"Gender Equality in the Role of Independent Directors: Is it linked to Sustainability?"

Simona Arduini and Tommaso Beck
University of Roma Tre, Roma, Italy

simona.arduini@uniroma3.it (Corresponding author)
tommaso.beck@uniroma3.it

Abstract: The growing interest in social, environmental, and ethical aspects of business has underscored the need for a change of course from the typically male composition of Boards of Directors (BoD). Too often, in the past, management and board positions were delegated to men, not only based on competence, but also because of cultural biases and "male traditions". Falling behind on this issue, and particularly with reference to gender equality related to the concepts of sustainability and ethics, would certainly mean missing new opportunities in value creation for companies. In this sometimes precarious, yet steadily increasing scenario, the important figure of the Independent Director (ID) and his gender, is too often overlooked. This figure, in fact, works concretely in the interest of the company and shareholders, overseeing and guiding the company itself in the right direction. Due to his non-executive role in the board, the ID, as opposed to the internal members of the BoD, enjoys an autonomous point of view. The purpose of this paper, in a nutshell, is to examine this important profile from a gender perspective in order to observe the statistics with respect to the number, effectiveness, and performance of the female gender in this role. In addition to the phenomenon of detecting the performance of the IDs, the issue has also gained ethical importance, for example, in the same sustainable "good governance" strategies that have arisen in the past fifteen years. For this reason, in our view, the presence or absence of female IDs must necessarily also be read in terms of its impact on sustainability, as its cue for encouragement and outreach. The study concludes with a factual discussion of the empirical analysis conducted on a sample of thirteen banks in the Italian scenario, with reference to the present and the gender of the IDs. Through this statistical study, it was possible to draw a clear picture in support of the literature examined for the relationship between sustainable practices and female IDs, creating also a link between the theory analyzed and the practice identified in this field of research.

Keywords: Gender equality, Independent directors, Sustainability, Boards of Directors, Ethics

1. Introduction

Gender diversity among independent directors is a key element in corporate governance (CG), as it provides companies the opportunity to express themselves to the best of their ability, as well as an opportunity to create greater value for the benefit of all stakeholders. Focusing on sustainability and ethics, this study explores the role of women directors in increasing board independence and effectiveness. Indeed, the ability of women to influence BoD decision-making increases as the number of independent directors grows, and especially, on boards where they are most present. In addition, there is evidence that boards with more women on them have higher levels of disclosure, greater oversight of management reporting, higher earnings, and better board evaluation and development programs. Our findings suggest that women are sending a positive message to the public audience, especially about ethical corporate behavior. Companies that embrace this important dimension consequently report improved financial performance as a direct result of gender diversity on the board and the implementation of concepts expressed by the world of sustainability. Indeed, companies that value board independence and effectiveness, as well as those that operate in challenging environments, have been found to have more female directors, as a result of what has already been stated. Although we are faced with all these benefits, demonstrated and supported by the studies reviewed in this research, gender parity within the BoD is a status that is still only partially present, despite growing rapidly. Our study also indicates that gender diversity is a central issue in reference to the figure of independent directors, and therefore needs to be incentivized and supported with the right means and resources.

2. Literature review

The BoD plays a key role in the composition of corporate governance. This organ is responsible for guiding and authorizing the company's strategic decisions, including certainly complex transactions such as mergers, acquisitions, alliances, hiring and firing of executives. These strategies directly affect the financial performance of the company, and for this reason, internal control is needed with respect to the decisions made by the board, a role carried out by the independent directors (Terjesen et al., 2016). For this reason, a large proportion of directors should be independent (Ringe, 2013). It is worth noting that some research shows that the positive impact on corporate performance, generated by the presence of independent directors, can be increased by female directors. Indeed, women would be flexible, collaborative, and able to handle difficult situations

