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Management Board Diversity: Accomplishment or Disappointment? – A pedagogical case study on Norway

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"Women are the largest reservoir of talent in the world."

-Hillary Clinton –Politician, writer, diplomat, and lawyer (the US, 2016)

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Abstract

The issue of board diversity within firms has been widely debated. Norway was the first European country to mandate obligatory quota within its board of directors followed by several European countries.

This thesis examines the case of Norway as an exemplary in terms of board diversity, exploring existing research on the effects of boardroom diversity on firm value. Since it has been almost 12 years since Norway launched its sole experiment, the case study will seek to draw on the consequences of the Norwegian quota for gender diversity and use the outcomes to assess whether there is indeed a "business case" for diversity in the boardroom and analyze the importance of boardroom diversity in relation to various management frameworks.

It is expected that by analyzing Norway's case, the target audience of this pedagogical case study – undergraduate students in the field of Business Ethics – will have the opportunity to not only gain a profound familiarity about the case of Norway and how it implemented the mandatory quota in its boards, but will also have the opportunity to practice the use of specific management concepts and ethical tools and frameworks, which they will likely find convenient in their university courses and upcoming careers.

Key Words:

Ethics; Board Diversity; Corporate Governance; Norway.

Classification JEL System: - M10: General Business Administration

Resumo

A questão da diversidade dos conselhos de administração nas empresas tem sido amplamente debatida. A Noruega foi o primeiro país europeu a impor quotas obrigatórias nos seus conselhos de administração, seguida de vários países europeus.

Esta tese examina o caso pedagógico da Noruega como exemplar em termos de diversidade dos conselhos de administração, explorando a investigação existente sobre os efeitos da diversidade na sala de reuniões do conselho de administração sobre o valor da empresa. Uma vez que já passaram quase 12 anos desde que a Noruega lançou a sua única experiência, o estudo de caso procurará tirar partido das consequências da quota norueguesa para a diversidade de género e utilizar os resultados para avaliar se existe de facto um "business case" para a diversidade na sala de reuniões e analisar a importância da diversidade nas salas de reuniões em relação aos vários quadros de gestão.

Espera-se que, analisando o caso da Noruega, o público-alvo deste caso de estudo pedagógico - estudantes de licenciatura em na área de Ética Empresarial - tenha a oportunidade não só de conhecer profundamente o caso da Noruega e como implementou a quota obrigatória nos seus conselhos, mas também de praticar o uso de conceitos de gestão específicos e ferramentas e quadros éticos, que provavelmente encontrarão conveniência nos seus cursos universitários e futuras carreiras.

Palavras-chave:

Ética; Diversidade do Conselho de Administração; Governança Corporativa; Noruega.

Classificação Sistema JEL: - M10: Administração Geral de Empresas

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List of Abbreviations

ASA– Allmennaksjeselskap

CEO– Chief Executive Officer

CSR– Corporate Social Responsibility

EU– European Union

EY– Ernst & Young

Ltd.– Private Limited Company

NCGB– The Norwegian Code of Corporate Governance

NHO– The Confederation of Norwegian Enterprise

Plc.– Public Limited Company

RDT– Resource Dependence Theory

UN– United Nation

1. Introduction

The world surrounding us is in a state of constant change. Globalization, migration, and economic and political cataclysm have led to a significant demographic disparity across the globe. Hence, business leaders nowadays habitually find themselves opposed to the chore of responding and accommodating to swiftly emerging megatrends.

As firms deal with more various employees, customers, suppliers, and shareholders, corporate boardroom demographic composition becomes a crucial means to signal a corporation's commitment to creating social value (Miller & Triana, 2009; Dowling, 2006; Mahon, 2002). Accordingly, a vast number of companies are aiming for diversity in their leadership as a way to signal their just and ethical portrayal of diverse cultures and align themselves with their key stakeholders (Miller & Triana, 2009; Rindova,1999).

The case of Norway has been very frequently used as a protuberant example whenever the topic Board Diversity is debated. The fact that Norway was the first country in the world to implement quota in its boards makes it a unique social experiment for scholars and researchers to examine its effects on firms.

This case study aims to elaborate a pedagogical case study on the Case of Norway and mainly focuses on how the country has attempted to mandate an obligatory quota in its board of directors.

The management frameworks which students are expected to practice are Corporate Social Responsibility, Sustainable Development, Three Pillars of Institutional Theory, in addition to other critical theoretical frameworks.

The methodology used to conduct this project is based on the suggestions of Eisenhardt (1989), and Hamel (1993) for the comprehension of a case study (detailed in the fifth chapter - Methodology) and the data was collected from secondary sources. The restatement of this project is organized into seven chapters. The following offers a historical overview of Norwegian history and the Norwegian history and the Corporate Governance arena respectively.

2. The Case Study

2.1 Problem Identification

In several countries the number of women in top executive positions is low, and it is still unclear that quotas lead to a larger pool of top female executives, who are the chief pipeline for boards of directors. Consequently, additional supplementary policies may be essential if politicians want to upsurge the number of females in senior management positions.

Arguments for boosting gender diversity on boards of directors by gender quotas vary from guaranteeing an equal opportunity to enhancing firm performance. The overview of gender quotas in several countries has amplified female representation on boards.

In addition to the many positive effects that previous research has proved behind the implementation of women on boards, numerous studies have also found a negative link between women on boards and firm performance.

In 2002, less than 10% of board members in the largest publicly listed Norwegian firms, known in Norway as Allmennaksjeselskap, or ASA companies were women. Laws presented that year provided those firms five years to increase the percentage of women on their boards to 40%. By January 2008, the proportion of women on boards became more than 40% of the board members of ASA companies. [1]

Nonetheless, studies had diverse conclusions regarding Norwegian board diversity. Some concluded a negative impact, and some found no significant influence, while others found a positive correlation between board diversity and firm performance.

The issue behind boardroom diversity seems to be debatable between the different researchers and scholars.

2.2 Historical Frame

2.2.1 Overview of the Norwegian History

In the case of Norway, the law has been widely accepted. The fact that the law can be seen as successful in Norway is a crucial example when looking at the expansions taking place in other countries. Furthermore, over the last decade, the political and economic backgrounds globally have transformed significantly, affecting the emphasis on diversity, the role of corporate boards, and the meaning of corporate governance.

The case of Norway demonstrates how legal intervention was an example, which can direct international policymakers. Debates regarding gender diversity have taken place for over 30 years on reasons for and how to get women into high positions in enterprises.[2]

The Confederation of Norwegian Enterprise (NHO) created in the mid-1990s a program called 'Women to the Top' in collaboration with the Norwegian Confederation of Sports. In this enterprise, NHO ran conferences for women who were to prepare themselves to reach higher positions and also included seminars to train women for board ranks.[2]

The Norwegian Director of Equality, Ingunn Yssen, designed numerous agendas to boost the number of women on boards. Additionally, she created in 1999 along with then Labor and Administration Minister Laila Dåvøy, and Children and Equality Minister Valgerd Svarstad Haugland, lists of women who desired to be in directorships positions. [2]

Previous Equality Ministers Valgerd Svarstad Haugland (1997–2000) and Karita Bekkemellom (2000–2001) studied possibilities for a favorable exploit for getting women on boards. [2]

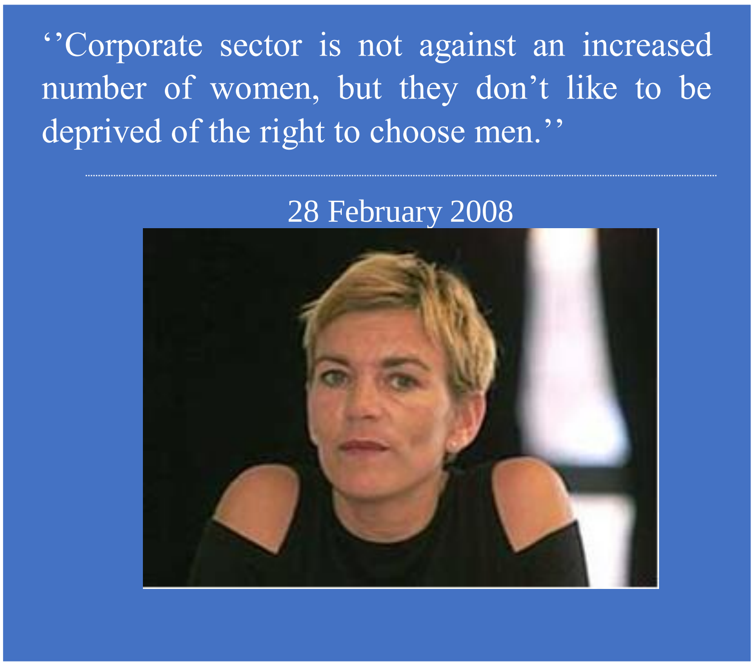
From 2001, Equality Minister Laila Dåvøy (2001–2005), with the Minister of Trade and Industry, Ansgar Gabrielsen, sustained efforts to indorse a law suggestion for gender equality in boards. [2]

The percentage of females on corporate boards in publicly listed companies remained the same between 1990 and 2002. During this period, it averaged about 4% to 7%, with the only rise in 1994 due to the overview of novel kinds of firms on the Oslo Stock Exchange. [2]

In 2003, the Norwegian Parliament announced a law that mandated the entire public-limited companies to have a minimum of 40% of female members on their boards of directors.[1] At the same time, Norwegian businesses and the business community were opposing the implementation of the gender balance law. They argued that gender balance goals could be rather reached through voluntary actions and soft regulations. Members of the Norwegian Parliament were considerate of such requests, and therefore, the business community got two years to verify that their argument was possible. However, in 2005, the share of women was only 16%. As a result, the law was announced in 2006 with a two-year implementation period ending on January 2008.[3]

In 2006 the law reformed from voluntary compliance to legal compulsory, and companies that did not conform by January 2008 were endangered to be dissolved. In April 2008, all PLCs were fulfilling with the commandment.[1]

Figure 1: Ingunn Yssen, Gender Equality Director's Words about Women and the Corporate Sector in Norway



Source: How The Quota Law Came About. A brief overview (Presentation at the conference Women on company boards. How Norway Uses Quotas.) [4]

2.2.2 Norwegian History and Corporate Governance Arena

The role of women in society is changing. This shift is not only in the public and private sectors but also in the business world. These modifications are found in various regions, but the speed and focus may vary. The speed of the increase of women in the Norwegian corporate boards has boosted rapidly.

