Fiscal Irresponsibility Due to Lack of Women on Boards

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Abstract
This paper reviews current literature addressing the presence of women serving in board of director positions. Historically, the percentage of women serving on boards is less than twenty percent (Governance Metrics International, 2010). There are four compelling arguments to include women on boards: a) efficiency argument; b) equity; c) fiscal; and, d) fiscal performance.
It is apparent that having women on boards is better in many respects, which means that there must be a substantial reason for lack of equitable representation. The answer may lie in cultural differences. Geert Hofstede completed a seminal study on cultures and created five dimensions that describe cultural differences: power distance; uncertainty avoidance; individualism vs. collectivism; long-term view vs. short-term view; and masculinity (Hofstede, 2003). The masculinity index is described by attributes such as ambition, achievement, and decisiveness. Low masculinity index cultures may be described by attributes such as: consensus building, teamwork, quality of life, service to others, sympathy for those less fortunate; and intuition.
The masculinity index can be correlated with the percentage of women serving on boards. The resulting Pearson r correlation coefficient is very strong, at -.50, indicating a high negative correlation. This indicates that the higher the masculinity index, the less likely that women will serve on boards in those countries. Conversely, the lower the masculinity index, the more likely that women will serve on boards of those countries

Keywords: leadership, boards, women, board of directors, gender equity, diversity and women, gender empowerment, female leaders.

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Introduction

Viviane Reding, the European Union’s Justice Commissioner, has challenged all European Union (EU) members to impose quotas on having women in leadership positions. This is after attempts to get companies to voluntarily increase female representation (Castle, 2012).

Norway was the first to impose a quota of at least 40% females for publicly held firms with severe penalties for non-compliance (Hoel, 2008). Spain now requires 40% female representation (Srinidhi, Gul, &Tsui, 2011). Sweden requires 25% female representation (Srinidhi, Gul, &Tsui, 2011). Spain and France have imposed quotas of at least 40% females on large publicly traded companies by 2015 and 2017. Italy passed a 30% quota for public and state owned companies. The Netherlands has a quota of 30% female by 2016. Belgium has a quota of one-third female by 2018. The United Kingdom and Finland have imposed voluntary standards to promote gender balanced boards as well (Visser, 2011).

The challenge with imposing a quota system is that this may engender different forms of tokenism and trophy directors. Boards may be incentivized to hire one or two female directors only to meet the requirement without truly engaging them in the decision making process. In 2006, wife of former ex-senator Evan Bayh sat on eight boards. Other high profile women have sat on seven boards during the same year. Norway which leads the pack on women serving on boards, has some individuals servings on elevenboards.

Some companies have voluntarily imposed their own quotaswithout government mandates. Deutsche Telekom imposed a quota of 30% females in management positions by 2015. However, of the top 30 German companies, only Siemans AG has one female board member (Stevens & Espinoza, 2010).

The Rooney Rule

The National Football League (NFL) instituted a Committee on Diversity which created and implemented the Rooney Rule, named for former owner of the Pittsburgh Steelers, Art Rooney. The Rooney Rule was created to increase the number of African-American coaches and managers in the NFL. The Rooney Rule was adopted in 2003 and the number of African-American coaches increased from 6% to 22%. This is one argument for the power of imposing quotas to affect social change (Van Der Zon, 2012).

According to a study completed by the Ethical Investment Research Service (Maier, 2005), women on boards of over 1,600 companies listed on the Financial Times Stock Exchange (FTSE), only 7% have female representation. Only Norway at 25% and Sweden at 20% had percentages of women directors greater than the U.S. at 12.7% (Mateos de Cabo, Gimeno, & Nieto, 2012). Japanese companies come in at the other extreme with only 0.4% female board representation. The European Professional Women's Network reported that of the top 300 European companies, only 8.5% have females serving on their boards, while 14.7% serve on U.S. boards (Fortune, 2011).

Arguments for Female Representation

There are some findings that female directors provide more robust discussion of issues that would not be tackled with all male boards (Clarke 2005; Huse and Solberg 2006; Stephenson 2004; McInerney-Lacombe, Billimoria, and Salipante 2008).

