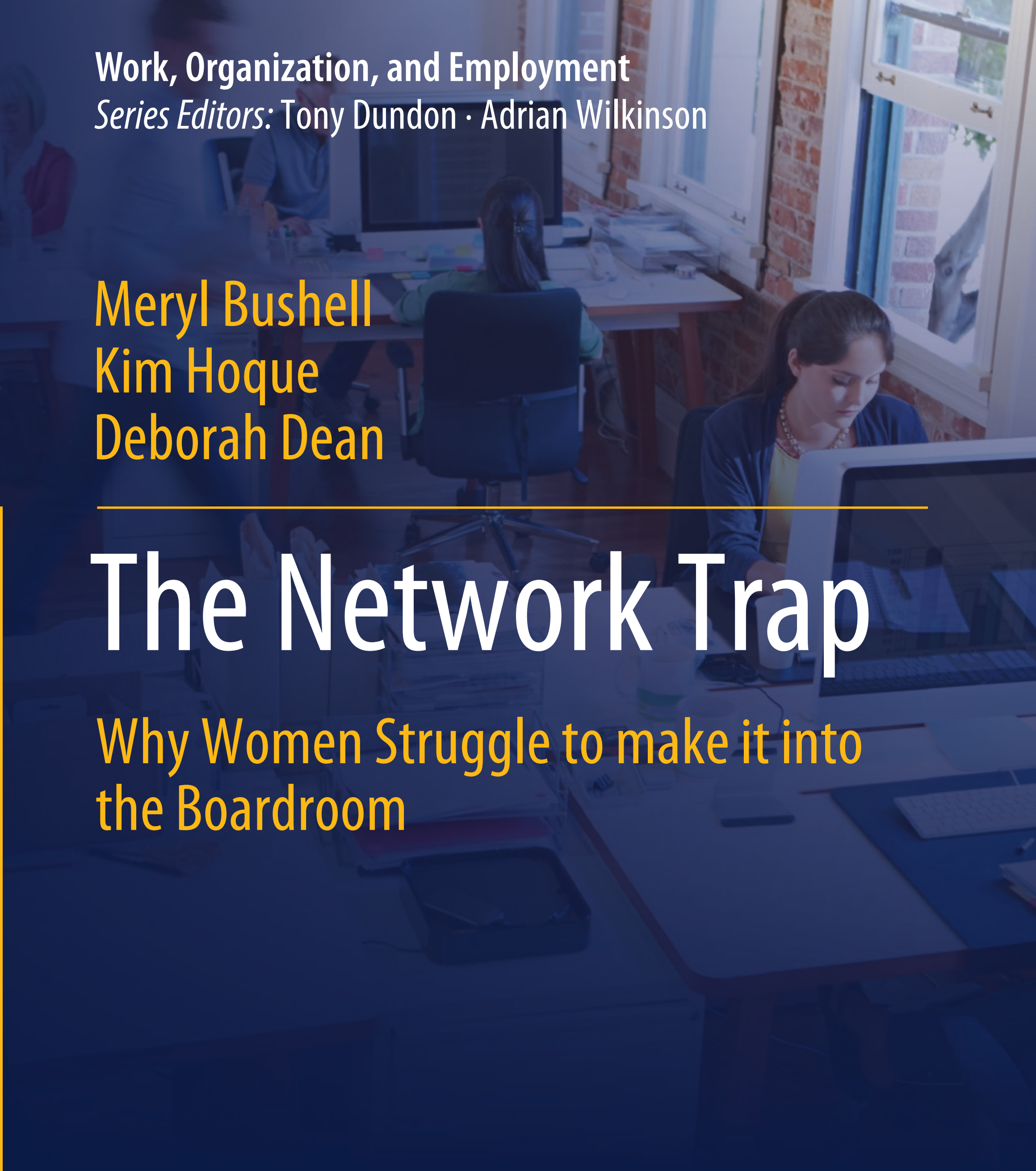

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Meryl Bushell
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The Network Trap

Why Women Struggle to make it into the Boardroom

Springer

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Chapter 1
Introduction—The Problem of Women and Corporate Boards

> women populate organizations, but they hardly ever run them, especially large businesses and public establishments. (Kanter, 1977, p. 16)

It is over half a century since the height of the women's liberation movement, and there have been some undeniable improvements in the position of women in the workplace during this time. For example, the proportion of women in paid employment has risen from just over 55% in 1970 to 71% in 2019 (ONS, 2019), and the median gender pay gap in full-time roles decreased from nearly 30% to 8.6% between 1975 and 2018 (ONS, 2018). There are nevertheless still several glaring anomalies, particularly regarding the under-representation of women in leadership positions. Hence, more than 40 years since Kanter's (1977) famous examination of men and women in corporations, her observation above remains accurate: women in positions of power are still the exception rather than the rule. The hard-fought struggle of the 1960s' women's movement to improve women's rights is, therefore, yet to deliver on its promise of equality in the workplace.