Therefore, and due to this rapid growth after the announcement of the quota law by the Norwegian authorities, many scholars and researchers have focused on the case of Norway.

While the Norwegian law had its roots in social concerns regarding gender equality, the following debates in public and behind the scenes also raised explanations based on attendant commercial profits and the individual rights of females.

Thus far, when it comes to the assessment of a political initiative, the case of Norway has mostly been judged upon factors contrary to the achievement of its innovative purpose. The fundamental basis of the announcement of the law is linked with gender balance in society. However, the initiative has mostly been evaluated based on corporate productivity or based on the career growth of individual females.

Consequent effects, both positive and negative, should not be abandoned. However, the main question raised is whether or not the primary focus should be on the financial value. When describing the Norwegian corporate governance arena, it is vital to comprehend the Norwegian history and the main actors. [2]

Table 1 will help understand the Norwegian corporate governance system, including the timeframe in which the law was implemented, and the outcomes followed by the implementation of the law. In the case of Norway, the law has been widely accepted. The fact that the law can be seen as successful in Norway is a crucial example when looking at the expansions taking place in other countries. Furthermore, over the last decade, the political and economic backgrounds globally have transformed significantly, affecting the emphasis on diversity, the role of corporate boards, and the meaning of corporate governance.

The case of Norway demonstrates how the legal intervention was an example, which can direct international policymakers. Debates regarding gender diversity have taken place for over 30 years on reasons for and how to get women into high positions in enterprises.[2]

Table 1: Norwegian History, Corporate Governance System and the Effects Surrounding the Announcement of the Gender Diversity Law

Norwegian History and Main Actors
Norway is a small country with only a few big firms, there are not numerous people with a long history of being rich, and the state and public authorities are crucial performers.[2] The Norwegian authorities, in addition to other vital actors, play a crucial role in the corporate governance stadium. The authorities are both law-makers and owners.[2] The legal system in Norway is civil law.[5]
Norwegian Corporate Governance System
Norway is regarded amid the most democratic countries in the world.[6] Norway is composed of a social-democratic welfare method with state laws aimed around a weak breadwinner model and a sturdy obligation to gender equality.[7] Public limited liability firms are obligated to have a board of directors with a minimum of three members, which vote for the CEO, who is not permitted to be part of the board of directors.[8]

The general meeting should additionally choose the directors. Firms that exceed 30 employees must also have employee representation on their board of directors.[8]

Firms that have more than 200 employees should arrange a corporate assembly containing associates voted by shareholders and employees, which means to act as an association between the board of directors and the general meeting. Nevertheless, the relinquishing of the formation of corporate assembly must be accepted by the firm, employees, and unions.[8]

The Norwegian Code of Corporate Governance (2014) endorses that the board of directors should not be comprised of executive personnel.[9]

It is suggested that a more significant number of associates of the board of directors are independent of the firm.[9]

The Introduction of the Law

Societal motives have been the initial point for much of the devotion paid to the board of diversity law.[2]

The societal explanations are related to justice in society, democracy, contribution, equality between the genders, human rights and submission with various agreements of the United Nations and the European Economic Area.[2]

The Consequences that followed and Lessons Learned

Norway's case has spread globally.

Many countries have implemented the same type of gender quota law as in Norway, and some have proposed the legislation several times without success.[10]

There has been an increase in female directors, from 9% in 2003 to over 40% in 2008.[1]

From 2003 to 2008, the proportion of women on boards increased by 260%, which corresponds to an upsurge from 165 to 592 board seats.[1]

2.3 Empirical Evidence Followed by the Norwegian Quota

2.3.1 Norwegian Quota and Decision-making

According to the theory of tokenism women minorities in a group are differentiated and henceforth have no influence on group decisions, however, when they (women minorities) gain “critical mass” or exceed the “token” limit, which is 15% representation, they tend to overcome the minority issues that were deterring their involvement in group decisions. [11]

Drawing their arguments from this theory, Elstad and Ladegard use the case of Norway to examine whether the “specific ratio” of women truly plays a role in influencing the board’s decision-making dynamics. Using data collected from a questionnaire, the association between women representation on boards and their impact on board decision was established using multiple regression analysis. The outcome shows that women's ratio is unconnected to perceived self-censorship. In other words, the female board directors voiced their debated opinions irrespective of how many women were with them on board. [12]

Furthermore, women’s perceived social interaction was positively linked to female board member proportion. Finally, a positive link between perceived women’s effect and the percentage of females on board happens to exist. Still, when there is a singular woman on board she is still expected to be treated as a token.

The examination, which was based on the 15% minimum ratio as labeled by the tokenism theory, exposed that women who were selected to boards as a consequence of the quota are less likely to practice self-censorship, are less subject to tokenism and tend to be more powerful in their decision making process on boards compared to other women directors.

This shows that women appointed to public limited boards as a result of the quota laws, automatically found themselves within the “critical mass” and hereafter were able to make their contributions to firm decision making from the start. Not only do these outcomes validate the case for enhanced decision-making but they also support the decision to have a mandated 40% minimum requirement by the Norwegian authorities.

2.3.2 Norwegian Quota and Innovation

Innovation is considered as one of the most crucial traits to maintain competitive advantage and for seeking sustainable growth in firms. Whether it is via the augmentation of the board with diverse concepts and perspectives or through its significant role between minorities' involvement and board's strategic tasks, preceding scholars, have always emphasized the importance of board diversity for firm innovation.

Given that innovation is a chief topic in today's world, the abrupt upsurge in the female proportion on Norwegian corporate boards generated by the quota mandate makes the Norwegian scene an ideal testing grounds for assessing the influence board gender diversity on firm innovation.

A study conducted by Torchia, Calabro, & Huse seeks to describe whether an increase in the number of women on corporate boards leads to a critical mass that positively donates to a company's innovation. [13]

Using firm-specific Norwegian firm data collected from a questionnaire, the results of multiple linear regressions show that a minimum of three female members are needed on a corporate board to have a substantial influence on firm innovation. Moreover, the results also show a significant and positive association between the critical mass of women directors (at least three women) and board strategic tasks, signifying that the board's strategic tasks mediate the relationship between the critical mass of female board members and firm organizational innovation. [13]

Overall, the number of women on board contributes to a change. Increasing the number of women to a minimum of three members or more improves the probability that women's voices and ideas are taken into account and therefore lead to a change in the decision-making process as well as firms' innovation. Lone women on boards have been proved to not being listened to, being excluded from socializing and even from some decision-making discussions, being made to feel their views signify a woman's point of view, and is subject to unsuitable actions that prove the argument that male directors notice their gender better than their sole contributions.

Therefore, mass theory proves that adding more than a sole woman on board helps overcome this phenomenon. We discover that having three or more women on a board can generate a critical mass in which women are no longer seen as outcasts and are therefore capable of affecting the content and course of board discussions more substantially.[14]

2.3.3 Norwegian Quota and Leadership

Since women on boards enhance a firm's presentation and overall value, numerous researchers have examined whether the quota has a direct impact on other leadership positions within firms.

A study conducted by Wang & Kelan aims to uncover how the Norwegian gender quota, the existence of women board members, and the proportion of women on board affects the presence of females in top leadership positions.[15]

The authors address various economic and behavioral theories to examine the impact of improved female board representation in leadership positions. Arguing from a resource dependency point of view, the research claims that the increase in women board directors could lead to their supremacy of the pool of board chair candidates, which as a result improves the chance of selecting a female chairperson.

Secondly, the study appoints to the critical mass theory to examine whether the critical mass threshold of having at least three women on boards has a promising effect on the sex of both the board chair and the CEO.

The results of the study show that the quota has had a steady and constructive impact on the existence of top female leaders. The proportion of women board members has a positive link with the presence and appointment of a female board chair, and the presence of a critical mass of "at least three" female board members boosts the likelihood of females being selected as board chairs and CEOs.

Lastly, the outcomes also approve that a constructive relationship occurs between the presence and appointments of women board chairs and women CEOs, henceforth demonstrating that female chairs are more likely to appoint a female CEO.

2.3.4 Norwegian Quota and Organizational Structure

The Norwegian quota mandate specified only publicly listed Norwegian Plc. companies to encounter the 40% female representation obligation. This strict and surprising command has inspired several researchers to study whether businesses transformed their organizational structure as a result of the quota or in an attempt to avoid it.

In general, Norwegian firms with limited liability can choose between the ASA & AS organizational structure.[17]A non-listed Plc. could basically change its organizational structure to a Ltd. if it wanted to avoid the quota, while a listed Plc. had first to delist from the Oslo Stock Exchange (OSE) before it could convert to Ltd. in order to avoid the quota.[18]

Bøhren & Staubo examine their study to explore how and why the Norwegian quota, with its non-compliance liquidation penalty, stirred a series of transformations in firms' organizational form. The study as well considers the opposite side by investigating how the quota influenced the tendency of unaffected businesses to transform their structure into the affected form, i.e., switch from Ltd. to Plc. Their study results indicate that less than 50% of the Plc. firms that existed in 2002 were still there in 2008, and the number of non-listed Plc firms declined by half whereas the number of listed Plc. firms on the OSE improved by 11%.[17]

The results show that the change in organizational form is more mutual for firms that are not-listed, highly profitable, highly leveraged, small in size, owned by powerful owners and have few female directors.

