Diversity and Women in Finance: Challenges and Future Perspectives

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Abstract

This paper explores the main forces impacting diversity and the role of women at senior management and board level in finance. In addition, it offers a synopsis of selected research examining the board composition, corporate social responsibility and external corporate governance. We focus mainly on empirical papers that employ quasi-natural experiments and textual analysis to confirm the interdisciplinary nature of diversity. Further, we identify priorities for future research that can advance our understanding on this research area, and the broader field of financial studies, encompassing the growing interest in the boundaries between the economic, the psychological and the social.

Keywords: Diversity; Gender Gaps; Boards; Quotas.

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Diversity in all its form has a positive impact for business.
This is where the Board can really lead from the top.
Dame Inga Beale, Former CEO Lloyds of London, 2019

1. Introduction

A growing body of literature confirms that a diverse workforce is good for firms and their stakeholders. More specifically, recent research has shown that diverse and inclusive businesses create better outcomes through lower market volatility, reduced fraud, better performance, and higher rates of innovation and productivity (e.g., Erhardt et al. 2003; Ostergaard et al. 2011; Cumming et al. 2015). In the transition to a more sustainable economy, diversity is one of the factors that may promote more responsible business behaviour that enhances intangible assets. More specifically, women in key positions setting internal (Kirsch, 2018) and external corporate governance (Tilton, 2017) seems associated with more prudent and sustainable decision-making. In addition, diversity is increasingly becoming part of the social element of the Environmental, Social and Governance (ESG) framework that bear on firms' ability to create long-term value (Dyllick and Muff, 2016; Schoenmaker and Schramade, 2019).[1]

The 2007-08 global financial crisis (henceforth GFC) exposed not only the inherent fragility of the system but also the costs that an excessive risk culture and a short-term focus can inflict to society. Despite relatively rapid recoveries, it soon became clear that this proved particularly damaging in Liberal Market Economies (LMEs), like the US and the UK with excessive levels of corporate debt, and rising inequality, wage, income and retirement insecurity,

[1] Environmental, Social and Governance (ESG) refer to the three central factors in measuring the sustainability and societal impact of an investment in a company or business. ESG is often used as a proxy to measure Corporate Social Responsibility in terms of company's engagement in and compliance with environmental, social and traditional corporate governance issues. Voluntary increases in gender and racial diversity of a board of director are usually included in the governance dimension (Lian and Renneboog, 2017).

in turn leading to populists capturing the political heights (Cumming et al., 2020). The civil law countries for example in Europe (the Co-ordinated Market Economies or CMEs) were also badly affected as markets are highly interconnected, yet at the time of writing were considerable better off in the latter regards. However, at the individual level, important progress has been made in promoting greater diversity within organisations, thanks to regulatory, social and other forces, particularly on gender lines, and greater diversity may gradually help place firms onto more stable ground. Different approaches for increasing diversity in the boardroom included voluntary plans by companies, corporate governance codes setting targets and requiring companies to offer justifications should they miss it ("comply or explain"); and legal requirements setting gender quotas on board of directors (Adams and Ferreira, 2009; Ferreira, 2015; Adams, 2016).

Despite these developments, women still face a glass ceiling in finance that even 'doubles' in specific sectors, such as banking, where a strong masculine culture constrains them from advancing their career even if they have made it to middle management positions (the so-called *double glass ceiling*); and sometimes if they make it to the top, they are set to fail, in a situation that is referred in the literature as the *glass cliff* (Ryan et al., 2016). A recent study by Field et al. (2020) on leadership gap and qualifications of directors find that female and minority directors are significantly less likely to serve in leadership positions despite possessing stronger qualifications than non-diverse directors. Research has also suggested that women need to hold at least three board seats to have a "critical mass" and avoid token representation (Kanter, 1977; Terjesen and Sealy, 2016) and that diversity without inclusion is not enough (Sherbin and Rashid, 2017).

Data insight from the Bloomberg's Gender-Equality Index[2] shows that the proportion of women in senior management and executives was 27 and 19 per cent, respectively; while for CEOs it was a mere 6 per cent. The 2020 index includes 325 companies spanning 50 industries across 42 countries, and also reveals that financial services is one of the sectors showing the most considerable gender gap challenge at advancing women. Bloomberg (2020) shows that only 4 per cent of companies release the full data about their workers' race and gender. Furthermore, in addition to being underrepresented in executive committees, women are subject to significant gender differences in earnings. Based on a multi-country sample of firms, Homroy and Mukherjee (2020, this issue) find that female executives are paid about 34 per cent less when compared to equivalent males from the same cohort, which falls by half over tenure within the company, but remains systematically significant throughout. They report that the executive pay gap is the lowest for consumer goods industry (11 per cent) and highest for banking and finance industry (57 per cent).