Having women on boards may also result in more effective communication with investors (Joy, 2008). According to Fondas and Sassalos (2000) diversity in boards improves their monitoring role partly because women have higher expectations regarding their responsibilities as directors. Greater diversity on boards engenders greater critical thinking with respect to problem identification and solving‖ (Watson, 1993). Having more diverse boards may lead to a wider range of ideas and better idea generation. New female board members may have the fresh-eyes of an outsider when looking at problems (Forbes and Milliken, 1999).

Female directors may exhibit greater diligence in monitoring company accounting and financial reports and reflect greater transparency in committees upon which they serve (Adams & Ferreira, 2009). All of this may allow for greater earnings capacity and quality due to this diligent oversight.

Studies suggest that having women on boards, specifically on the audit committee, demonstrate improved reporting discipline than maleonly committees (Brown &Caylor, 2004) and earnings quality (Xie, Davidson, &DeDalt, 2003).

Adams and Ferreira (2009) argued that female inclusion on boards improves attendance by all members and that the CEOs are more accountable, and decreases cost of capital (Gul, Min, &Srinidhi, 2010).

In one study 612 European Union banks from 20 different countries were surveyed. The survey was designed to determine the affect women's presence would have on bank boards. The lower risk banks have more women on their board. Banks with larger boards have a higher proportion of women on their boards.

Banks that are focused on growth are more likely to include women on their board. Female directors may have access to resources and networks that male-only boards do not. If a board is more representative of the population, they may attract more customers by mirroring the shareholders (Biggins, 1999).

Outsiders are more likely to challenge the status quo and not go along with the CEO on initiatives (Raheja, 2005). The assumption that women are less qualified than men has been disproved. Females are just as qualified as men in terms of education, but may not have as much experience as men at the leadership positions. (Tefjesen, 2009).

Women are more empathetic and sensitive and adverse to high risks that led to the recent financial crisis of 2008 (Tefjesen, 2009). One additional benefit for having women serve on boards is the role models they would be for others to aspire to follow in their footsteps. Women account for 70% of the purchasing power in the economy. It is arguable that having women serve on visible leadership positions may prompt more women to purchase from those companies. According to the United Nations Convention on the Elimination of Discrimination against Women (2009), women on boards follow the internationally accepted laws that women should have the same access to opportunities and not be discriminated against due to gender.

In a survey of 326 board-level executives, two-thirds responded that they believewomen bring a greater level of emotional intelligence to the board, which leads to an increase in cultural understanding, better board consensus, and greater creativity and innovation (Governance Newsletter, 2012).

The greater the percentage of women on boards and in senior management, the better the company's financial performance. McKinsey and Company published a report in 2007 which profiled 500 European companies with a market cap of 150 millionEuros. They found that companies with a higher proportion of women on their boards returned profits of 11.4% versus 10.3% (DeLoitte, 2011).

Table One

Country	% of women on boards 2010
Norway	34.25
Sweden	23.89
Finland	23.41
Philippines	19.05
South Africa	15.53
Denmark	14.4
Israel	14.13
Netherlands	13.7
United States	12.21
New Zealand	12.05
Colombia	11.36
Germany	10.46
Thailand	10.39
Turkey	9.86
France	9.47
Switzerland	9.19
Ireland	9.14
Greece	8.53
United Kingdom	8.46
Hong Kong	8.29

Australia	8.28
Spain	7.96
Austria	7.73
Egypt	7.59
Poland	7.37
China	7.19
Belgium	6.75
Hungary	6.45
Singapore	6.43
Taiwan	6.27
Malaysia	5.88
Mexico	5.83
Czech Republic	5.56
India	4.79
Brazil	4.61
Indonesia	4.07
Italy	3.42
Chile	2.75
Portugal	1.82
South Korea	1.53
Japan	0.89

Table 1: Percentage of Female Board Members, 2010
Source: Governance Metrics International, 2010

For the percentage of women serving on boards, N = 40, mean = 9.54, median = 8.28 with a standard deviation = 6.40. Norway has the greatest percentage of women serving on boards at 34.25%, followed by Sweden at 23.89%. Japan has the fewest females serving on boards with 0.89%.