This is demonstrated not least by the under-representation of women in the boardroom. Deloitte's (2017) analysis of nearly 7000 companies in 60 countries suggested that women held just 15% of all board seats globally in 2017. Similarly, McKinsey estimated that in G20 countries the average share of women on executive committees in 2017 was just 12%, and on corporate boards it was 17% (Devillard, Hunt & Yee, 2018). The few women who are successful in attaining senior roles also experience a marked gender pay gap. According to a Chartered Management Institute analysis of the first wave of compulsory gender pay gap reporting for companies employing more than 250 people in the UK, the pay gap between male and female directors is 13% (CMI, 2018).

Governments around the world are conscious of this boardroom gender imbalance and have taken steps to address it. For example, in the UK, following a 2008 Equality and Human Rights Commission report stating that without change it would take 73 years to achieve numerical gender parity in the boardroom (EHRC, 2008), the government commissioned Lord Davies of Abersoch to undertake a review of women

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on boards. While his review (Davies, 2011) stopped short of Suggesting a quota for the proportion of board positions filled by women, it made several procedural recommendations aimed at ensuring greater gender equality in board recruitment and selection processes. It also recommended a voluntary target of 25% of FTSE 100 board roles to be occupied by women. The recommendations were supported by the launch of a Voluntary Code for Executive Search Firms,[1] which encourages executive search firms to embrace diversity in their search activities. This was supplemented by an Enhanced Code for Executive Search Firms[2] in 2014, which allows for search firms to be accredited for their efforts in improving boardroom diversity. In 2016, as a follow-up to the Davies Report, Sir Philip Hampton and Dame Helen Alexander were asked to undertake a further review of women on boards. They recommended a range of additional measures, including greater efforts in developing the pipeline of female directors. They also raised the target for the proportion of board positions held by women to 33% and extended this target to executive committees and their direct reports. These targets also became applicable to the FTSE 350.

Since the publication of the Davies report, the percentage of FTSE 100 board director roles held by women has increased from 12.5% in 2011 to 32.1% in 2019. However, although much has been made of this increase in the media, the headline figure masks only minimal change in the number of women holding positions of real power, with most of the growth being accounted for by an increase in the number of women in non-executive positions. Where executive director positions are concerned, in 2019 only 10.9% of such positions[3] in the UK's FTSE 100 were held by women, compared with 6.6% in 2011. There were just seven female Chief Executive Officers (CEOs), and just five FTSE 100 Chair roles were held by women (Vinnicombe, Atewologun & Battista, 2019). Looking at the FTSE 250, just 27.3% of all director roles, and 8.4% of executive director roles, were held by women (Vinnicombe et al., 2019). As noted by McKenna (2007:7), 'the country is filled with powerful women, but women in power remain significantly under-represented'.

However, despite being widely debated in the media, there is only limited research on the reasons why women struggle to progress from senior (sub-boardroom) executive positions into board-level roles. This is in part because of the difficulty in gaining access to research participants at the most senior organisational levels. The actors involved are extremely busy individuals who are protected by a wall of secretaries

[1] Available from https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/208464/voluntary-code-of-conduct-for-executive-search-firms.pdf.

[2] Available from https://www.gov.uk/government/publications/enchanced-code-of-conduct-for-executive-search-firms-accreditation-process.

[3] In advanced Western economies, there are three main types of board structure: a single board structure where the board is made up of a mix of executive and non-executive directors; a two-tier structure where two separate board meetings are held (one of executive directors and one of externally appointed directors, the latter having a supervisory role); and a mixed system where two meetings are held (one for executive members and one for a mix of executive and non-executive members). The UK system falls into the first of these three categories. Executive directors are full-time employees of the organisation who hold line management responsibility for areas of the organisation. Non-executive directors are part-time employees who do not hold any line management responsibilities.

and assistants who manage and control their diaries and ward off requests they perceive to be a less than optimal use of their boss's time. The research reported in this book might therefore be considered novel, as it draws on unprecedented extensive access both to individuals seeking board-level roles and to key players in the boardroom recruitment and selection process. In total, we interviewed eighty participants, including male and female boardroom aspirants, executive search consultants (commonly referred to as 'head-hunters') and Chairs of FTSE 350 companies. This allowed for a highly detailed and nuanced empirical exploration of how boardroom recruitment and selection processes operate, and how these processes impact on women's progression into board-level roles.