Recent years have shown an increase in studies that explore the role of women in boardrooms (for comprehensive reviews see e.g., Siri et al. 2009; Kirsch, 2018). Reforms have been carried out in a number of countries, and in others are still ongoing, to improve corporate governance so that boards have to specify criteria on diversity also beyond gender. Several initiatives have been launched to make diversity a corporate goal. However, overall progress towards a level playing field for women in pay and promotion opportunities has been slow, and more research is needed on the benefits from gender equality and inclusion at all levels in the pyramid of seniority in the finance sector. In some cases, the quota for boards cannot be achieved, as for example in Greece,

[2] The Bloomberg Gender-Equality Index is a modified market capitalization weighted index that aims to track performance of publicly listed companies committed to transparency in gender data reporting. More information can be found at https://www.bloomberg.com/gei/about/.

which means that companies have to implement internal quotas that facilitate inclusion and promotions at all levels of women and employees from minorities, from the support staff to senior management (ICAEW, 2020). In other cases, there are still gaps between what leaders claim about how much they value diversity and inclusion, and their actual commitment to manage it and to ensure that middle managers feel accountable. Ng and Sears (2020) find that CEOs are crucial in signalling their engagement in pro-diversity behaviour, but also HR managers must view their CEO as being committed to workplace diversity management practices.

This paper has two purposes. The first is to use the most recent literature to identify the main forces impacting diversity and the role of women in organisations. We start from the observation that the GFC and the many cultural failures have encouraged a public appreciation for greater transparency, accountability and ethics in business practices. We argue that changes in diversity policies are driven not only by factors as the shareholder activism and proxy voting, but also changing demographics, with a new generation of senior executives who will expect and demand increasingly more commitment in terms of social performance.

The second purpose of this paper is to offer a synopsis of research on diversity and women in finance, focusing on board composition, corporate social responsibility and external corporate governance. We survey selected empirical papers that employ different methods on quasi-natural experiments and textual analysis. In addition, we delineate the interdisciplinary breadth of research focusing on gender differences in decision-making and acknowledge that as diversity goes far beyond gender, there is much research that still needs to be done. This paper also offers perspectives on priorities for future research.

This paper is organised as follows. Section 2 explores the role of diversity and gender within organizations with a specific emphasis in finance. Section 3 offers an extended literature review related to the board of directors and Corporate Social Responsibility while section 4 focuses on external corporate governance. In section 5, we point to fruitful unexplored questions that can be answered from future research and in section 6 we conclude.

2. A growing momentum for diversity within organizations

Differences among individuals and groups of people are usually based on gender, race and socio-economic background but they can include other characteristics such as age, religion, nationality, ethnicity, sexual orientation, physical ability, career and other experiences. There is also the 'cognitive diversity' (Reynolds and Lewis, 2017), defined as 'differences in perspective or information processing styles'. In fact, diversity is a complex and multifaceted concept that attracts interest from variety of disciplines, such as economic psychology, law, politics and sociology (Rubery, 2009; Cumming et al., 2015; Robertson et al., 2017). Within the finance literature, the progress of women on boards has received particularly close scrutiny, and seems generally associated with beneficial effects (Liu, 2018; see also Cumming et al., 2015).

Advantages from increasing female representation in leadership positions in finance have been associated to their more stringent monitoring of managers (Adams and Ferreira, 2009); their contribution to the boards with unique and diverse skills (Cumming et al., 2015); and their potential greater role in pursuing a more inclusive, equal and socially responsible culture (Eagly and Carli, 2007; Glass and Cook, 2017; Liu, 2018). In this section, we identify the main regulatory, social and other key external forces that are growing momentum for increasing diversity and the role of women in organisations (Figure 1).

<Insert Figure 1 around here>

The *GFC and the multiple cases of misconduct and scandals* over recent years, demonstrated the need for reforms that go beyond short-term fixes. Existing research has highlighted the role that a financial crisis can have in affecting people's trust in the financial sector (Guiso, 2012; Zingales, 2015). Banks were not only pursuing misaligned objectives from those of stakeholders', but their activities were also posing unprecedented global interconnected risks. Especially the largest institutions suffered considerable losses in reputation and were increasingly perceived negatively by the public due to the many government bailouts that involved substantial disbursements of taxpayers' money. Subsequent episodes such as the Libor-fixing scandal in 2012 consolidated the negative image about the sector. Interestingly, Cohn et al. (2014) found that the prevailing business culture in the banking industry contributed to weaken and undermine norms of honesty.

Lack of diversity is often ascribed to the cultural embeddedness of discrimination, and its manifestation in groupthink (Anand et al. 2004; Benabou, 2013). Norway was the first country to adopt a 40 per cent *gender quota* on boards in 2003. Four years later the Spanish government recommended equal representation of both genders in boards for listed companies. However, in most countries, legislative measures, proposals and other initiatives for increasing board diversity, were introduced post- GFC. Since 2010 a number of countries in Europe (such as France, Germany and Sweden) and in less developed regions of the world (including India, Kenya and Malaysia) set legal quotas, with the aim of opening the access of qualified women to management positions and create bigger and more valuable networks. Cardillo et al. (2020, this issue) use an EU sample for listed banks and support the impact of gender quotas. They find that banks with more gender-diverse boards are less likely to receive a public bailout and receive a lower amount of bailout funds as a percentage of total assets than banks with less gender-diverse boards. These quotas were typically ranging between 20-30 per cent; and often countries opted for voluntary and 'comply or explain' approaches, as in the case of the UK and not all of them implemented suitable sanctions in case of no compliance (Terjesen et al. 2015).