Geert Hofstede Cultural Dimensions

Geert Hofstede is a Senior Fellow of the Institute for Research on Intercultural Cooperation and a Fellow of the Center for Economic Research at Tilburg University in the Netherlands (Hofstede, 1998). He defines culture as mental programming (Hofstede, 1983). Culture is that part of our conditioning that we share with all others of our group, region, or nation, but not with other nations, regions or groups (Hofstede, 1983). This includes more than just language, but includes all behaviors or norms that are considered socially acceptable.

Culture can be defined as a process that influences individual’s behavior that creates relative stability, reflecting a collective knowledge structure that shares values, behavioral norms, and patterns of behavior (Scagliotti&Mujtaba, 2010).Culture has a system for dividing right from wrong, or good from evil(Scagliotti&Mujtaba, 2010).This process may be almost imperceptible, as it is a force so deeply ingrained within our natures that is nearly impossible to detect and analyze (Scagliotti&Mujtaba, 2010).Its presence and affect may not be observed or verified unless one compares these traits against other cultures (Scagliotti&Mujtaba, 2010). The greater the differences between the two cultures, the greater the behaviors, values, and attitudes will be noticed (Scagliotti&Mujtaba, 2010).

Hofstede created his model based on surveys he conducted of IBM staff in the 1960s and 1970s. This data allowed him to create four distinct cultural dimensions: Individualism v. collectivism; uncertainty avoidance; power distance; and masculinity v. femininity. A fifth dimension of long-term v. short-term orientation was added later. In 2010, he added a sixth dimension of indulgence v. self-restraint (Hofstede, 2011). For a summary chart of Hofstede'soriginal four cultural dimensions for 65 countries, see Appendix I.

Power Distance

Power distance refers to the degree of inequality among people that is viewed as being acceptable (Kotabe&Helsen, 2011). Hofstede (1983) assumes that all people are not created equal. They are not equal in physical and intellectual capacity. These inherent differences may lead to differing results in terms of wealth accumulation and social status. This degree of inequality is measured by Hofstede's (1983) power distance scale. Hofstede (1983) translates this power index to the organization by the degree of centralization and how much the organization displays autocratic leadership. Cultures with a high power distance score are more likely to yield their personal power to those in charge (Hofstede, 1983).

Uncertainty Avoidance

Uncertainty avoidance refers to the extent to which people in a given culture feel threatened by the uncertainty of the future (Hofstede, 1983). Some cultures are more accepting of the unknown future and accept life as it unfolds (Hofstede, 1983). These cultures are more willing to take risks and are tolerant of others who are different from them because they do not feel threatened by them (Hofstede, 1983). Hofstede (1983) labels these cultures as having weak uncertainty avoidance.

Others are more uncomfortable with the concept that the future is uncertain and they strive to control and manage future outcomes (Hofstede, 1983). People in strong uncertainly avoidance societies exhibit a higher level of anxiety, which results in greater nervousness, emotional reactions, and aggressive behaviors. Hofstede (1983) characterizes these societies as having strong uncertainty avoidance traits. Companies in these cultures strive to minimize risk and create security (Hofstede, 1983). Creating an environment with materials boundaries for ourselves and our families is one way to mitigate this risk of an uncertain future (Hofstede, 1983). Another strategy to reduce this uncertainty avoidance anxiety is to institute laws and rules that rely on experts to guide us in our decision making (Hofstede, 1983). Finally, religion is a mechanism for combating the uncertainty of the future (Hofstede, 1983). Religion provides these cultures with a sense of something more powerful which results in lessening this anxiety of an uncertain future (Hofstede, 1983). In very strong uncertainty avoidance cultures, the religions are less tolerable of other religions that are different from their own (Hofstede, 1983).

Individualism

Individualism is a concept that compares how focused a culture is on their personal interests versus the collective group to which they belong (Hill, 2011). In individualistic cultures value is placed on individual achievement and freedom. In more collectivistic cultures, relationships are valued more than individual achievement (Hill, 2011). Individualistic societies are exemplified by looking out for themselves or their immediate family (Hofstede, 1983). In collectivist cultures, the individual belongs to an in-group and they are loyal to that group and its relative success. In return, the individual receives protection and security from the in-group (Hofstede, 1983). The individualistic culture is loosely integrated and the collectivist culture is tightly integrated (Hofstede, 1983). Hofstede's (1983) research indicates that countries that are more individualistic than collectivist, are wealthier than those that are more collectivist.

