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Aleksandra Gregorič, Lars Oxelheim, Trond  
Randøy and Steen Thomsen

# Changing the Corporate Elite? Not So Easy. Female Directors' Appointments onto Corporate Boards

Aleksandra Gregorič<sup>†</sup>

Lars Oxelheim<sup>‡</sup>

Trond Randøy<sup>§</sup>

Steen Thomsen<sup>\*\*</sup>

## Abstract

*Scholars have previously investigated country and organizational-level factors associated with the incidence of female directors on boards. These studies, however, cannot explain why, in countries with strong gender equality and pressure for female directorships, firms are still hesitant to promote new women to their boards. To address this issue we – in this study – introduce the cognitive and affective processes related to directors' identification with the traditional corporate elite as an explanation for the slow organizational response to pressure for gender diversity on boards. We bridge the social identity and critical mass theory to further show how these responses may vary with the current composition of the board. Viewing the board as a locus for the maintenance of the positive distinctiveness of the established corporate elite, we conjecture that new female appointments will not only depend on the current share of women on board but also on the current (minority) share of board positions held by male directors who are not prototypical of the established elite. We also uncover how this relationship is moderated by the share of institutional investors' ownership. We test and support these propositions on a sample of 387 publicly traded Nordic corporations during 2001–2008.*

*Keywords: social identity; board of director; gender diversity*

*JEL: D22, F23, F66, G34, M16*

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<sup>†</sup>(Corresponding author) Department of International Economics and Management, Center for Corporate Governance, Copenhagen Business School, Porcelænshaven 24, DK-2000 Frederiksberg, Denmark; Email: agr.int@cbs.dk

<sup>‡</sup> Research Institute of Industrial Economics (IFN); Email: Lars.Oxelheim@ifn.se

<sup>§</sup> University of Agder; School of Management; E-mail: trond.randoy@uia.no

<sup>\*\*</sup> Department of International Economics and Management; Center for Corporate Governance, Copenhagen Business School; Email: st.int@cbs.dk

## INTRODUCTION

Over recent decades, various waves of corporate failures have encouraged academics, policy makers and investors to reconsider the way modern corporations are managed and controlled, and to suggest guidelines for better corporate governance. More recently, explicit pressure has been placed on companies to increase the gender diversity in their boardrooms (e.g. EU Progress Report, 2012; Higgs Report, 2003; Swedish Code of Corporate Governance, 2004). Women are expected to bring new talent and resources to firms, improve board work by providing critical perspectives, and enhance board independence (e.g. Adams & Ferreira, 2009; Hillman, Shropshire & Cannella, 2007; Nielsen & Huse, 2010). Yet, regardless of these benefits, the rate of increase in the number of female directors remains slow (e.g. EU Progress Report, 2012), stirring some countries to enforce gender diversity through legislation. In 2006, Norway became the first country to implement a law requiring a minimum of 40 percent representation for each gender on the boards of limited liability companies (with the penalty of full dissolution of non-compliant firms).

This evidence opens up what we see as one of the key issues in board diversity research: What are the factors that, despite the expected benefits of gender-diversified boards, cause the slow pace of female promotions to boards? Scholars have previously investigated the incidence of women in the boardroom (e.g. Hillman et al., 2007; Ruigrok, Peck, Tacheva, Greve & Yan, 2006), and addressed individual and country-level barriers to female directorships (for an overview, see Terjesen, Sealy & Singh, 2009). The results of these studies, however, cannot fully explain the organizational resistance to explicit demands for board gender diversity in countries with high gender equality and a significant share of competent women in society, nor can they entirely explicate the differences in firms' compliance with these demands.

This paper addresses this gap by analyzing the issue of gender diversity in boards through a social psychological lens, complementing the rational economic perspective on female appointments<sup>1</sup>. We contribute to the literature on corporate governance and, in particular, board diversity, by analyzing how the preferences and biases of the incumbents (i.e. the current members of the corporate elite), shape a firm's response to the calls for gender diversity. Specifically, viewing the directors' attitudes to female appointments in terms of intergroup relations, we conjecture as to why governance recommendations and societal demands for gender diversity may stimulate adverse social categorization processes in boards and more generally the current corporate elite, making the incumbents resist compliance. We combine the social identity theory (e.g. Turner, 1982; Tajfel & Turner, 1986) with the critical mass theory (e.g. Granovetter, 1978) to further theorize on why, consequently, a firm's propensity to increase the number

of female directors may depend on the existing demographic composition of the board, and how this may in turn lead to a persistence of limited overall board diversity. While critical mass theory may explain the relationship between the likelihood of new female appointments and the current share of women on board, it is necessary to bridge this theory and the social identity theory in order to explain why these appointments may depend also on the demographic characteristics of the male directors on board.

We start with the premise that a board of directors is ultimately a social group of members with defined roles and identities (Forbes & Milliken, 1999) and that, consequently, social psychological factors can direct the selection of directors, beyond the organizational requirements for skills and expertise (Withers et al., 2012). Past research has in fact shown that incumbents often favor board candidates who are culturally and demographically similar to themselves (e.g. Kanter, 1977; Smith, 2002; Stafsudd, 2006; Westphal & Zajac, 1995), candidates who are associated with the same well-known social circles and networks of high prestige and status as they themselves are (Useem & Karabel, 1986; Westphal and Stern, 2006), and those who display ingratiation behavior and will maintain the norms and social cohesion of the board and the corporate elite (Westphal & Stern, 2006, 2007; Withers et al., 2012). These tendencies can partly be explained by social categorization and intergroup behavior (Tajfel, 1974; Tajfel & Turner, 1986; Turner, 1982), that is by directors' motivation to achieve positive distinctiveness by associating with an elite group of individuals of the same prestige, status and demographic characteristics as themselves (e.g. Useem, 1980; Westphal & Khanna, 2003).

Scholarly evidence reports that being part of the corporate elite has become a component of directors' social identity (e.g. Useem, 1980), affecting their attitudes toward dissimilar others (Westphal & Milton, 2000) and anyone adopting behavior that deviates from the established norms and practices (Westphal & Khanna, 2003). As a distinctive characteristic, the corporate elite traditionally comprises white, middle-aged male nationals from similar socioeconomic backgrounds, known as the old boys' club (e.g. Ramirez, 2004). This demographic homogeneity has helped maintain the social cohesiveness of the elite, has strengthened the identification of its members and has enabled the creation of common norms and values (e.g. Hogg & Terry, 2000; Westphal & Stern, 2006). In this regard, boards of directors have played a pivotal role in providing a locus for the selection and socialization of directors in the corporate elite and for the social sanctioning of directors adopting deviant behavior (Palmer & Barber, 2001; Westphal & Khanna, 2003; Westphal & Stern, 2006).

The globalization of firm operations and increasing needs for international experience and for diverse expertise have, however, slowly opened up more possibilities for appointments of individuals who are demographically different from the traditional elite, such as younger directors, foreign nationals, ethnic minorities, etc. (Oxelheim, Gregorič, Randøy & Thomsen, 2013; Westphal & Milton, 2000). Nevertheless, being demographically different, and often lacking other elite credentials, these newcomers

have commonly faced higher barriers to accessing board seats (Hillman, Cannella & Harris, 2002; Westphal & Stern, 2006). Consequently, they mostly remain in minority peripheral to a corporate elite that has changed very little over the last 30 years (Economist, March 11<sup>th</sup>, 2010; Heemskerk, 2011).

Recently, the requests for gender diversity on boards are more explicitly forcing the appointment of women as new outsiders on the old boys' club, threatening the distinctiveness of the traditional corporate elite. Women are also challenging the image, norms and practices of the elite (Fanto, Solan & Darley, 2011). From a social identity perspective, we can thus view the calls for gender diversity as part of a female collective identity management strategy (Ellemers, 1993) aiming to change the established boundaries and image of the old boys' club. Social identity theorists would argue that, under such threats to their valued group, the directors who identify with the traditional elite will tend to adopt actions that promote their positive and distinctive social identity, and defend the status quo (Ellemers, 1993; Ellemers, Spears & Doosje, 2002; Tajfel & Turner, 1986; Yzerbyt & Demoulin, 2010). Applying this reasoning to predict a board's attitude towards new female appointments, and viewing the board of directors as a locus for social control on behalf of the elite (Westphal & Khanna, 2003), we should therefore expect the members of the old boys' club to be apparently hesitant to support nominations of women.