Firms that have these features go through high costs of obligatory board restructuring and little costs from leaving the Plc. quota affected form. As the outcomes also indicate that some Ltd. firms became hesitant to get listed, the authors conclude that the quota might lead to firms with an incompetent organizational structure or unqualified boards.[17]

Additionally, in their study, Ahern & Dittmar[1] highlight that firms are more likely to change their organizational structure if the board was younger and has fewer CEO skill. Nygaard also studies whether the Norwegian transformation wave from Plc. to Ltd. is linked with the quota.[18]

Using regression analysis, the study concludes that there exists a strong negative association between the conversion decision and pre-quota female representation for non-listed Plc. firms. These findings, therefore, show that for the listed Plc. firms, which are less likely to change their structure, the boards are bigger, are older, have more female directors, and are more likely to have employee representatives on boards and have higher book asset values.

The findings of these studies that investigate the change in organizational forms of Norwegian firms in the post-quota era are consistent. The quota activated a flow in altering the organizational form of Norwegian companies, and the decision to convert was highly dependent on pre-quota firm-specific attributes.

2.3.5 Norwegian Quota and Firm Performance

A study conducted by Ahern & Dittmar found a negative effect of the higher percentage of female board members on the financial performance of Norwegian firms. The outcomes of this study were most marked in the firms with the least women on their boards before the law came into effect.[1]

The results of their study concluded that the quota led to a substantial drop in the stock price at the beginning of the law and a significant decline in Tobin’s Q. They also conclude that the quota led to more inexperienced women on boards, causing a decline in the operating performance of firms. Both researchers define the Norwegian gender quota as an imposed constraint on the affected Norwegian companies.

Another study by Matsa & Miller found a negative impact between women on boards and firm performance in Norwegian firms. The study examined the effects of the Norwegian quota on Norwegian firm performance by comparing the financial data of the affected firms to a sample of other unaffected Scandinavian companies.[19]

Based on an examination of a panel of Scandinavian firms in the period 1999 to 2009 and a set of 104 listed Norwegian companies in 2006, the conclusions of the study demonstrate that the financial performance deteriorated for Norwegian firms that were affected by the quota. The reduction in short-term profitability was due to a rise in labor costs from fewer dismissals and more employment compared to the unaffected set of Scandinavian firms.

The study also found that firms were slower to adjust employment to recurring rises and declines. However, both studies have been criticized for not being able to convey possible statistical issues in a convincing way.[20]

The summary of the empirical findings followed by the Norwegian quota is in (Appendix A).

2.4 Criticism of Empirical Studies

According to Daniel Ferreira, empirical studies regarding women on boards have not been clear enough, neither have they been convincing enough with their data in proving that women on boards lead to a decrease in the financial performance in firms.[20] In his report, the latter has specifically criticized the research of Ahern & Dittmar[1] and Matsa & Miller (2013) respectively.[19]

The author states that it is difficult to learn from the previous empirical studies regarding board diversity because board directors, as a group of people, do not represent the general population, as female board members might have different traits or characteristics than females in the general population. In the same report, he mentions that in one of his previous research with Renée Adams[21] they have found that female directors tend to be more independent as managers than men.

Additionally, female directors who tend to have a more substantial presence at board meetings, are more likely to sit on monitoring committees and are more likely to force CEO exits after poor stock price performance. In short, female directors are more likely to be sturdy monitors of CEOs. Ahern & Dittmar choose 2003 as their event date. Matsa & Miller choose 2006, while full compliance with the quota was not fully achieved until 2008.

Figure 2: Laila Dåvøy, Ministry of Equality words when the law proposition was debated in the parliament,27 November 2003

Source: How the Quota Law Came About. A brief overview (Presentation at the conference Women on company boards. How Norway Uses Quotas.) [4]

2.5 Relevant data Followed by the Quota

In 2011, the European Commission called for responsible self-regulation by firms to guarantee better gender balance in corporations' managerial boards. One year later there was no progress in the proportion of women, which is why in November 2012 the Commission announced a law - a legislative initiative aiming to grow the development towards an added equivalent representation of women and men on boards of listed firms. Hence, from 2003 to 2010, the proportion of women on boards rose from 8.5 % to 11.9 %, a growth of 3.4% per year.[23]

Norway was the first country to present compulsory quotas mandating that the boards of publicly listed firms have at least 40% female representation. After presenting the 40% quota in 2006, to come into force in 2008, Norway went from 9% female representation in 2003 to 40.5% in 2013. Nevertheless, the worldwide percentage of women on boards was only 11% in 2013.[24]

In April 2016, the average number of women on board of directors within the major companies listed in the EU-28 Member States was 23.3%. This percentage signifies a rise of 0.6% since the previous data records in October 2015.[24]

The European Commission has considered a compulsory minimum quota for female board members of 30% by 2015 and 40% by 2020, and some EU countries have applied similar quotas on their boards (Table 2)[22]. The percentage of women on main corporate boards is much lower in many EU countries (Figure 3), so these quotas, if met, would have an enormous impact on gender arrangement.[25]

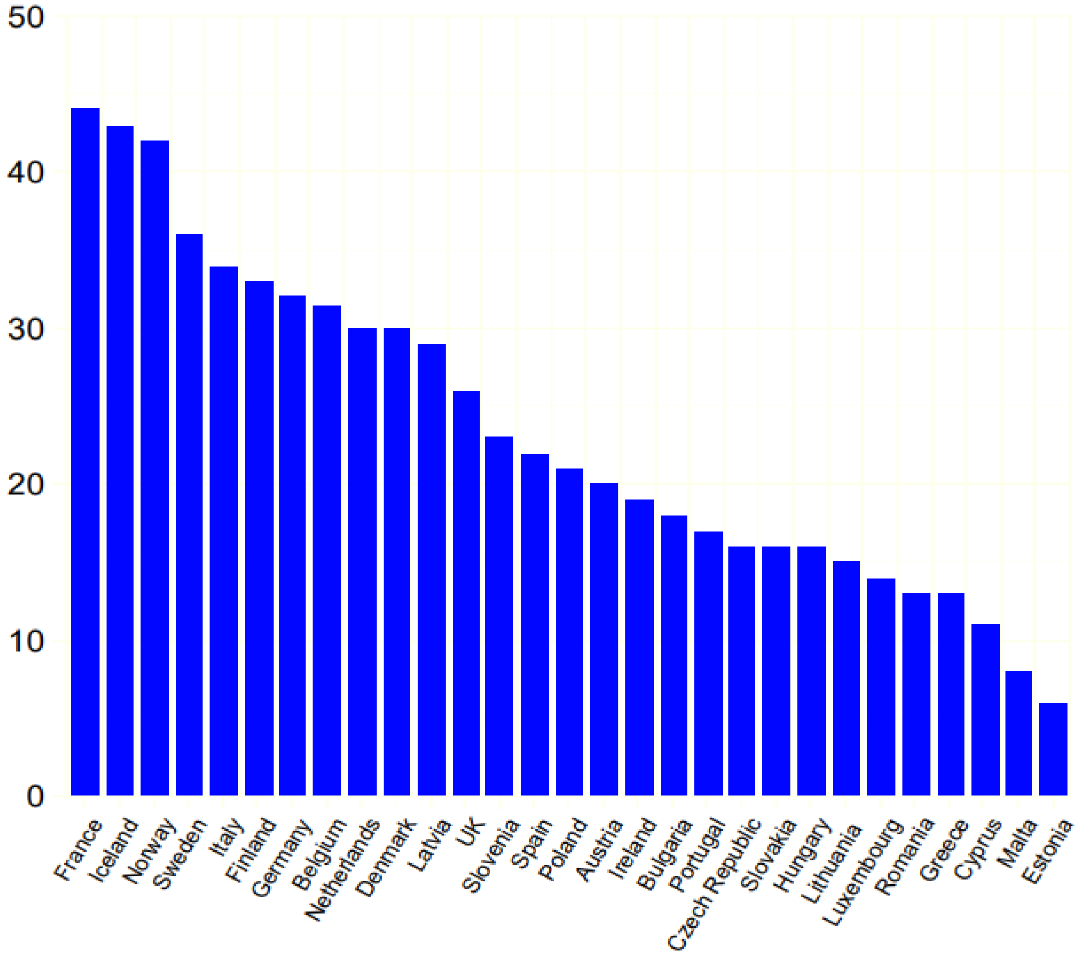
Table 2: Quota and Soft Law of Female Representation on Boards of Directors and Top Management in Designated EU Countries in Private Sector Firms

Country	Compliance Year	Quota	Binding	Guidelines or Other Regulations
Austria	-	-	-	GCG 2009

Belgium	2011-2019	33%	Yes	GCG 2009
Denmark	-	-	-	GCG 2008
Finland	2010	At least 1 woman	Yes	GCG 2010
France	2011-2017	40%	Yes	GCG 2010
Germany	2016	30%	Yes	GCG 2009
Iceland	2013	40%	Yes	-
Italy	2011-2015	33%	Yes	Yes
Luxembourg	-	-	-	GCG 2009
Netherlands	2015	30%	No	GCG 2010
Norway	2008	40%	Yes	GCG 2009
Poland	-	-	-	GCG 2010 and 30% as target for the year 2015
Spain	2015	40%	No	GCG 2006
Sweden	-	-	-	GCG 2004
UK	-	-	-	GCG 2010 and 25% as target for the year 2015

Source: European Commission[22]

