Unfortunately, due to the small numbers of non-British directors who returned the survey; a full analysis of this dynamic was not possible. This remains an

area ripe for future research. Additionally, there is some indication from the UK survey that directors between 35-55 [64] believe their age was an asset to their selection. This suggest that younger directors may believe that youth may be more valuable in board appointments than additional experience gained by older directors.

US white males also believed that their appointment was based on their experience and expertise; however, US white males were somewhat willing to discuss other attributes to their selection. While UK males communicated that their appointment was based almost solely on skills, the US white males both mentioned in interviews that social and professional contacts were helpful to their board appointments. US white males believe that their board appointments were assisted by their social and professional contacts; but they did not seem to associate the influence of their contacts with either race or gender. However, racial segregation in the US is more significant than that in the UK, and affects the exposure and contacts that individuals have with those of different races. UK minorities are less segregated than are US minorities. This is especially true of African-Americans in the US[65]. There is no evidence of ghettos or "hypersegregation" in the UK, and levels of segregation in the UK are less than half of those for African-Americans (Peach, 1996; Simpson, 2007, 413). Therefore the effect of segregation on interactions is far more pronounced for whites in the United States compared to whites in Britain (Fieldhouse and Cutts, 2010). These effects may be evident in director interactions and subsequent contacts.

Nevertheless, white male directors consistently perceived that race and gender were a positive factor of consideration for diverse directors, and a few UK white males mentioned that being male may have been at a disadvantage for their own selection. This perception may indicate that white males see those persons who are different on the board as having been assisted by their diversity. Moreover, this perception may be

[64] The age of respondents were also standardized by experience to account for differences in experience due to age. See Chapter 4 for a full description of this standardization.
[65] The US director sample was comprised of 5 black directors, therefore these directors may be directly impacted by these dynamics.

dangerous, as it shows that while they do not believe their appointment prospects were greater by virtue of being a white male, they do believe that the appointment prospects for diverse directors are greater given their demographic characteristics. Such an attitude may make it highly unlikely that white males would feel it necessary to institute initiatives to increase board diversity.

Diverse directors perceived the role of gender and diversity in ways similar to white directors as it related to how their diversity affected their appointments. In an environment where women and racial minorities are underrepresented in senior management positions and boards, most diverse directors still perceived that gender or race was an asset to the board selection of other diverse directors. However, an area of inconsistency was that when asked in the interviews whether their own appointment was assisted by diversity initiatives, these directors were hesitant to express that either race or gender was a factor in their own appointments. This inconsistency presents an interesting observation where directors are unwilling to believe, or express, that anything other than expertise was a significant factor in their board appointments; however, they are willing to believe, and express that those elements were important in the appointment of other diverse members.

Research Question 2 - Directors perceive that board governance is positively impacted by having diverse members on the board.

An area of disagreement between UK directors and US directors, was whether directors perceived tangible benefits to diversity on the board. The thesis sought to determine if the answers would reflect an agreement with traditionally held board diversity rationales, or perhaps present an additional rationale of social capital benefits to board diversity. Almost all US directors were of the opinion that there were tangible benefits to board diversity. However, UK male directors were less likely than females to attribute any specific benefits to diversity. Instead UK male directors prefer to attribute any such observed benefits to individual personality traits. Some benefits to board diversity

according to the UK females interviewed, and US directors, whether attributed to diversity or specific women directors, include having a diverse set of opinions represented having a 'richer' discussion, the board staying on issue and on task during meetings, and diverse directors (particularly women) asking probing questions and seeking clarity more often (all consistent with the Governance Rationale). Interview answers by women directors, consistent with prior literature, indicate that women tend to question and seek debate more than male directors, which may improve the board decision-making process, and provide tangible benefits to diversity, but this result was not supported in the UK survey data. The UK survey provided some support for the Litigation Rationale and the Employee Relations Rationale. The US interviews provided some support for the marketing rationale. So while, interview and survey results provide some support for these rationales for board diversity, this thesis research did not provide support for the Talent Rationale.