Social identity scholars also argue that, when the demographic characteristics of the group are under attack, those identifying with the group are likely to discriminate based on all the dimensions that make their group distinct, to sharpen group boundaries and adopt a negative stance towards any member who does not conform to the group prototype (e.g. Hogg & Terry, 2000; Rothgerber, 1997; Smith & Mackie, 2000). In such circumstances, we argue, the old boys will also likely perceive as part of the out-group any male directors who do not share the distinctive characteristics of the traditional elite. These prototypically peripheral male directors may be, therefore, perceived as more likely to collude with new female directors in challenging the established norms and practices (e.g. Hogg & Terry, 2000). Consequently, the representative members of the old boys' club should view a female newcomer as a higher threat when some (minor) share of peripheral or atypical members of the elite is already present on a board. In these cases, as well as when women are already present on a board, the appointment of an additional female will more likely result in a critical mass of individuals, that is a number large enough to challenge the dominance of the old boys' club and disrupt the status quo (Granovetter, 1977).

Simply put, we propose that, apart from the current share of female directors, the likelihood that a board dominated by the old boys' club will promote and welcome new female appointments will be also negatively related to the current share of prototypically peripheral male directors on board. We acknowledge, however, that this may not apply to firms in which atypical members of the elite already dominate the board, and to firms controlled by owners that are more attentive to board diversity and can restrain the influence of the old boys' preferences, such as institutional investors. We test these

hypotheses using a sample of non-financial publicly traded corporations in the Nordic countries over 2001-2008. Nordic countries represent an attractive research setting for the analysis given the strong role of women in the workforce and society, and the best practice and legislative proposals for more gender-diversified boards observed in these countries over the last decade. However, not all firms have responded equally to these demands, allowing us to explore the forces underlying this variation.

## **THEORY AND HYPOTHESES**

### **Boards as a locus for maintaining the distinctiveness and cohesiveness of the elite: A social identity approach to directors' selection**

Social psychologists have long noted that, as individuals, we classify ourselves into social categories or groups. We term the members of a given category the in-group and perceive ourselves as sharing a common faith with them that distinguishes us from the out-group (e.g. Turner, 1982). We usually define these social categories based on some salient demographic characteristic, such as age, gender or ethnicity (e.g. Jackson, May & Whitney, 1995). While they are the most common sources of self-categorization, we also reportedly base social categories on organizational membership, work relations, social status, and similar factors (e.g. Hogg & Terry, 2000). According to social identity scholars, self-categorization, or the “perception of us as belonging to some human aggregate” (Ashforth & Mael, 1989:21), constitutes an important part of our self-concept and defines our social identity.

This sense of belonging influences our feelings, thoughts and actions. We support the institutions that embody our social identity, and we are subject to stereotypical perceptions of ourselves and others. Specifically, since we rely on our group membership to increase our self-esteem, we are motivated to attain favorable group identities and tend to fall prey to bias and discrimination against the individuals whom we consider outsiders to the group (i.e. the out-group). For the same reason, we are more inclined to appreciate individuals that are prototypical of our reference group (e.g. Ellemers et al., 2002). We select new group members whose characteristics correspond to the distinctive characteristics of our group (Ashforth & Mael, 1989; Tajfel & Turner, 1986). These effects are pertinent to our behavior, regardless of whether the group with which we identify has a clearly defined and strong leadership, and regardless of whether we have intense interactions with other group members (Ashforth & Mael, 1989; Ellemers et al., 2002).

The importance of social, cognitive and affective processes for the behavior of boards and their members has been observed previously in the literature (e.g. Withers et al., 2012). In relation to social identity theory and intergroup behavior, scholars have previously noted that directors have often

displayed behavior congruent with their social identity, and supportive of the elite's cohesion, distinctiveness and resistance to external pressure (Palmer & Barber, 2001; Useem, 1980; Westphal & Milton, 2000; Westphal & Khanna, 2003). Overlapping board ties, club membership and elite associations are examples of social structures that have emerged to support the socialization of directors into the norms of the elite, enabling the development of a common identity and the maintenance of the cohesiveness of the corporate elite (e.g. Useem, 1980; Westphal & Khanna, 2003). In this regard, boards of directors have played a pivotal role in socializing new members into the elite and socially sanctioning those members who display divergent behavior (Westphal & Khanna, 2003). Boards have also contributed to the social integrity of the corporate elite through their recruitment practices, favoring individuals who share demographic characteristics and other elite credentials, and who are likely to conform to the established norms and practices (e.g. Hillman et al., 2002; Useem & Karabel, 1986; Westphal & Stern, 2006; Winters et al., 2012).

The desire to preserve the distinctiveness and cohesiveness of the elite, and to support the directors' identification with the elite and its norms and values, may in part explain why a predominant share of board seats are held by demographically very similar individuals, that is white, middle-aged male nationals from a similar socioeconomic background, termed the old boys' club<sup>ii</sup>. Although the physiognomy of the corporate elite was projected to change with the emergence of new business sectors, the internet community and the globalization of firms' activities, its core even today remains very much unchanged (Heemskerk, 2011; Gamba & Kleiner, 2001; Ramirez, 2004). Similarly to some other demographic groups, the female directors have been generally perceived as outsiders to the corporate elite. They reportedly encounter significant barriers in building professional relationships with the male members of the elite, and in moving up the organizational hierarchy (Huckfeldt & Sprague, 1995; Jackson & Leon, 2010; Waldstrøm & Madsen, 2007). Given the small share of female CEOs, they are also less likely to have similar professional backgrounds to the male majority in the elite or to share other credentials that could eventually create an alternative basis for an association with them (e.g. Westphal & Milton, 2000).

Consequently, we can view the best practice recommendations and other pressures for gender diversity in the boardroom as part of a collective strategy that women and their supporters have adopted in order to break into the established corporate elite (e.g. Ellemers, 1993). Female directors challenge the demographic homogeneity of the elite and, consequently, an important basis of its cohesiveness. The anticipation of improved corporate governance in firms with gender-diverse boards is, in fact, based on the assumption that women will challenge the established rules and bring about a change in the social identity of boards and the elite (Adams & Ferreira, 2009; Fanto et al., 2011). Past research has further suggested that women bring different values to boards. This has implications for board issues such as

leadership/decision-making style, more rigorous board work, and stricter self-evaluation of boards (Huse & Solberg, 2006; Nielsen & Huse, 2010). By contesting the positive evaluation of the traditional elite, female directors thus also represent a “group esteem threat” to the in-group (Yzerbyt & Demoulin, 2010:1040).

Social identity theorists would argue that the threats to the positive distinctiveness (i.e. distinctiveness and image) of the established corporate elite – regardless of whether imaginary or real – will likely motivate behavioral, perceptual and affective responses, particularly from the prototypical members of the in-group (Ellemers et al., 2002; Hogg & Terry, 2000; Jetten, Spears & Manstead, 1997; Yzerbyt & Demoulin, 2010). Based on the empirical and anecdotal evidence, we refer to these prototypical members of the traditional elite simply as the old boys or old boys’ club. In a context where the positive distinctiveness of their valued social group is questioned, these old boys should therefore demonstrate an even stronger identification with this social group, attributing an even higher importance to this membership for their social identity. Social psychologists in fact explain that our social identity is something of an “*amalgam of loosely coupled identities with particular identities activated by relevant settings*” (Ashforth & Mael, 1989:30; also see Turner, 1982). The salience of a specific identity, made up of the relative importance we attribute to a specific membership and the intensity of our identification with it, depends on the social context. Most importantly, the salience of a particular social characteristic and, consequently, social identity will increase in the case of events that represent a threat to the reference social group, as do, for example, criticisms of the demographic homogeneity and behavioral norms of the traditional elite (Ellemers et al., 2002; Hogg & Terry, 2000).