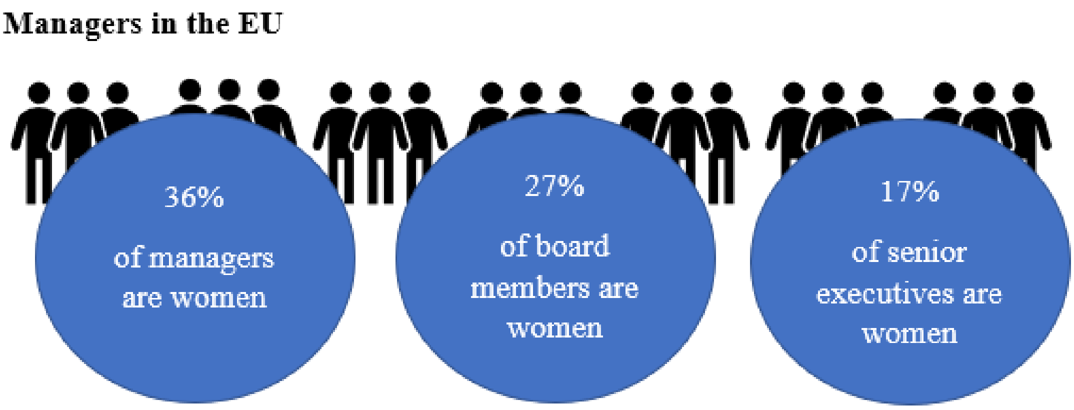
Figure 3: The Proportion of Female Board Directors in the Largest Listed companies, 2017



Source: European Institute of Gender Equality[25]

According to Eurostat, the quota had tremendous effects on the proportion of women on boards in the EU. The proportion of women in publicly listed companies in 2018 in the EU is 27%, and 17% as senior executives. However, although representing nearly half of all employed individuals in the EU, women continue to be under-represented amongst managers (Figure 4). [26]

Figure 4: The Proportion of Women in Publicly Listed Companies in EU for the year 2018



Source: Eurostat[26]

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3. Pedagogical Note

3.1 Intended Audience

Undergraduate students in the field of Business Ethics are the intended audience for this pedagogical case study.

The project aims to describe the relationship between board diversity and firm performance. Diversity can have a negative, positive, or neutral influence on firm performance. The case of Norway is deeply analyzed.

The case study is mainly intended for classroom (academic) study; it portrays a real situation, and students are expected to apply certain ethical management frameworks to analyze and understand Norway's environment and choices and the vitality of its choice not only on the EU but also on the topic of diversity on board of directors.

3.2 Pedagogical Objectives

Since Norway was the first country to mandate an obligatory quota, the issue of diversity on board of directors has gained considerable attention globally. A gap exists between the lessons fronted by the empirical research that proves a negative link between women and firm performance from one side, and diverse board and positive firm performance from another side.

However, it is not enough for companies to merely link ''gender'' with a firm's performance and ignore other vital factors that contribute to the blooming of a company's performance.

The case study discussions provide tools for students that help gain new knowledge, deepen their familiarity, and widen their skill set when it comes to ethical behavior within firms.

The case study is specially designed to help students apply particular tools for ethical management in order to analyze and understand the circumstances that allow gender-diverse boards to succeed and the situations that lead to failure within a firm. Additionally, the case study helps students understand how diverse firms should operate ethically to benefit all stakeholders involved.

Thus, by the end of the analysis and discussion of the case study, students should be able to: a) Explain how firms with diverse boards can encourage desired CSR behavior; b) Identify the corporate benefits related to implementing gender equality policies within firms; c) Identify the corporate challenges related to implementing gender equality policies within firms; d) Characterize the roles of the institutional pillars and carriers in the growth of representation of board diversity.

Question 1 – Explain how firms with diverse boards can encourage desired CSR behavior;

Question 2 –Identify the corporate benefits related to implementing gender equality policies within firms;

Question 3 – Identify the corporate challenges related to implementing gender equality policies within firms;

Question 4 – Characterize the roles of the institutional pillars and carriers in the growth of representation of board diversity on boards;

With the discussion of the pedagogical note settled, the next chapter will be the discussion of the literature review.

4. Theoretical Framework - Literature Review

4.1 Agency Theory

The first and foremost theoretical framework used in literature to examine the association between board diversity and firm value is the Agency Theory. Agency theory proposes that a more diverse board may demand improved monitoring of managers because board diversity boosts board independence (Randöy, Thomsen & Oxelheim, 2006; Carter et al., 2007).

The Agency Theory view of Fama & Jensen (1983) thrives on confirming that agency costs, which arise from managers' pursuit of their interests, are minimized to overcome losses in firm value. The monitoring role of the Board in the agency framework is to overlook and compensate top management, represent shareholders, and ensure the proper use of a firm's resources.

Boards can resolve potential agency problems that may arise between management and shareholders. A central element of the Agency Theory is that board members will not collude with the management to sabotage shareholders' interest because they have a strong motive to build a reputation as professional monitors (Hillman & Dalziel, 2003).

In this line, previous literature has demonstrated the positive effects of gender diversity on boards and corporate performance. For example, within US firms, Adler (2001); Carter, Simkins & Simpson,(2003); Adams & Ferreira (2004) find that the percentage of women on boards of director has a positive impact on corporate value - measured by Tobin's Q (Tobin's Q is the ratio between a physical asset's market value and its replacement value), concluding that diversity relates with better financial performance. Carter et al. (2007) emphasize this positive association by highlighting that gender diversity has a positive impact on financial performance, mostly through the Audit function of the Board.

Dewatripont et al. (1999); Westphal & Milton (2000) highlight that women or foreigners frequently carry new views on complex issues in the board room.

Accordingly, this might help to cope with bias arising from measurement error or limitation faced by the Board in decision-making.

4.2 Resource Dependence Theory

The theory suggests that in order for a firm not to depend on other parties, it should have control of its critical resources (Salancik, & Wetherell, 1978). Stiles (2001) explicitly proposes that board diversity might increase access to critical resources, which would suggest that diversity on boards can have a constructive effect on performance.

RDT distinguishes the impact of external influences on organizational behavior, and hence, managers can act to lessen the environmental ambiguity and dependence of a firm. Similar to these arguments is the idea of power, which is the governor's over-vigorous resources (Ulrich & Barney, 1984).

An amplified diversity causes more information sources but at the cost of lower decisiveness (Randöy, Thomsen & Oxelheim, 2006). This means the teams with the best performance are characterized by members that represent variation in terms of skill, background, and gender.

Besides, a decreased presence of females on boards could be viewed as discrimination that is both unethical and suboptimal, because firms that are usually unprejudiced, would select talent from both genders equally (Jimeno & Redondo, 2008).

The balance between gender diversity in firms can become a source of competitive advantage, given that each gender donates to management in a different and harmonizing manner (Watson, Kumar & Michaelsen, 1993; Shrader, Blackburn & Iles, 1997; Farrell & Hersch, 2001). Carter et al. (2010) highlight that gender and ethnic diversity in the Board deliver unique information sets which helps management in better decision making.

Additionally, a diverse board sends positive indicators to the market and brings numerous perspectives to the firm, besides, non-traditional approaches to problem-solving due to the variety in the Board. Similarly, with the growing participation of women in the business world, the standing of female representation on corporate boards is also expanding (Burke, 1997; Burke & Mattis, 2000).

Moreover, several studies have found a positive relationship between the percentage of women on boards and that of increased financial return (Krishnan & Park, 2005; Litz & Folker, 2002; Shrader, Blackburn & Iles, 1997; Smith, Smith & Verner, 2006).

4.3 Human Capital Theory

The third theory used to depict the positive correlation between board diversity and firm performance is the Human Capital Theory. Becker (1964) suggests that Human Capital Theory addresses the characteristics of an individual's education, experience, and skills and the effect of such characteristics on firm performance. Human capital features are skills and experiences that a specific director carries to the decision-making process inside a firm (Johnson, Schnatterly, & Hill, 2012).

Precisely, the function of the board is not only bounded to monitoring managerial performances as Agency Theory states, but also providing vital capitals that help improve firm performance and confirming those capitals through the development of networks with the external environment (Hillman, Cannella, & Paetzold, 2000). In addition to the monitoring function, the board also serves as a resource provider. According to Hillman & Dalziel (2003), the human capital of directors is one of the most critical components in a firm.

Director characters are unique resources that play a role in affecting what directors pay attention to as well as the decisions they make. According to human capital theorists, the board of directors should be selected according to their quality of academic training and experience and not according to their gender and racial traits (Peterson, Philpot, & O' Shaughnessy, 2007).

Sluis, Praag, & Vijverberg, (2008) conducted a review composed of hundreds of studies and came up with the conclusion that human capital (education) has a positive effect on performance. Certo (2003) highlights the characteristics of board directors affect the market value of a firm. Likewise, Hillman & Dalziel (2003) argue that the standing of the board of directors enhances a firm's credibility and performance.

4.4 Stakeholder Theory

According to the Stakeholder Theory, the role of the board of directors is to characterize not only the interests of shareholders but also those of customers, employees, suppliers and other parties that are of importance to the firm (Low et al., 2015; Finegold, Benson & Hecht, 2007).

Because of the fact that stakeholders typically expect from a firm more than just financial outlooks, such as being ethical, fair, socially responsible and an excellent corporate citizen, board composition should be set in a way to meet all those expectations if they were to sustain a positive relationship with all the stakeholders (Low et al., 2015; Huse & Rindova, 2001).

For example, Williams (2003) found that female directors have an advanced awareness of social and environmental matters; henceforth, their presence on boards would advance a firm's presence in this field and enhance its reputation among its stakeholders. Eventually, the more satisfied stakeholders will provide the firm with eased access to the resources that they control, which then has an advantageous outcome on a firm's financial routine and firm value (Low, Roberts, & Whiting, 2015)

The relationship between board demographic diversity and firm financial performance was also examined by (Erhardt, Werbel, & Shrader 2003).

