Should financial regulators require regulated entities to have gender diversity on their boards?

A Dissertation Submitted by Siobhán Kirrane in Part-fulfilment of the Requirements for the Degree of Master of Business Administration of the University of Warwick

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Executive Summary

Christine Lagarde famously asked whether Lehman Brothers would have met the same fate if there were more women at senior levels. Having worked in the Central Bank of Ireland in the aftermath of the 2008 global financial crisis, Madame Lagarde's sentiments resonate with me. At the time of their demise, there was one female director on the boards of both Lehman Brothers and Northern Rock, while there were two female directors on the board of Anglo Irish Bank. Female directors constituted 10 per cent, 11 per cent and 15 per cent respectively, of the boards of these three failed credit institutions. As I became more and more cognisant of the lack of gender diversity on boards prior to the financial crisis, I too began to question the impact of greater diversity on the boards of regulated entities.

As such, my research focuses on whether gender diversity makes a positive difference to how boards of regulated financial entities operate, and to the risks taken by these entities. It also considers what steps, if any, financial regulators should take to increase the level of gender diversity on boards of entities that they regulate.

There are so few women on boards of regulated entities that even conducting quantitative research on the issue is a challenge. Research shows that for a minority group to make a real difference, they need to reach a critical mass of approximately 30 per cent. 365 US banks, prior to the financial crisis, had an average of only 9.5 per cent female directors. While this figure is higher in some countries, there are very few places where it is large enough to reach the 30 per cent critical mass necessary for sustained impact.

I carried out qualitative research, interviewing over 40 regulators, directors of regulated entities and policy experts from Australia, Brazil, Germany, India, Ireland, Mexico, South Africa, Spain, Sweden, the United Kingdom, the United States and Turkey. These individuals have experience at the top levels of organisations such as the Bank of England, the Basel Committee on Banking Supervision, the Central Bank of Brazil, the Central Bank of India, the Central Bank of Ireland, the Central Bank of Sweden, the European Central Bank, the European Insurance and Occupational Pensions Authority, the International Monetary Fund, the Organisation for Economic Co-operation and Development, the United Nations, the World Bank and entities such as Allied Irish Bank, Bank of America Merrill Lynch, Bank of Ireland, Barclays, Fidelity, JP Morgan, Lloyds, Metlife, Nordea, St James Place, UBS and Ulster Bank.

I asked the interviewees whether gender diversity on boards of regulated entities makes a difference to how boards operate and to the level of risk taken by entities. Then I asked them what steps, if any, regulators should take to increase the level of gender diversity on boards. Semi-structured interviews with individuals of such calibre, who all brought extensive experience and insights, provided me with a rich source of data and strengthened my findings.

The overwhelming response from interviewees was that gender diversity on boards makes a positive difference to how boards operate, with a significant majority of interviewees saying that it improves decision-making and reduces the level of groupthink. While acknowledging that it is necessary for regulated entities to take risks, a significant majority of interviewees also expressed the view that the risks taken by regulated entities improve when there is gender diversity on the board. The explanation given for this was that the risks are more considered risks when there is gender diversity on the board because decisions are subject to greater challenge.

All, with the exception of one interviewee, said that financial regulators should raise awareness as to the benefits of gender diversity on boards. Raising awareness could take place through speeches and public messages by regulators but could also take place through supervisory interaction with regulated entities. A majority of interviewees favoured a stepped approach by regulators, with the threat of quotas existing in the background if other steps did not result in an increase in gender diversity. Beyond raising awareness, other proposed steps included the introduction of non-binding guidance (or targets), a comply or explain regime and quotas. A very strong majority of interviewees supported non-binding guidance, and a majority of interviewees supported comply or explain and quotas, if the other steps did not result in an increase in the level of gender diversity. The view was also expressed by a number of interviewees that if financial regulators were seen to be focusing on this issue, and asking questions in relation to gender diversity through routine supervisory interaction, it would lead to a focus on gender diversity among regulated entities.

There was concern among a minority of interviewees as to possible issues with the pipeline of suitably qualified women. A suggestion made by an early interviewee, which was met with favour by a very significant majority of interviewees, was that transparency requirements be introduced whereby regulated entities would be required to publish details of their gender balance at board level and three layers down. It was considered that this would lead to more focus on the existing pipeline and would put pressure on regulated entities to increase the level of gender diversity in their organisations. A significant majority of interviewees expressed the view that gender diversity in the layers below the board is also important.

