Diversifying corporate governance

The effects of gender diversity on corporate governance surrounding corporate social responsibility practices

Corporate governance (CG) is a central mechanism for investor protection, and, due to global issues in financial markets with accounting fraud, they are becoming more important than ever. In order to maximize profits and minimize agency costs, investors are now requiring strong CG principles. These principles are the tenets with which an organization is measured and to which it is compelled to adhere. They are in many respects the internal version of how corporate social responsibilities (CSR) force organizations to interact with the wider world on a social level. In many counties there is a legal requirement to have women on boards of organizations, and in many others, there is a significant trend toward an equal split at top levels. This has been shown to improve the monitoring function of the management board by increasing the range of professional experience represented. Improving the ratio of women to men on boards has been linked to improved performance as well as investor relationships. Having a more balanced board shows investors that the organization is dedicated to improving organizational reputation, as well as improving the scope and implementation of CSR across the organization. Improvements to CSR have been shown to further improve the financial performance of an organization. As such, gender equality on organization boards has a direct link to financial performance.

In 2011, Brazil was found to have no women on the boards of 66.3 percent of organizations. Whilst those organizations that did have women on the board reported an average of 20 percent of seats being held by women, Brazil was still found to be lagging behind China, India and Russia when it came to gender diversity on boards. The Brazilian Institute of Corporate Governance has outlined that board gender diversity is an emerging trend in relation to CG within Brazil. Yet in this way Brazil is significantly behind other leading economies, and as such, organizations in Brazil may be performing worse due to lacking women on boards.

Organizational morality

CSR has been an aspect of organization make-up and performance for decades. Yet it has been in the last decade that CSR has become one of the defining aspects of organizational development. Public interest has become increasingly focused on the behavior of organizations, catalyzed by events such as the Enron scandal, BP Horizon disaster, the 2008 financial crisis caused by the collapse of the sub-prime mortgage market and VW's dieselgate. These scandals demonstrated the lack of care huge global organizations had for public safety and social or environmental wellbeing. Organizations are now punished by consumers and the public if they are unable or unwilling to demonstrate proper concern for CSR policies and directives. The prevalence of social media, allowing billions of people to communicate instantly and collectively, means that organizations that are caught out are highlighted and unable to obfuscate their behavior. For many organizations, CSR is a new tool with which to improve performance by convincing consumers, and therefore investors, that they take responsibilities seriously.

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CG, similarly, has been a tool with which shareholders are able to keep organizations in check, reducing the strain between agents and principals. The scandals listed above have also been pivotal in forcing organizations to confront poor corporate behavior in order to protect shareholder investments. CG has been used to drastically improve transparency within organizations and minimize any accusations of fraud or corporate neglect. CG and CSR are typically similar in ethos, both attempting to provide a moral framework within which an organization has to operate. The combined growth of CG and CSR has meant that organizations no longer solely care about shareholders – other stakeholders such as employees, consumers, suppliers, governments and the third-sector are now heavily concerned and involved with the performance and direction of organizations.

Board diversity

Work done by Dani *et al.* (2019) has shown how previous studies have substantiated claims that the link between CSR and improved organizational performance, yet these studies have been largely based on organizations in developed economies. Their work has looked to improve this by considering Brazil's emerging economy, and how CG, and board gender diversity, has impacted on organizational performance. They created the following hypotheses, including the results of their findings:

H1. CSR is positively related to economic performance of organizations (rejected).

H2. CSR is positively related to financial performance of organizations (rejected).

H3. The CG is positively related to the economic performance of organizations (rejected).

H4. The CG is positively related to the financial performance of organizations (rejected).

H5. The gender diversity explains the positive relationship between CSR and economic performance of organizations (not supported).

H6. The gender diversity explains the positive relationship between CSR and financial performance of organizations (not supported).

H7. The gender diversity explains the positive relationship between the CG and the economic performance of organizations (supported).

H8. The gender diversity explains the positive relationship between the CG and the financial performance of organizations (supported).

The results of their work demonstrate a lack of support for most of the hypotheses in the context of Brazilian organizations. These results contradict previous studies, and yet are perhaps explained by the emerging nature of the Brazilian market. What the results of this study show is that there is a significant relationship between board gender diversity and organization performance – women on boards act as a mediator for the relationship between CG and economic and financial performance. Furthermore, boards that have greater gender diversity are found to have better CG and managerial monitoring due to improved independence and performance.

Significantly, there is much work to be done in Brazilian organizations to get women into boards. There have been barriers in the way of greater gender diversity, but things are now changing. There are currently not enough women in board roles in Brazilian organizations to change or improve CSR practices. With regards to CG, the practices developed by Brazilian organizations are not yet strong enough or implemented in a successful manner. In this light, gender is not the defining issue, but rather CG. Ultimately, women need to be better represented on boards, irrespective of what benefits to performance they may bring.

Comment

The review is based on "Gender influence, social responsibility, and governance in performance" by Andreia Carpes Dani *et al.* (2019).

Reference

Dani, A.C., Picolo, J.D. and Klann, R.C. (2019), "Gender influence, social responsibility, and governance in performance", *RAUSP Management Journal*, Vol. 54 No. 2, pp. 154-177.