This group of researchers resorts to the corporate board's strategic decision-making function, rather than the management oversight function highlighted in the Agency Theory, to establish the link between board diversity and firm performance.

They hypothesized that because strategic decision-making is an essential function of the board of directors, in a business environment where a firm financial result is being subject to more due-diligence, boardroom diversity may add a new perspective to board decision-making and thus leads to higher organizational performance levels.

4.5 Institutional Theory

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Figure 5 shows the different carriers (cultures, social structures, routines, and artefacts) and how each carrier is influenced by the institutional systems that are composed of a regulative, normative and cultural element to produce meaning, stability, and order.

Figure 5: Institutional Pillars and Carriers

Carriers	Regulative	Normative	Cognitive
Cultures	Rules, laws	Values, expectations	Categories, schemas
Social Structures	Governance systems, power systems	Regimes, authority systems	Structural isomorphism, identities
Routines	Protocols, typical procedures	Jobs, roles, duties	Scripts, language, concept, meaning
Artefacts	Compliance with mandated specifications	Meeting with conventions and standards	Possessing symbolic values

Source: Scott, 2007

Table 3 summarizes the positive impact of board diversity on firm performance through the highlight of Agency theory, Resource dependence theory, Human capital theory, and Stakeholder Theory.

Table 3: The Positive Impact of Board Diversity on the Performance of a Firm Through the Highlight of Agency theory, Resource Dependence Theory, Human Capital Theory, and Stakeholder Theory

Reference	Theory	Positive Impact of Board of Directors on Firm Performance
Randöy et al., (2006); Carter et al., (2007)	Agency Theory	A more diverse board may demand improved monitoring of managers because board diversity boosts board independence
Fama & Jensen (1983)	Agency Theory	Boards can resolve potential agency issues that may ascend between management and shareholders
Hillman & Dalziel (2003)	Agency Theory	Board's role is vital in tackling agency issues, as more emphasis is laid on board features that may improve their role in

		aligning the interest of managers with that of shareholders
Adler (2001), Carter et al., (2003); Adams & Ferreira (2004)	Agency Theory	Boards of directors with female representation have a positive effect on corporate value. Hence, diversity is linked to better financial performance
Dewatripont et al., (1999); Westphal & Milton (2000)	Agency Theory	Women or foreigners frequently carry new views on complex issues in the board room. Accordingly, this might help to cope with bias arising from measurement error or limitation faced by the board in decision-making
Stiles (2001)	Resource Dependence Theory	Board diversity might enhance access to critical resources, which would propose that diversity on boards can have a positive effect on performance
Ulrich & Barney, (1984)	Resource Dependence Theory	Managers can act to decrease the environmental uncertainty and dependence of a firm. Similar to these arrangements is the idea of power, which is the governor over-vigorous resources
Randöy et al., (2006)	Resource Dependence Theory	More information sources are caused by an amplified diversity, but at the cost of lower decisiveness
Jimeno & Redondo (2008)	Resource Dependence Theory	A decreased presence of females on boards could be viewed as discrimination that is both unethical and suboptimal
Watson et al., (1993); Shrader et al., 1997; Farrell & Hersch (2001)	Resource Dependence Theory	The balance between gender diversity in firms can become a source of competitive advantage, given that each gender donates to management in a dissimilar and harmonizing manner
Carter et al. (2010)	Resource Dependence Theory	Gender and ethnic diversity in the board deliver inimitable information sets which help management in better decision making

Burke (1997); Burke & Mattis 2000	Resource Dependence Theory	A diverse board sends positive indicators to the market and bring numerous perspectives to the firm in addition non-traditional approaches to problem solving due to the variety in the board
Krishnan & Park (2005) Litz & Folker (2002); Shrader, Blackburn & Iles (1997); Smith, Smith & Verner (2006)	Resource Dependence Theory	There exists a positive relationship between the percentage of women on boards and that of increased financial return
Hillman et al., (2000)	Human Capital Theory	The function of the board is not only bounded to monitoring managerial performances as Agency Theory states, but also providing vital capitals that help improve firm performance and/or confirming those capitals through the development of networks with the external environment
Hillman & Dalziel (2003)	Human Capital Theory	The human capital of directors is one of the most important components in a firm
Van der Sluis et al. (2008)	Human Capital Theory	A review composed of hundreds of studies concluded that human capital (education) has a positive effect on performance
Certo (2003)	Human Capital Theory	The characteristics of board of directors affect the market value of a firm
Hillman & Dalziel (2003)	Human Capital Theory	The standing of board of directors enhances a firm’s credibility and performance
Williams (2003)	Stakeholder Theory	Female directors have an advanced awareness to social and environmental matters; henceforth, their presence on boards would advance a firm’s presentation in this field and enhance its reputation among its stakeholders

Erhardt et al. (2003)	Stakeholder Theory	Boardroom diversity may add an extra perspective to board decision-making and thus leads to higher organizational performance levels

4.6 The Concept of Corporate Governance

The topic of corporate governance is vital in modern companies due to the division between management and ownership control within the organizations. The interests of shareholders are usually contradictory to that of managers. The main issue is mirrored in the management due to the disparity in the interests of the firm's stakeholders.

Corporate governance definitions are usually broad, and there is no single definition to the term, Shleifer & Vishny (1997) describe corporate governance as the customs in which suppliers of finance to corporations guarantee themselves of receiving a return on their investment.

Decent management of firms is an empirical goal in the European governance ecosystem—and the main topic of corporate governance codes (CFA Institute, 2016). According to Letza et al. (2014), shareholder and stakeholder viewpoints are the most applicable approaches for analyzing the firm's corporate governance.

The former deliberate that the vital goal of corporate governance is the guard of shareholder benefits. The latter states that the key objective of corporate governance is to guarantee the benefits of all of the firm's stakeholders. This method feasts the notion of corporate governance by perceiving shareholders as a type of stakeholder with privileges equal to those held by the others (Money & Schepers, 2007).

Research on board effectiveness has mostly relied on classical theories of corporate governance, such as agency, stewardship, and resource dependence theories (Finegold, Benson, & Hecht, 2007, John & Senbet, 1998, Kiel & Nicholson, 2003, Van den Berghe & Levrau, 2004). These theories fall under the shareholder viewpoint as they believe that the aim of corporate governance instruments, with the board of directors, is to boost shareholder value and guard owner interests (Letza et al., 2004).

Consequently, this line of research claims that board effectiveness is contingent on how well the boards achieve their monitoring and strategic advisory roles (Adams et al., 2010; Forbes & Milliken, 1999; Kroll, Walters, & Wright, 2008; Minichilli et al., 2012). Both of these roles donate to financial performance in response to shareholder interests (Duchin et al., 2010; Forbes & Milliken, 1999; John & Senbet, 1998). Consistent with de Andres et al. (2005), the board features defining board effectiveness under this standpoint can be grouped into three classes: size, composition, and internal functioning.

Regarding board size, de Andres et al. (2005) stated that corporate governance rating systems approve of restricting the maximum number of directors because large boards are suboptimal, while small boards improve participation, contribution and cohesiveness. Nevertheless, they pointed out that a minimum number of members should also be recognized to meet the appropriate arrangement in terms of power and diversity.

Newell & Wilson (2002) anticipated that the ideal size is 5 to 9 members. In regard to the structure of the board of directors, the existence of female directors is a vital driver of board efficiency. Boards with more women contribute to higher financial performance (Daily & Dalton, 2003; Joecks et al., 2013; Smith et al., 2006).

Women are more subtle to the interest of others and typically consider the outlooks of multiple parties (Terjesen, Sealy, & Singh, 2009)

These characteristics donate to the strategic advisory role of boards by considering various strategic options (Daily & Dalton, 2003), improving the fallouts of corporate strategy (Nielsen & Huse, 2010), and improving board dynamics (Kramer et al., 2006).

When it comes to the functioning of boards, directors' profiles are also an essential component of board arrangement (Van den Berghe & Levrau, 2004). Forbes and Milliken (1999) claimed that directors should have functional and firm-specific knowledge and skills to boost board efficiency. Kroll et al. (2008) argued that companies obtain improved results when acquiring other companies if their directors have industry-specific skills.

Likewise, markets react positively to the selection of new directors when they have business experience and involvement (Fich, 2005). Directors' experience also enhances the monitoring and strategic roles of boards. Conger et al. (1998) stated that directors necessitate suitable knowledge to grow their tasks efficiently. Kroll et al. (2008) speculated that directors with no suitable expertise become less involved due to intellectual limitations.

Table 4 explains the Shareholder and Stakeholder models of Corporate Governance.

Table 4: Corporate Governance Models

	Shareholder Model	Stakeholder Model
Benefits	Prospects for diversification Decreased costs of equity Amplified liquidity	Dominated power to have control over the management Influential in decision-making processes
Limitations	Unaccountable boards exposed to CEO who may have "visionary projects" such as immense acquisition actions Lack of managerial monitoring at the shareholder and the board level	Unaccountable boards Minority shareholders can be threatened Lower liquidity and an increased cost of equity
Guidelines	Rise independence of the board by engaging self-governing directors Enhance the voting system by methods such as proxy voting, voting by mail/electronic voting	Protection of minority shareholders through strategies such as cumulative voting, among others

	Parting of CEO and chairman of the board Upsurge management accountability Marketplace for corporate governance	

Source: Based on Becht (2003), and Mejstrik (2005)

4.7 Code of Ethics

The definitions of corporate codes have been numerous. Ethical codes can be defined as "written documents through which corporations hope to shape employee behavior and produce change by making explicit statements as to desired behavior" (Stevens, 1994, p. 64). As Kaptein (2004) states, they explain the objectives that the firm follows, the norms and values it sustains and those belongings for which it may be responsible for.

