

Impact of Board Gender Diversity on Firm Value: International Evidence

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Abstract

This paper focuses on the impact of board gender diversity on firm performance. Using a sample of 880 listed firms in 10 developed countries covering a nine year period, we find that gender diversity has a negative effect on firm market performance. The result is consistent when different robustness checks are employed. A negative correlation can be explained by the fact that the presence of women on boards increases monitoring function. When the investors' rights are well protected by the legal system, this extra monitoring may be costly for firms. This finding suggests that a quota for the exact anticipation of female directors on boards should be carefully considered.

Keywords: Corporate governance; board gender diversity; firm performance; homogeneous effect.

1. Introduction

Using data from a thousand firms in ten developed countries, this paper contributes to the current understanding of the relationship between board gender diversity and firm value. Despite no such theoretical backing framework, diversity in board memberships has gained a lot of attention recently and the influence of board diversity on firm performance has turned into a widespread empirical question. Diversity may come from different aspects such as gender, ethnicity or cultural background, but in this research, our main focus is the gender difference of the board of directors.

In some countries, endeavor has arisen to adopt legal quotas for the presence of women in top management such as on boards of directors. Supporters suggest that introducing a quota could enhance gender equality in organizations and break the ice ceiling that prevents female talent from taking leadership positions. Additionally, not only from a moral perspective, others draw attention to the economic benefits of gender diversity since women are supposed to bring a unique value and attribution to firms. Nonetheless, opponents of quota systems claim that it might lead to “window dressing” if firms are obliged to promote women on boards of directors. Some even indicate that firms with a higher participation of women experience lower firm performance/value or a loss in shareholders’ value (Darmadi, 2011; Bohren and Strom, 2010).

Since there is generally a lack of robust evidence of the board gender diversity impact on firm value, our research’s objectives are to examine these interactive relationships. Also, we intend to examine whether gender-firm value

relationship changes in response to an economic environmental shock or in different institutional environment. The presence of women on a firm’s board might increase board monitoring and then improve shareholders’ rights. Nevertheless, firm value is only better off if its marginal benefit of the monitoring is higher than its marginal cost of additional monitoring. Besides, if the shareholders’ rights are well protected by the legal system or country level governance, the additional monitoring becomes costlier and inefficiently used thereby reducing firm value. Supporting this idea, we concentrate on the sample of more than one thousand firms in ten well developed western and eastern countries, including the US, the UK, France, Germany, Italy, Switzerland, the Netherlands, Belgium, Australia and Japan, where under good legal systems, investors are well protected. We expect to observe the negative impact of gender diversity on firm value within such well-developed institutional environments (in terms of investor protection and legal enforcement), and to further investigate the robust effect of gender across countries.

Our main contribution to the literature is that board gender diversity reduces firm value empirically regardless of whether the country level of governance or crisis shock is considered or not. This result is in the same line with Adam and Ferreira (2009), who show that gender diversity has beneficial effects in companies with weak shareholder rights where additional board monitoring could enhance firm value. However, women on boards have detrimental effects in companies with strong shareholder rights. Thus, it is not surprising that the gender-firm value relationship is negative in our

study whose sample consists of 10 well-developed countries with strong investor protection. Indeed, all regression results suggest that the impact of the board gender diversity on firm value is consistent in response to environmental shock (global financial crisis) and different institutional environments.

Our paper includes 4 sessions. Session 1 is the introduction to the study, session 2 presents a literature review, session 3 provides data and methodology and the final session presents regression results and conclusion.

2. Related literature review

We follow Tricker (2015) by defining corporate governance as a group of mechanisms, processes and relations by which power is transmitted over corporate entities. Specifically, corporate governance identifies the rights and responsibilities of the board of directors, its relationship with shareholders as well as firm management, and stakeholders or any other related third parties in order to ensure that the whole entity is running in the most efficient way and in the best interest of shareholders. There are six common indicators of governance, including the size of the board of directors, the percentage of independent directors and female directors on the board, the separation of leadership, the compensation and the tenure of top management; all have been widely used to investigate their correlations with firm performance. In this paper, attention is devoted to the relationship between women on boards and firm performance/value. Yet, on the relevant strand of the literature, this impact of gender seems to be inconsistent. There are arguments for and against in the literature and empirical evidence as to the association between gender

role and firm value.

