Chapter 15
Board Gender Diversity and Firm Performance:
Integrating Agency and Institutional Theory

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ABSTRACT

This chapter aims at investigating board gender diversity and firm performance by integrating two theoretical backgrounds (agency theory and institutional theory). Board gender diversity has been investigated by using firm level theories such as agency theory and stewardship theory. Resource dependence theory, which links the board to the external environment of the firm, was also implemented in order to better understand how board gender diversity would affect firm performance. However, results were inconsistent. This study tries to integrate agency theory with institutional theory under the assumption that firms are affected by endogenous and exogenous factors that would eventually affect its outcomes such as performance.

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INTRODUCTION

The presence of women among boards has been researched extensively in recent years. Ever since Norway adopted a quota law to promote women among its corporate boards, many countries followed this action which generated fruitful avenues for researchers to explore board gender diversity, its determinants and implications from different perspectives and levels of analysis (Marinova et al., 2015). Research about board gender diversity and firm performance has not reached a conclusive evidence yet. The argument that board gender diversity has economic profitability or what is known "business case" of board gender diversity has received criticism for narrowing an issue of justice and equality. There is a growing need to expand the business case of board gender diversity into much wider perspective combing utility and justice rationales to understand this phenomena (Seierstad, 2016).

From a theoretical perspective, almost all studies concerned in board gender diversity and firm performance limited their analysis to board level theories such as: Agency theory, Resource dependence theory and stewardship theory. (Abdulah et al., 2014, Abdullah et al., 2016, Erhardt et al., 2003 and Marinova et al., 2015). The firm is prone to many players who draw its strategies and managerial practices. Relying on understanding the role of players from inside the firm environment only such as management or shareholders would provide a distorted image. Many studies have indicated the role of institutional players in the presence of women in boards from a national level of analysis (Allemand & Brullebaut, 2014, Grosvold,2011 and Grosvold and Brammer, 2011), however how these institutional elements affect firm performance is a less explored area in the literature. This study attempts to integrate two broad theories used extensively in the business literature which are agency theory and institutional theory in an effort to provide better understanding for the effect of board gender diversity on performance of the firm. Since firms are not isolated units from the external and national institutions as they are prone to external elements that would affect their strategies and performance at the end. The remaining of this paper is organized as follows: Literature review and theoretical background, followed by conceptual framework of the study and finally, discussion and conclusion.

Literature Review and Theoretical Background

Corporate governance in general and board gender diversity as phenomenon were explored in two major perspectives, the first one considered firm level attributes as antecedents for firm outcomes such as performance. The second one took another view by considering country level factors as major players in firms' strategies and outcomes. While the first one proposes that firms are functioning in a free market economy or they are targeting to simulate the US market environments, the second one is a more contextual view for corporate governance phenomena. However, both views have their own logical justifications. When considering firm level factors, the most dominant theory that has been used extensively is Agency theory. While institutional theory was the most dominant theory when considering national or country level factors affecting firm outcomes. This study attempts to bridge the gap between firm level and country level factors by using the two logics of Agency and Institutional theories to explore the role of both elements in the relation between board gender diversity and firm performance. Another objective of this study is to define what firm level factors and country level factors that may influence the relation between board gender diversity and firm performance drawing upon Agency and institutional theories, in an effort to achieve a significant contribution to the literature of corporate governance. By doing so,