Research Question 3 - Directors perceive board diversity is an important signal of board values to the marketplace.

This thesis research found that the observance of the board using director appointments to signal firm values to the marketplace was observed in some of the US director interview answers, but not in UK director answers. The lack of importance UK directors placed on signaling with board diversity may be explained by a possible lack of pressure that boards feel to diversify. There are several results that indicate this lack of pressure observed in the UK survey and the interviews. The survey respondents were asked if there were special interest groups that monitored the firm's level of diversity. Directors indicated that there were no such groups. Without such public monitoring and pressure on companies to diversify boards, firms may not feel compelled to pursue diversity. Additionally, when observing the level of board diversity by industry, firms with direct consumer contact such as retail, and financial firms are more likely to be diverse than firms with no direct consumer sales. This indicates that firms are using diversity as a signal when it is apparent that its stakeholders value the signal. Consequently, boards

seem more willing to diversify when there is a customer or stakeholder expectation of board diversity.

Research Question 4 - Directors perceive that board members are chosen to improve board networks and board capital, and this enhances board social capital.

One possible result of diversity on the board is the prospect of the board acquiring diverse social capital (Fanto et al. 2011). Consequently, social capital and its impact on board governance was also explored in this study. Results of both the interviews and the UK survey indicate that women directors may provide new and different types of social capital and networks to the board, consistent with literature on diversity and structural holes. Findings indicate that UK female directors were more likely to report that they provided new and different board capital than did male directors. Results reveal that most male directors do not believe that their appointment provided new or different social networks or capital to the board. This outcome is somewhat expected based on two points. First, US directors reported they were appointed to the board based on their experience; however, they also acknowledged that their board appointments were assisted by existing social contacts and networks. This suggests that board members shared similar networks and contacts. This also would suggest that these shared networks of directors would make it more difficult for these individuals to introduce new social connections to the board. However, in contrast, female directors in both countries were more likely to report that they were chosen because of their unique skills or expertise instead of their social contacts, and males also reported that female directors were more likely to be appointed because of a specific expertise or skill. Consequently, this may account for why UK women were more likely to report that they had provided links to new social networks. In addition, the different social networks that the UK female directors reported were often networking groups comprised of other women. This result suggests that it may be easier for firms to bridge social and professional connections to women, possibly including customers, employees, or directors; by virtue of connections with other women. It also suggests, that companies which are not gender diverse in their

boards, management, or employees; may be not be completely assessing talent of females in the market or their purchasing power as customers. These boards may not be aware of the advantages that diverse social capital may have for the board, or do not they do not believe contacts outside of their established social network to be valuable for the board.

Research Question 5 - Directors perceive that recruitment firms are important to board appointments.

This thesis research found that there is a difference in the perceived importance of recruitment firms between UK and US directors. This importance was observed in most of the UK responses but few of the US director interview answers. Both the interviews and surveys reflect that UK directors believe recruitment firms are important players in the board appointment process. Answers from most of the US directors did not reflect that recruitment firms were as important to the board selection process. This finding provides additional evidence that US boards are choosing directors from individuals which are already known to them. This includes those in their existing professional and social networks. This may make it more difficult for US boards to access new and different social capital as discussed above, but in addition it may make it difficult for those who do not belong to these specific networks to make themselves known as potential directors. For example, three of the five black US directors were appointed with the assistance of a recruitment firm, while none of the white US directors were appointed with the assistance of a recruitment firm. This outcome reveals that black professional may not share the same professional and social networks as white directors or professionals and therefore are not able to leverage these types of relationships into board appointments. In contrast, their appointment to boards may depend on being identified by professional recruitment firms. Furthermore, if black professionals are more likely to only be selected with the help of recruitment firms, it also indicates that a board is perhaps:

1) not able to identify a suitable board member to fill an open position, or

2) has a purposeful and specific reason for wanting to identify candidates outside of their existing professional networks.