Agency theory (Jensen and Meckling, 1976; Eisenhardt, 1989) considers the conflict of interest between firm's owners, shareholders, and their fiduciary, firm's managers. Jensen and Meckling (1976) perceive the governance relationship as a contract, under which managers operate corporate business on behalf of shareholders. It is argued that fiduciaries may not always act in the best interest of owners, being self-interested, and make decisions that are advantageous to themselves but disadvantageous to owners. Hence, according to agency framework, board independence is of critical importance to protect shareholders' benefits. From this point of view, should we expect a positive connection between board diversity, board independence and firm value? If the presence of women on board enhances the monitoring function and/or prevents possible deterioration of the interest of shareholders, board gender diversity is more likely to positively affect firm performance and firm value.

Supporters of gender equality between men and women in the top director seats also claim that women are likely to bring divergent perspectives, experience and knowledge to a board. For example, more female directors obtain university degrees or advanced degrees in comparison to male directors (Hilman et al., 2002; Carter et al., 2003; and Luckerath-Rovers, 2013). They also tend to exhibit greater diligence in work than male directors; this argument is evident in better attendance behavior (Adams and Ferreira, 2009). Further, notably personalities associated with women, for instance sympathy, caring, patience and so on, might help to strengthen relationships among

directors or between firms and stakeholders (Eagly et al., 1995; Boulouta, 2013). Therefore, a gender-diverse board tends to generate higher profits and improve firm performance/value.

However, in fact, the percentage of female directors is relatively low. For example, in the US, Australia, Canada, Japan and Europe, it is estimated to be 14.8%, 8.7%, 10.6%, 0.4% and 8.0% respectively¹. In the samples of EOWA (2006) and EPWN, the majority of firms with female directors have only one female director. In some papers such as those of Branson (2006), Bourez (2005), this fact is considered as evidence of tokenism of women on boards. Others argue that the increase of women on boards may reduce firm performance due to some reasons. From a social psychology perception, traditional culture barriers may inhibit female directors as a minority group from co-operating in decision-making (Tanford and Penrod, 1984) or cause more emotional conflicts between heterogeneous groups (Williams and O'Reilly, 1998). Also, many believe that equality is not necessary and less important than quality, and that it should be due to business reasons that female directors are minorities on board. Furthermore, the presence of women on board increases the board monitoring but excessive board monitoring can decrease firm value and performance as well. The impaired effect of gender diversity on firm performance is previously indicated in the work of Adams and Ferreira (2009), Bohren and Strom (2010) and Shrader et al. (1997).

Considering different sides of the issue, we reconcile the debatable correlation. We aim to examine whether a gender-value relationship exists, in which direction gender affects firm

value and whether gender diversity maintains the consistent effect on firm performance under the control of country level governance and economic environmental shock on firm performance and value.

3. Model and methodology

3.1. Hypothesis development

Over the last two decades with respect to a stronger participation of women in economic activity and in managerial ranks in particular, there has been an increasing demand for both theoretical and empirical research on gender and performance relationship. A positive gender-performance relationship is proposed from a conception that women improve board efficiency and enhance firm performance and firm value as a result. Adams and Ferreira (2009) observe better attendance records of female directors compared to male directors while Huse et al. (2009) find that women on boards help to more effectively accomplish the board controlling function. On the other hand, it is claimed that the higher participation of women on boards diminishes firm value as gender-diversity boards often lead to tougher monitoring which sometimes becomes excessive yet detrimental to firm value. This is especially problematic since we concentrate on a developed institutional environment in which firms are ensured to qualify their governance mechanisms (Levine, 2002). Anderson and Gupta (2009) find that firms in the market-oriented and common-law countries are more likely to demonstrate better corporate governance mechanisms and higher market valuation than those operating in bank-based and civil-law countries. As a result, in such countries, the higher participation of women on boards is less likely to be

necessary but provides a negative consequence on firm performance. Considering both sides of the issue, I am aligned to the disadvantageous effect of female directors on firm performance. *Hypothesis 1: There is a negative correlation between board gender diversity and firm value.*

Hypothesis 2: The gender-performance relationship is consistent across comparable institutional environments

3.2. Regression model

In this paper, we focus on studying the impact of gender on firm value. To answer this question, we choose firms in 10 well-developed countries² which have good and similar legal systems, which are represented by country governance indicators, to avoid the effect of outliers in country-level governance.