(Terjesen, 2016). According to Terjesen, 2016, it is precisely because of these characteristics that they are more likely to take active roles on their boards, participating assiduously in meetings, asking questions, discussing issues, supporting participatory leadership, and maintaining higher ethical standards. The appointment of women to boards is gaining relevance, in part, as a result of the focus on sustainability and ethics issues that has been growing rapidly in recent years in the global context. The literature reviewed shows that the presence of independent directors, specifically women, varies by country, sector, and type of company, but nevertheless, their proportion is certainly constantly increasing. Although BoDs are still male-dominated, the number of women in fact has increased significantly over the past two decades, thanks in part to national laws that included mandatory quotas for their recruitment to the BoD (Arduini, 2022). Corporate governance, thanks to the growing momentum and focus on sustainability and ethics, is now perceived as a good strategy that leads to the long-term sustenance of the business (Kishore, 2017). In this scenario, most regulations have focused heavily on the role of independent directors in promoting effective and responsible CG. Although the board of directors, as the central decision-making authority in companies, plays a key role in promoting CG, the role of independent directors in this regard has become more critical. According to Mehta & Coomar (2016), independent directors are expected to perform their duties holistically and have a vision for maximizing the long-term benefits of the company, while certainly considering the welfare of employees, stakeholder expectations, and the progress of company. The effectiveness of the role depends on various other factors in addition to integrity and competence. According to Kishore (2017), in fact, independent directors can certainly bring external wisdom and judgment to improve the quality of decision-making on corporate boards, but only if they are empowered to perform their functions effectively, and if above all, they move in an environment that incentivizes them.

3. Independent Directors and Gender Equality

Independent directors are an important part of the modern corporate system as they provide a means of protection from controlling shareholder opportunism (Bebchuk et al., 2017). Within the BoD, they are also responsible for monitoring governance and mitigating agency problems (Jiang et al., 2016). Independent directors, in addition to the roles and duties already mentioned, certainly have an impact on aspects of CG, with reference to their ethical decisions and contributions (Giráldez et al., 2014). Indeed, these individuals not only provide the monitoring, advice, services, and access to resources needed by the company, but they also provide for another important dimension of business success, namely ethics. Board independence serves as a signal of ethical governance, which in turn directly and consequentially increases the value of the firm itself (Huang et al., 2008). In the study conducted by Giráldez et al. (2014), the characteristics of the composition of the board of directors - particularly the number of independent directors - were found to have a significant influence on value while also constituting an element that should certainly be taken into account by present and future investors. As advocates of independence, independent directors should be the most important members of the board in order to enforce ethical obligations which, in a long-term view, help to generate value. In this context, independent directors certainly provide an impetus for increasing the commitment of the rest of the BoD members, by leading by example in enforcing good governance and refraining from behavior that could harm the interests of shareholders, as well as stakeholders in general. Moreover, the ethical leadership of independent directors can influence the entire company. Indeed, employees too, by being inspired by the directors' behavior, can play a critical role in creating an ethical climate throughout the entire organization (Huang et al., 2008).

There is a large and growing body of research examining how board composition affects corporate performance, in relation to the influence of independent directors and the percentage of women on the board (Terjesen et al., 2009). In the literature reviewed, we found three main theories suggesting that greater gender diversity contributes to BoD effectiveness and better performance: agency theory, resource dependency theory, and gender role theory (Terjesen et al. 2009). In terms of agency theory, Francoeur et al. (2008) note that female gender often brings new perspectives to the solution of complex problems, as a direct result of the fact that it helps correct informational biases in strategy formulation, as well as certainly in solving problems of various kinds. In support of this theory, it has been reported that female board members tend to play a more active role on boards than their male counterparts, are also more likely to ask questions, discuss, demonstrate leadership, engage in collaborative work, and generally demand higher ethical standards from the organization (Virtanen, 2012; Bilimoria & Wheeler, 2000; Ingley & Van der Walt, 2005; Eagly & Johnson, 1990). In addition, the resource dependency theory constitutes a benefit perspective in terms of leadership. Women advisors, according to this theory, bring unique and certainly valuable, resources and relationships to the board, which would not only be provided by an exclusive male presence. In terms of networks, research has shown that, compared to male managers, women tend to have more diverse and inclusive networks (Ibarra, 1993). Women, therefore, have a better understanding of specific markets and consumers than men. This diversity of perspectives can increase overall creativity and innovation in problem solving (Arfken et al., 2004). In conclusion, the gender role theory outlined by Eagly (1987), suggests that a person's gender determines his or her behavior and effectiveness in terms of communication, tactics, and influence. It suggests that, for example, women are expected to have statistically other characteristics, such as empathy and kindness, while men are expected to play assertive and aggressive roles. For example, as mentioned several times in the article, flexibility, which enhances the ability to deal with ambiguous and difficult situations, is another gender role associated with women.