For the prototypical members of the traditional elite we should, at least in the short run, therefore expect to observe a stronger commitment to the values and distinctiveness of that elite, greater support for group homogeneity, positive self-stereotyping and, at the same time, a more negative perception and derogation of the out-group members. As argued above, anything that makes a group’s domain or resources unsecure, such as an external threat to group distinctiveness, is expected to strengthen such tendencies, with the in-group bias increasing with the strength of the threat (Ellemers et al., 2002; Jetten et al., 1997). Because of the dynamic nature of status relations, such challenges will represent a credible threat and will therefore motivate defensive behavior even when they derive from a low-status group and are directed towards a high-status group (Ellemers, 1993; Tajfel, 1974).

### **Demographic composition of the board and resistance to new female directors**

We have argued above that challenges to the established corporate elite will strengthen the defensive behavior of its members in support of the group’s distinctiveness, norms and practices. Given the previous evidence on the role of the board as a locus of social control (Palmer & Barber, 2001;



Westphal & Khanna, 2003), these tendencies will likely influence board recruitment practices, resulting in a lower readiness of the old boys' in particular (Jetten et al., 1997) to promote compliance with the calls for gender diversity. Integrating social identity and critical mass theories, we next conjecture as to how this may, in turn, influence the progress of females to the boardroom, and why this progress will depend on the current demographic composition of the board.

First, we propose that the prototypical members of the corporate elite – in our case those most resembling the stereotype of the old boys' club – will be less likely to promote and support new female appointments and, therefore, firm compliance with best practice recommendations when one or a few women already hold board seats. Without necessarily referring to social identity theory, we could argue that the outside pressure for more gender diversity is smaller for the firms that already have at least one female director on board. Scholarly evidence in fact suggests that even symbolic actions that do not necessarily represent underlying firm policies, such as recruiting a single female director as a token, can efficiently alleviate the external pressure for organizational change (Chizema & Shinozawa, 2012; Davis, 2005; Oliver, 1991). By recruiting yet another female, boards that already include female directors also move closer to the critical mass of women at which these out-group members could overturn the current status differences on the board, and thus significantly change the established norms and practices. According to critical mass theory, when a minority reaches a certain threshold – critical mass – its status changes from being merely a token to actually having influence over group outcomes (Granovetter, 1978; Kanter, 1977). As their number rises, the women will in fact be more motivated not to conform to the norms of the majority. At the same time, their increased presence on the board may reduce the perception biases, polarization and stereotyping of them by the majority members, thus increasing female influence on board processes (Torchia et al., 2011). In sum, assuming that the old boys (still) can exert significant influence over the choice of new directors, we form the following hypothesis:

***Hypothesis 1: There is a negative relation between the share of female directors on a board and the likelihood of observing an increase in the number of female directors on the board.***

Although the majority of board seats are, in most cases, still held by the old boys, male directors who do not share the distinctive characteristics of the traditional corporate elite have started entering the boardroom over the last few years due to increasing demands for directors to have specific expertise and experience (Gamba & Kleiner, 2001; Heemskerck, 2011; Oxelheim et al., 2013; Ramirez, 2004). Following social identity theorists, we refer to these directors that are atypical of the old boys as marginal or peripheral male directors (e.g. Ellemers et al., 2003; Hogg & Terry, 2000). Building on these grounds, we now propose that the old boys will be less supportive of new female appointments if a (minor) share of board seats is already held by peripheral male members of the corporate elite.

Social identity scholars in fact observe that a threat to a group's identity, on the one hand, increases the value of the prototypical group member and, on the other hand, strengthens the negative perception of other members that are perceived as marginal or peripheral (Ellemers, et al., 2002). In our case, threats to group identity therefore not only increase the salience of dissimilarities between old boys' club members and women but also between the former and prototypically peripheral male directors. Even if some of the peripheral male directors may have become socialized to the norms of the traditional elite (e.g. Westphal & Milton, 2000), their demographic differences and diverse experience in relation to the latter will possibly become more salient in the context of a threat, increasing their peripheral status (Rothgerber, 1997). Under uncertainty, the in-group members will in fact be inclined to refine the group boundaries and "consolidate a clear prototype" (Hogg & Terry, 2002:127). "*By being aprototypical, particularly in a direction that leans toward a salient out-group, a marginal in-grouper jeopardizes the distinctiveness and prototypical clarity and integrity of the group. Thus, fellow in-groupers....will strongly reject the deviant in order to consolidate a clear prototype to which they can strongly assimilate themselves through self-categorization*" (Hogg & Terry, 2000:127).

Being different from the typical member of the traditional elite, the peripheral male directors are thus likely to be perceived, together with women, as a threat to the distinctiveness and integrity of the in-group (Ellemers et al., 2003; Hogg & Terry, 2000). Since demographic dissimilarity generally implies dissimilarity in norms and values as well (Pelled et al., 1999), these peripheral male directors might be less committed to the identity and values of the traditional elite. They may, consequently, be more inclined to signal their dissimilarities to it under a threat to the traditional elite (Ellemers et al., 2002), particularly since the pressure for gender diversity may change their perception of structural constraints to an improvement of their marginal position in the elite (Yzerbyt & Demoulin, 2010). For similar reasons, they may also be more sympathetic to new female directors and collude with them in challenging the old boys' norms and practices. The role itself – of being a minority or a challenger to the old boys' club – could actually become a salient and meaningful basis for self-categorization, thus unifying female and peripheral male directors in a common group (Westphal & Milton, 2000). Thus, we form the following hypothesis:

***Hypothesis 2: There is a negative relation between the (minority) share of peripheral male members currently present on a board and the likelihood of observing an increase in the number of female directors on it.***

We need to consider, however, that in some corporations the share of peripheral members may have already reached a majority, turning the old boys into a minority. In such cases, the peripheral male members may actually enforce further increases in board diversity, implying a positive correlation

between their share of board seats and the likelihood of new female appointments. Being now in a minority, the traditional directors may also become more conscious of the consequences of having a minority status and learn to appreciate the value of diverse views on a board (Westphal & Milton, 2000). This could, in turn, mitigate their resistance to female directors. Therefore,

***Hypothesis 3: The relationship between the percentage of peripheral male members currently present on a board and the likelihood of an increase in the number of female directors is positive when the peripheral male members hold the majority of the seats.***

In our argumentation so far, we have not distinguished between the preferences of directors and shareholders. Implicitly, we have assumed that the current directors play an important role in proposing new board members, and that the shareholders in most cases approve and elect the proposed candidates. We argue that this is a reasonable assumption even in countries such as the Nordic ones, where shareholders not only formally appoint directors but also play a bigger role in the selection process. Past studies show that the nomination committee will still propose prospective candidates based on recommendations by current board members, or by executive search firms that tend to follow the directors' preferences (Johnson et al., 2011; Stafsudd, 2006; Winters et al., 2012). Anecdotal evidence and case-based evidence from Nordic firms further suggests that the decision to search for a female candidate is usually initiated by the board. Finally, some shareholders may support directors' preferences and align with them in support of the status quo. This may be particularly the case in the Nordic countries where, due to relatively concentrated ownership, the shareholders may themselves hold board seats, identify with the values or even share some of the demographics of the traditional elite. These members may therefore be similarly skeptical about the changes in board identity that may follow increased gender diversity.