We run different regressions corresponding to the research objective. Firstly, we examine the impact of all corporate governance variables on firm value. The results inform us the initial idea of the governance-firm value.

$$TobinQ_{it} = C_i + year_t + \alpha_1 Gender_{it} + \sum_j \gamma_j CG_{it-1} + \beta control_{it-1} + \varepsilon_{it} \quad (1)$$

Where CG_{jit} is corporate governance variable j of firm i at time t . Corporate governance variables include board gender diversity, $Gender_{it}$ (percentage of women on board), board size, board independence (percentage of non-executive directors), CEO duality, compensations of CEOs (in log), CEO tenure. Control variables are leverage, growth opportunity, liquidity and firm size. Tobin's Q is the market-based measure of firm performance. Firm fixed effect and year fixed effect are used in these regressions. C_i is the firm fixed effect; $year_t$ is the year fixed effect. Since there is a latency in the effect of

corporate governance and control variables on firm value, we use one lag for all the variables.

Secondly, we check whether or not the contribution of gender diversity to firm value is consistent when there is environmental shock. "Crisis environmental shock" is a dummy variable which takes the value of 1 if in the period of global financial crisis and 0 otherwise.

$$TobinQ_{it} = C_i + year_t + \alpha_1 Gender_{it} + \sum_j \gamma_j CG_{it-1} + \mu CC_{t-1} + \beta control_{it-1} + \Omega Crisis_{t-1} + \varepsilon_{it} \quad (3)$$

Then we examine the robustness of gender effect on firm value as long as the country governance indicator is taken into account. The regression is as follows:

$$TobinQ_{it} = C_i + year_t + \alpha_1 Gender_{it} + \sum_j \gamma_j CG_{it-1} + \mu CC_{t-1} + \beta control_{it-1} + \varepsilon_{it} \quad (4)$$

$$TobinQ_{it} = C_i + year_t + \alpha_1 Gender_{it} + \sum_j \gamma_j CG_{it-1} + \mu CC_{t-1} + \beta control_{it-1} + \Omega Crisis_{t-1} + \varepsilon_{it} \quad (5)$$

Where Gender is board gender diversity measured by the percentage of women on boards. Control variables are firm operating characteristics (leverage, growth opportunity, liquidity, and firm size) together with other corporate governance variables (board size, board independence, CEO's compensation, CEO tenure, CEO duality). CC is "Control of corruption".

In order to examine if the impact of gender on firm value changes between crisis periods and "normal" periods, we include a new crossed variable of crisis and gender:

$$TobinQ_{it} = C_i + year_t + \alpha_1 Gender_{it} + \sum_j \gamma_j CG_{it-1} + \mu CC_{t-1} + \beta control_{it-1} + \Omega Crisis_{t-1} + \alpha_2 Gender_{it-1} * Crisis_{t-1} + \varepsilon_{it} \quad (6)$$

The models (3), (4), (5) and (6) allow us to check the robustness of the effect of board gender diversity on firm performance. Further-

more, in order to provide a reliable t-test and p-value of coefficient's significance, robust standard errors are used to control for heteroscedasticity or unequal variance.

3.3. Data

The sample contains data on firm governance, performance and other firm characteristics for 1278 firms from four separate countries (the US, the UK, Australia, Japan) and a group of six mainland European countries (France, Germany, Portugal, the Netherlands, Spain, Switzerland) over a 9-year period (2006-2014). All selected countries are developed ones with

strong regulatory regimes, well-functioning capital markets and better specified corporate governance codes. Moreover, only listed firms included in the common stock market index in each country are chosen; which means that these firms are large enough to be considered as representative of their national stock market in particular and their country's economy in general.