Seeking to diversify the board would fall into the second category. As discussed previously, boards seem to only be diverse when they have pursued specific actions to increase diversity. When boards consider diverse directors, that diversity is an element of the selection process, and appears to include the assistance of recruitment firms.

9.5 Limitations and Future Research

Conducting a study involving board directors, especially a study where the participants crossed two separate countries, was a challenging exercise. The most significant challenge was director access. This lack of director access results in a study that includes 20 director interviews and 72 director surveys. These results, while they provide a rich source of information, may lack the volume needed for vigorous statistical analysis and generalizations. As such, these results are not meant to be generalized.

Additionally, race and nationality data are not collected by agencies such as Manifest. Therefore, statistical analysis by race or nationality could not be conducted on the full sell of 3066 directors, and was confined to the 72 respondents that completed and returned a survey. This also limits the ability to generalize the results. Once database information is extended to include race and nationality information, further analysis is warranted using the information on all directors.

Lastly, the questions in the survey and interviews were designed to determine director's opinions. In some cases, the directors were asked questions about why they were selected, or reasons for their selection. There is an obvious limitation that the directors were answering based on their particular understanding of events that occurred when

they were not yet present on the board. The subjectivity of these answers is acknowledged.

Chapter 2 discusses the four theoretical frameworks of stakeholder theory, agency theory, stewardship theory, and resource dependency theory. Future research could be extended in the future by asking more questions to determine what the predominant perspective directors take towards each theoretical framework, and performing an analysis on whether board diversity is more valuable within a particular theory framework.

Lastly, while surveys and interview requests were sent to all FTSE 350 directors, due to the lack of racial diversity on UK boards, racial diversity amongst the UK respondents was virtually non-existent. Therefore, it was not possible to analyze the responses by race such as that done with the US directors. As such, comparisons between racial minorities in the US and racial minorities in the UK were not possible.

9.6 Research Contributions

As stated in Chapter 1 this thesis is expected to provide two different types of contributions. First, this thesis presents a thorough discussion of the unique perspectives of director opinions about board diversity and how diversity may impact board governance, it provides comparisons of how board diversity rationales in the literature actually compare to the opinions of directors themselves. This was accomplished by designing the survey and interview guide in a way that allowed the researcher to compare the answers to purported rationales commonly found in the literature. Moreover, this thesis provides a comparison of directors in the UK and the US, which provides a review of how country specific culture may influence directors, and therefore the governance of its firms. This researcher's evidence, as elaborated in Chapter 6 and 7, demonstrates that the various perspectives on board diversity differ widely depending on director race, gender, or country of nationality.

Second, the research may have implications for government policy. The evidence from this thesis suggests that diverse boards are diverse because they have taken steps to ensure their diversity. These steps included actions such as asking recruitment firms to present diverse directors, and seeking diversity as one of the appointment attributes. Thus boards are diverse because they have made diversity a priority. Their diversity was not something that just happened on its own, but instead was something that was considered an attribute within the selection process. This implies that achieving board diversity in non-diverse boards may only be reached by specific and purposeful actions by those boards to diversify. Without those specific actions, their boards will likely continue to lack diversity. Additionally, these types of deliberate actions may have to be broadened in the UK to include racial diversity. Without such actions, UK boards may remain racially homogenous, and without significant gender diversity. This raises the question as to how aggressive policy directives and government actions may need to become, in order to ensure that boards reflect both the gender and racial diversity of the workplace. While government mandates and quotas were not popular with the directors interviewed, the lack of such actions may allow boards to continue to seek diversity slowly if at all.

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APPENDIX 1

A1.1 Survey

1. About You

If you would like to avoid mailing or faxing this survey, you can complete an electronic copy via the internet at www.diverseboardstudy.info. To submit online you will need to enter the 5-digit reference number shown to the right. If you prefer to complete this hard copy, please place a tick in the circle next to your chosen answer for each question.