Kaptein & Schwartz (2008, p. 113) defined a code of ethics as "a distinct and formal document containing a set of prescriptions developed by and for a company to guide present and future behavior on multiple issues for at least its managers and employees toward each other, the company, external stakeholders, and/or society in general."

Codes are essential in firms because they help accomplish a good reputation and avert public criticism (Bondy et al., 2004). Conversely, codes can be practically designed to avoid wrongdoing and to promote honest and ethical behavior; Compliance with appropriate government rules; A growth in social responsibility; and an enhancement in management and corporate culture (Cleek & Leonard, 1998; Fleege & Adrian, 2004).

Figure 6 shows some examples of the code of ethics applied by firms. Ethics among shareholders, partners, directors, and executives are a crucial factor for firms to satisfy their goals appropriately. Ethics guarantees and balances the benefits and interests of all stakeholders involved.

Figure 6: Examples of Code of Ethics Applied by Firms

Source: Own Creation

4.8 Corporate Social Responsibility

According to McElhaney (2009), corporate social responsibility is defined as a business strategy that is combined with essential business purposes and vital aptitudes of the company. Furthermore, the author designates that CSR is intended to create business value.

Academics define corporate social responsibility as the voluntary movements a firm or organization implements to follow aims, with a duty to its stakeholders (Chandler & Werther, 2014). Moreover, as the idea of corporate social responsibility has progressed and become more widely inspected, scholars have additionally defined corporate social responsibility into numerous categories such as ethics, diversity, environmental sustainability, and philanthropy (Chandler & Werther, 2014).

The mechanisms that explain strategic CSR is that companies integrate a CSR outlook within their strategic planning process; any activities they take are related to core processes; firms integrate a stakeholder view; and companies move from a short term viewpoint to managing the firm's capitals and relations with key stakeholders over the medium- to long term.

The combination of a complete CSR perspective within a firm's strategic planning and main processes so that the firm is managed in the gains of a broad set of stakeholders helps attain supreme economic and social value over the medium- to long term (Chandler & Werther, 2014).

4.9 Sustainable Development

Sustainable development is the development that covers the needs of the present without compromising the capability of the coming generations to meet their own needs (Brundtland, 1987). There has been empirical evidence over the vitality of board gender diversity in endorsing a firm's good citizenship and improving shareholders' welfare.

Pearce & Zahra (1992) claim that gender and race are often considered symbols of different views, and fresh viewpoints on compound issues, that persons bring to companies. Consequently, the spirit of keeping gender balance is to attain good business intellect and maintain sturdy ties with key stakeholders, which are the substances for business sustainability.

The governance structure and the value of board monitoring play an effect on the interaction between the firm's collaboration in social and environmental actions and shareholders' interest. That is, the upsurge in female participation on corporate boards of directors boosts the worth of sustainability-related investments. Bear et al. (2010) propose that women directors play an essential part in the choice of CSR actions.

This may echo a rise in the number of social activities that are revealed, or an upsurge in the quality of CSR events. Given that women are more socially conscious investors than males (Nilsson, 2009; Schueth, 2003; Sparkes, 2002), one would suppose a superior percentage of women on corporate boards to have a positive effect on the quality of environmental, social and governance revelations. This aids to indorse the business as a good citizen.

Moreover, investors need not sacrifice returns when investing in a socially responsible manner. Galbreath (2011) suggests that women directors on corporate boards indorse long-term sustainability activities such as getting involved in and reporting on socially responsible investments.

Figure 7 shows the 17 sustainable development goals adopted by the members of the UN for the year 2030 to build a better world for all citizens as well as the planet.

Figure 7: Sustainable Development Goals (SDGs), Adopted by the Members of the United Nations

Source: UN Global Compact

5. Methodology

This pedagogical case study was assembled with data collected from several secondary sources, which include articles from academic journals, professional websites, and press releases. The creation of the project was followed by careful analysis, assortment, note-taking, information triangulation, and examination before the final project was written.

Case studies as teaching strategies were promoted in the fields of law, business, medicine, and public policy (Windsor & Greanias, 1983) but now succeed in almost every academic arena (Yin, 2003). As stated by Yin (2003), case studies for teaching drives do not need to be concerned with the demanding and fair presentation of empirical data; their motive is rather to create a basis for discussion and debate among students.

The case study research method is valuable for establishing causal relationships (Jensen & Rodgers 2001), understanding how things happen in a particular manner (Yin, 1994), and generating rich illustrations and descriptions which assist in deepening our understanding of phenomena in their natural setting (Otley & Berry, 1998).

The elaboration of this dissertation trailed the methodology drawn by Eisenhardt (1989) and Hamel (1993) for the establishment of a case study research project. The methodology they designate contains these steps: first, the determination of the object or topic of study, which for this project was the importance of boardroom diversity within firms; second, selecting a case. For this project, the Case of Norway is selected. The next step is to convey a literature review, and for this project, the literature review is comprised of several theories as well as critical ethical tools. Lastly, based on the literature review, specific management tools were used to try to understand the effect of boardroom diversity in firms, followed by contemplations on what could be learned from the project and then its conclusion.

Case studies can cover a wide range of issues modeled for analysis, and they can be either based on real-life measures or the creation of events that could take place (Christensen & Hansen, 1987). For Christensen & Hansen (1987), case studies tell a story, one involving issues or conflicts which need to be understood and resolved – though most case studies do not have one obvious or clear solution.

Over-all, case studies contain the expansion of analytical and interpersonal skills, by necessitating students to apply concepts to specific issues as well as to work in teams (Christensen, 1987).

With the completion of the Methodology discussion, the next chapter of the project will be the discussion of the case resolution.

6. Case Resolution

6.1 Presentation Plan

According to Hammond (2002), the purpose of a case study teaching method is not to discover the correct answers but to permit students to exercise and improve their analytical competencies by challenging real situations, while in a safer setting.

Thus, the educator's role is to use the classroom instructions and presentations to guide students to learn and apply these concepts to essential management topics.

With that being said, the presentation plan will be established according to the following phases:

Phase 1 – Theory Clarification: In this phase, the educator should present the Theoretical Framework connected to the case, such as the different theories and how the topic of diversity contributes to positive financial performance, the concept of corporate governance and the ethical topics related to CSR, and sustainable development. This phase is before the case study, and it lasts four weeks.

Phase 2 – Preparation: In this phase, students will be given the case study and be requested to prepare it. The preparation will include research on the Board Diversity issue and the ethical frameworks discussed in class. Students are required to provide answers to the case questions and search on analysis tools as well as exchange thoughts with their group members.

Phase 3 – Class Work

a) Group Presentation: The case should be worked in small groups, ranging from three to five students. Each group should present a discussion regarding the case. Members of the group should equally present their parts. The presentation time should take around 30-45 minutes.

b) Class Discussion: The educator is accountable for addressing the doubts that may arise through the case resolution and to prepare the students with a theoretical context so they can answer the case questions correctly. Similarly, the educator can ask questions to the group members after the case presentation to make sure they have understood the case in addition to the frameworks presented in class by the educator. The educator should have a Socratic approach to questioning and answering students, meaning, that the latter should refrain from (Yes/No) questions and answers.

Table 5: Presentation Plan Schedule

Phase 1– Theory Clarification
Time: 30 hours *Tasks:* Explanation by the educator of the different theoretical frameworks (Agency theory, RDT, Human Capital Theory, Stakeholder Theory, Institutional Theory, Corporate Governance, Code of Ethics, CSR, Sustainable Development)
Phase 2– Preparation
Time: 2 weeks *Tasks:* Studying the different Theoretical Frameworks presented by the educator in class; Researching additional information related to the case study; Share ideas and insight with group members; Prepare answers to the case questions
Phase 3– Class Work
a) Group Presentation *Time:* 30-45 minutes *Tasks:* Presentation of the case study topic and answers; Presentation time should be equally divided between group members; **b) Class Discussion** *Time:* 10-20 minutes *Tasks:* The educator is responsible for addressing the uncertainties regarding the case's resolution; The educator should prepare the students with theoretical

context; The educator can ask questions to the group members after the case presentation to make sure they have understood the case and how its related to the Theoretical Frameworks presented in class; The educator should have a Socratic approach to questioning and answering students

Source: Own Creation

After presenting how the classes will unfold, the next section will present the proposed analytical questions of the pedagogical case study.

6.2 Proposed Analysis Questions

Four analysis questions related to the field of Managerial Ethics are proposed in the attempt to bring the students closer to the proposed pedagogical objectives of this project.

Question 1 – Explain how firms with diverse boards can encourage desired CSR behavior;

Question 2 – Identify the corporate benefits related to implementing gender equality policies within firms;

Question 3 – Identify the corporate challenges related to implementing gender equality policies within firms;

Question 4 – Characterize the roles of the institutional pillars and carriers in the growth of representation of board diversity;

6.3 Proposed Resolution

Note: Students can independently refer to additional sources that will help deepen their knowledge; consequently, answers may contain material not mentioned in the case.

Additionally, there is no right or wrong solutions to the questions, but rather one of several possible answers to the case.

Question 1: Explain how firms with diverse boards can encourage desired CSR behavior.

Proposed Answer

CSR is an evolving business practice that integrates sustainable development into a firm's business model. It has a positive effect on the social, economic, and environmental aspects. As the use of corporate responsibility develops, it is becoming tremendously crucial to have a socially conscious image.

Customers, workforces, and stakeholders are starting to prioritize CSR when selecting a product or business. They are holding firms responsible for implementing social transformation with their business beliefs, practices, and revenues.