The main source for all firm level governance variables is acquired from Bloomberg's database. For corporate governance representation, data on characteristics of board of direc-

Table 1: Description of variables

Panel A: Governance variables	
(1) Board Size	The total number of directors
(2) Board Independence	The percentage of board seats occupied by independent/non-executive directors
(3) Board Gender Diversity	The percentage of board seats occupied by female directors
(4) CEO Duality	Indicates whether the company's Chief Executive Officer is also Chairman of the Board It is a dummy variable which equals 1 if the CEO is simultaneously the chairman of the board and equals 0 otherwise
(5) CEO Tenure	The number of years the CEO has been in CEO position
Panel B: Performance variables	
(1) Tobin's Q	Ratio of the firm market value to the replacement cost of the firm's assets. The Q ratio is useful for the valuation of a company. It is based on the hypothesis that in the long run the market value of a company should roughly equal the cost of replacing the company's assets. It is computed by: $\text{Tobin's Q} = (\text{Market Capital} + \text{Total Liabilities} + \text{Preferred Equity} + \text{Minority Interest}) / \text{Total Assets}$
Panel C: Others control variables	
(1) Firm Size	Current market value of all of a company's outstanding shares stated in US dollars. It is presented in natural logarithm value
(2) Leverage	It measures the average assets to average equity. $\text{Leverage} = \text{Average Total Assets} / \text{Average Total Common Equity}$
(3) Growth Opportunity	A percentage of the increase or decrease of sales revenue of current year to the previous year $\text{Growth Opportunity} = (\text{Revenue from current year} - \text{Revenue from prior year}) * 100 / \text{Revenue from prior year}$
(4) Liquidity	Ratio of net fixed assets to total assets. The higher the ratio, the less liquid the firm $\text{Liquidity} = (\text{Net Fixed Assets} / \text{Total Assets}) * 100$

Table 2: Descriptive statistics of variables

	Obs	Mean	Median	Standard Deviation	Minimum	Maximum
Board Size	9569	10.68	10.00	3.59	3.00	33.00
% Non-Executive Directors	6914	67.44	81.82	30.60	0.00	100.00
% Women on Board	6854	11.89	11.11	10.81	0.00	66.67
CEO Duality	9547	0.37	0.00	0.48	0.00	1.00
CEOs Compensation	6936	16.36	16.58	1.11	9.66	22.10
CEO Tenure	6795	5.83	4.42	5.34	0.08	45.00
ROA	10563	1.76	1.34	1.34	0.29	39.81
Leverage	10534	5.06	2.54	15.73	1.01	928.68
% of Fixed asset	10370	27.35	20.04	24.76	0.00	99.55
Growth Opportunity	10441	8.75	5.62	23.42	-50.16	259.09
Ln Market Capital	10775	8.85	9.01	1.67	-0.33	13.38
Control of Corruption	90	1.54	1.41	0.32	0.53	2.22

tors such as board size, number of non-executive directors and number of women on boards are obtained. We also derived information on CEO-Chair Duality, CEO Tenure and CEOs compensation.

In this paper, we measure firm value using a market-based measurement – Tobin’s Q. The performance variable is collected from Bloomberg’s data source as well. Furthermore, a set of control variables are constructed to account for firm characteristics which consist of firm size, growth opportunity, liquidity and leverage. All variables are winsorized at the 1st and 99th percentiles to eliminate the undesirable influence of outliers.

For country level governance, we use “Control of Corruption”³ as an indicator, a dimension of Worldwide Governance Indicators (WGIs) which are generated by the World Bank in a long standing research project. The variable can take values from -2.5 to +2.5.