Having reviewed the existing literature and carried out qualitative research, I reached the following conclusions:

1) gender diversity on boards of regulated entities makes a positive difference to how boards operate and to risks taken by regulated entities;
2) financial regulators should take steps to increase the level of gender diversity on boards of regulated entities; and
3) these steps should commence with raising awareness (including through supervisory interaction) and implementing transparency requirements. Regulators should move to non-

binding guidance, comply or explain and eventually to quotas if there is not an increase of gender diversity to a 30 per cent level over a specified period.

Since the financial crisis the focus of financial regulators and global standard setters, such as the Basel Committee on Banking Supervision and the Financial Stability Board, has been primarily on liquidity and capital requirements to make credit institutions more robust and better insulated from financial shocks. While it was necessary to concentrate on these areas, as financial regulators move from crisis management to crisis prevention, the level of gender diversity on boards certainly deserves focus. My findings support the view that such a focus may reduce the risk and severity of future financial crises.

Financial regulators appear to be on the cusp of examining the issue of gender diversity on boards. Whether individual financial regulators decide to pay attention to this and take steps within their own jurisdictions to increase the level of gender diversity on boards, or whether the charge is led by the Basel Committee or the Financial Stability Board, it is clear from my findings that steps should be taken.

Chapter 1 - Introduction

“What would have happened if Lehman Brothers had been Lehman Sisters” (Christine Lagarde, Executive Director of the International Monetary Fund).

There was one female director on the board of Lehman Brothers before it declared bankruptcy on 15 September 2008. Lehman Brothers’ collapse led to the largest bankruptcy in US corporate history and played a major role in the global financial crisis. Two other failed banks which played major roles in the financial crises in the United Kingdom and Ireland, Northern Rock and Anglo Irish Bank, had 11 and 15 per cent female directors respectively. If female directors constituted a higher per cent of these boards would it have made a difference? One bank in which a higher level of female directors did not appear to make a difference was HBOS, with women holding 25 per cent of board positions in 2007.

There is very limited research available on the effect of gender diversity on the boards of banks or other financial regulated entities. Given the number of banks that were affected by the global financial crisis, we should have sufficient data to assess whether there was a difference in how banks that had gender diversity on their boards performed against banks that did not, and not just draw conclusions from potentially isolated cases like Lehman Brothers, Northern Rock, Anglo Irish Bank and HBOS. It is not posited that gender diversity is the only factor which affected how banks performed, it is simply one of a number of potential factors. Frequently cited research shows that for a minority group to have an impact they need to have a critical mass of 30 per cent (Zelechowski and Bilimoria, 2004; Erkut et al., 2008). There were insufficient banks with 30 per cent women on their boards prior to the global financial crisis to carry out such research in a way that accurately assesses the impact that gender diversity may have.

Despite difficulties in carrying out research in this area due to the issues with critical mass, it is important for financial regulators to be in a position to form a view as to whether gender diversity on boards of regulated entities makes a positive difference. The Basel Committee and the Financial Stability Board were very active in the wake of the global financial crisis putting measures in place to strengthen banks and helping to reduce the likelihood of future crises. These initial measures focused primarily on liquidity and capital requirements. If gender diversity on boards makes a positive difference, if it would help to reduce the likelihood of future crises, then it is arguable that financial regulators should look at making gender diversity on boards a requirement. The Basel Committee revised its guidelines on Corporate Governance Principles for Banks in July 2015 and it refers to diversity of directors, but does not make any reference to gender diversity. Gender diversity appears to have been referred to in submissions to the Basel Committee. The Financial Stability Board is beginning to look at corporate governance in banks, and it will be interesting to see whether it considers gender diversity as part of that review. If gender diversity on boards makes a positive difference, then it is arguable that the Basel Committee and the Financial Stability Board should look to put measures in place to bring about such gender diversity.

In my research, I have sought to answer whether financial regulators should require regulated entities to have gender diversity on their boards. I have carried out interviews with thought leaders, both regulators and directors of regulated entities, from 14 different jurisdictions. As well as questioning these individuals on the difference that gender diversity makes to how boards operate and to the risks taken by regulated entities, I also obtained their views as to what steps, if any, regulators should take to increase the level of gender diversity on boards.

My experience in a financial regulator in the aftermath of the 2008 global financial crisis, during which time I managed sanctions cases against regulated entities and the liquidation and transfer of failed credit institutions, is why Madame Lagarde's comments resonate with me and led me to carry out this research.