Thus, there is a positive correlation between gender diversity on the board and corporate performance. According to Terjesen et al. (2016), an adequate proportion of women on the board could improve public disclosure as well as lead to better performance outcomes. The positive impact of female directors on corporate social responsibility (CSR) reporting could also be tested, showing that CSR disclosure improves if the presence of independent female directors on the board increases (Poucheta-Martinez et al., 2019). On the same topic, further research, referring to the Chinese market, shows that women and independent directors play a moderating role on the bidirectional association between CSR and earnings management (Sial et al., 2019).

4. Focus on Sustainability and Ethics

In the scenario described above, an attempt is made to show how sustainability and ethics can be a support with respect to the figure of independent directors, especially when it comes to women. Sustainability, as well as certainly ethics, can really help in this regard since it is both cause and consequence of gender equality. Indeed, on the one hand, attention to sustainability implies the search for more ethical solutions, while on the other hand, practicing more ethical solutions would mean at the same time thinking in more sustainable terms. The topic of sustainable development is complex and is now at an unprecedented stage of development and use, as it involves concepts and dynamics that focus on value creation rather than profit, on long-term rather than short-term perspectives, and on stakeholder satisfaction rather than exclusively shareholder satisfaction (Fiandrino et al., 2019). According to this approach, a company that pays attention to sustainability and ethical issues is certainly capable of creating a more efficient information transmission system, as well as feeding it in a more efficient manner. This system will be able to self-regulate and self-control by gaining efficiency in the most diverse aspects of CG, thanks certainly also to the work of the independent directors, who would then be asked to evaluate it constantly and effectively. Knowledge is a key element in a company's resilience and transformation; this is the reason why the focus on knowledge management (KM) is so important. Certainly, by implementing this factor, it is possible to create a system that can bring forth and share knowledge as a means to maximize different opportunities, but also to make them usable in a different context for both the individual and the entire team. Increasing knowledge often means consolidating and making work practices efficient, gaining a competitive advantage, but even more so, in a dynamic context such as the one in which companies live, creating an innovative culture and environment. The benefit associated with this effort is directly related to the process, and results in better structured decision making, increased productivity and a more informed and direct relationship with customers (Curando, 2006).

In this way, the KM system, fueled by sustainability and ethics, would certainly favor the voting system within the BoD, as well as more informed oversight by independent directors. Connected to this, voting behavior is a complex issue for these figures, as it is both important in terms of its impact on their careers, the integrity of the board itself, and the performance of the company (Jiang et al, 2016). On the other hand, the heterogeneous composition of the BoD, which can overcome gender and/or other types of barriers against any type of minority, would mitigate the risk of amplifying and endorsing narrow views and logics, creating a more collaborative work environment (Virtanen, 2012). A wider range of perspectives, in fact, would be able to increase the firm's ability to cope with complex problems and stalemates, thus overcoming the problems mentioned above (Arfken et al., 2004). However, it should be noted how the mere presence of independent directors, in the BoD of a company, is certainly not enough (Gupta et al., 2012). According to studies by Gupta et al. (2012), there would be significant evidence worldwide of corporate failures, as well as in less severe cases of poor performance, even with an adequate number of experienced independent directors on the board. Based on the above, it is therefore safe to say that the pivotal element would not be their mere presence, but rather the value they add to the board process that will ensure effective CG. The high presence of women on the board, for example, would be able to improve key aspects such as, for example, public disclosure and the resulting increase in performance benefits (Terjesen et al., 2016).