Particularly in the US, pressure for more diversity within organisations has originated endogenously thanks to the "powerful force" of *shareholder activism* (Gillan and Starks, 2007; Perrault, 2015; Gow et al. 2020). In this context, *proxy voting* is an important tool in enhancing shareholders' voice (Renneboog and Szilaguyi, 2011). There is a rich multidisciplinary literature on the link between shareholders' engagement and corporate social responsibility (CSR) (Goranova and Ryan, 2013). On board diversity, Marquardt and Wiedman (2016) find evidence that shareholder activism is an effective mechanism for increasing female representation, irrespective of the activists' motives – social or financial. The authors report that since 1997 in the US more than 250 proposals targeted individual firms to increase female representation and that diversity resolutions filed in 2013 received the highest votes on average among ESG categories, with campaigns driven by the Thirty Percent Coalition.[3] An example of more recent shareholder activism is that of Arjuna Capital, a sustainable investment advisory firm, that since 2016 submitted resolutions at the shareholders' meetings of over twenty US large companies in the tech, banking and retail sectors to compel them to disclose (and close) their *racial and gender pay gaps*.

Disclosure is in fact very important in this process, as investors increasingly press for diversity-related data to be available. Rao and Tilt (2016) critically review the extant literature on

[3] See https://www.30percentcoalition.org/. A recent (2019) survey conducted by them and Boston Common Asset Management found that 43 per cent of investors would vote against board not composed of at least 30 per cent diversity on gender, race and ethnic background.

CSR and CSR reporting (CSRR) and stress the proactive role of board of directors as decision-makers that are responsible and accountable to a variety of stakeholders (see also Hung, 2011). It is therefore encouraging that in addition to *mandatory disclosure* of non-financial performance, as in the European Union (EU)[4], some companies have chosen to *voluntarily* report their gender diversity progress. For example, the Bloomberg's Gender-Equality Index (GEI) mentioned in section 1, measures gender data disclosed by firms on: i) female leadership and talent pipeline; ii) equal pay and gender pay parity; iii) inclusive culture; iv) sexual harassment policies; and v) support for women in the community.

At the international level, the role of business in tackling sustainable development goals is increasingly acknowledged. An important impetus was provided by the 2015 United Nations framework of seventeen *Sustainable Development Goals* (UN SDGs)[5], which sought to raise awareness of, and address societal challenges in this regard. Gender equality is the fifth of the SDGs and has encouraged actions in different countries globally in the form of gender equality and diversity in organisations. Based on several recent studies, it is reasonable to expect that equal representation of gender on corporate boards also helps organisations achieve other crucial SDGs (Eagly, 2009; Cook and Glass, 2018).

Another important factor that impacts diversity in organisations can be attributed to generational theory. Corporate boardrooms are currently dominated by Baby Boomers (born 1943-1960). However, it has often been observed in the literature that *Generation X* (1961-1981) and *Millennials* (born 1982-2005) have quite strong core values and expectations in terms of equality of opportunities and equal pay. A recent US study by He et al. (2020) found robust evidence of a

[4] In 2014, the EU adopted a Directive (2014/95/EU) making non-financial reporting mandatory for publicly listed firms (Kinderman, 2019).
[5] Gender Equality is the SDG5 https://www.un.org/sustainabledevelopment/gender-equality/

significantly positive effect of Generation X directors on corporate performance and that part of this is due to the commitment of Generation X directors to CSR and the inclusion of women on corporate boards.

There has been an ongoing trend of increasing investor pressure for greater accountability, and better practices on diversity and inclusion. The most recent generations are more likely than previous ones to witness a higher number of educated women and mothers compared to previous generations, who are actively part of the workforce. In addition, recent studies find that mothers have a crucial impact on the financial knowledge of their children, in particular girls (Bottazzi and Lusardi, 2020, this issue). There is no doubt that greater *financial education and literacy* will continue affecting indirectly the potential for diversity in organisations by not only improving opportunities for women and minorities but also by broadening the pool of diverse candidates from the bottom of the pyramid (Financial Services Committee, 2020). This should also increase the number of females in different roles in the finance sector, from financial advisors to loan officers. Baeckstrom et al. (2020, this issue)'s study on financial advisors for wealthy investors in the UK demonstrates that gender effects are not as clear-cut as previously assumed. Specifically, their findings suggest that gender on its own is not sufficient to characterize the risk propensity of wealthy investors and that interactions with the advisors as well as their gender are important factors.

Last but certainly not least, diversity in organisations is impacted by the progress on the importance of organisations' non-financial performance. This relates in particular to corporate responsibility and sustainability in the context of the role of businesses for long-term value in multi-stakeholder systems and was clearly addressed in a well-known letter to shareholders written by one of the most influential investors in the world, Laurence D. Fink in 2018.[6] There are different ways to measure CSR (Berg et al. 2020); ESG is one of them and there is no one single definition of the components of ESG. Diversity is increasingly included in the pillar “S” of the ESG framework but this social element of ESG is evolving in line with the definition of a company to become more purposeful (Bloomberg, 2020). An emerging vision is that of ESGD investing, that implies adding a “D” to the traditional ESG concept.