At the end of the dissertation I hope to be in a position to:

1) determine whether gender diversity on boards of regulated entities makes a positive difference, focusing specifically on how boards operate and risks taken by regulated entities;
2) assess whether financial regulators should take steps to increase the level of gender diversity on boards of regulated entities; and
3) provide a view as to what, if any, those steps should be.

As one of my interviewees stated, "*if you have senior regulators and directors of regulated entities saying that they think that having gender diversity on boards leads to better decisions and less likelihood of groupthink then that's something that should be done from a financial stability perspective. I think if anything, we learned from the crisis that we really failed when it came to financial stability and we need to look at the entire system.*" (P2)

The structure of the dissertation is as follows:

Chapter 1	provides an introduction to the dissertation and the research questions it is designed to answer;
Chapter 2	includes the literature review, which focuses on the effect of gender diversity on boards, specifically on the difference gender diversity makes to how boards operate and to the risks taken by regulated entities;

Chapter 3	contains my research questions and an explanation of the methodology I used in carrying out my research;
Chapter 4	sets out the results from the interviews. It also includes tables which provide a high level summary of the responses together with representative quotations;
Chapter 5	contains a discussion and interpretation of the results. It also links the results with the literature and highlights where the results diverge from the literature and where they provide support for previous studies in this area;
Chapter 6	details my recommendations which are split into those for regulators, those for regulated entities and those for academics; and
Chapter 7	sets out my conclusions and also includes a critique of my findings, my comments on how I would approach the dissertation differently and suggestions for further research.

Chapter 2 - Literature Review

This chapter includes a review of the relevant literature. I have focused primarily on the difference that gender diversity on boards makes to how boards operate and to the risks taken by entities.

The effect of gender diversity on boards

A key function of a board is to drive an entity forward successfully while also ensuring that it is governed prudently (Garratt, 2010). The reasons given for why gender diversity on boards makes a difference fall under two distinct branches, ethical and economic (Van der Walt and Ingley, 2003).

1) *Ethical Arguments*

   Ethical arguments focus on fairness from a moral and equitable standpoint. They suggest that board diversity is desirable from an equality perspective and that it is inequitable to exclude groups on the basis of gender (Singh et al., 2001). Studies on the ethical aspects of diversity argue that certain groups, including women, that were historically excluded from positions of power for reasons unrelated to their performance should be enfranchised for ethical reasons. Improving diversity on boards would achieve an outcome that was more equitable for society (Carver, 2002; Keasey et al., 1997).

   While not discounting the importance of the ethical arguments, I am not focusing on the ethical arguments for gender diversity on boards for the purpose of this dissertation. I decided to take this approach following scoping interviews when it became apparent that the economic arguments would be of more interest to regulators.

2) *Economic Arguments*

   As stated in a 2016 report, sponsored by the UK Treasury, referred to as the Gadhia Report, "*Gender diversity used to be seen as an equality issue, now it is more focussed on as a business issue*" (2016, pg. 19). Economic arguments are based on the assumption that diversity on the board will affect the way the board performs its functions and that will in turn affect the entity's performance (Dalton et al., 1999; Kiel and Nicholson, 2003). The economic argument is also based on the view that the systematic non-selection of able candidates negatively affects an entity's financial performance (Burke, 2000; Carver, 2002).

On reviewing the literature that considers the effects of gender diversity on boards, it became clear that the literature can fit under four headings:

1) How boards operate;
2) The level of risk taken by entities;

3) The financial performance of entities; and
4) Entities' focus on corporate social responsibility.

Over the course of the interviews (including scoping and mock interviews), a consistent view emerged in relation to which of these areas a financial regulator should consider relevant. These were how boards operate and the level of risk taken by entities. I received mixed views in my scoping and mock interviews as to whether an entity's financial performance was something that a regulator should be concerned about (as long as an entity was not failing and was meeting the prescribed liquidity and capital requirements). As the views in the scoping and mock interviews were mixed, I included questions in relation to the effect of gender diversity on an entity's financial performance in my interview questions. However, I decided not to include the findings in my results or analysis because the view that an entity's financial performance was not of concern to a regulator (as long as the entity was not failing and was meeting the prescribed requirements) came up regularly in the interviews. Although I initially included a section in the literature review that analysed the research in relation to the effect of gender diversity on an entity's financial performance, in my final iteration of the literature review I have focused solely on the effect that gender diversity on boards has on how boards operate and the risks taken by entities.