Yet, we must acknowledge that certain types of owners, such as institutional investors, may be particularly in favor of greater diversity in the boardroom. In recent decades, such owners have been active in promoting corporate governance changes that ensure stricter board monitoring and stronger director independence, thus challenging the embedded practices of the traditional corporate elite (Westphal & Khanna, 2003). They respond positively to the implementation of recommended governance practices, and in some cases are even actively involved in drafting the recommendations. These investors are willing to pay substantial premiums for well-governed firms (Newell & Wilson, 2002). Given that they invest in large portfolios of firms from various geographic locations, they might not sympathize with the local corporate elite and embedded practices as much as other investors do. Finally, because of their diversified portfolios, they may also be more receptive to general social issues, such as gender equality (Picou & Rubach, 2006). While the institutional investors' pressure may lessen once a firm has appointed

a female director (see *Hypothesis 1*), their demands for gender diversity should not be conditioned on the presence of the marginal male members on a board. Thus,

*Hypothesis 4: Institutional investors' ownership moderates the relationship between the share of peripheral male members on a board and the likelihood of observing an increase in the number of shareholder-elected female directors on that board.*

## SAMPLE AND METHODS

### Sample

In order to test our hypotheses, we analyzed changes in board composition in non-financial publicly traded firms headquartered in Denmark, Finland, Norway or Sweden during the period 2001-2008. We collected the names and surnames of the CEO and directors, their gender, year of birth, first appointment to the board, and nationality. The main source of director information was the annual reports. In order to correctly identify the directors' nationalities, the information was collected by a national of the country in which the firm was headquartered. When the identification of the nationality was not straightforward, a number of alternative data sources (such as BoardEx, Business Week, the internet, lists of important individuals, etc.) were used. We performed a final check by comparing the information for the same board member across different years, and rechecking all information using at least one alternative source.

Not all firms in the sample had been listed on the stock exchange since 2001 and some delisted before 2008; firms were included in the study only for the years in which they were listed. About 15 percent of the companies were excluded from the sample because we could not retrieve information on their board structure. We found that they did not differ systematically from the companies we included in the analysis. For consistency with previous governance research, we also excluded financial firms (SIC 6000-7000). The board information was then merged with financial and ownership data. Financial data were collected from the Worldscope/Thomson Financial Database, and ownership data from the Thomson Ownership Database. Unfortunately, ownership data were not available for all firms in the sample. In particular, the ownership concentration measure was missing for Finnish firms in the first two years of analysis. Therefore, for these two years, the ownership structures of the Finnish firms were assumed equal to their ownership structures in the first year for which such information was available. Merging the data from these various sources resulted in a final sample of 2,490 firm-year observations (387 firms) across the four Nordic countries.

## Variables

**Dependent variables:** The focus of our study is the board's decision to comply or not with the best practice recommendations and other pressures for more female directors on boards. Therefore, our main dependent variable is binary, taking the value 1 when a firm increases the number of female directors in a given year, and 0 otherwise (*Increase\_FEM*). To test *Hypothesis 4*, we in addition construct a binary variable indicating an increase in the number of shareholder-elected female directors in a given year (*Increase\_SHFEM*). This variable excludes employee-elected directors (see below).

**Explanatory variables:** Our main explanatory variables relate to the composition of the board. One is the current percentage of female directors (*Female %*) and the other is the percentage of male directors who were atypical of the old boys' club (*Peripheral Male %*). For the purpose of empirical testing, we define an atypical or peripheral male director based on two readily detectable relations-oriented demographic characteristics (Jackson, May & Whitney, 1995) that are most commonly used to characterize the male members of the traditional elite, namely age and nationality<sup>iii</sup>. Specifically, we consider as peripheral members all foreign and younger male directors. Foreigners include any non-nationals, including directors from other Nordic countries. We considered young directors to be those aged 48 years old or younger. This age is five years below the average age of male directors in the starting year of the analysis (53.2 years); the definition is in line with other studies that have used the five-year threshold to associate people of the same age (e.g. Feld, 1982). The threshold is also equal to the average age of the female directors in the starting year of our study (2001). As argued by Hogg & Terry (2000), the perception of a director as being different from the prototype will be particularly strong when this director is atypical "in a direction that leans towards a salient out-group"(p.127).

Our approach to distinguish peripheral directors from the prototypical members is also in line with Palmer & Barber (2001), who separate the elite into an inner group ("old guard") and marginal-status elite members ("challengers") based on the religious or geographic groups that previous research had identified as having a disproportional representation in the two sub-groups. Based upon the empirical evidence on the demographic characteristics of the old boys' club, supported by the characteristics of the average male director in our sample, we define as prototypical all domestic male directors of a certain age. As further support of age being a relevant characteristic for separating prototypical and peripheral elite members, we should note that researchers have previously found that age differences significantly correlate with individuals' attitudes towards risk, decision-making style, information processing, attitudes and beliefs, which should in turn also influence the relations among them (Taylor, 1975; Westphal & Zajac, 1995). Also, younger directors might be less embedded in the traditional social structures of directors, such as elite clubs and other private and business circles, since age is found to be an important characteristic that consistently segregates and stratifies individuals in most societies (Feld, 1982).

Sociologists have further shown that age similarity is positively associated with organizational citizenship behavior, sportsmanship, the individual's commitment to the group, her/his conscientiousness, cooperation and communication (Riordan, 2000). Finally, younger male directors are also - similarly to female directors - less likely to have reached a peak in their careers and less likely to hold previous executive experience.

In relation to foreign directors, we should first note that national origin is, other than gender, age and ethnicity, one of the most readily detectable relations-oriented attributes that influence social cognitive processes and motivate social categorization (Jackson et al., 1995). Being from geographically distant places, foreign directors might also be less embedded in the local structures and thus less connected to the inner circle of the corporate elite. Additional support for this assumption can be found in social networks research. For example, scholarly evidence on European business networks shows that these networks predominantly remain within national borders, even in the smaller European countries (Heemskerk, 2011:12). The reluctance of the national corporate elite to promote changes that will undermine the power and position they have built up in the corporate arena has been suggested as a possible reason for this trend (Carroll & Fennema, 2002; Heemskerk, 2011; Rhodes & Van Apeldoorn, 1998). Finally, sociology scholars have observed that shared ethnicity, nationality and race may form the basis of dominant group membership and, in this sense, social closure (Jackson & Leon, 2010).

To analyze the influence of shareholders on the selection of directors, we include two further explanatory variables. One measures the percentage of shares not held in blocks of at least 5 percent (*Dispersed shares %*) and the other measures institutional investors' ownership. Based on data availability, the latter variable (*Institutional investors %*) is defined as the shares held by institutional investors, divided by the shares held by the five largest owners, expressed as a percentage.

**Control variables related to board structure:** In choosing our control variables, we first consider that – even when incumbents support the appointment of female directors – these appointments might not occur overnight. Most directors serve a fixed term of office and many firms prefer to wait until a director's term expires or they retire before replacing them with someone who is better able to serve the desired role (Hillman, Cannella & Paetzold, 2000). Generally, only part of a board can be actually changed in any one period without substantial cost to the firm, as the existing directors will carry important strategic and operational knowledge, accumulated through their years as board members; high turnover also reduces the amount of firm-specific knowledge on a board (Forbes & Milliken, 1999). Thus, retirement generates room for female appointments. We control for this by including the percentage of directors expected to retire from the board in the year in question (*Retiring male %*) in our regression models. We use the Danish corporate governance recommendations from 2001, which explicitly state that

directors on boards should not be older than 70, and define as retiring directors all male directors of this age or older; 70 years is also an implicit guideline for directors' retirements in Sweden.

We control for the total number of board members (*Board size*) as the probability of someone leaving the board and making room for a female director is higher in larger boards. Similarly, the probability of a new female appointment might be higher when a board can increase its size, avoiding the need to replace existing members. We therefore include the change in the number of board members ( $\Delta$  *Board size*). One characteristic of the Scandinavian countries (Norway, Sweden and Denmark) is that part of the board can be elected by the employees. Since these directors are elected from among the employees or (in Sweden) from the members of local unions, the proportion of women in this group might be higher than it is among shareholder-elected directors. We therefore control for the percentage of employee-elected directors on a board (*Employeeedir %*).