In this scenario, ESG indicators can help find useful information and translate it into practical and strategic scenarios (Durand et al., 2019). So, at the end, the issues of KM, sustainability, and ethics converge toward the same goal and therefore their connection cannot be ignored. In this logic of new adaptive culture, it allows companies not only to change internally but, more importantly, to elastically modify their strategies and tactics in response to the external environment, ensuring adequate profitability and creating the conditions for future growth. The world is changing and with it the logic of many internal and external business practices. Indeed, stakeholders and society at large are demanding that companies rethink their business in a more ethical and sustainable way in response to the social changes taking place (Bogers et al., 2020).

5. Empirical Analysis

The methodological research was structured into a detailed study of the bank sector that, at the Italian level, is now expressing greater attention to sustainability issues. To compose this ranking, we relied on a document attached to "Newsweek" (30/09/2022) that collects the top 175 global banks, in an extension of 33 countries, which on the basis of their CSR report were included in the "World's Most Socially Responsible Banks." Out of these 175, as mentioned, we considered thirteen Italian ones. These banks, in fact, pay special attention to sustainability and ethics issues, thanks to the use of ESG parameters and according to a holistic approach that has truly integrated sustainability and ethics into corporate strategy. This sample, therefore, gathers the best-performing banks analyzed on two metric aspects:

- Objective data extrapolated from a family of thirty KPIs in the different ESG categories;
- ESG reputation of the bank as expressed by consumers.

Only after defining the target sample, in order to bring an empirical analysis to support our study, we studied parameters such as: the number of BoD members, the number of independent directors, and the gender of the latter category to draw our reflections and interpretive lines.

From the graph *(Figure 1)*, it can be seen that the number of independent directors (in the year 2022), with reference to the companies examined, are a significant number compared to the number of total directors in the same sample of companies. The percentage of independent directors, compared to the total number of BoD members in the sample of thirteen banks analyzed, is a significant 69,18%. Regardless of gender, therefore, this figure allows us to effectively demonstrate to what extent companies that work and invest in sustainability and ethics translate their efforts into the office of independent director, thereby seeking to increase the independence and effectiveness of the entire board.

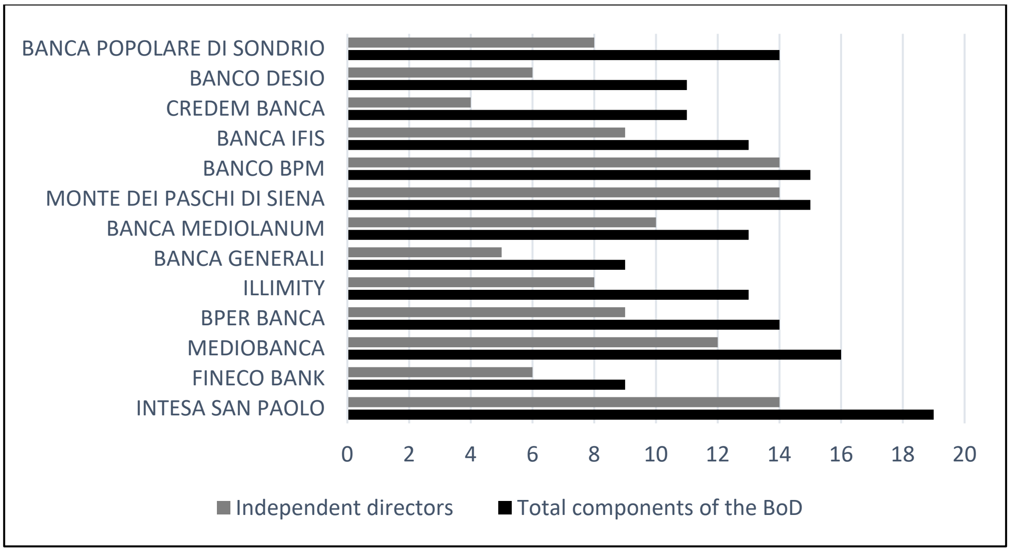

Figure 1: Graph

Referring to the histogram *(Figure 2)*, on the other hand, it is possible to note that the same sample of banks surveyed, in addition to the presence of independent directors, certainly pays special attention to balancing the presence of the female gender with respect to the male gender in this category. Based on the numbers presented, in fact, the average presence of women as a percentage of the total number of independent directors is 51%, reaching peaks of up to 78% for the most virtuous companies.