There are a number of theories put forward in the literature, that seek to explain why gender diversity makes a difference and why there are currently such low levels of gender diversity on boards (Terjesen et al., 2009; Carter et al., 2010). These theories provide useful insights into, and a framework for understanding, the current position relating to women on boards. I have provided an overview of the relevant theories in Appendix A.

How the board operates

In this section, I have sought to analyse and provide an overview of the literature which considers how gender diversity on boards may affect how the board operates. I have separated the literature under the following headings:

- Attendance at board meetings;
- Decision-making and monitoring;
- Groupthink;
- Board behaviour and culture; and
- Governance.

Attendance at board meetings

The OECD's report on governance lessons from the crisis states that "*boards' access to information is key*" (Kirkpatrick, 2009, p. 23). In order to obtain information, directors need to attend board meetings (Adams and Ferriera, 2009).

Adams and Ferriera (2009) use quantitative methods to illustrate that women have a higher attendance rate at board meetings than men. It has been shown in this research that if there are women on the board the higher attendance rates also extend to male directors on the board. An earlier study showed that men who were on a board with a female director, have a higher attendance rate on other boards on which they are directors, even if there are no female directors on the other boards (Izraeli, 2000). Adams and Ragunathan's (2015) research further supports the finding that male directors are less likely to have attendance problems when they are on boards with more women.

Decision-Making and Monitoring

Gender diversity on boards may also impact the process and quality of decision-making (Hoogendoorn et al., 2013). Where boards lack diversity they are not likely to recognise that the directors take a similar approach (Maznevski, 1994). Zelechowski and Bilimoria (2004) find that because women generally come to the board with different experiences than men they are likely to bring a different voice to decision-making. While board diversity may lead to higher levels of scrutiny and improved decision-making, it may cause conflict as a consensus may be more difficult to achieve (Terjesen et al., 2009). Although greater scrutiny may lead to better decisions, there could also be adverse consequences if it is more time consuming for directors to reach consensus (Terjesen et al., 2009).

There are a number of studies that show that female directors are likely to be more conscientious and better at monitoring (Izraeli, 2000; Huse and Solberg, 2006; Adams and Ferreira, 2009). Consequently, in quantitative research it was found that female directors are more likely to serve on committees than men, especially monitoring committees, such as the audit or compensation committees (Adams and Ragunathan, 2015).

Groupthink

"Groupthink refers to a deterioration of mental efficiency, reality testing and moral judgement that results from in-group pressures" (Janis, 1982, pg. 2). "*Collective mis-judgement of serious risks*", "*collective complacency*" and "*mindless conformity*" have all been identified as symptoms of groupthink (Janis, 1982, pg. 3).

The Gadhia Review in the UK, while setting out the business case for gender diversity stated that it "*increased challenge and reduced chances of 'groupthink'*" and "*it is widely believed that greater diversity of thought results in better decision-making and improved corporate governance and risk management, thus avoiding the perils of 'groupthink'*" (2016, pg. 19).

The UK House of Commons Treasury Committee on Women in the City supported this viewpoint, and argued that "*the lack of diversity on the boards of many, if not most, of our major financial institutions, may have heightened the problems of 'group-think' and made effective challenge and scrutiny of Executive decisions less effective*" (Gadhia, 2016, pg. 19).

The literature provides support for these statements, finding that gender diversity on boards guards against groupthink (Daily et al., 2003; Robinson and Dechant, 1997). The research found that when a board does not include gender diversity the directors are likely to be similar, coming from similar backgrounds, with a similar education and having similar networks. Maznewski has found that such homogeneity among directors is more likely to lead to groupthink (1994).

Zelechowski and Bilimoria (2004) show in quantitative research that where there are women on the board they bring different perspectives and voices to the table, to the debate and to the decisions. Consequently because women on boards ask more questions and decisions are less likely to be made without a discussion, this reduces the chances of groupthink (Zelechowski and Bilimoria, 2004).

It is clear from the literature that gender diversity on boards reduces the likelihood of groupthink.

Board Behaviour and Culture

Studies have shown that gender diversity on boards results in more civilised behaviour and sensitivity to other perspectives (Bilimoria, 2000; Fondas and Sassalos, 2000). Huse and Solberg (2006) espouse that women lighten up the boardroom atmosphere. However, Huse (2008) finds no correlation between the proportion of female directors and the openness of the board culture in Norwegian entities. It may be that this lack of correlation is particular to Norway.