**Control variables related to other firm characteristics:** We also control for firm size (*Firm size*), measured as the logarithm of total firm sales in millions of Euros at 2000 prices. Large firms are more exposed to the public eye and can probably attract the best female candidates, which should influence their attitudes towards women. Following other studies, we include firm risk – measured by the standard deviation of the firm's return on assets (ROA) over the preceding three years (*Firm risk*). Where indicated, our regressions also contain the 17 Fama-French industry dummies. Previous studies have shown that the advice or external links that women bring to boards are particularly relevant in industries with a higher share of women among the consumers and/or employees (Hillman et al., 2007).

Country and time dummies are included to account for the salience of public pressure for female-friendly boards, which we view as a driver of female appointments that is complementary to agency concerns. The strength of public debate on female directors has varied across the Nordic countries, the extreme case being Norway, which in 2006 decided to enforce female representation through a quota law to be implemented over the following two years, requiring at least 40 percent representation of each gender on the boards of public limited liability companies. In Sweden, in 2002, Margaretha Winberg – the deputy prime minister from the Social Democratic Party – threatened Swedish companies with binding regulations if they failed to increase the female representation on their boards to 25 percent within five years. As a consequence, in 2004 it became mandatory to disclose the gender distribution of boards. While discussions on a quota law have taken place in Denmark but not resulted in legislation, the Finnish gender equality program for 2008-2011 set a goal for 40 percent of public sector company board members to be women.

## **Method**

We start our analysis by presenting a simple model in which the number of female directors on a board was regressed on the chosen explanatory and control variables using a Poisson estimator. In order to control for unobserved firm-specific effects and account for the serial correlation of the error term (Cameron & Trivedi, 2005), we re-estimated the same model with a fixed effects estimator with standard errors clustered by firm. We next continue with our main specification. In this, we looked at the increase in the number of female directors on a board rather than the current number. Thus, we partly accounted for the inertia of board structure due to longevity of director tenure. Given that our variable was binary (*Increase\_FEM*), we first estimated a pooled probit regression with standard errors clustered by firm. Since the probit model implies diminishing magnitudes of the partial effects of the explanatory variables, we report the coefficients at the average value of the explanatory variables.

To account for unobserved firm-specific effects, we also ran a probit regression with firm fixed effects for all the main specifications. However, adding firm fixed effects reduced the size of our sample greatly, by nearly one third, since the estimator excludes firms with no change in the dependent variable during the years of our analysis. We therefore present the results of the linear probability model (with firm fixed effects). In order to reduce reverse causality problems, we applied a one-year time lag for all explanatory variables. We addressed potential multicollinearity problems by calculating the variance inflation factors for all variables. These factors are all well below the critical level of 10, implying there is no reason for collinearity concerns. To mitigate the influence of outliers, the upper- and lowermost percentiles for each financial variable were set equal to the values at the 1st and 99th percentiles in each year, respectively.

Regarding our empirical analysis and the choice of estimators, some additional information may be of interest. Aggregating over the sample time period, no change is observed in 76 percent of firm-year observations, or 34.4 percent of all firms; a reduction in the number of women is observed in about 6 percent of the firm-year observations, and an increase is seen in the remaining 60 percent of firms. Specifically, a change in the number of females is more commonly observed in Norwegian firms (in 90 percent of the firms during the period of our analysis), followed by Sweden (about 78 percent of firms), and then Finland and Denmark (in around 50 percent of the firms included in our final sample). In 2001, only 42 percent of the firms in our sample had at least one female director. This percentage had increased to 76.70 percent by 2008. A rise in this percentage, from 40 to 70 percent, is observed even when we exclude Norway, where all firms had to appoint female directors by 2008.

## **EMPIRICAL RESULTS**



We start by presenting the descriptive statistics and the partial correlation coefficients in Table 1. The numbers refer to the sample of 387 non-financial firms (2,490 firm-year observations) used in the regression analysis (2,113 firm-year observations when analyzing the increase in the number of female directors). The coefficients indicate a positive and significant correlation between the percentage of female directors and the total number of board members. A positive significant relationship is also found between the percentage of female and the employee-elected directors on a board. The percentage of female directors also positively correlates with firm size, firm performance, ownership concentration and institutional ownership share. A significant negative relationship is found between the percentage of female directors and the riskiness of a firm.

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INSERT TABLE 1 ABOUT HERE  
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We next present the results of the simple model, in which we regressed the number of female directors on a set of country, industry, firm and board-specific characteristics. The results are shown in Model 1 (a), Table 2. While for some of the variables the relationship becomes non-significant when controlling for other factors, the share of females is positively and significantly associated with each of the following: the percentage of employee-elected directors on a board, board size, firm market value and firm size. The relationship between the number of females on a board and the share of young or foreign male directors is negative and statistically significant. Taking the clothing, apparel and textiles industry as a reference, a significantly lower number of female directors is observed in the metal industry, in construction and in mining. In order to control for unobserved firm-specific factors that may correlate with our explanatory variables, in Model 1(b) we estimated the same model using a fixed effects linear estimator. While the relationships with the other variables lose significance, we can confirm a negative and significant association between the number of female directors and the share of peripheral male directors on a board. A higher number of females is, not surprisingly, also found in larger boards.

The estimates from Models 1(a) and 1(b) thus suggest a negative correlation between gender diversity and other dimensions of diversity on boards, captured by the percentage of peripheral male directors. In order to explore this further, we next estimated a model in which we looked explicitly at how the existing board structure (in year (t-1)) influences the chance of new female appointments (in year t). Our dependent variable was therefore a dummy set to 1 if an increase in the number of women on the board was observed in a given year, and 0 otherwise. The results of this analysis, using binary outcome maximum likelihood estimators (probit) and OLS where indicated, are presented in Models 2(a) and 2(b) of Table 2.

In support of *Hypothesis 1* we find that an increase in the number of female directors happens significantly less often in firms that already have female directors on board. The negative and significant coefficient for this explanatory variable is observed across various model specifications. The effect is also economically significant. For example, the presence of one female on a four-member board reduces the likelihood that a board will appoint another female in the following year by 25 percentage points, holding everything else constant.

Our analysis also shows that the chance of observing an increase in the number of females is significantly lower in firms that already have some young and foreign directors on board. This conclusion did not change when we controlled for the gender of the chairman of the board or the CEO, the results of which are not reported here, and also held when we controlled for unobserved firm characteristics, as shown in Model 2(b). These results suggest that the presence of peripheral male directors influences organizational toward appointing new female directors, which is in line with *Hypothesis 2*.

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INSERT TABLE 2 ABOUT HERE  
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To test *Hypothesis 3*, we estimated our regression model separately for those firms in which peripheral male members held at least half of the board seats (Model 3(a)) and for those in which they held a minority of board seats (Model 3(b)). The aim was to test whether the tendencies observed above still apply when non-typical males dominate the board. Although the impact of the percentage of peripheral male members on board is positive in the firms where these members occupy the majority of the board seats (Model 3(a)), the coefficient is not statistically significant. Thus, we find only weak support for *Hypothesis 3*.

To test *Hypothesis 4*, we re-estimated our regressions using a slightly different dependent variable – the dummy indicating an increase in the number of shareholder-elected female directors (*Increase\_SHFEM*). We adjusted the main explanatory variables accordingly: we measured the percentage of young or foreign male directors among all shareholder-elected directors (*Shareholder-elected peripheral male %*), the percentage of shareholder-elected females among all shareholder-elected directors (*Shareholder-elected females %*), the number of shareholder-elected directors and the change in that number. Since we wanted to capture the influence of shareholders on the selection of directors, it was more appropriate to look just at the shareholder-elected directors rather than at all board members. The results of this analysis are presented in Table 3, Models 4 and 5. In Model 4, we re-estimated Model 2 (b) to show that the conclusions derived from Table 2 still hold under the new dependent variable; the coefficients of *Shareholder-elected females %* and *Shareholder-elected peripheral male %* are negative and statistically significant, confirming *Hypotheses 1* and *2*.