Additionally, a firm's sustainability approach is a vital influence in where today's top talent chooses to work. CSR supporters believe that implementing diversity, equity, and inclusion as organizational values is a way to deliberately make space for positive results to embellish, whether in firms or public policy scopes.

Knowing how crucial socially responsible plans are to their customers, employees, and stakeholders, and since studies have proved that diversity can boost the quality of decision-making and that a diverse workplace can contribute in innovations, firms with diverse boards can use their assortment of skills and talent in emphasizing on a number of broad CSR categories in which can generate profit to the firm, as well as encourage CSR behavior to the public and help contribute to countless environmental benefits:

Environmental efforts: One key focus of corporate social responsibility is the environment. Industries, irrespective of their size, have large carbon footprints. Companies with high emission of carbon footprints could implement an environmentally friendly strategy that would not only raise awareness to the public but would also help the environment.

For instance, numerous amounts of waste produced by firms that end up in landfills generates methane, which is a greenhouse gas. To lessen emissions from waste, a firm can focus on implementing a comprehensive recycling system and therefore send less waste to landfills.

Additionally, for some firms, a considerable percentage of their carbon footprint is as a consequence of implanted carbon emissions from their supply chain. That is, products that are obtained by an organization in effect have a carbon emission linked with them the releases from the manufacturer, carriage, use, and clearance of the good. Firms with substantial supply chains could lessen their carbon footprint by adopting sustainable procurement values, such as acquiring eco-label goods.

Philanthropic endeavors: Businesses can achieve social responsibility by contributing to charity and offer their products or services to social grounds and non-profit organizations. More prominent corporations tend to have many incomes that can help charities and local community agendas. It is most useful to discuss with these organizations about their precise needs before contributing.

Ethical labor practices: One of the methods firms should undergo to achieve social responsibility, is to treat employees justly and ethically. This is particularly factual of businesses that operate in locations with labor laws such as mandatory quota in Norway. Ethical behavior and practices with employees not only enhance a firm's reputation among the public but also helps it achieve CSR. Supporters of CSR believe that firms must pursue a more profound purpose beyond merely exploiting profits.

Volunteering: Being part of volunteer actions says a lot about a firm's earnestness. By doing immeasurable acts without anticipating anything in return, firms can express their apprehension for specific issues and care to individual organizations. Corporate volunteering is known to be an essential employee initiative that also affects consumer insights of CSR image and successive consumer behavior.

Question 2: Identify the corporate benefits related to implementing gender equality policies within firms.

Proposed Answer

Diversity takes countless forms and is comprehensive of different elements such as skill and experience, gender, background, and independence. Board members must have a wide variety of skills and knowledge as a cooperative to best guide the firm. Having diverse board members allows a business to have many different perspectives.

An inside examination based on the case study shows that firms with women on boards who are selected as a result of the quota enhance the decision-making process of firms. An essential advantage of board diversity is more effective decision making. A diverse board with diverse skills, backgrounds, and experiences will focus on topics with a broader outlook which causes more critical analysis and a different board dynamic. This leads to a more considerate decision-making procedure and allows for complete oversight.

Additionally, according to Mass theory, increasing the number of women to three or more enhances the probability that women's voices and thoughts are heard and therefore lead to more innovative firms. Studies have proved that efficient board composition should be composed of women as they are essential drivers of board efficiency and lead to a better financial performance of firms.

Having a diverse board with skills and expertise helps encourage appointing more women as CEOs which helps encourage women's ambitions as well as support the topic of diversity not only in firms but also in the marketplace in which businesses operate. Having a gender diversity policy encourages women to pursue to develop in their careers, which creates a sustainable channel for talented women when moving into senior positions.

Firms with more diverse board members broaden the variety of professional backgrounds considered for board member vacancies, allowing them to attract more socially diverse directors who bring a diverse culture to the firm. Moreover, organizations that adopt gender diversity as a business strategy bring more consciousness to diversity matters and help challenge issues that would otherwise remain quiet.

Board diversity can as well improve corporate reputation, positively affecting board presentation, and making for improved use of the skill base. A good reputation can as well attract a pool of skillful talents.

A well-constructed board can attract its extensive skills in forecasting challenges and assessing jeopardies. Such diversity of perspective contributes to better risk management as the board can draw upon its carious set of skills and expertise. This confirms that firms with diverse boards are moving forward their diversity, striving to create an equal workforce.

Question 3: Identify the corporate challenges related to implementing gender equality policies within firms.

Proposed Answer

Though gender diversity on boards is an important matter that affects the firm when it comes to its reputation, social issues and financial performance as proved by numerous scholars and researchers, companies that adopt gender diversity in its boards might face different challenges.

It can be understood from the case study that firms that are obliged to follow the mandatory quota can risk reducing the talent pool size because they tend to hire unqualified women to abide by the quota causing a decline in the operating performance of firms. This means that firms obliged with the mandated quota might create a biased recruitment process that fades away from competency-based selected criteria to a gender selection mechanism. Selecting untalented board members affects the firm in multiple ways, especially financially.

Firms that are obliged to abide by the quota can go through tremendous financial losses because they tend to dismiss employees and replace them with women. This procedure tends not only to cause economic losses, but also tends to be time-consuming for firms.

Furthermore, even though studies supporting diversity proves that diverse boards could enhance the decision-making process of the firm because of the varied skills and views, there happens to be another side of the story. Diverse boards can cause dilemmas between the board of directors because of the different backgrounds and thoughts. A more diverse board can lead to the share of opposing opinions between board members, which might cause clashes in the views and decision-making process.

Also, social processes such as the difference between the background, education, mindset, and culture can get in the way of boards' potential. Diverse boards lead to issues when forced to work together in a group setting because of the difference between board members.

Another significant challenge in which firms that adopt the quota might face are those related to changes in governmental laws, specifically legal regulations, and bureaucracy that might lead to deviations in the firms' board structure is a threat to firms with more diverse boards. Women should keep an eye on the rapidly changing government laws under the growing pressure from protest groups that might stand against women/the structure of the diverse board of directors within firms.

Question 4: Characterize the roles of the institutional pillars and carriers in the growth of representation of board diversity.

Proposed Answer

Institutional theories can be used to examine changes in organizations challenged with doubts. A firm not only needs to be competent to endure, but it also needs to abide by the laws of its institutional environment to gain legitimacy. Legitimacy can be achieved by obeying rules and regulations or by alignment with cognitive outlines. These pressures lead to isomorphism in firms.

Institutionalism could be another theoretical method that could be examined to study the grounds of the gender diversity gap between nations. In these theories, institutions affect society and impact organizations' actions. Institutional pressures (rules, norms, frameworks) or in other words, social constructs may contribute to improving diversity within firms' management and boards. In a society protecting values such as gender equality, such as Norway, companies may obey the system of ethics and social structures.

There exist three types of pressures: regulative, normative, and cultural.

Regulative Institutional pressures: Regulative or legal forces affect the representation of women on boards in a given country. Laws and regulations could endorse specific types of conduct and attitudes and could lead companies to boost more gender equality in their management, and this was prevalent in the Case of Norway. Laws may incite firms to recognize women in their teams who could become directors and to inspire their advancement and raise to higher positions. Firms that do not abide by the state-issued diversity laws such as anti-discrimination and mandatory quota policies can suffer considerable reputational damage in addition to financial fines. In Norway, when the boardroom gender quota law was presented, companies that had women on boards experienced more positive market reactions than companies that had no female members on committees (Ahern & Dittmar 2012). In settings where diversity rules are prevalent, investors are more likely to pay attention to a firm's gender diversity proportion as an indicator of its lawsuit danger.

Normative Institutional pressures: Normative or social influences can affect board composition within firms. In the face of doubt, their perceptions of firms are strongly affected by rules in the institutional environment regarding how organizations should act. Firms tend to value normatively accepted behaviors – which may or may not generate any actual performance advantage – and to get rid of performances that fall outside the normative expectancy. In environments where gender diversity is normatively accepted, firms should be more expected to observe it as valuable to a firm's future performance. When the advantage of gender diversity is normatively recognized, firms that adopt gender diversity within their boards may anticipate positive feedback from stakeholders and the society in which they operate.

In contrast, in environments where gender diversity has not achieved normative acceptance, firms may see it as invaluable or even disadvantageous to a firm's future routine. When gender diversity is normatively accepted, it can as well offer various indirect benefits. For instance, investors tend to perceive companies that follow normatively accepted behaviors as better managed than firms that do not. However, when gender diversity is not normatively accepted, investors may not expect companies to indorse it and may not perceive deviations in gender arrangement as a positive indication.

Normative legitimacy may also moderate gender diversity's impact on firm revenue. First, the position of gender diversity in producing an enormous variability of knowledge-based resources and innovative resolutions may be reliant on its normative acceptance in the environment. When gender diversity is normatively accepted, employees and managers are more likely to value gender diversity and hold to gender differences within firms. This attitude is vital in easing open and transparent discussion of different views and integrating diverse skills and explanations to enhance organizational efficacy. On the other hand, when employees and managers do not value gender diversity, workgroup relations tend to lack cross-cultural education, and women often cannot bring their exceptional expertise and visions to the work environment.