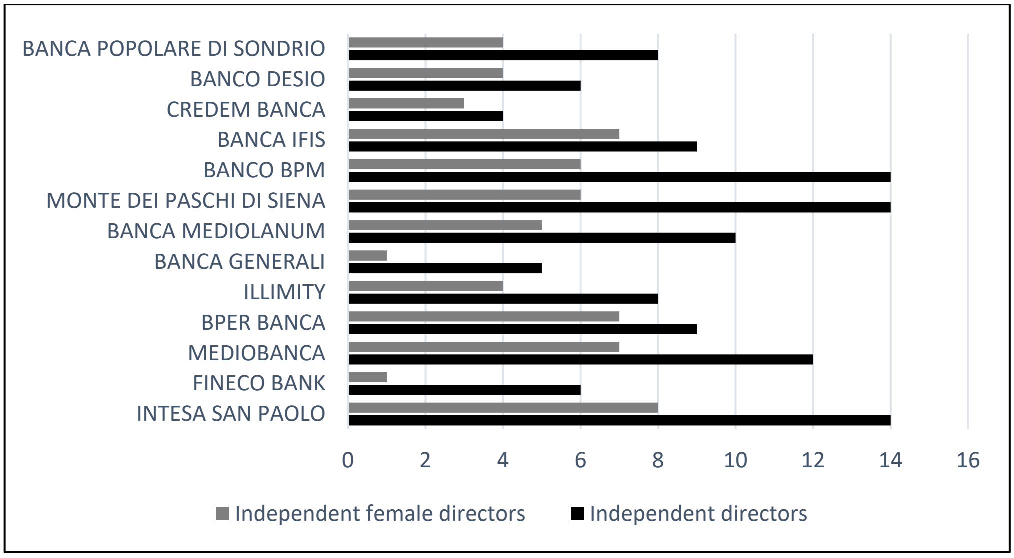

Figure 2: Histogram

These thirteen banks were analyzed under four key pillars related to ESG (*Figure 3*):

- Green Initiatives;
- Employee Wellness Initiatives;
- Territory;
- Financial Education.

Name	Green Initiatives	Employee wellness initiatives	Territory	Financial Education
BANCA POPOLARE DI SONDRIO	Medium	Medium	High	High
BANCO DESIO	Medium	Medium	High	High
CREDEM BANCA	Low	High	Medium	High
BANCA IFIS	Medium	High	High	High
BANCO BPM	Medium	High	High	High
MONTE DEI PASCHI DI SIENA	Medium	High	Medium	Medium
BANCA MEDIOLANUM	Low	Medium	Medium	High
BANCA GENERALI	Medium	Medium	High	High
ILLIMITY	Medium	Medium	High	High
BPER BANCA	Medium	High	Medium	Medium
MEDIOBANCA	Medium	Medium	High	High
FINECO BANK	Low	Medium	Medium	High
INTESA SAN PAOLO	Medium	Medium	High	High

Figure 3: Thirteen Banks Analyzed Under Four key Pillars Related to ESG

Companies espousing this important theme it could report a direct improvement in financial performance, that we considered in part to the gender diversity promoted in the board of directors, as well as certainly to the implementation of the concepts expressed by the world of sustainability. From the study conducted on the non-financial reporting (year 2021) of the individual companies within the sample, it was clear that this focus on the concepts of sustainability and ethics then finds practical expression in corporate strategies and policies.

It's worth to point out that no banks in the sample scored the "high" level in "Green Initiatives" since, despite the many projects in which some of them have participated (as, for instance the "Net-Zero Banking Alliance" project), it's still hard for all the banks to evaluate the environmental and climatic risks of debtor customers. The results we found are very encouraging as clear evidence, with supporting numbers, of the efforts and work carried out on each pillar that can be found in these reports. The three rating categories: low, medium and high express our assessment of what was stated. It should be pointed out that lower values are found in the presence of data that are sometimes not absent but still far from achieving above-average results.