Turning to *Hypothesis 4*, in Model 5, shown in Table 3, we added the interaction term between the share of institutional investors' ownership and the share of shareholder-elected non-typical males (*Institutional investors \* Shareholder-elected peripheral male %*). Although the coefficient is tiny in economic terms, the interaction term is positive and statistically significant. Put differently, the negative relation between the share of peripheral male directors and new female appointments decreases with increased institutional investor ownership. This moderating effect of institutional investor ownership is in line with *Hypothesis 4*.

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INSERT TABLE 3 ABOUT HERE  
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Looking at our control variables, we observe a significant positive association between the likelihood of an increase in the number of women on a board, the size of the board, and a change in the total number of directors (Tables 2 and 3). In Models 2, 4 and 5, we also observe a positive and statistically significant relation between the likelihood of new female directors being appointed and the share of directors close to retirement (*Retiring male %*). These results suggest women are more likely to be appointed to boards when they are an addition to rather than a replacement for existing board members, or when they are replacing retiring members. Particularly strong is the effect of the increase in board size; a board that has the ability to increase its size by one is 50 percentage points more likely to appoint a woman than a board that would have to do so by replacing one of its existing members.

Turning to the other control variables, we discover a higher incidence of female board appointments in better-performing and larger firms; the effect is not robust across all model specifications but suggests that firms with a higher market-to-book value might be more able to focus on diversity issues and/or better able to attract highly qualified female directors. No consistently significant impact is observed for the other firm-specific control variables. The effect of ownership concentration, measured by the share of the largest owner, is negligible and insignificant. However, the recruitment of new female directors occurs more often in specific industries, namely, the food, clothing and business equipment sectors. The results for the industry dummies are not reported for reasons of space.

In comparison to Denmark (the reference country), new female appointments are, not surprisingly, much more frequent in Norway, Sweden and Finland. The sizes of the country coefficients reflect the strength of institutional pressure in different countries, as noted above. Moreover, the time dummies, which are not reported, reflect the escalation of external pressure for greater female representation at the top levels of business corporations; the number of female directors increases significantly after 2003, which marked the start of more intense public debate about mandatory female representation, particularly in Norway, but also in the other Nordic countries.

In addition to the presented results, we ran a simple OLS (limited probability model) to look at how much of the variation in the probability of an increase in the number of female directors can be explained by country and time dummies, firm-specific and board-specific variables, respectively. We found that the country and time dummies explain about 5 percent of the total variation. Firm size, firm risk, ownership concentration, and industry dummies explain very little of the variance since the adjusted R-squared increased by about one percentage point when these variables were included. Board-specific variables, namely the percentage of females and of peripheral male members currently on the board, however, raise the percentage of explained variance by approximately 10 percentage points, confirming that these variables are indeed relevant in explaining the recruitment of women onto Nordic boards<sup>iv</sup>.

## DISCUSSION

In 2009, females held, on average, 15 percent of board seats in US-based Fortune 500 firms, 12 percent in the largest British firms, and 10 percent in Spain, Italy, France and Germany (Economist, March 11<sup>th</sup>, 2010). These numbers have increased over the last few years but are still surprisingly low considering the effort invested recently in promoting women to the top organizational levels.

The old boys' club did not emerge overnight. It is the product of recruitment and selection practices that have been very much colored by the incumbents' attempts to strengthen their social identity, cohesion and associations within the established corporate elite. These processes have led to the emergence of a group of middle-aged nationals from similar socioeconomic backgrounds, who have traditionally held the bastions of corporate governance. Proposals for women to take a substantial share of seats in the boardroom therefore aim to reconfigure the composition of the boards and the corporate elite, with implications for directors' social identity, social interactions, and the embedded norms and practices. Since identification with the corporate elite has become part of directors' social identity (Palmer & Barber, 2001; Westphal & Khanna, 2003), these challenges to the esteem and distinctiveness of this social group are likely to affect the behavior of its members. Social identity theory (e.g. Ellemers et al., 2002) predicts that the prototypical members of the group, in particular, will increase their commitment to the group and adopt actions aimed at preserving the group's positive distinctiveness, norms and values. Scholarly evidence notes that boards of directors have previously constituted an important locus for such actions (Westphal & Khanna, 2003).

If cognitive and affective reactions related to the directors' identification with the traditional elite apply to the directors' selection processes, then the likelihood of the old boys' club members to support new female appointments will depend on the extent to which the female newcomers are perceived to threaten the old boys' dominance of the board. Linking the social identity theory (e.g. Tajfel & Turner,

1986) with critical mass theories (e.g. Granovetter, 1978), we postulate that the perception of this threat will increase with the proportion of out-group members on a board. Specifically, the higher is the share of potential challengers to the traditional elite, and the closer to the critical mass needed to overturn the status quo and the established intergroup relations, the less likely are the members of the traditional elite to support the addition of new outsiders to the board. We further argue that members of the old boys' club will expand their categorization of the out-group to include, not only female directors but also peripheral male directors, such as younger and foreign men. The threat to the traditional elite, in fact, increases the salience of its distinctive characteristics, making them a relevant basis for self-categorization and, consequently, the out-grouping of prototypically marginal members of the elite (Hogg & Terry, 2000).

The preference for preserving the interests of the traditional elite may not dictate board recruitment equally in all corporations, however. Differently put, boards already consisting predominantly of peripheral members of the elite, who are less concerned about this source of social identity, may be more likely to support gender diversity in the boardroom. The ability of the old boys' club to maintain the status quo could also be challenged by corporate owners with a strong interest in supporting compliance with the new governance proposals and public expectations, such as institutional investors. These investors, we argue, could counterbalance the existing board (and/or owners) and enforce more female-friendly corporate governance.

We tested our hypotheses by analyzing new appointments of female directors in Nordic, publicly traded corporations over the period 2001-2008. The empirical results largely support our theoretical arguments. Female recruitments are significantly influenced by the board's preference for maintaining the status quo and, therefore, the established norms of behavior, social interactions and values associated with the traditional elite. We should note, however, that, while maintaining the dominance of the traditional elite might be driven purely by directors' self-interests, it could also derive from efficiency considerations, such as the need to ensure some continuity and stability in the board's work or to ensure sufficient trusted hands are involved. This interpretation is supported by our finding that changes in board composition follow a slow, evolutionary process, prompted by director retirements and increases in board size. The literature on group efficiency further indicates that, while excessive cohesiveness can lead to groupthink, too much diversity might result in coordination and communication problems, a reduced level of interpersonal interaction, and a decrease in cohesiveness and individuals' commitment to the board, with negative consequences for its effectiveness (Forbes & Milliken, 1999). We leave the analysis of the efficiency of the different patterns of the changes in the board composition to future research.

Several contributions emerge from this study. First, we advance the corporate governance literature on the diffusion of governance practices (e.g. Aguilera & Jackson, 2003; Zattoni & Cuomo, 2008) by searching in the social psychological literature for the reasons for the organizational resistance

to new practices. This perspective helps us to explain the variation in the recruitment of female directors across firms in four different countries. We show how compliance with this governance recommendation varies across firms depending on the challenge new females pose to the social identity of the members of the traditional elite, their dominance and status on boards. In this sense, our paper relates to Chizema & Shinozawa (2011). We adopt a similar stance to theirs regarding organizational resistance to change but, differently from them, we focus on the responses of actors directly influenced by the change, and conjecture on their preferences by using social psychology lenses. Furthermore, unlike them, we analyze firm responses to a practice that is not associated with a specific type of corporate governance system, and whose applicability is therefore less influenced by a particular institutional context. In this regard, our findings can be generalized to other countries or at least to those with two-tier or semi-two-tier board systems.