3. Diversity and gender in finance: Selected literature

3.1 Gender diversity and board of directors

The board of directors plays a pivotal role in shaping the firm’s strategic directions and influencing the firm’s performance (Hambrick, 2007). The issue of female representation in board positions has attracted considerable interest among researchers, policymakers and professionals. This occurs because there is a relatively low representation of women compared to the general population and in the corporate world (for instance senior managers). OECD data on Individual Multinationals and Affiliates reveals that women represent only 16 per cent of the board members in the top 500 firms and 18 per cent in the financial sector. The overall low numbers of female representation are surprising as gender diversity improves board monitoring and decision making (Adams and Ferreira, 2009; Adams and Funk, 2012).

[6] Laurence D. Fink is the Founder and Chairman of BlackRock, one of the world’s largest asset management firm. In his letter he also wrote: “We also will continue to emphasize the importance of a diverse board. Boards with a diverse mix of genders, ethnicities, career experiences, and ways of thinking have, as a result, a more diverse and aware mindset. They are less likely to succumb to groupthink or miss new threats to a company’s business model. And they are better able to identify opportunities that promote long-term growth.” (Fink, 2018).

Researchers have investigated the determinants that restrict board diversity or promotions to board directorships. Specifically, this literature identifies the obstacles as resource dependency[7] (Hillman et al. 2000), limited linkages with other boards with women directors (Hillman et al., 2007), and idiosyncratic industry or firm characteristics (Ryan and Haslam, 2007). Nowadays, a substantial and growing literature links the board composition with firm outcomes using a wide array of possible mechanisms to claim causality.[8] The broad thrust of the empirical evidence supports the argument that board characteristics affect firm performance either in a direct or in an indirect way through the board's actions (Hermalin and Weisbach, 2003). Also, in micro and small businesses, gender bias can affect demand of and access to credit as well as firm performance depending on the gender of the entrepreneur. De Andres et al. (2020, this issue) use Spanish credit registry data for more than 80,000 companies and provide evidence for implicit (unconscious) discrimination on women entrepreneurs.

To begin with the mix of men and women on the board, the direct link is achieved primarily via a reduction of agency costs. Karavitis et al. (2020, this issue) show that independent non-executive female board representation is related with more transparent financial reporting that complements bank's screening and monitoring. However, the impact of female diversity is likely to be short-lived as firms establish relationships with banks through repeated loans. Gender board diversity can improve the quality of board discussions, ensure that more information circulates from the board to investors, increase efforts being put into oversight and monitoring (Hillman et al., 2007; Adams and Ferreira, 2009; Shoham et al., 2020), promote better board attendance, and lead to greater accountability for poor performance. Overall, there are several studies that

[7] In this strand of the literature, a resource can be anything that can be used as a strength of a given firm.
[8] Older studies on women directors is of descriptive nature and focuses primarily on the number of females on boards and documenting the dynamic evolution of the representation (for instance Daily et al., 1999).

document a positive relationship between gender diversity on the board and corporate performance (for example, Gul et al., 2011; Liu et al. 2014; Goergen and Renneboog, 2014; Chen et al., 2016, among others).

Women can be more vocal than their male counterparts, because women possess many favorable traits in value judgment, risk attitude, and decision-making (Erhardt et al. 2003; Carter et al. 2003; Adams 2016). Using the political leadership transition in 2012 in China as an exogenous shock, Sun and Zou (2020, this issue) find that CEO gender gap in firm performance diminishes when female CEOs lose their political connections. Schopohl et al. (2020, this issue) find that female CFO directors in UK companies significantly lower external financing due to their risk aversion. However, they highlight the importance of the moderating impact of CEO power, board diversity and hiring status on the female CFO's ability to affect leverage. De Amicis et al. (2020, this issue) apply a textual analysis on earnings conference calls to create sentiment indices for female and male CEOs and CFOs. They find evidence of significant gender differences in the communication styles and voluntary corporate disclosure, but these are not due to female executives being associated with better future firm performance.

Other researchers conclude that gender diversity in the boardroom does not necessarily improve firm outcomes (Gilbert and Ivancevich, 2000; Boone and Hendriks, 2009; Sila et al., 2016). In addition, Ahern and Dittmar (2012) find that firm value decreases following the introduction of the 40 per cent gender quota for directors in Norway. The driving mechanism for their findings was that quota results in the appointment of younger and less experienced women directors in the boardroom, and negatively influences firms' performance. However, the mixed finding between gender diversity and firm outcomes may derive mainly from differences in empirical specifications, the use of different performance measures, time periods and omitted variables. This finding paves the way for identifying an indirect link between gender diversity and firms' financial performance.

The empirical challenge to estimate the impact of gender-diverse boards on the cost of borrowing lies in dealing with the endogeneity between the various measures of firm-specific performance and firms' choices about corporate governance (e.g., see Minnick and Noga, 2010; among others). First, omitted unobservable firm characteristics (both fixed and time-varying) may simultaneously affect both the director appointment process and firm risk. Second, the direction of causality between firm risk and appointment decisions is unclear ex-ante. Rather than appointments affecting firm risk, firm risk may affect appointment decisions. For instance, female directors may self-select into lower risk firms, possibly as a result of their widely documented higher risk aversion. A common empirical strategy to deal with omitted variables and reverse causality is to identify an instrumental variable that explains gender representation on the board but is exogenous to the firm outcomes being investigated. However, it is challenging to find a truly exogenous instrumental variable for gender diversity.