The Importance of Researching Women on Boards

Researching the reasons why women struggle to attain boardroom roles is clearly important from a social justice perspective. From the late twentieth century onwards, however, greater boardroom diversity has also been viewed as having the potential to drive improved organisational outcomes (Kandola & Fullerton, 1998).

There are a number of reasons why boardroom gender diversity might have important performance implications. First, women are frequently the gatekeepers of the family purse and are responsible for the majority of consumer buying decisions, with commentators suggesting that in the USA they decide on 85% of household spending (Luscombe, 2010), and are responsible for 64% of the spending behind total gross domestic product (Tracey & Achterhof, 2007). As such, female boardroom representation can provide businesses with a more balanced reflection of the firm's customer base, with some male directors viewing female boardroom presence as bringing practical market knowledge to the board (Konrad, Kramer & Erkut, 2008).

Second, gender diversity at senior levels can ward against groupthink (Maznevski, 1994), and by bringing fresh perspectives it can challenge conventionally-held views and lead to better decision-making (Bilimoria, 2000). In Konrad et al.'s (2008) interview study of 50 directors and 10 CEOs, a recurring theme was that men were more likely to bluff when they did not understand an issue, while women were more likely to ask questions to ensure understanding. In addition, the women self-reported that they were more likely than their male peers to speak up when they disagreed with a proposal. The study also reported that male CEOs value the challenge to assumptions and shared understandings, and the encouragement of both clarity and diversity of opinions, that boardroom gender diversity engenders (see also: Kakabadse et al., 2015). Similar to Konrad et al. (2008), McInerney-Lacombe, Billimoria & Salipante (2008:35) argue that women are more likely than their male colleagues to raise (and force discussion of) challenging issues in the boardroom, and as such 'women directors may be uniquely positioned to help boards in their deliberative processes' (see Terjesen, Couto, and Francisco's (2015) review of literature supporting this argument). Nielsen and Huse's (2010) study of Norwegian boards suggests that boards with higher ratios of female directors have less conflict and make greater use of board development activities (such as formal rules and norms supporting decision-making processes and regular board evaluations), leading to increased strategic control.

Third, research has suggested that female directors may display more caution in their decision-making than their male peers. Muller-Kahle & Llewellyn (2011) found that financial institutions with more gender-diverse boards engaged in less sub-prime lending (which was responsible for stoking the financial crisis). Research has also found a link between female boardroom presence and improved sustainability practices. In a study of 151 firms listed on the Australian Securities Exchange, Galbreath (2011) found increased boardroom gender diversity was positively associated with sustainability, as demonstrated by a focus on environmental and social goals. Similarly, Bernardi, Bosch & Columb (2009) found that Fortune 500 companies appearing on the Ethisphere magazine 'World's Most Ethical Companies' list had a significantly higher proportion of women on their boards. Given the cross-sectional nature of these studies, the results might be explained by ethical companies being more likely to recruit a gender-diverse board. They nevertheless raise the possibility that women in the boardroom may drive the adoption of more ethical business practices.

Fourth, female boardroom presence can help ensure that women lower down the organisational hierarchy receive the support and development they need to fulfil their potential. This is important given the oft-quoted 'war for talent' and labour market skills shortages, hence the need for organisations to fully utilise the potential of all their employees. Women on boards can act as role models for more junior women, provide high-quality mentoring (Matsa & Miller, 2011), champion their cause in the workplace (Singh, Terjesen & Vinnicombe, 2008), and encourage the adoption of diversity and inclusion policies (Cook & Glass, 2016).

Given the above arguments, it might also be anticipated that female board presence will correlate positively with overall measures of firm performance. While a number of studies have explored this relationship, the results have been inconclusive. For example, a study of firms in the US Standard & Poor index between 1998 and 2002 (Carter, D'Souza, Simkins & Simpson, 2010) found boardroom or important subcommittee gender diversity had no significant impact on firm performance. Similarly, a study focusing on the introduction of boardroom gender quotas in Italy found that while board restructuring in favour of incoming women (who were more highly educated and younger than exiting men) was received favourably by the market and resulted in lower variability of stock market price, it had no significant performance effects (Ferrari, Ferraro, Prozeta & Pronzato, 2018).

Nevertheless, other studies have yielded more positive results. For example, Erhardt, Werner & Shrader's (2003) study of US firms covering the period 1993 to 1998 found firm performance to be positively associated with female boardroom presence. Similarly, Catalyst's (2004) study of 353 Fortune 500 firms found that firms with the highest proportion of females in their senior executive teams outperformed firms with the lowest percentage by 35.1% on return on equity and 34% on total return to shareholders. However, Simpson, Carter & D'Souza (2010) argue that much of the research on the link between boardroom gender diversity and firm performance has been unable to demonstrate whether the relationship is causal. As such, Campbell & Mínguez-Vera's (2008) study is notable given that, employing a statistical method to overcome joint endogeneity problems, it found a causal relationship between the proportion of board members that were female and firm value.