1. What is your age?

- 21-35
- 36-45
- 46-55
- 56-65
- 65+

2. What is your nationality?

- British
- Other (please specify)_____

3. How would you describe your racial ethnic group?

- White (British)
- White (Irish)
- White and Black Caribbean
- White and Black African
- White and Asian
- Indian
- Pakistani
- Bangladeshi
- Chinese
- Black (Caribbean)
- Black (African)
- Other (please list here)

4. What is your highest level of education obtained?

- A levels
- Bachelors
- Masters
- Doctorate

5. How many boards other than this one do you currently serve on?

- Zero
- One
- Two
- Three or more

6. How many years of professional work experience do you have?

- < 3 years
- 3-8 years
- 9-14 years
- 15-20 years
- 20+ years

7. How long have you served as a board member of ANY company (total years of board experience)?

- < 3 years
- 3-6 years
- 7-10 years
- 11-15 years
- 15+ years

8. How long have you served as a board member of THIS company?

- < 3 years
- 3-6 years
- 7-10 years
- 11-15 years
- 15+ years

9. If you are a non-executive director, does your company consider you independent as defined by the Combined Code?

- Yes
- No
- Not Sure
- N/A

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2. Selection Considerations

10. Do you believe that the following attributes were an asset, hindrance, or not relevant in terms of your appointment to the board?

	Asset	Hindrance	Not Relevant
Race	○	○	○
Country of Citizenship (Nationality)	○	○	○
Age	○	○	○
Gender	○	○	○

11. On a scale of 1 (Strongly disagree) to 5 (Strongly agree), please rate your opinions regarding the following statements.

	1 Strongly disagree	2	3 Neutral	4	5 Strongly agree
1.) Influence that I have in organizations comprised mostly of those of my race was important in my being appointed to this board.	○	○	○	○	○
2.) Influence that I have in organizations comprised mostly of those of my gender was important in my being appointed to this board.	○	○	○	○	○
3.) Connections gained from previous employment were important in my being appointed to this board.	○	○	○	○	○
4.) Personal connections with other board members were important in my being appointed to this board.	○	○	○	○	○
5.) Personal connections with the CEO was important in my being appointed to this board.	○	○	○	○	○
6.) An outside consulting or search firm was important in my being appointed to this board.	○	○	○	○	○

12. Prior to your appointment to this company's board, how many other boards did you sit on with an existing director of this company?

	0	1	2	3	4	5+
On other PLC boards	○	○	○	○	○	○
On non-profit or charity boards	○	○	○	○	○	○
On civic or cultural boards	○	○	○	○	○	○
On political or government boards	○	○	○	○	○	○
Any other board or group	○	○	○	○	○	○

COMMENTS

With regard to board diversity, please comment below on any other aspects of your selection process you think would be relevant.

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3.

13. How many directors in total are there currently on this board?

14. NON-EXECUTIVE - How many non-executive members of this board fit the following description (including yourself, if you are non-executive)?

	0	1	2	3	4	5	6+
White Men	○	○	○	○	○	○	○
White Women	○	○	○	○	○	○	○
Non-White Men	○	○	○	○	○	○	○
Non-White Women	○	○	○	○	○	○	○

15. EXECUTIVE - How many executive members of this board fit the following description (including yourself, if you are executive)?

	0	1	2	3	4	5	6+
White Men	○	○	○	○	○	○	○
White Women	○	○	○	○	○	○	○
Non-White Men	○	○	○	○	○	○	○
Non-White Women	○	○	○	○	○	○	○

16. What is your assessment of your relationship with the CEO of this company?

- ○ Very good relationship
- ○ Good relationship
- ○ Adequate relationship
- ○ Somewhat uncomfortable relationship
- ○ Contentious relationship
- ○ N/A I serve as the CEO

17. What is your comfort level with the majority of other directors?

- ○ High degree of comfort
- ○ Acceptable level of comfort
- ○ Somewhat uncomfortable
- ○ Very uncomfortable

18. Normally, how often do you agree (without much debate) with most board members on important company issues?

- ○ Always
- ○ Almost always
- ○ Most of the time
- ○ Half the time
- ○ Not that often
- ○ Almost Never
- ○ Never

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4. Diversity

19. On a scale of 1 (Strongly disagree) to 5 (Strongly agree), please rate your opinions regarding the following statements.