In sum, the effect of gender diversity in the boardroom is rather ambiguous a priori with respect to the firm's performance. The literature, as we discussed above, finds that this nexus could be affected by a number of firm- and board-specific characteristics. However, an overlooked angle that can bridge these opposite views is the critical mass theory introduced by Kanter (1977). Specifically, once a certain minimal threshold of a gender-balanced group is reached then the board composition will enhance performance. This theory argues that the minority females are not as productive as they would be when they are under representative, because they are subject to stereotyping because are not treated as individuals but rather as gender representatives. Joecks et al. (2013) find evidence that gender diversity and firm performance has a non-linear relationship

(U-shaped link) and needs a critical mass of 30 per cent of women in boards in order to observe a positive association with performance. Arnaboldi et al. (2020, this issue) find evidence that female directors are more influential in reducing misconduct when they reach a critical mass. They also reveal that female directors' ethicality and risk aversion are crucial mechanisms through which gender diversity affects board effectiveness in preventing bank misconduct.

3.2 Diversity and Corporate Social Responsibility

Early research on gender preferences and behavior can be found in the domain of experimental and economic psychology. Lab and field studies documented fundamental differences in risk and social preferences as well as competitive behavior between men and women, with these latter typically found to be more risk-averse than men (e.g. Powell and Ansic 1997) confirming commonly held beliefs and assumptions. This generalization was later superseded by Croson and Gneezy (2009)'s finding that there are fundamental exceptions to these results in studies that focus on subsamples of populations. The authors show not only that gender differences in managerial and professional populations are small or insignificant, but they also highlight an important bias in the literature in that journals are more likely to publish papers "that find gender differences than papers that do not", resulting in researchers investing more effort into finding differences than finding no difference.

Corporate Social Responsibility (henceforth CSR) is the integration of social and environmental concerns in companies and has long been a strategic task for corporations around the world, responding to the interest shown by both consumers and investors. CSR aggregates information on board structure, compensation policy, board functions, shareholders' rights, and vision and strategy with higher values reflecting higher responsibility. As noted above, an organisation’s diversity and inclusion approach and policies are increasingly included in the “S” pillar of ESG indexes, that are typically used as proxies for CSR.

Engagement in CSR activities that satisfies a broad range of stakeholders (community, shareholders, suppliers and employees) has been identified in the literature as a corporate governance mechanism that helps address conflicts of interest and reduce agency costs. CSR engagement based on trust and cooperation should reduce information asymmetries (Eccles et al. 2012), enhance moral capital and goodwill (Godfrey, 2005) and allow the firm to gain social legitimacy (Du and Vieira, 2012). It follows that if there is a genuine commitment of management of “doing well by doing good” (McWilliams and Siegel, 2001), there will also be real benefits to stakeholders, but these may be difficult to measure in terms of financial performance as they are intangible, more uncertain and typically require a longer term focus. Cheng et al. (2020) have offered convincing empirical evidence that firms will benefit from investing in CSR in terms of lower capital constraints and better access to finance. These gains will stem also from better relationships among employees, hence diversity is embedded in this process.

Whether gender differences are significant or not is very relevant in understanding the outcomes of corporate governance, particularly in relation to board gender composition. Several studies have documented a link between gender inclusive leadership and greater CSR in different contexts (e.g. Soares et al. 2011; Hafsi and Turgut, 2013; Cumming et al. 2015; Liu, 2018; Atif et al. 2020). In addition, Kirsch (2018)’s extensive review shows that the effects of board gender composition are not necessarily a direct result of women executives’ behavior and attitudes on boards, but that stakeholders have a key role in interpreting board gender composition and contribute to the outcomes it has for the organization. The author notes the importance of considering meso-level perspectives, where for example firms with many women employees or consumers appoint women to the board because they believe that these women will notice.

Figure 2 shows that in recent years there has been a spurt of peer-reviewed publications on the topic of CSR. Numerous studies investigated the link between CSR and firm's performance generally finding mixed evidence (e.g., Margolis et al. 2007; Brammer and Millington; 2008). One strand of the literature identifies that the adoption of CSR practices raises the firm's cost, putting the firm in a position of competitive disadvantage. However, other scholars have argued that CSR can have a positive impact by providing better access to valuable resources like better quality and loyal employees, a bigger pool of costumers and gaining social legitimacy. Cheng et al. (2014) finds that firms with better CSR performance face lower capital constraints and ultimately leads to better access to finance.

Terjesen et al. (2009) and Post and Byron (2015) offer comprehensive reviews on the relationship between women and CSR. Typically, this refer to the greater propensity to engage in ethical behavior, such as charitable gifting and philanthropy (e.g. Hillman et al. 2002; Williams et al. 2003). A recent study by McGuinness et al. (2017) provides evidence on a positive relationship between gender diversity and foreign ownership in the CSR performance of Chinese listed firms. In addition, while most studies focus on the link between gender diversity and positive CSR initiatives (e.g. environmentally friendly behavior), Liu (2018) is the first to investigate the relationship between diversity and firm environmental violations. The author finds that S&P1500 firms with greater female board representation experience significantly fewer environmental lawsuits.