Studies have also explored the performance implications of critical mass, arguing that while it would be surprising were lone women in the boardroom able to influence organisational outcomes, positive effects may become more apparent where boards contain higher numbers of women. Konrad et al. (2008) argue that lone women on boards will struggle to make their voice heard and avoid being overlooked or stereotyped. However, where there are two women on the board, they will feel more comfortable, less isolated and less likely to be ignored. Where there are three or more women on the board, gender is no longer an issue, and female boardroom presence will be viewed as normal rather than tokenistic, hence women will be able to assert their views without fear of stigmatisation. This in turn may have significant performance implications. For example, Galbreath (2011) found that firms with two or more female directors performed better on a wide range of metrics (including return on investment, market capitalisation and revenue) than firms with no women on their boards. Torchia, Calabro & Huse's (2011) study of 317 Norwegian firms found that having a 'consistent minority' of three or more female directors led to greater firm innovation (see also: Rossi, Hu & Foley (2017) for similar findings in Italian listed companies).

Therefore, while there is some inconsistency in the findings, much of the research suggests that female boardroom presence, and in particular a critical mass of women on boards, does have identifiably positive performance implications. This in itself points to the economic importance of understanding and overcoming the barriers women face in gaining board-level roles.

Explaining the Scarcity of Women on Boards

Given, as outlined above, female boardroom presence may be associated with improved firm performance, why do women struggle to progress from senior management roles into the boardroom? Four main explanations have previously been advanced: human capital theory explanations that women often lack the right skills, education and experience; preference theory explanations that they do not have the requisite ambition for the boardroom; attribution theory and self-efficacy explanations; and finally, network-based explanations suggesting women are typically less well-networked than their male peers with key organisational decision-makers.

A key contention of this book is that while the first three of these explanations might help account for the lack of advancement of women into junior and middle management roles (and hence may be important in explaining the 'leaky pipeline' of women into executive positions from which they might be considered for the boardroom), they cannot explain the difficulties women in senior executive (sub-boardroom) positions face in progressing into board-level roles. Instead, we argue that network-based explanations are significantly more convincing. As argued below (and in greater detail in subsequent chapters), boardroom recruitment and selection processes are highly reliant on networks and word-of-mouth recommendations. Given this, individuals who are well-networked with the senior business elite will be better placed to hear about potential vacancies, will be more visible to key decision-makers searching for potential candidates, and will be more likely to receive important informal recommendations and active sponsorship. Therefore, if women are less visible within the relevant networks than their male peers, this is likely to be to their disadvantage in securing roles.

Before exploring this argument in greater detail, we first outline our arguments for why human capital theory, preference theory, attribution theory and self-efficacy are likely to offer little in explaining the problems women face progressing from senior executive roles into the boardroom.

Human Capital Theory

Arguments stemming from human capital theory (Becker, 1964) suggest that women struggle to progress to board-level positions as they lack the education, skills development and experience necessary to do so. Research on individuals at every stage of their careers (not just senior levels) has shown that investment in these forms of human capital is one of the main predictors of career success. Research has also shown that due to career breaks, women typically possess less human capital (particularly in the form of skills and work experience) than men (Ng, Eby, Sorensen & Feldman, 2005; Ng & Wiesner, 2007).

In terms of whether human capital theory explains women's lack of advancement to the highest organisational levels, prior research has suggested CEOs and headhunters frequently cite women's lack of human capital as a reason for not hiring them into board-level roles (Davies-Netzley, 1998; Tharenou, 1999). However, it is far from clear whether such arguments remain valid today, given there is growing evidence suggesting female boardroom aspirants possess human capital that is on a par with that of their male peers.

Turning first to educational qualifications, while historically women were less well-qualified than men, women's superiority in educational success has been an increasing trend over the past 30 years. Women now outperform men at every educational level, and 58% of UK university graduates are now female (Universities UK, 2018). Although there are some differences in the university degree subjects studied by men and women, there is little evidence to suggest women select subjects that are less likely to set them on a career path that will equip them with the business experience needed for the boardroom. While women tend to favour languages, marketing and medicine and men favour computer studies, technology and mathematics, they are equally likely to study business degrees (HESA, 2012). Women have also made significant strides regarding financial and accountancy qualifications over the past 30 years, with 40% of the Association of Chartered Certified Accountants' (ACCA) new