Masculinity - Femininity

Masculinity refers to the relationship between gender and roles at work. In highly masculine societies, gender roles are highly differentiated and masculine traits such as power and achievement are more valued (Hill, 2011). In more feminine societies, the roles between men and women were less pronounced and little difference wasfound between men and women who did the same job (Hill, 2011). Some cultures allow men and women to perform many different job junctions – which indicate a feminine proclivity (Hofstede, 1983). Other societies have very strict ideas of what type of jobs a man can do and what jobs are acceptable for women to perform (Hofstede, 1983). In a masculine culture, the revered traits included the overachiever or superhero (Hofstede, 1983). In a feminine culture, the favored behavioral attributes are for the anti-hero, or the underdog (Hofstede, 1983). The most masculine culture is Japan, followed by Germany, Austria, and Switzerland (Hofstede, 1983). The most feminine countries include Norway, Sweden, the Netherlands, and Denmark (Hofstede, 1983).

Femininity: the dominant values in society are caring for others and quality of life. Masculinity: the dominant values are achievement and success (Hofstede, 2011). The Masculinity side of this dimension represents a preference in society for achievement, heroism, assertiveness and material reward for success. Society at large is more competitive.Its opposite, Femininity, stands for preferences for cooperation, modesty, caring for the weak and quality of life. Society at large is more consensus-oriented.

High characteristics:

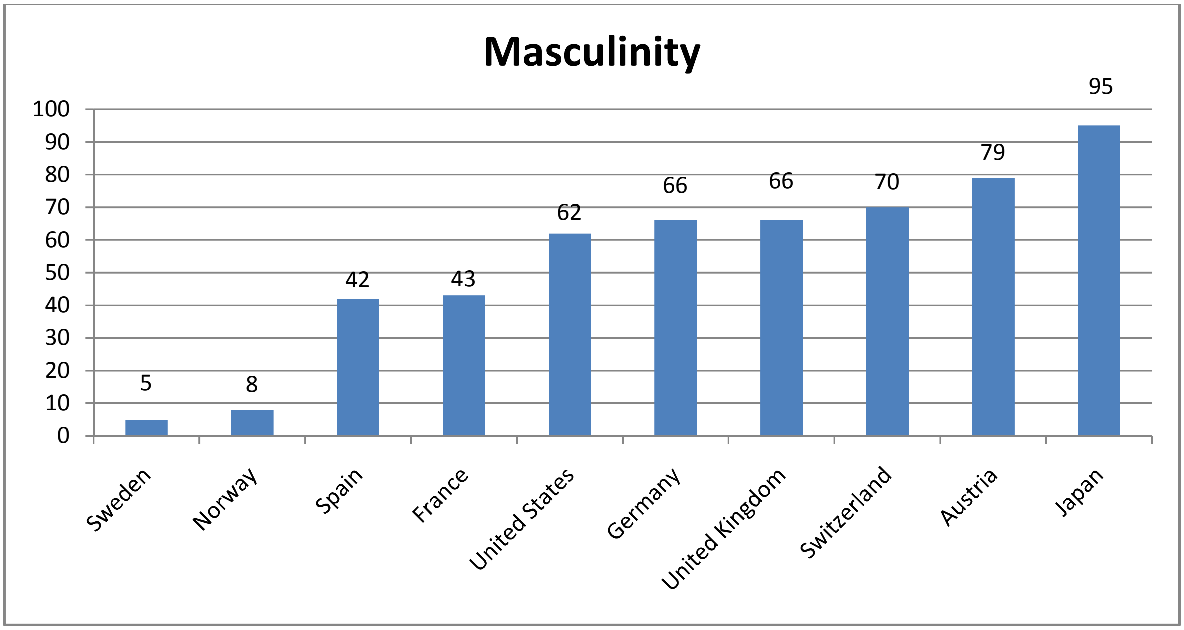
- Performance ambition, a need to excel
- Tendency to polarize
- Live in order to work
- Big and fast are beautiful
- Admiration for the successful achiever
- Decisiveness

Low characteristics:

- Quality of life, serving others
- Striving for consensus
- Work in order to live
- Small and slow are beautiful
- Sympathy for the unfortunate
- Intuition

The essential issue is related to what motivates people in a culture: wanting to be the best (masculine) or liking what you do (feminine) (Hofstede, 2003).