Second, by theorizing on cognitive and affective processes and, relatedly, insiders' attitudes to female directors, we add to the literature on the determinants of gender diversity at the very top of organizations. Existing research on gender diversity on boards has predominantly focused on the effect of female directors on board behavior and firm performance (e.g. Adams & Ferreira, 2009; Nielsen & Huse, 2010). Hillman et al. (2007) and Farrell & Hersch (2005) are among the few that examine the organizational predictors of the presence of female directors. Both studies are US-based and – building on resource-based and legitimacy arguments – focus primarily on rational explanations for the variation in firm demand for female directors rather than the motives for corporations not to appoint additional women as this study does.

Hillman et al. (2007) use resource-dependence theory to analyze the organizational predictors of the likelihood of observing at least one female director on a board. Based on an empirical analysis involving the boards of the 1,000 largest US corporations, the authors find that this likelihood is higher in larger, older, and more diversified firms, and in firms operating in specific industries or with connections to other boards with female directors. Farrell & Hersch's (2005) study is similar to ours in the sense that it analyzes the likelihood of a firm adding a woman to its board, that is, it looks at changes in board composition rather than the structure of the board at a specific point in time. The authors argue that female nominations reflect the internal preferences for diversity but they do not conceptualize this argument further.

We extend the Farrell & Hersch (2005) study by providing a more robust theoretical conceptualization of the reasons for the incumbents' slow response to the pressure for gender diversity in the boardroom. Borrowing primarily from social identity and critical mass theories, we conjecture on why and how the attitude towards female recruitment varies across organizations in relation to the demographic composition of the board and the firm's ownership structure. Given the theoretical

arguments and the empirical evidence presented in this paper, empirical studies investigating the impact of gender diversity on board behavior therefore need to properly account for the composition of the rest of the board and for any changes that accompany or follow new female appointments.

Our results have important policy implications. First, in the absence of a gender quota law, making boardrooms more gender diverse is likely to be a slow, even glacier-like, process. This is evident from the significant coefficients for the country dummies in our regressions, their size increasing with the amount of country-level institutional pressure for gender diversity. To some, such slow change may be politically unacceptable and used as a reason to instigate quotas, while others might regard it as an efficient organizational response. Our findings suggest that, if a gender quota is called for, the eventual corporate costs might be alleviated through a period of adjustment – sufficient to preserve board effectiveness by maintaining directors’ social identity, satisfaction, mutual trust, expertise, experience and social capital. Moreover, a gender quota (if implemented) would need to be supplemented by other policies in order to ease female inclusion into directors’ social networks, associations, and other institutions, and so cultivate the emergence of a new, modern, post-traditional corporate elite.

Second, our study suggests that, under a situation where there is outside pressure for change, board diversity appears not to be self-reinforcing, in that more diverse boards do not necessarily imply a higher likelihood of the firms adding more diverse directors. Boards with a higher percentage of diverse directors – in terms of age, nationality or gender – appear to be less, not more, inclined to support the increase in the number of female directors, at least when these diverse directors are still in a minority. This study shows that Nordic board recruitments have a tendency to value the continuity of old practices. Based on our results, we would therefore argue that, when firms are legally forced to accept a major change in gender diversity (with Norway being strongest case), they might seek to reduce other dimensions of diversity, such as international board membership. This is pretty much in line with anecdotal evidence. As the Economist cautions, “if you are a youngish man who sits on a European corporate board, you should worry. The chances are that your chairman wants to give your seat to a woman” (Economist, March 11<sup>th</sup>, 2010). Transparency in the recruitment process therefore needs to be ensured in order to reduce the likelihood that unqualified candidates are appointed and women crowd out other important dimensions of diversity.

### **Limitations of the Study**

Three main limitations need to be noted in relation to the empirical tests of our theoretical arguments. First, we defined peripheral male members of the established corporate elite on the basis of two observable demographic characteristic: age and nationality. While we argued above that this is a reasonable approach, it would be preferable to consider some additional demographic characteristic, such

as directors' functional backgrounds or social connections. Unfortunately, such data could not be obtained in our case. Moreover, in this study, a director is classified as being peripheral if he differs from the prototypical members in at least one of the characteristics (age or nationality). However, a young foreign director might be considered more different from a member of the old boys' club than a middle-aged foreigner director, for example. We do not account for these differences in this study. Future research investigating how various combinations of demographic characteristics relate to directors' behavior and values, as well as their categorization in the boardroom, would definitely be a fruitful extension of our study.

Second, we have built our first three hypotheses on the assumption that board members play an important role in the firm's decision on whether or not to increase the number of female directors. In Nordic countries, the board members are formally appointed by the shareholders' assembly, based on the propositions of the nomination committee and, as practice shows, the board of directors. The role of the shareholders in these nominations may still be relevant, however, particularly in Sweden and Norway, where, by recommendation, the largest owners place their representatives on the nomination committee, which is not part of the board. We did partly account for the role of shareholders by, first, controlling for concentration of ownership and, second, interacting the share of male peripheral members with the share of institutional investors' ownership. However, a further investigation of the various combinations of board composition, ownership structure and nomination practices would certainly be an interesting issue for future research.

Finally, we based our empirical analysis on a sample of non-financial, publicly listed firms from four Nordic countries during 2001-2008. While restricting our analysis to the Nordic countries rather than, for example, a larger set of European countries and the US is a limitation, it carries some empirical advantages. First, given the historically successful role of females in politics and society in the Nordic region, the concern that there is a limited supply of female candidates for board positions can to a large extent be disregarded there, which may not be true in some other countries. This is important, since we attributed the observed variation in new female directorships to differences in firm demand for female directors rather than restrictions on the supply side. Second, the Nordic countries can be seen as having been a laboratory of diversity over the last decade. As well as the pressure to implement more female-friendly governance structures, Nordic boards have been subject to other influences such as the internationalization of financing and ownership, leading to the demographic diversification of boards in other dimensions than gender (Oxelheim et al., 2013). These trends provided us with sufficient variation in the dependent and explanatory variables, both within and between firms. The former is particularly relevant if significant effects are to be detected when controlling for firm fixed effects in regression analysis (Zhou, 2001).



## CONCLUSION

Our study contributes to the understanding of the social psychological factors underlying the recruitment of female directors. Building on social identity theory and critical mass theory, we have conjectured as to how the pressure for more gender-diversified boards influences internal preferences for homogeneity, why the intensity of these preferences may vary with the demographic composition of the board, and why this in turn determines the increase in the number of female directors in different firms. Specifically, viewing the board as a locus for the maintenance of the cohesiveness of the corporate elite and directors' social identity, we have argued that boards' support for additional female appointments will be conditioned by both the current presence of female directors and that of male directors who do not share the distinctive characteristics of the old boys' club. We have also uncovered how this relationship is moderated by the firm's ownership structure, namely, the share of institutional investors' ownership.

We tested our theoretical model on a sample of non-financial publicly listed corporations in the Nordic countries during 2001-2008. We showed that organizations with a higher percentage of female or peripheral male directors are less inclined to increase the number of female directors. We attributed this negative correlation to attempts by directors, and some shareholders, to maintain the positive distinctiveness of the directors' valued social group – the old boys' club – and, with this, the established norms and practices, the predictability and the stability of board interactions. This need for stability in the boardroom is confirmed by the positive relation between new female appointments and natural changes in board structure, such as directors' retirements and changes in board size.

In this study, we have not argued for or against gender quotas. However, our results suggest that countries adopting gender quotas may be advised to reduce some of the organizational costs of legal compliance by providing an adjustment period. This will allow boards to increase gender diversity while still maintaining board continuity, and will ensure there is sufficient transparency in future appointments. Finally, the resistance of the old boys' club to female directorships, as observed in this study, may be countered by measures that ease women's inclusion into directors' social networks, thus fostering the emergence of a modern corporate elite that includes both genders and other demographic minorities.