<Insert Figure 2 around here>

4. Diversity and External Corporate Governance

There is a very extensive body of literature that links national institutional regimes and associated regulations, with dominant modes of governance at firm level. Particularly influential have been the legal origin theory of La Porta et al (2008), and the Varieties of Capitalism approach of Hall and Soskice (2001). Whilst both focus on the incentives institutions provide to rational actors and how this impacts on the manner in which corporations are governed, the former suggests that a single institutional feature, private property rights protection, and the extent to which this is stronger in common that civil law systems overshadows all others (Goergen et al., 2013). In contrast, the Varieties of Capitalism approach holds that it is the intersection of many institutional features, and how these impact on the quality and density of ties between actors, that matters. In the original 2001 Hall and Soskice (2001) collection, the most advanced societies were divided into Liberal Market Economies (LMEs, the common law developed Anglo Saxon economies) and the Coordinated Market Economies (CMEs, the Rhineland countries, Scandinavia and Japan).

Form a legal origin perspective, it could be argued that, as common law systems prioritize individual rights over collective ones, it might suggest that one is more likely to encounter laws that protect individuals from unfair treatment that might, for example, mitigate gender discrimination (Harcourt et al., 2007). However, it may be hard for individuals to enforce their rights against the power of a corporation (Newton, 2019). Hence, even if it may be illegal for corporations to discriminate against women in recruiting for board members, it may be hard to prove discrimination. However, individual rights to fair treatment and against discrimination might assume a collective dimension: yet collectives may have an interest in supporting an individual case, if the outcome advances the rights of a collective (Harcourt et al., 2007).

There is also the relative precision with which any legislation governing gender on boards is worded; very precise wording has been found to be more impactful (Mensi-Klarbach and Seierstad, 2020). Here it is worth noting that in common law systems, legislation tends to be broad brushstroke, to be supplemented by case law (Harcourt et al., 2007). Indeed, quotas for gender representation on boards seem more likely in civil law than common law countries (see Duppati et al, 2019). Most of the literature on gender on boards does not explicitly compare legal origin effects, and that which does often focuses on a single country in one or other category (Gordini and Rancati, 2017). Looking at the case of a civil law country, e.g., Italy, Gordini and Rancati (2017) found that women on boards positively affected Tobin's Q; in contrast, earlier work in the (common law) US found a negative relationship (Carter et al., 2010).

There has been an emerging body of work that compares Varieties of Capitalism (henceforth VoC) with gender inequality, and the relative representation of women in different roles (Hancke et al., 2009; Fast, 2016). In a pioneering early paper Estevez-Abe (2005) concluded that in contexts where firm specific skills are more important (i.e., CMEs), occupational inequality in gender representation is more pronounced; this might suggest that in some sectors, the number of women in senior managerial positions will be less than others. Other work argues that the VoC approach fails to take account of the impact of political forces on female representation in specific roles (Mandel and Shalev, 2009). Again, it accords only limited attention to gender class intersections. Nonetheless, it has value in highlighting the relative insertion of women into job structures and the role of states in terms of facilitating female labour market participation (Mandel and Shalev, 2008; Soskice, 2005). Rubery (2009) suggests that the VoC approach fails to take sufficient account of key differences between CMEs in this regard; this is in line with other literature that has devoted a great deal of attention to developing sub-taxonomies to encompass different types of CME (e.g.

Amable, 2003). Other work links institutional regime to CSR, suggesting the latter is higher in civil law countries, and more specifically, the Scandinavian CMEs (Lian and Renneboog, 2017). In an influential 2008 paper, Matten and Moon (2008) argues that CMEs are stronger when it comes to *implicit CSR,* everyday taken for granted responsibility, which would encompass fair and equitable treatment of employees.

There is a nascent literature that, in analyzing the relationship between external corporate governance regimes and internal governance, specifically explores VoC, gender and boards. Gallego-Alvarez and Martinez (2020) found that in CMEs, female board members were more successful in forcing environmental issues onto corporate agendas. Dobson et al. (2018) compare the voluntarism encountered in LMEs with quotas for gender representation encountered in CMEs; they argue that, although the efficacy of the former is often questioned, both mechanisms may yield roughly similar outcomes. This may be because of "first generation quotas" tend to be primarily symbolic, and, only as they are refined, are their effects more visible Piscopo and Clark Muntean, 2018; Greene et al., 2019). In contrast, Pucheta-Martinez et al (2020) conclude that variety of capitalism is a strong predictor of board gender diversity: whatever the merits of CMEs, LMEs seem more effective in ensuring this. Grosvold et al (2016) focus more closely on what specific institutional features impact on board gender representation, given this diversity of findings, and conclude that this represents a combination of the educational system, the relative role of the family, government and the economy.

5. Implications for Future Research

Research on diversity is a growth area of interest to a broader stream like psychology, management, finance, economics, among others. The extant research reviewed thus far explore the progress and direction of current research. Clearly, figure 3 shows that research papers on diversity with an emphasis on gender diversity has grown tremendously over the last fifteen years. A strong upward trend in these research streams is notable after the GFC, because many papers used this period of turmoil as a semi-natural experiment. The growth in datasets and the implementations of new policies, for instance the gender and racial quotas, suggest that the demand for high quality research on diversity will continue to grow significantly in the future.