Table 2: 2010 Masculinity Scores for Select Countries



Source: Hofstede, 2003

Sweden scores 5 and Norway scores 8 - which makes them the most feminine societies. They value consensus building and sympathy for those less fortunate, the underdogs. Being eco-friendly is important. The most valued rewards are not materially related but rather in extra time off from work and flexible work schedules. Extensive discussions and consensus building are valued in order to grow insights. The most effective managers are supportive in nature and achieve decisions through involvement (Clearly Cultural, 2012).

At the other extreme is Japan which is the most masculine culture. They are extremely competitive. However, due to being a very collective culture versus individualistic, their competitiveness is expressed between groups. This helps explain how they excel at production efforts, services – restaurants and hotels, and presentation – food production and gift wrapping. They also have a reputation for being workaholic, which also reflects their masculine tendencies.

Table 3: Correlation between Masculinity Index and Percentage of Women Serving on Boards
List of Countries Masculinity Index and % of women on boards, 2010

Country	Masculinity Index	% of women on boards 2010
Australia	**61**	8.28
Austria	**79**	7.73
Belgium	**54**	6.75
Brazil	**49**	4.61
Chile	**28**	2.75
China	**66**	7.19
Colombia	**64**	11.36
Czech	**57**	5.56

Republic		
Denmark	**16**	14.4
Egypt	**52**	7.59
Finland	**26**	23.41
France	**43**	9.47
Germany	**66**	10.46
Greece	**57**	8.53
Hong Kong	**57**	8.29
Hungary	**88**	6.45
India	**56**	4.79
Indonesia	**46**	4.07
Ireland	**68**	9.14
Israel	**47**	14.13
Italy	**70**	3.42
Japan	**95**	0.89
Malaysia	**50**	5.88
Mexico	**69**	5.83
Netherlands	**14**	13.7
New Zealand	**58**	12.05
Norway	**8**	34.25
Philippines	**64**	19.05
Poland	**64**	7.37
Portugal	**31**	1.82
Singapore	**48**	6.43
South Africa	**63**	15.53
South Korea	**39**	1.53
Spain	**42**	7.96
Sweden	**5**	23.89
Switzerland	**70**	9.19
Taiwan	**45**	6.27
Thailand	**34**	10.39
Turkey	**45**	9.86
United Kingdom	**66**	8.46
United States	**62**	12.21

Table:3
Sources: Hofstede, 2003, Clearly Cultural 2010)

The null hypothesis in this analysis is that there is not a correlation between Hofstede's masculinity index and the percentage of women serving in board of director positions.

The alternative hypothesis is that there is a correlation between Hofstede's masculinity index and the percentage of women serving in board of director positions.

Coefficient of Correlation – Pearson's r

By conducting a statistical analysis of the percentage of women serving on boards and Hofstede's masculinity index, there is a significant inverse relationship between Hofstede's masculinity index and the percentage of women serving on board of director positions, $r = -.50$. Cohen (1998) indicates that $r = -.50$, is considered to be a large effect.

Conclusion

By correlating the percentage of women serving on boards with Hofstede's masculinity index, it can be argued that culture may explain why more women are not represented in the highest realms of leadership, in spite of the fact that their presence on boards provides greater oversight and ultimately, improved financial performance. Cultural influences are deeply rooted and are still headline news. Josef Ackerman, the CEO of Deutsche Bank stated during an interview with CNN that having women on the board would make it "more colorful and prettier" (CNN, 2012). When challenged about his comments he tried to placate the ire of the press by stating that he was "merely being charming". Angela Merkel, Prime Minister of Germany, responded by stating that if German companies do not get creative in developing women leaders, then she will (Spiegel Online, 2012). Norway and Sweden have imposed quotas to increase the presence of women on boards, and many other countries are following suit. While mandating actions to corporations to be more gender-diverse may be challenging to the status quo, it is one viable solution to improving the unequal representation. The Rooney Rule in the NFL was not popular when implemented, but has proved to be effective in creating greater diversity in head coaches and general managers.