The description and calculation of all regression variables are shown in Table 1. Table 2 demonstrates descriptive statistics for our sample data. The average board consists of approximately 10 directors, of whom 12 per cent are female and 68 per cent are non-executive. The chairman of the board also holds the position of CEO in 37 per cent of the total number of firms and CEOs, on average, remain in their position for almost 5.83 years. The mean of Tobin’s Q is 5.22 respectively. Typically, a firm increases its sale revenue by 8 per cent annually, owns 27.35 of fixed assets to total assets, and total assets are equivalent to 5 per cent of the firm’s market value. It is easily seen from Table 2 that the distances between the mean and median values of governance features are narrower than those of additional firm characteristics like sales growth, leverage and liquidity. Since 10 countries in our sample are well-developed countries with strong institutional environments, the country governance indicator obtains probably

an equivalent value among countries. Otherwise, large diversions from mean values can be observed in all remaining variables.

4. Empirical results

4.1. Impact of board gender diversity

Table 3 presents the effect of corporate governance variables on firm performance. Board

size and board gender diversity have a statistically significant impact on firm performance while board independence, CEO duality, CEO compensation and CEO tenure show no impact on it. The effect of gender diversity on firm value appears to be consistent with respect to country governance and/or the consequence of

Table 3: Regression result

VARIABLES	(a) TOBINQ	(b) TOBINQ	(c) TOBINQ	(d) TOBINQ	(e) TOBINQ
Year Fixed	Yes	Yes	Yes	Yes	Yes
Firm Fixed	Yes	Yes	Yes	Yes	Yes
L.Gender Diversity	-0.005*** (0.002)	-0.005*** (0.002)	-0.005*** (0.002)	-0.005*** (0.002)	-0.004** (0.002)
L.Board Size	-0.015* (0.009)	-0.015* (0.009)	-0.015* (0.009)	-0.015* (0.009)	-0.015* (0.009)
L.Board Independence	-0.000 (0.002)	-0.000 (0.002)	-0.000 (0.002)	-0.000 (0.002)	-0.000 (0.002)
L.CEO Duality	-0.051 (0.041)	-0.051 (0.041)	-0.050 (0.041)	-0.050 (0.041)	-0.047 (0.041)
L.CEO Compensation	0.038 (0.024)	0.038 (0.024)	0.037 (0.024)	0.037 (0.024)	0.036 (0.024)
L.CEO Tenure	0.004 (0.003)	0.004 (0.003)	0.004 (0.003)	0.004 (0.003)	0.004 (0.003)
L.Leverage	0.001 (0.002)	0.001 (0.002)	0.001 (0.002)	0.001 (0.002)	0.001 (0.002)
L.ROA	0.006*** (0.002)	0.006*** (0.002)	0.006*** (0.002)	0.006*** (0.002)	0.006*** (0.002)
L.Size	0.239*** (0.035)	0.239*** (0.035)	0.236*** (0.035)	0.236*** (0.035)	0.241*** (0.035)
L.Tangibility	-0.006** (0.003)	-0.006** (0.003)	-0.006** (0.003)	-0.006** (0.003)	-0.006** (0.003)
L.Growth	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)
L.Crisis		-0.118** (0.059)		-0.151** (0.062)	-0.045 (0.076)
L.Control of Corruption			0.272* (0.165)	0.272* (0.165)	0.273* (0.165)
L.Crisis& Female					-0.008** (0.003)
Constant	-0.481 (0.504)	-0.481 (0.504)	-0.851 (0.552)	-0.851 (0.552)	-0.912* (0.552)
Observations	3,249	3,249	3,249	3,249	3,249
R-squared	0.146	0.146	0.147	0.147	0.149
Number of TICKER	880	880	880	880	880

Notes: Standard errors in parentheses

*** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$

global environmental crisis.

As can be seen from column (a), the effect of gender on firm value is significantly negative. One interpretation is that while the presence of women on boards increases internal monitoring which could consequently reduce agency cost and enhance shareholder value (Jensen and Meckling, 1976), there might be a reverse phase that additional monitoring becomes costly and disadvantageous to firm performance. Furthermore, the adverse gender-performance relationship is also found in the work of Adam and Ferreira (2009). Pathan and Faff (2013) demonstrate that the positive effect of board gender diversity on bank performance reduced in the post period of the Sarbanes-Oxley-Act implementation (2003-2006). These findings indicate that gender diversity proposes beneficial effects in companies with weak shareholder rights, whereas detrimental effects of gender diversity on performance are observed in companies with strong shareholder rights. Hence, this is another probable interpretation of the adverse gender-firm value relationship in our sample, which covers 10 developed countries with rather good and identical strong legal systems, well-functioning financial market structures and good protection of shareholder rights in general. In such countries, the increasing participation of women on boards associated with stricter monitoring is more likely to cause a great detriment in firm value.