In this section, we identify unanswered questions that can advance our understanding on diversity. Ahern and Dittmar (2012) explore the 40 per cent gender quota for directors in Norway as a natural experiment and find that the firm value decreases following the introduction; however, as all Norwegian firms were subject to the quota, it does not explain whether it was greater gender equity or because of other developments in the Norwegian system. As the decrease did not persist, it seems likely that the latter may be true, and, indeed, the fact that many other studies suggest that greater gender equity promotes more sustainable practices, would suggest that this is indeed the case. However, it does highlight the need for meta-analyses of the existing literature in order to gain a fuller understanding of what the accumulated body of evidence tells us.

However, the questions of whether quotas (e.g., gender, race and ethnicity) should be legally enforced or not, and whether enforcement actions should be enacted in case of no compliance remain important issues of future research. Existing research highlights both the benefits and challenges of enforcing anti-discriminatory legislation; the onus is often left to the individual to prove they were discriminated against, and even a successful action may irreparably harm relations with the affected organization (Harcourt et al., 2007). In turn, this highlights the need for a fuller understanding of how quotas may bring about greater fairness and better practices, and how to discourage opportunistic tokenism.

Future research of diversity can make use of new databases or new methods to extract data like text mining on conference calls or minutes of board meetings and explore new areas that were hampered due to the lack of data. A promising area of research is whether diverse boards are more active than non-diverse boards. To this end, researchers will need to create novel data sets to analyze how the two groups support the decisions made in the board and to identify the causal mechanisms. There could also be more research on the real effect of diversity in the financial sector in terms of social responsibility, and community development.

<Insert Figure 3 around here>

6. Conclusions

This paper reviewed recent research on the causes and consequence of Diversity and Women in Finance, including a number of excellent papers that are in this Journal of Corporate Finance co-sponsored conference. Most of the papers were presented at the Diversity and Women in Finance EFiC Conference in Banking and Corporate Finance that took place at Essex Business School of the University of Essex in July 2019.

Despite the growth in research in this area, we highlighted important gaps in the literature, recent efforts to fill them, and broad directions for future research. An abiding theme through the work is that the limitations is seeing corporate governance practices purely in economic terms. The literature on behavioral finance infuses the psychological dimension, but often with the primary purposes of explaining seeming inconsistencies in economic decision making (Baddeley, 2018). There have also been recent efforts to infuse understandings of socio-economic phenomena, such as financialization, into the mainstream finance literature (Basak and Pavlova, 2016). What the burgeoning body of research on gender and finance highlights is the boundaries between the economic, the social and the psychological are somewhat fluid and mobile, and how one dimension may be translated into another. For example, socially embedded gender inequality may impact on the governance and, ultimately the economic fortunes of organizations, but by the same manner, organizations may respond to financial pressures in seeking or, sometimes, reinforcing, existing social dynamics. As such, the exploration of gender in finance may help highlight much broader challenges in understanding the role of the firm and how it is governed in a world undergoing interconnected social and economic change, reflecting both internal dynamics and wider ecosystemic ones.

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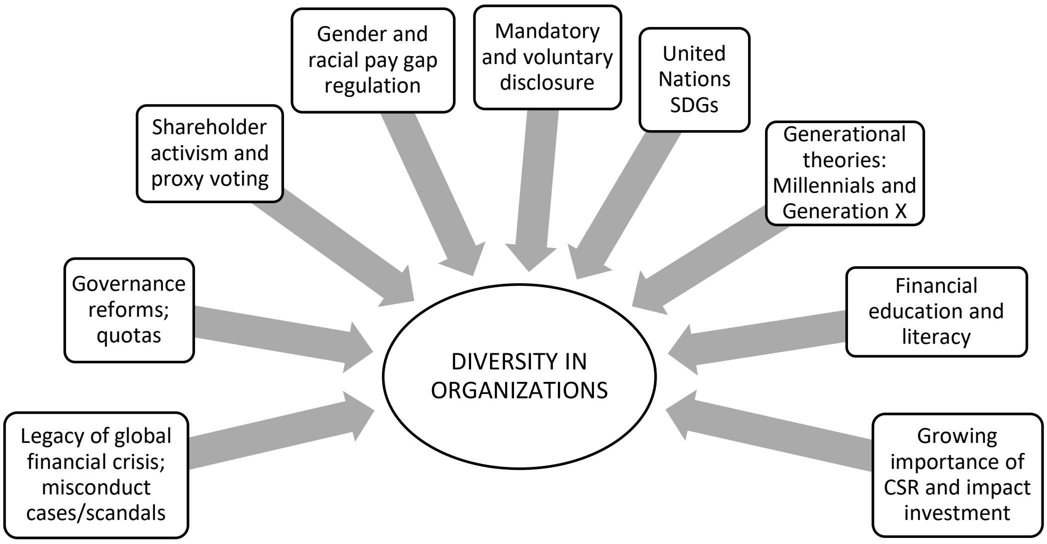
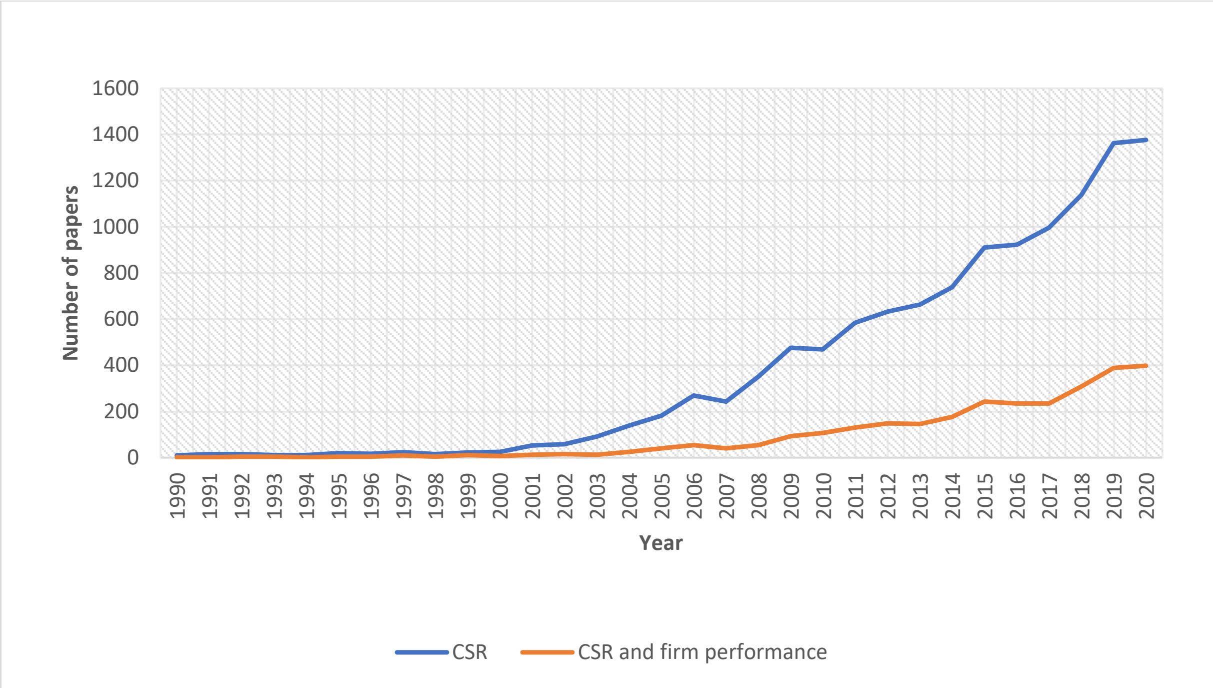
Figures