However, getting the European Union to impose such a law is doubtful at best. The New York Times reported that the proposal to have females represented on 40% of all boards has already drawn opposition before the legislation has even been submitted for consideration. Nine countries signed a letter indicating they would refuse to agree with such legislation, if proposed. They indicate these decisions should be left to each individual country and that mandating any change for business leadership during a recession is unwise (Castle, 2012).

Having such a small percentage of women serving on boards suggests that we cannot fully appreciate the affect of having more female leadership. Research suggests that having more women on boards deliver greater transparency, audit oversight, increased participation, and increased profits. Is it not the fiduciary responsibility of the board members to demand such increased female participation? Publicly traded companies are legally bound to provide the greatest return on investment, while doing no harm. Therefore, they should be compelled to bring in the best leadership to maximize shareholder return. In fact, board members have a duty to act in the best interest of the shareholders, and can be held liable if they do not. Therefore, shareholders would be well served in demanding that leadership include more women to maximize their return on investment. While the EU struggles to mandate quotas for board membership, might the next step be legal action against a board for failing to do so? Proactively selecting to abide by the pressure would serve as a more efficient and effective model.

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Appendix I

Country	**Power Distance**	**Individualism**	**Masculinity**	**Uncertainty Avoidance**
Sweden	31	71	**5**	29
Norway	31	69	**8**	50
Netherlands	38	80	**14**	53
Denmark	18	74	**16**	23
Costa Rica	35	15	**21**	86
Finland	33	63	**26**	59
Chile	63	23	**28**	86
Portugal	63	27	**31**	104
Thailand	64	20	**34**	64
Guatemala	95	6	**37**	101
Uruguay	61	36	**38**	100
South Korea	60	18	**39**	85
El Salvador	66	19	**40**	94
Ethiopia	64	27	**41**	52
Kenya	64	27	**41**	52
Tanzania	64	27	**41**	52
Zambia	64	27	**41**	52
Peru	64	16	**42**	87
Spain	57	51	**42**	86
France	68	71	**43**	86
Iran	58	41	**43**	59
Panama	95	11	**44**	86
Taiwan	58	17	**45**	69
Turkey	66	37	**45**	85
Ghana	77	20	**46**	54
Indonesia	78	14	**46**	48
Nigeria	77	20	**46**	54
Sierra Leone	77	20	**46**	54
Israel	13	54	**47**	81
Singapore	74	20	**48**	8
Brazil	69	38	**49**	76
Malaysia	104	26	**50**	36
Pakistan	55	14	**50**	70
Egypt	80	38	**52**	68
Iraq	80	38	**52**	68
Kuwait	80	38	**52**	68
Lebanon	80	38	**52**	68
Libya	80	38	**52**	68
Saudi Arabia	80	38	**52**	68
United Arab Emirates	80	38	**52**	68
Belgium	65	75	**54**	94

Argentina	49	46	**56**	86
India	77	48	**56**	40
Czech Republic	57	58	**57**	74
Greece	60	35	**57**	112
Hong Kong	68	25	**57**	29
New Zealand	22	79	**58**	49
Australia	36	90	**61**	51
United States	40	91	**62**	46
Ecuador	78	8	**63**	67
South Africa	49	65	**63**	49
Colombia	67	13	**64**	80
Philippines	94	32	**64**	44
Poland	68	60	**64**	93
China	80	20	**66**	40
Germany	35	67	**66**	65
United Kingdom	35	89	**66**	35
Ireland	28	70	**68**	35
Jamaica	45	39	**68**	13
Mexico	81	30	**69**	82
Italy	50	76	**70**	75
Switzerland	34	68	**70**	58
Venezuela	81	12	**73**	76
Austria	11	55	**79**	70
Hungary	46	55	**88**	82
Japan	54	46	**95**	92

Table 4 (Clearly Cultural, 2012)

For the masculinity index, N = 65, mean = 51.76, median = 56.00 with a standard deviation = 19.73.