	1 Strongly disagree	2	3 Neutral	4	5 Strongly agree
1.) The types and nature of community group memberships I hold seem very different as compared to others on the board.					
2.) My appointment to the board provided linkages between the company and new demographic groups.					
3.) I have strong relationships with important company suppliers.					
4.) I have strong relationships with important company customers.					
5.) I have strong relationships with important banking or financing groups.					
6.) I have strong relationships with other vocal external special interest groups.					

20. Please select how often you feel your opinion is sought primarily because of the following:

	Very often	Often	Seldom	Never
Because of your race?				
Because of your gender?				
Because of your nationality?				
Because of your age?				

21. Based on your own personal opinion, please state your agreement with the following statements.

It is absolutely essential to have a diverse board if the company wants to send a message that it is:

	1 Strongly disagree	2	3 Neutral	4	5 Strongly Agree
Socially responsible.					
Providing equal opportunity.					
Complying with equal opportunity laws.					
Progressive.					
Concerned about the product needs of certain demographic groups.					

COMMENTS

With regard to board diversity, please comment below on any other aspects you think would be relevant.

5. Board Diversity and Employee Relations

22. On a scale of 1 (Strongly disagree) to 5 (Strongly agree), please rate your opinions regarding the following statements.

	1 Strongly disagree	2	3 Neutral	4	5 Strongly Agree
1.) The composition of this board sends a message to the employees regarding workplace equality.	○	○	○	○	○
2.) It is important to senior female management at this company that there is diversity on the board.	○	○	○	○	○
3.) This company board has pursued activities which make directors visible to the employees (attendance at company meetings, etc.).	○	○	○	○	○
4.) My presence on the board is beneficial for employee morale.	○	○	○	○	○
5.) There are vocal external special interest groups that monitor board diversity levels at this company.	○	○	○	○	○
6.) My opinion is sought on issues that would affect the organization's level of staff diversity?	○	○	○	○	○
7.) It is important to senior racial or ethnic minority managers at this company that there is diversity on the board.	○	○	○	○	○

23. Had your company experienced any discrimination claims or lawsuits filed against it within 3 years prior to the appointment of a woman or ethnic minority director to the board (to the best of your knowledge)?

○ Yes ○ No ○ Not sure

24. In your opinion, how important is your performance on this board to your professional reputation in other business settings and or boards?

○ Very high importance to my reputation ○ Important

○ High importance ○ Of little importance to my reputation

25. Does your company specifically mention diversity or equality in its mission statement?

○ Yes ○ No ○ Not sure

COMMENTS

Please comment below on any other aspects of employee relations that you think are relevant.

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6. Thank you very much.

26. Thank you for your support and please rest assured that:

- **This survey is completely confidential.**
- **Your answers will not be attributed to you for any purposes other than to summarize research findings.**

Interviews;
In addition to the surveys, as part of our research we would be very interested in conducting a number of short interviews with directors on the topic of board diversity. If you would be willing to talk to us, whatever your race or gender, please complete the boxes below and we will contact you to arrange an interview. Needless to say, all interviews will be completely confidential.

Name:	
Company:	
Job Title	
Email:	
Phone Number:	

Please return your completed survey to the following address:

Dr Graham Sadler
Aston Business School
Aston University
Aston Triangle
Birmingham
B4 7ET

Alternatively you can fax your completed survey to 0121 345 0973.

Once again we thank you very much for your participation in this study.

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A.1.2. Interview Guide

Interview of Directors Guide– NAME

Director was thanked for his or her participation, and told of the expected time to complete the interview.

Introduction

Director was given a summary of the research. Director was told about the Topic – Board Diversity and Board Governance, and that the interview involved a study of the selection process and expectations of directors.