Cultural Institutional pressures: Cognitive academics or those exploring changes in the cognitive features of organizations are likely to concentrate on changes in conceptual beliefs, mental models, and explanations of shared meanings when firms go through specific change. This viewpoint also emphasizes the vitality of accomplishing change that is adopted by organizational associates and culturally supported. Cultural or mimetic pressures refer to imitation between companies, as businesses lean towards imitating other firms that are successful, believing that mimicking will enhance their own performance and maybe little influenced by policymakers' movements. Although changes in an institutional structure may be carried speedily, cognitive restructuring needs to take place incrementally and with considerable initial incorporation of the prior and developing institutional structures. That is, cognitive fundamentals such as fluctuations in beliefs about gender diversity on board of directors are likely to be linked with long-term, continuous change. For instance, in the case of Norway, the cognitive element of the law has emphasized cultural legitimacy that stemmed from adopting a shared mindset regarding equality between genders. Hence, the change in board composition has become generated and sustained through not only obligatory laws but also through internalization and valuation of organizational members within time. This change in board composition has had tremendous positive effects not only in Norway but in the adoption of diverse boards in other European countries as well.

6.3 Resolution Slides

Question 1: *Explain how firms with diverse boards can encourage desired CSR behavior.*

CSR BEHAVIOUR

ENVIRONMENTAL EFFORTS

- Environmentally friendly carbon footprint strategy
- Lessen carbon footprints generated by the supply chain such as acquiring eco-label goods
- Implement a comprehensive recycling system for less waste to landfills

PHILANTHROPIC ENDEAVORS

- Contribute to charity
- Offer products and services to organizations

ETHICAL LABOR PRACTICES

- Treat employees justly and ethically

VOLUNTEERING

- Be part of volunteering actions

Question 2: *Identify the corporate benefits related to implementing gender equality policies within firms.*

QUOTA LAWS BENEFITS

DECISION MAKING

- Board diversity leads to more efficient decision making (Agency Theory)

FINANCIAL PERFORMANCE

- At least three female members in the board of directors boost financial performance (Mass theory)

MORE WOMEN AS CEOs

- Diverse board with skills and expertise help appoint more women as CEO members which encourages women as well as the topic of board diversity

EXPERIENCE AND TALENT

- Firms with more diverse board members broaden the variety of professional backgrounds considered for board member vacancies, allowing for more diverse directors who bring diverse culture to the firm

DIVERSITY TOPICS

- Organizations that adopt diversity as their business strategy bring more consciousness to diversity matters and help challenge issues that would instead remain quiet

CORPORATE REPUTATION

- Board diversity can improve firm reputation positively, affecting board presentation and attracting a pool of talented employees

Question 3: *Identify the corporate challenges related to implementing gender equality policies within firms.*

QUOTA LAWS NEGATIVE EFFECTS

REDUCING TALENT POOL SIZE

- A biased recruitment process that fades from the competency-based selection process to gender-based criteria

FINANCIAL PERFORMANCE

- Risk in hiring unqualified women to abide with the quota

DILEMMAS BETWEEN BOARD MEMBERS

- Opposing opinions between board members which might cause clashes in views and decision-making process
- Social processes such as the difference between the background, education, mindset, and culture can get in the way of boards' potential

EXPERIENCE AND TALENT

- Firms with more diverse board members broaden the variety of professional backgrounds considered for board member vacancies, allowing for more diverse directors who bring diverse culture to the firm

CHANGES IN GOVERNMENTAL LAWS

- Bureaucracy that might lead to deviations in the firms' board structure threat to firms with more diverse boards. Women should keep an eye on the rapidly changing government laws under the growing pressure from protest groups that might stand against women

Question 4: *Characterize the roles of the institutional pillars and carriers in the growth of representation of board diversity.*

Institutional Pillars and Carriers

Carriers	Regulative	Normative	Cognitive
Cultures	Rules, laws	Values, expectations	Categories, schemas
Social Structures	Governance systems, power systems	Regimes, authority systems	Structural isomorphism, identities
Routines	Protocols, typical procedures	Jobs, roles, duties	Scripts, language, concept, meaning
Artefacts	Compliance with mandated specifications	Meeting with conventions and standards	Possessing symbolic values

Source: Scott 2007

BOARD DIVERSIRTY AND INSTITUIONAL PILLARS

REGULATIVE INSTITUTIONAL PILLARS

- Laws may incite firms to recognize women in their teams who could become directors and to inspire their advancement and raise to higher positions
- Firms that do not abide by the state-issued diversity laws can suffer considerable reputational damage in addition to financial fines

NORMATIVE INSTITUTIONAL PILLARS

- In firms where gender diversity is normatively accepted, gender diversity is observed within firms as the future value
- Firms with board diversity may anticipate positive feedback from stakeholders and society in which they operate
- Normative legitimacy may also moderate gender diversity impact on firm revenue

CULTURAL INSTITUTIONAL PILLARS

- In the case of Norway, the cognitive element of the law has emphasized cultural legitimacy that stemmed from adopting a shared mindset regarding gender and equality
- The change in composition has become generated and sustained through not only obligatory laws but also through internalization and valuation of organizational members within the time

7. Conclusion

The case of Norway is a pedagogical case study. Norway was the first European country that obliged its companies to reserve at least 40% of its director seats for women on pain of dissolution. After Norway, several European countries followed the same law.

The case of Norway presents secondary empirical evidence from various theories regarding the effects of board diversity on firm performance such as Agency Theory, Resource Dependence Theory, and Human Capital Theory.

The case aims at establishing an ethical existence between gender diversity on the board of directors and firm performance using different ethical tools and frameworks. The project addresses Norway's mandatory law regarding women on boards and a deeper analysis of the law's effects when it comes to the performance of firms in general.

The goal of the project is to provide its audience – management undergraduate students - not only the chance to boost their knowledge of Norway and how it obliged the mandatory quota law in its board of directors, but also the chance to practice the use of specific ethical management concepts and frameworks which may be valuable in their academic activities and/or future professional careers. It is expected that, by presenting a description of Norway's history and its corporate governance system, and conducting a review of the literature on the theories explaining the impact of gender boards on firm performance and then posing questions linking the case study with the relevant management theory, that the goal of this project would be accomplished.

The case of Norway is important because it sheds light on an important topic regarding gender diversity on boards from a real-life situation. Though several EU countries have implemented mandatory laws obliging firms to reserve a proportion of its seats of directors for women, women remain to be underrepresented when it comes to men.

Though several empirical studies have presented contrasting evidence regarding board diversity and firm performance, women on boards' importance should be measured through measures deeper than the financial performance of firms.

Most advocates of board quotas believe that, if gender distribution is balanced at the board level, discrimination will be reduced at lower levels. However, it is also important to note that when debating policies that encourage women in business, it is healthier to stress on possible benefits to society that go far beyond narrow measures of firm profitability (Ferreira, 2014).

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Table of Appendices

Appendix

Appendix A: Summary of findings of Norwegian Quota Studies

Study	Area of Quota Impact	Performance Measures	Empirical settings & final sample size	Design and Methods	Key Findings
Elstad & Ladegard (2010)	Decision-making	Women directors' self-perceived influence	Sample of 458 Norwegian female directors	Web-based survey, with questionnaire results analysed using confirmatory factor analysis and correlation matrix	Women selected on boards as a consequence of the quota are less likely to practice self-censorship, are less subject to tokenism and are more powerful in their contributions to the board decision making.
Torchia et al., (2011)	Innovation	Whether an increase in the number of women on corporate boards leads to a critical mass that positively donates to a company's innovation	Multiple linear regressions	Firm-specific Norwegian firm data collected from a questionnaire	At least three women are needed on a corporate board to have a substantial influence on firm innovation
Kramer et al. (2006)	Innovation		50 women directors, 12 CEOs,and 7 corporate secretaries	Data from a questionnaire regarding board experience	Having three or more women on a board can generate a critical mass in which women are no longer seen as outcasts and are therefore capable of affecting the content and course of board discussions more substantially
Wang & Kelan (2013)	Female Leadership	a) Number of Female Chairs b) Number of Female CEOs	Panel data, Descriptive statistics and Time trend analyses	Norwegian gender quota has had a positive effect on the sum of female board chairs and female CEOs positions	Female chairs are more likely to appoint a female CEO

Appendix A: Summary of findings of Norwegian Quota Studies

Study	Area of Quota Impact	Performance Measures	Empirical settings & final sample size	Design and Methods	Key Findings
Bøhren & Staubo (2014)	Organizational Form	Transformation in Organizational form	All Norwegian Plc. firms from 1996-2009	Difference-in-Difference regression tests for pre-quota and post-quota period	Compulsory gender balance may harvest firms with inefficient organizational forms or incompetent boards.
Nygaard (2011)	Organizational Form	ROA & Stock Returns	Dataset covers all board members in all Norwegian Plc. firms (listed and non-listed) from 1999 to 2009	OLS regressions of daily stock returns of firms listed on the Oslo Stock Exchange, relative to the return on the MSCI World Index	Firms with little information asymmetry show positive and noteworthy returns at the introduction of quota, while firms with high information asymmetry display negative returns
Ahern & Dittmar (2012)	Firm Financial Performance	Stock Price and Tobin's Q	1,230 firm-year observations over 2001 to 2009 for 248 exclusive Norwegian firms	a) Event study on the stock price reaction to Quota declaration b) OLS regressions of Tobin's Q on board features	The restriction forced by the quota produced a substantial decrease in the stock price at the declaration of the law and a huge decline in Tobin's Q over the next years
Matsa & Miller (2013)	Firm Financial Performance	Operating Profits	Panel of Scandinavian companies in the period 1999 to 2009 and a set of 104 listed Norwegian companies in 2006	Panel Data and Difference-in-Difference Comparisons	Firms affected by the quota commenced fewer workforce drops than comparison firms, which led to an increase in labour costs and employment levels and reduced short-term profits.
Wang & Kelan (2013)	Female Leadership	-Number of Female Chairs -Number of Female CEOs	667 firm-year observations and 6,772 person-year observations of Norwegian listed firms from 2001 to 2010	Panel data, Descriptive statistics and Time trend analyses	Norwegian ender quota has had a positive impact on the number of female board chairs and female CEOs positions