WOMEN ON BOARDS OF DIRECTORS: GENDER BIAS OR POWER THREAT?

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"Choosing a Board of Directors based on race and gender is a lousy way to run a company."

- Cypress Semiconductor Corporation chief executive officer T.J. Rodgers, reacting to a letter he received from a Catholic nun, suggesting he put qualified women and minorities on the company’s board of directors (Pollock, 1996: A1).

"No study has proved that diversity makes a better board."

- Nucor chief executive, Ken Iverson, reacting to TIAA-CREF’s proposal that Nucor add women and minorities to its board of directors (McMenamin, 1995: 174).

1. Introduction

Companies have come under pressure within the last decade to appoint more women and minorities to their boards of directors. This pressure has come from institutional investors such as state retirement associations, individuals such as a Catholic nun, women’s rights activist organizations such as Catalyst, and scholars who work in the area of women on corporate boards.

This pressure, however, has not produced the kind of change for which most advocates have lobbied: an increase in the number of women on boards so that their representation more closely resembles their proportion in the population, labor force, and management. According to Bilimoria and Wheeler (1995), women’s representation on boards has remained largely unchanged over time. There has been some improvement in the last decade, but women’s boardroom participation rate hovers around six percent in the large industrial and service companies in the United States.

Why has progress stalled? This chapter provides an answer to that question. At first glance, it appears that a backlash is occurring in the attitudes of chief executives, such as those quoted at the start of this chapter, who are so instrumental in facilitating the...
nomination of women to boards. A closer look, however, reveals that CEO power and organizational legitimacy are not served by further increasing the number of women on corporate boards. This chapter will explore that thesis by examining women's role in the board's governance, institutional, and strategic functions. In doing so, it will also suggest a framework--or way of thinking about--the contribution of women directors to board functioning.

2. Governance Function

The first function of the board--governance--is to represent and safeguard the interests of stakeholders and to ensure that organizational actions align with their interests. In this capacity, boards must check managerial opportunism by exerting control over important decisions, some of which may be at odds with management's self-interest (Goodstein and Boeker, 1991). For example, boards are expected to curb managerial opportunism when management increases the company's size beyond that which maximizes profit in order to increase managers' compensation (e.g., undertaking unrelated diversification); when management makes compensation less contingent upon performance or sets up shark repellents, golden parachutes, or other anti-takeover devices; or when management fails to divest an unprofitable business.

Much of the literature on the board's governance function contains the strong theme that boards do not work. As Burke (1994:3) noted: "Historically, many board appointments, as well as boards themselves, seemed to have only symbolic value. Individuals were appointed to boards, but the CEO managed the organization in whatever fashion he/she chose.... Boards were often irrelevant because board members refused 'to rock the boat.'" Board members frequently seem uncomfortable with their role as monitors of managerial decisions, preferring to exercise more of an advisory role. There are many examples of boards giving the CEO carte blanche, few of boards holding the CEO accountable for missteps. One reason is that directors may feel obligated to the chief executive for their positions on the board, since the CEO and/or management often nominates candidates for open director seats. Directors do not feel free in their evaluations of the people who appointed them, particularly when management performance is substandard (Johnson, Daily, Ellstrand, 1996).

So within this historical context of boards performing their governance function less than ideally comes the infiltration of women into board seats. A question then is whether women will succumb to the same temptation as some of their male counterparts to compromise the interests of shareholders and employees, or whether they will have a beneficial effect on the board's mandate to monitor and control management.

The research evidence suggests that women may enhance the board's performance of its governance role. Burke (1993) reports that a study by Bradshaw, Murray and Wolpin (1992) found that boards with larger proportions of women on them were less inclined to let CEOs dominate proceedings and more likely engage in "power sharing." Fondas and Sassalos (1999) found that boards with one or more female