Confidentiality

The Director was briefed about the interview process. They were told the following: "The researcher will take notes, and take a written transcript of answers. Their answers would be confidential, not attributed to them, or presented in a way that makes it apparent that they are the author of the comments". Additionally, they were instructed that after the interview they had a right to withdraw from the study within 30 days after the interview.

The directors were instructed about the methodology and told that the study was a quantitative and qualitative study comprised of a survey (on-line and hard copy) and interviews.

Questions

I. Selection Process

1. How were you selected to be a board director? What was the course of events?

2. Do you feel that race or gender was a factor in your being appointed to the board?

3. Was the company specifically looking for a minority or woman director at the time of your selection?

4. Was your race or gender an added advantage to your being selected?

5. Has race or gender been a factor of consideration in the appointment of other female or minority members of the board?

6. If your board is diverse, were there any events preceding the board diversifying that helped explain a willingness to diversify (market focus change, public relations)?

7. Did you have connections through your primary current or past employer that were helpful in being selected for the board? How important were they?

8. Was there a perception that your influence clubs and civic activities would be important to the board?

9. Did you have connections with board members that were helpful in being selected for the board? How important were they?

10. Did you have connections with the CEO that were helpful in being selected for the board? How important were they?

11. Was a search fund used for your appointment to the board?

II. Qualifications

1. What steps have you taken to ensure you are qualified for the board (formal education, director classes, etc.)?

2. How important was your board performance to in your being asked to sit on other boards?

3. Do you feel like you have more pressure to perform your duties as a director well than others may feel on the board? Why?

II. Diversity's impact on Board Capital

1. Have you seen tangible benefits to diversity on the board?

2. What is your assessment of your relationship with the CEO?

3. What is your assessment of your relationship with other directors?

4. How agreeable are you with other board members? Do you normally find much debate with other directors, or normally agree right away?

5. Has your being appointed to the board provided a link from the board to new and different demographic groups?

6. How often is your opinion sought because of your race or gender?

III. Employee Relations

1. What is the impact of your appointment on employees?

2. What is the impact of your appointment on senior executives?

Other things – Open discussion

A.1.3. Sample Interview Tracking Sheet

directors to interview in UK [Compatibility Mode]

Tracking of Director Interviews

Director No.	Comments, Notes	Telephone contact	Email contact	Directors who have agreed to a confidential interview	Company 1	Company 2	Company 3	Headquarters	Meeting Address

Sheet1 Sheet2 Sheet3

A.1.4 Letter in Director Mailing

Aston Business School

Aston University
Aston Triangle
Birmingham B4 7ET
United Kingdom

www.abs.aston.ac.uk

Corporate Governance and Board Diversity
Director Survey and Interview

Aston University

Information on this page has been removed for data protection purposes

This survey is part of a collaborative research project between Aston University (UK partner) and Benedict College (US partner). The research seeks to canvas the views of directors from leading UK and US corporations on a number of issues surrounding board diversity, board governance and the director selection process.

We realise the demands on your time are intense, but your opinions would be invaluable to our research. We firmly believe our study is unique in that it tries not only to establish if board diversity makes a difference, but also seeks to explore the reasons behind why such differences may or may not occur.

Your participation will be of course be held in the strictest of confidence and your answers will only used as part of an amalgamated and anonymised data set for our own research.

Survey information:

- This survey is voluntary and completely confidential.
- It should only take 10-15 minutes to complete.
- Please answer as honestly as possible, and feel free to skip any question that you feel uncomfortable answering.
- The survey can also be completed online at www.diverseboardstudy.info
- Completed hard copies can be returned to Dr Graham Sadler, Aston University at the address above or faxed to: 0121 345 0973

If you would like to verify the details of this survey (researchers, universities, etc.), please contact Professor Darlene Booth-Bell at Benedict College on +1 803 269 4511, email: belld@benedict.edu or Dr. Graham Sadler at Aston University on 121 204 3221 or email: g.sadler@aston.ac.uk.