4.2. Robustness check

In order to check the robustness of the gender-performance relationship, we sequentially add in the crisis dummy and country governance indicator into our regression (see in column b and c, d of Table 3). It is significantly

proved that the effect of board gender diversity on firm performance is permanently negative with or without the control of country-level governance and/or global financial crisis shock. Firm value decreases in response to the adverse condition of a crisis period whereas firms operating in an efficient “Control of Corruption” environment tend to perform better. The outcome supports the essential and positive correlation between the legal system and corporate business. La Porta et al. (2000) emphasize that potential shareholders and creditors are more willing to invest in firms if their rights are protected by country law and/or firm policy. Accordingly, it is argued that outside investors are more vulnerable to expropriation, and more dependent on the law than either the employees or the suppliers. These outside investors are generally protected through the enforcement of regulations and laws including company law, security law, bankruptcy law, merger and acquisition law, competition laws, stock exchange regulations and accounting standards (La Porta et al. 2000). La Porta et al. (1997, 1998) relate the quality of laws and their enforcement to corporate governance and finance as key foundations of success. They provide evidence from a sample of 49 countries that shareholder protection is positively correlated with the development of stock markets. Thus, under a favorable institutional environment, firms can not only improve their corporate governance but also obtain financing from outside investors more easily. As a whole, all factors contribute to better shareholder value.

Column (e) shows the effect of crisis and the cross effect of crisis and gender diversity on firm value with the control of country gover-

nance variables. Our empirical result still highlights the negative correlation between women on boards and firm value. This relationship is robust for all regressions. It proposes the notion that a minority presence collaborated with culture barriers do prevent female directors from participating in important decision-making processes. Konrad et al. (2006) find that women are more likely to have stronger power in board decision-making and better influence on firm performance if there are three or more female directors on the board. In addition to that, the majority of seats occupied by women on boards is associated with more stringent monitoring and it might be not beneficial but detrimental to firm value if this monitoring cost outweighs its advantage. Nonetheless, it does not mean that female directors bring no value to boards, it rather is against the quotas for women on boards, especially, in some EU countries. If it is mandatory, the presence of women on boards might not be motivated by their ultimate capacity, thus, women board members could become “window dressing”.

5. Conclusion

Over the last decade, even though the gender-performance relationship has received considerable attention, this topic is still an indefi-

nite one. Some believe that the gender diversity positively affects performance while others argue that the relationship between gender and performance is negative or there is evidence of no significant correlation. After controlling for firm characteristics we find that board gender diversity tends to diminish market performance, measured by Tobin's Q, in ten selected developed countries. The negative effect is consistent in all robustness checks where country governance and global economic shock are taken into consideration. The possible underlying explanation is that the presence of women on boards is associated with tough monitoring and turns into enhanced performance in some circumstances. However, excessive monitoring can be costly for those firms operating in strong institutional environments where shareholders' rights are well-protected since the marginal cost of the monitoring outweighs its marginal benefits. Otherwise, our results indicate that the compulsory presence of women on boards may increase the probability of conflicts among directors, weaken board effectiveness of monitoring and advisory functions and later result in poor performance.

Notes:

1. These numbers are presented in Adam and Ferrera (2009). These authors cite the statistics in Catalyst (2007), Equal Opportunity for Women in the Workplace Agency – EOWA (2006); and European Professional Women's Network – EPWN (2004).
2. The description of data and country sample is in 3.3.
3. Control of Corruption (CC) – capturing perceptions of the extent to which public power is exercised for private gain, including both petty and grand forms of corruption, as well as “capture” of the state by elites and private interests.

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