As is evident in the final analysis, there is a direct and very close correlation between companies that are attentive to sustainable and ethical issues, particularly also through ESG metrics, and the presence on the Board of Directors of independent female directors. The lack, or complete absence, of discrimination would undoubtedly play a major role in the effective creation of value for the company for the benefit of all stakeholders.

6. Conclusions

The current study contributes to the debate opened in the literature on the role of women in key CG positions. The paper specifically sets out to explore the issue with respect to the presence of the female gender, not only on the BoD, but also among the independent directors of the same structure. In this scenario, the study we conducted evidences a clear correlation between the presence of women on the BoD and specific benefits related to greater efficiency of the work of independent directors in general. This would be due to the evidence that in companies, where the connection between sustainability and ethics is more present, gender diversity is instead more present and less discriminating, with a payoff in terms of significant value creation. In fact, in our view, the real significant value is created only if these policies are integrated at the level, not only of strategy, but of the corporate culture. Only when linked to strategy and culture, before ethics and sustainability, gender diversity can be in fact a truly meaningful element of value creation. Our own empirical analysis offers numerical and statistical corroboration of this claim. Starting from Figure 3, in fact, it is possible to see to what extent the Italian banks, most active in ethical and sustainable aspects, have a real desire to integrate ESG objectives into their strategies. The result found is, in our opinion, of an above-average level.

In this context, however, there would exist negative aspects, still present in reference to the figures of independent directors regardless of their gender, for which the sole focus on sustainability and ethics would not be sufficient. In fact, we are talking about structural and sometimes common problems across multiple companies that emerged during our study, and which could be taken care of in a later and more in-depth study in the same topic. For example, according to Bebchuk et al. (2017), the current system of executive appointment significantly undermines the ability of independent directors to effectively perform their oversight role. A key element of this theory is the fact that the appointment and retention of independent directors are usually influenced by controlling shareholders. As a result, this category of directors has an incentive to pander to the wishes of controlling shareholders or, at the very least, little incentive to protect public investors. As reported by Mehta & Coomar (2016), although the role of an independent director is most often synonymous with watchdog, it is important instead for an independent director to add value to the company's overall performance in addition to examining and questioning the performance of executive directors. The role of the independent director, therefore, is glorified as a whistle-blower so they have the freedom to challenge or question anything in the right way. Another aspect certainly not to be overlooked notes that independent directors with multiple directorships distribute their efforts unequally, as a direct consequence related to the prestige relative to individual directorships (Huang et al., 2018). As expressed by Huang et al. (2018), directors with multiple directorships in fact spend more time, as well as more effort, on their most prestigious boards as a direct consequence of personal gain. Along these lines, in contrast, companies with a higher percentage of devoted independent directors would have better corporate performance. Finally, a significant portion of the analyzed studies assert that independent directors alone cannot be held accountable for total board oversight failures. According to Arduini's (2022) studies, in CG, in addition to having to ensure a large percentage of independent directors on boards, the company should be able to designate another important figure: the lead independent director (LID). Whatever leadership model is adopted, in fact, the presence of independent directors and, in particular, a LID, is necessary or strongly recommended, since in the case of duality with the CEO, the LID can limit the CEO's own entrenchment and create opportunities for confrontation between him and the independent directors.

As expressed, this research has numerous limitations but certainly as many insights for future studies. The results reported certainly cannot be generalized, just as the empirical analysis presented should be compared with a broader statistical study. A subsequent cue, in fact, could certainly be formed on a larger sample of companies divided according to geographic areas. Indeed, we are sure that this research is a good starting point for developing the theme of connecting gender diversity, sustainability, and ethics with reference to the figures of independent directors. In fact, a more in-depth study would make it possible to delineate how the policy implications and applications really affect managers and directors, not only by the study of numbers and/or documents, but also by other investigation methods, such as the interviews. In this logic, according to our opinion, future work should set out to explore the issue of the presence of the female gender, not only in reference to the link between sustainability and ethics, but also, in reference to the strategic choices of managers and directors as a straightforward element of connection with corporate culture.

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