

## **Institutional theory and gender diversity on European boards**

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### *Abstract*

*In Several European countries, the representation of women on boards has significantly increased during recent years. Our study analyses whether the institutional theory contributes to explaining the place of women on European boardrooms. We confirm that coercive pressures explain the growth of female directors' representation in European countries over the last 8 years. We bring evidence of the relationship between normative pressures and gender board diversity in a given country. This study has implications for policy makers wishing to increase gender board diversity efficiently, showing that voting quota laws requires the simultaneous or prior development of pools of talented women.*

### *Key words*

Boards of directors - Gender diversity – Institutional theory

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### **Introduction**

In recent years, societal pressures to improve gender diversity in top management and boards have significantly increased in many developed countries. Women are historically scarce in the upper echelons of firms, whether as leaders or directors. On average, 15.8% of the boards of the largest publicly listed companies in the European Union are women with only 3% acting as presidents of these boards (European Commission 2013). The situation is similar in the United States, where women hold around 16.6 % of the board seats in the Fortune 500 companies and chair 4.2% of the boards (Catalyst 2013).

This scarcity may explain why Spain in 2007, and France, Netherlands, Italy and Belgium in 2011 decided to pass a quota law to oblige firms to open their boards to women. A perspective on the effectiveness of such laws can be gained by observing Norway, the first country to introduce board gender quotas in 2003. Indeed, women in Norway make up 42% of the board members of the largest companies in 2009 compared to 22% in 2004 (European Commission 2011).

The representation of women on boards varies in each country and researchers have examined several possible causes. Using the theoretical approach of resource dependency developed by Pfeffer & Salancik (1978), the study of Hillman et al. (2007) identify several factors relating to the firm (size, industry, and interlocking directorates) which could explain the proportion of women on boards in the United States. For the United Kingdom, Singh & Vinnicombe (2004) focus on theoretical perspectives of exclusion (social identity, social networks and social cohesion) to explain the lack of women in the boardrooms.

New Institutionalism could be another theoretical approach that could be used to study the causes of gender diversity gap between countries. In these theories, institutions affect society and influence organizations' behaviour. Institutional pressures (rules, norms, frameworks) or in other words social constructs may contribute to improving diversity in firms' management and boards. In a society defending values such as gender equality, firms may comply with the system of values and social constructions (Oliver, 1991). Organizations should be economically successful but also legitimate within the world of institutions (Di Maggio & Powell, 1983).

The study of the causes of board diversity in a given country, which is the aim of this article, is based on the assumption that gender diversity may have positive consequences on corporate governance, which is not yet the subject of a consensus. Theories and models have evolved in corporate governance. Historically, analysis has been largely based on the agency theory. From this perspective, the role of boards of directors, one of the main actors in governance, is to monitor and boards should therefore include independent members. However, over the past several decades, other research fields have been mobilized to better understand the role of the board. For Van Ees et al. (2009: 308), "boards, in reality, may be less concerned with solving conflicts of interests and rather more concerned with solving problems of coordination and

managing the complexity and uncertainty associated with strategic decision-making". The role of the board is to fulfil different kinds of tasks: control, service and strategy tasks (Huse, 2005). In this broader perspective, recommendations for good governance highlight the importance of characteristics other than independence required from board members such as education, experience, networks and diversity.

Gender diversity may contribute to value creation in firms since it enhances problem solving by bringing more alternatives (Campbell & Minguez-Vera 2008); diversity may favour creativity and innovation (Miller & Del Carmen Triana 2009; Galia & Zenou 2012); it shows the management's will to meet the aspirations of customers and employees (Grosvold et al. 2007); Diversity of knowledge increases decision-taking quality and contributes to more expertise in the board. More gender diversity positively influences creative discussions (Huse et al. 2009).

Until further studies confirm or deny the positive influence of board diversity on value creation, the aim of our article is to analyse whether the institutional perspective contributes to explaining women's representation on boards in European countries and, if the contribution is confirmed, to understand what could be the implications for policy makers.

Three kinds of institutional pressures can be studied: coercive, mimetic and normative. Two of them (coercive and normative) are debated in this article. Mimetic pressures are not studied because they refer to imitation between firms (firms tend to imitate other firms that are successful believing that imitation will improve their own performance) and may be little influenced by policy makers' actions.

The empirical results of this study bring evidence that coercive pressures and several normative pressures have an influence on the representation of women on boards in a given country. This work will help to better understand the pressures that can affect gender diversity on boards in a specific country and will highlight the implications for policy makers in favour of gender diversity and equality. Theoretical developments are discussed in the first section, which is a literature review of the different institutional pressures that could influence women directors' representation in a given country. The second section provides data and methodology. The third section reveals the findings. Discussion takes place in the fourth section.

## 1. Literature review

Institutional theories can be used to analyse changes in organizations confronted with uncertainties. To survive, a firm does not only need to be efficient but also to conform to the rules of its institutional environment in order to obtain legitimacy (Meyer & Rowan, 1997). Legitimacy can be obtained by complying with laws and rules or by alignment with cognitive frameworks. These pressures lead to isomorphism in organizations (Di Maggio & Powell, 1983).

Di Maggio & Powell (1983) identified three kinds of pressures: coercive, mimetic and normative. Coercive pressures are often brought by government actions (Blum & Fields, 1994). Mimetic isomorphism reflects that organizations tend to imitate other successful organizations. Normative isomorphic pressures reveal that activities of organizations become legitimate when they are culturally supported. Normative isomorphism includes education, common background experience, and professionalization of a group.

"Normative isomorphism also occurs through the hiring of individuals from a select set of educational institutions and subjecting them to rigorous socialization" (Tuttle & Dillard, 2007: 394). Board appointments reflect existing norms and beliefs of the industry and of a given country (Van Ees et al. 2009). Coercive and normative pressures are discussed below.

### 1.1. Coercive institutional pressures

According to institutional theory in sociology, companies comply with institutional pressures and societal expectations in a search for social and external legitimacy (Meyer & Rowan 1977; Scott 1995).

Laws and rules could promote certain types of behaviours and attitudes, and could lead firms to encourage more gender equality in their management. For Scott (2001), organizations are legitimate if they comply with laws and regulations. Laws may incite firms to identify women in their teams who could become directors and to encourage their promotion. Grosvold et al. (2007) make a comparison of board gender diversity variation in the 100 largest British and Norwegian capitalizations during the period 1999-2005.

They conclude that quota laws are necessary to generate a significant improvement of gender diversity on boards. Parboteeah et al. (2008) also argue that gender equality exists mainly in countries having regulative institutional pressures.

In a recent paper, Grosvold & Brammer (2011) expand their study to 38 countries over 2001-2007 and conclude that legal institutions play a significant role in the representation of women on boards since half of the