We would most grateful if you could complete and return the survey by April 30th if that is at all possible. Finally we would like to thank you for your time and your help on this project, it is very much appreciated.

Professor Darlene Booth-Bell
Enclosure
10035

Dr Graham Sadler

EFMD EQUIS ACCREDITED

Accredited by Association of MBAs

Additional Answers from Open-Ended Survey Questions not included in Chapter 5

A.1.4. Open Ended Survey Responses

The survey respondents were given the opportunity to provide open-ended responses in their submissions.

The first open-ended survey question was one about the selection process.

"With regard to board diversity, please comment below on any other aspects of your selection process you think would be relevant."

The following meaningful answers were given:

Relevant sector experience, reputation
The board was looking for two directors at the same time and appointed one male and one female. Had there been only one appointment, I think a female would have been selected.
Undue focus is being given to gender or ethnicity by social/political commentators as to board composition, rather than business and professional competence of individual board members for the benefit of stakeholders and shareholder value. This focus is bearing adversely on selection procedures in the market.
question - 11/ this is about track record and performance in business. The questions seemed to be biased to obtain an answer you are looking for. We need more diversity in the supply chain/on Executive Committees and on smaller (FTSE 250) Boards.
A board should not persue diversity at the expense of finding the right person for the job - and I speak as one of the few women on boards.
It is a tradegy for British business that there is not more diversity. Boards need to be balanced and have depth and breadth which can only be achieved with a broad range of skills,

experiences and viewpoints.
An FCA qualification?/FTSE 100 FD
Issues of diversity reduce in direct proportion to the intensity of performance and competitive pressures - companies just want the best people they can attract.

The second open-ended question survey question was one about diversity in general.

“With regard to board diversity, please comment below on any other aspects you think would be relevant.”

The following meaningful answers were given:

Question number 21 - 'progressive' - meaningless term in this context. My answer to the same question (21) could have been different if "absolutely essential" had been replaced by "very helpful" or similar
There is no doubt that a diverse board brings diverse thinking which should be valued by any company. However, the duty of the non-executives is not predominantly directed to such ends. It does of course include the constructive criticism of strategy which requires diverse thinking but much of it is corporate governance which does not.
This survey is completely ill-judged in its focus. Board performance is paramount and a survey of the effectiveness of diversified boards would be much more valuable in judging their desirability.
Diversity is important for a well run, well balanced, properly informed business, especially one with serious interests in Africa.
I don't think the above issues are the issues! Need diversity for performance and better decision making.
Question 14 - I have no idea and I don't care! Question 18 - If they agreed with me, they'd be

useless. Question 21 - Companies have no business sending messages of any kind - there should be these things first and foremost the messages will be strong. Question 24 - Its really important to have diverse minds, normal dimensions of diversity (race, gender etc) are generally poor indicators of diverse minds. Any measurement system that uses these diversions risks, paradoxically decreasing actual diversity whilst increasing measured diversity.
To be a PLC non-exec director you MUST have previously been an exec director of a PLC or you simply don't make the cut on any recruitment company's list. There are only a small number of black, asian or female exec directors of PLCs. So this inevitably limits the number of black, asian and female NEDS. (Corporate governance developments are making NED roles more specialist)

The third open-ended question survey question was one about employee relations in general.

“With regard to board diversity, please comment below on any other aspects of employee relations that you think are relevant.”

The following meaningful answers were given:

I believe equal rights are fundamental to the conduct of any organisation and should be instilled in the way the business is run, without the necessity to include specific references to these issues in mission statements etc.. I have always believed in employing the best person for the job, regardless of race, gender or age and have always worked in organisations that do the same.
I don't believe the place for diversity commitment is in a mission statement
Not in the mission statement but in the policies - yes. re 22(1) the board's behaviour does send messages re 22 (4) some groups of employees
I think it is extremely important that any employee believes that a board position is a possibility dependent exclusively on merit. I think that the board, both executive and non-executive,

should meet employees and be accountable to them.
Lawsuits happen whenever there are redundancies, any excuse used.
Question - 22 - point 2/only if female directors are there on merit. point 5/if we've used these we've failed point 7/only if they are there on merit, otherwise its damaging. Question 25 - I have been seeking to always employ the best people, regardless of their race, gender etc for over 30 years. I have found that a) people outside business are more sensitive to perceived tendency to homogeneity that people outside, and b) where females, in parr, have been appointed to senior positions to reach diversity objectives, they have done damage to the cause of females (harriat harmon being a prime case).