Figure 1: Forces impacting diversity and the role of women in organizations



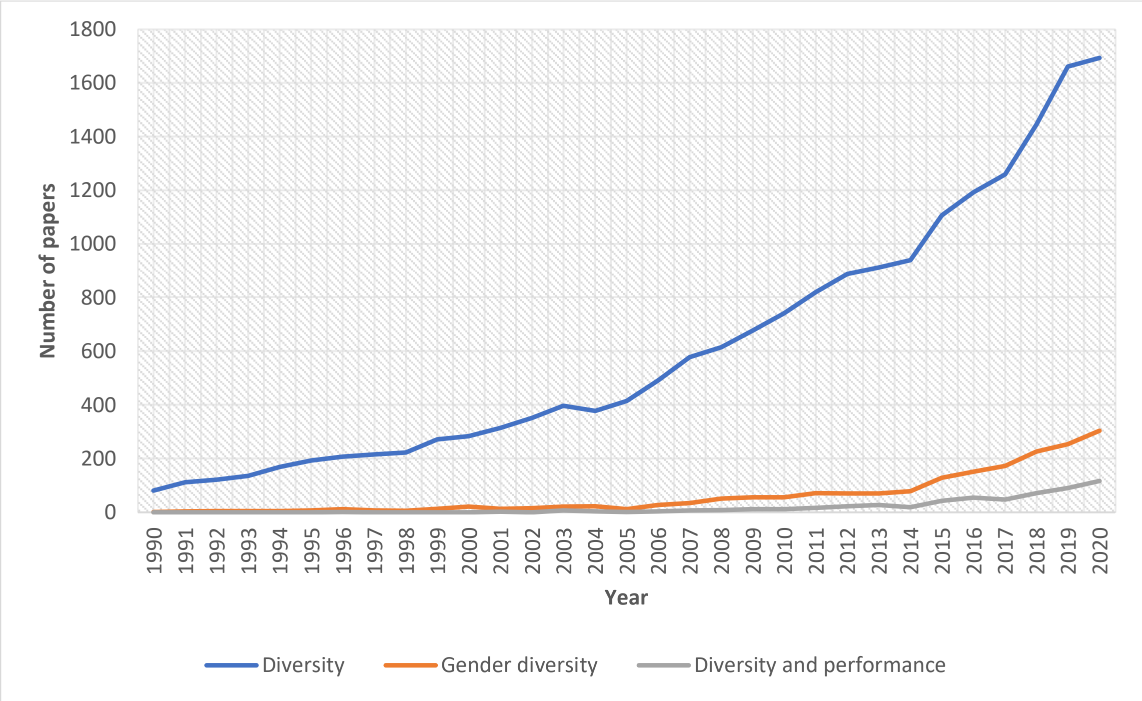
Note: SDGs = Sustainable Development Goals.

Figure 2: Number of papers on CSR published per year



Source: Digital Science from Dimensions software (accessed: December 2020).

Figure 3: Number of papers on diversity published per year



Source: Digital Science from Dimensions software (accessed: December 2020).