**Table 1: Descriptive statistics and partial correlation coefficients**

	Mean	S.D.	1	2	3	4	5	6	7	8	9	10	
1	Percentage of female directors	13.89	13.95	1.00									
2	Board size	7.31	2.11	0.20*	1.00								
3	Employee dir (%)	13.52	15.22	0.18*	0.54*	1.00							
4	Retiring male (%)	1.98	6.27	0.04*	-0.05*	-0.03*	1.00						
5	Peripheral male (%)	40.71	23.82	0.01	0.17*	0.35*	-0.04*	1.00					
6	Shareholder-elect. perip. male(%)	31.65	24.87	-0.03	-0.10*	-0.07*	-0.02	0.87*	1.00				
7	Tobin's Q	1.78	1.21	0.07*	-0.08*	-0.01	-0.03	-0.01	-0.00	1.00			
8	Institutional ownership	51.24	34.38	0.05*	0.24*	0.08*	-0.08*	-0.03	-0.09*	0.07*	1.00		
9	Dispersed shares (%)	63.00	23.12	-0.06*	0.08*	-0.12*	-0.08*	-0.08*	-0.04*	0.12*	-0.44*	1.00	
10	Firm size (logarithm of)	5.59	2.03	0.15*	0.55*	0.22*	-0.11*	-0.05*	-0.16*	-0.18*	0.15*	0.09*	1.00
11	Firm risk	7.27	12.10	-0.06*	-0.16*	-0.09*	-0.00	0.12*	0.17*	0.12*	-0.06*	0.12*	-0.35*

*Note to Table 1: The means refer to the 2,490 observations used in Model (1).*

**Table 2: Female directors on Nordic boards**

<i>Number of female directors</i>			<i>Increase_FEM</i>			<i>Increase_FEM</i>		
	Model 1(a) Poisson	Model 1(b) FE	Peripheral male (%) <sub>t-1</sub>	Model 2(a)		Model 2(b)	Per. male ≥ 50%	Per. Male <50%
				Probit	m.e.	FE	Model 3 Probit (pooled)	
Peripheral male (%)	-0.005*** [-3.510]	-0.004** [-2.432]	Peripheral male (%) <sub>t-1</sub>	-0.004** [-2.375]	-0.001	-0.001** [-1.9]	0.004 [0.705]	-0.005 [-1.324]
Employeeedir (%)	0.009*** [2.857]	0.004 [0.811]	Employeeedir (%) <sub>t-1</sub>	0.003 [0.866]	0.001	-0.001 [-0.401]	0.004 [0.672]	0.005 [0.861]
Board size	0.169*** [8.186]	0.205*** [7.919]	Board size <sub>t-1</sub>	0.132*** [4.779]	0.028	0.050*** [3.484]	0.152*** [3.165]	0.126*** [3.800]
Δ Board size <sub>t-1</sub>			Δ Board size <sub>t-1</sub>	0.503*** [9.801]	0.106	0.109*** [8.849]	0.490*** [6.381]	0.515*** [7.818]
Female (%) <sub>t-1</sub>			Female (%) <sub>t-1</sub>	-0.028*** [-7.480]	-0.01	-0.019*** [-14.628]	-0.038*** [-5.439]	-0.025*** [-5.804]
Retiring male (%) <sub>t-1</sub>			Retiring male (%) <sub>t-1</sub>	0.009* [1.959]	0.002	0.001 [0.361]	0.014* [1.828]	0.007 [0.967]
Tobin's Q	0.043** [2.372]	-0.018 [-0.852]	Tobin's Q <sub>t-1</sub>	0.052** [2.029]	0.011	0.002 [0.154]	0.012 [0.306]	0.088*** [2.582]
Firm size	0.034* [1.731]	-0.011 [-0.403]	Firm size <sub>t-1</sub>	0.003 [0.139]	0.001	0.022 [1.461]	-0.003 [-0.079]	0.015 [0.490]
Firm risk	-0.002 [-0.773]	-0.002 [-1.113]	Firm risk <sub>t-1</sub>	0.002 [0.686]	0.001	-0.001 [-0.762]	0.001 [0.166]	0.005 [1.261]
Dispersed shares (%)	-0.002 [-1.312]	0.002 [1.259]	Dispersed shares (%) <sub>t-1</sub>	0.001	0.000	0.000 [0.312]	0.001 [0.452]	-0.000 [-0.084]
Finland	0.337** [2.10]		Finland	0.352** [2.421]	0.081		0.068 [0.271]	0.550*** [2.781]
Norway	1.174*** [9.84]		Norway	1.405*** [10.035]	0.427		1.260*** [5.964]	1.682*** [8.937]
Sweden	0.698*** [5.34]		Sweden	0.771*** [6.176]	0.181		0.730*** [3.615]	0.893*** [5.509]
Industry dummies	Yes		Industry dummies	Yes				
#Observations	2,490	2,490	#Observations	2,113		2,113	842	1,271
R-squared		0.301	Pseudo R-squared			0.206	0.196	0,185

Note: All regressions include time dummies. Constant not reported. Standard errors clustered by firm. \*\*\*, \*\*, \* denote statistical significance at 1, 5 or 10%, respectively. m.e. stands for marginal effects.

**Table 3: Shareholder-elected female directors on Nordic boards**

	<i>Increase_SHFEM</i>	
	Model 4 FE (OLS)	Model 5 FE (OLS)
Institutional investors*Shareholder-elected peripheral male ( % ) <sub>t-1</sub>		<b>0.00002*</b> <b>[1.656]</b>
Institutional investors (%) <sub>t-1</sub>		-0.000 [-0.393]
Shareholder-elected females (%) <sub>t-1</sub>	-0.018*** [-13.915]	-0.018*** [-12.901]
Retiring male (%) <sub>t-1</sub>	0.003* [1.759]	0.004* [1.743]
Shareholder-elected peripheral male (%) <sub>t-1</sub>	-0.001* [-1.704]	-0.002** [-2.389]
Δ Shareholder-elected directors	0.129*** [9.762]	0.131*** [9.520]
Number of shareholder-elected directors <sub>t-1</sub>	0.051*** [3.290]	0.052*** [3.088]
Tobin's Q <sub>t-1</sub>	0.002 [0.162]	0.006 [0.407]
Firm size <sub>t-1</sub>	0.017 [1.187]	0.015 [0.984]
Firm risk <sub>t-1</sub>	-0.001 [-0.911]	-0.001 [-0.893]
Dispersed shares % <sub>t-1</sub>	0.001 [1.263]	0.001 [0.838]
Time dummies	Yes	Yes
# Observations	2,112	1,971
R-squared	0.230	0.224

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<sup>i</sup> Withers et al. (2012) distinguish between the rational economic perspective, which deems director selection to be driven by organization-level benefits, and the socialized (or social embeddedness) perspective, which emphasizes the impact of social processes, cognitive and affective biases in the selection of directors.

<sup>ii</sup> The link between demographic characteristics and individuals' norms, perceptions and attitudes is in fact well established in the literature on organizational demography (e.g. Pelled, Eisenhardt & Xin, 1999).

<sup>iii</sup> This categorization is not exhaustive in the sense that it does not consider all the attributes that are distinctive of the corporate elite. For example, we do not consider directors' experience, their embeddedness in social networks, their elite education or high-status social backgrounds. The latter two may be less relevant in our case considering the high degree of social equality and the predominance of public education in the Nordic countries, as there are no schools in these countries that reflect the concept of the old boys' club. In relation to the former two, we argue that they are partly captured by other variables since the directors' experience and embeddedness in local networks are likely to be associated with their age, gender (e.g. Hillman et al., 2002) and time spent living abroad. Moreover, social psychologists detail that readily detectable relations-oriented attributes, such as age and gender, ethnicity and national origin, are the ones that most strongly lead to social cognitive processes that in turn influence board interactions (Jackson et al., 1995; Pelled et al., 1999).

<sup>iv</sup>To confirm that our results are not conditional on the model specification, we estimated an alternative model – a multinomial logistic regression – to predict the probability of an increase or a decrease in the number of female directors compared to the probability of the reference outcome (no change in the number of female directors). We found that the number of women is less likely to increase (more likely to increase) in cases where increases (decreases) in the number of young male or foreign directors are observed, which is line with the theoretical arguments that we presented in the previous sections.

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