Additional survey answers not included in Chapter 6 discussion.

Director Perceptions of Race Based Group Affiliations in the Selection Process

One of the group affiliation characteristics studied was director influence in groups with members of the same gender. Overall, directors did not believe that their influence in groups with those of the same gender contributed in any way to their board selection. When asked whether influence in groups composed of those of their same gender was important to their being selected to the board; almost all directors responded that these groups were not relevant in their selection to the board.

Results indicated that 83% of male respondents either strongly disagreed or disagreed with the statement that influence in organizations comprised mostly of those of my gender was very important to their board selection. Moreover, only a small percentage (approximately 5%) of male directors perceived these groups were very important to their selection. All of the women respondents and approximately either strongly disagreed or disagreed with the statement that influence in organizations comprised mostly of those of my gender was very important to their board selection.

Overall, directors did not believe that their influence in groups with those of the same race contributed in any way to their board selection. When asked whether their influence in groups composed of those of their same race was important to their being selected to the board; almost all directors responded that these groups were not relevant in their selection. Results indicated that 81% of male respondents either strongly disagreed or disagreed with the statement that "influence in organizations comprised mostly of those of my race was very important to their board selection." Similarly, 84% of the women respondents either strongly disagreed or disagreed with the statement that "influence in organizations comprised mostly of those of my race was very important to their board selection."

Results indicated that approximately 80% of the white respondents either strongly disagreed or disagreed with the statement that "influence in organizations comprised mostly of those of my race was very important to their board selection." Moreover, the only group where some directors perceived the statement as true was amongst 6.5% of these white directors.

Personal Connections

Over 65% of men either disagreed or strongly disagreed with the statement that personal connections with other board members were important in their being appointed to the board. Twenty percent of male directors were neutral, and approximately 15% of male directors either agreed of strongly agreed that personal connections with other board members were important in their being appointed to the board.

Over 66% of women either disagreed or strongly disagreed with the statement that personal connections with other board members were important in their being appointed to the board. Sixteen percent of female directors were neutral and approximately 15% of female directors either agreed of strongly agreed that personal connections with other board members were important in their being appointed to the board.

Over 76% of the men either disagreed or strongly disagreed that personal connections that they had with the CEO were important to their being appointed to the board. However approximately 10% of the male directors agreed or strongly agreed that personal connections that they had with the CEO were important. Over 82% of the females either disagreed or strongly disagreed that personal connections that they had with the CEO were important to their being appointed to the board. No women directors were of the opinion that these types of connections were important to their selection.

Director Relationships

Approximately 27% of the male directors agreed or strongly agreed that their relationship with important company suppliers was strong. When asked about company customers, over 50% of the male directors indicated that they did not have strong relationships with important company customers; however approximately 30% or males either agreed or strongly agreed that they did have strong relationships with important company customers.

Banking and finance groups were another stakeholder group that the directors were asked about. When asked whether they had strong relationships with important banking and finance groups, the males's answers were broadly spread across all categories. Approximately 57% of males had strong opinions (either strongly disagreed or strongly agreed).

When asked about company customers, approximately 42% of the female directors indicated that they did not have strong relationships with important company customers; however approximately 30% of female directors either agreed or strongly agreed that they did have strong relationships with important company customers. When asked whether they had strong relationships with important banking and finance groups, the female answers were broadly spread across all categories. Approximately 41% of females had strong opinions (either strongly disagreed or strongly agreed).