Governance

Although Singh's (2008b) research looked at boardroom cultures in engineering, high technology, and scientific organisations, as opposed to financial organisations, his findings are still relevant. Having interviewed male directors on boards with female directors, he found that they considered that female directors led to more effective performance and better governance.

Singh's (2008b) findings are backed up by a study that Harvard Business School researchers carried out for Heidrick and Struggles (2010). This research surveyed 398 male and female directors on the boards of US firms and found that women are more assertive on certain important governance issues, including evaluating the board's performance and supporting greater supervision on boards. They conclude that the changing dynamic of gender diversity on boards may herald an era of strengthened corporate governance (Heidrick and Struggles, 2010). Meanwhile, Huse (2008) argues that while female directors contribute in different ways to the variety of governance tasks that the board is entrusted with, it is complex to decipher how they contribute.

The new governance practices recommended by the Higgs Review in 2003 in the UK were adopted earlier in FTSE 100 companies with gender diversity on their boards than companies with all male boards (Singh and Vinnicombe, 2004), suggesting a greater focus on good governance. The areas of governance practices in which there was a significant difference in adoption were "*having director induction and training, a regular review of board performance and the balance of board skills, knowledge and experience, and director succession planning structures, including approval for the use of external search consultants*" (Singh and Vinnicombe, 2004, pg. 329).

A study of private, public and not-for-profit boards from Canada highlighted significant differences between boards with three or more women and all male boards (Brown et al., 2002). Specific criteria for measuring strategy was set out for three quarters of boards with three or more women compared to less than half of all-male boards (Brown et al., 2002). Monitoring of the implementation of corporate strategy took place in 94 per cent of boards with three or more women, compared to only 67 per cent of all-male boards (Brown et al., 2002). A similar pattern was seen in relation to conflict of interest guidelines and ensuring a code of conduct in the boards that were studied. Boards with three or more female directors were also shown to have effective communication among the board and stakeholders. These boards were also more likely to have higher levels of board accountability, with formal director orientation programs in place and formal limits in place in relation to authority. The study also showed that boards with two or more female directors were likely to reduce the influence of 'old boy networks' and increase the transparency around choosing directors as they placed more emphasis on the use of search consultants.

The level of risk taken by regulated entities

In this section I have provided an overview of the literature relevant to whether gender diversity on boards may affect the level of risk taken by regulated entities. It has been established that boards have an impact on companies' risk-taking (Cheng, 2008; Pathan, 2009).

Are women on boards of regulated entities more risk averse than men?

Christine Lagarde prefaced one of her comments in relation to Lehman Brothers, with the statement that "*female leadership is more inclusive and probably more risk-averse*." I sought to assess whether the literature provided support for this statement.

Literature that is particularly significant to financial regulated entities finds that women who enter the financial industry are less risk averse than women entering other industries (Sapienza et al., 2009). In a sample of economics, finance and business students, it was found that women were not more risk averse than men (Deaves et al., 2009). The authors postulate that women who are attracted to ‘male’ disciplines may be different from those in the general female population, whereas men who are attracted to ‘male’ disciplines are the same as men in the general male population.

It should be noted that these studies consider the risk attitudes of women in the financial sector. In contrast, a lower risk appetite among women, compared with men, has been shown in a number of studies in economics and psychology (Hinz et al., 1997; Byrnes et al., 1999; Barber and Odean, 2001). A meta-analysis of 150 studies on risk-taking behaviour finds that men are more likely to be involved in ‘gambling’, ‘risky experiments’ and ‘intellectual risk taking’ than women (Byrnes et al., 1999). Similarly, women have also been found to be more conservative in making investment decisions (Sunden and Surette, 1998; Bernasek and Shwiff, 2001). There are a number of useful overviews of the literature in this area, including one by Croson and Gneezy (2009).

It may be that differences in risk aversion between men and women vanish once women have broken through the glass ceiling and have conformed to a male-dominated culture (Adams and Funk, 2012). In their Swedish sample, Adams and Funk found that female directors are more risk-seeking than their male counterparts. Croson and Gneezy (2009), while finding that women are more risk averse than men, suggest that that may not apply to the managerial level because of self-selective or adaptive behaviour to the role. Adams and Ragunathan (2015) hypothesise that because a career resulting in a directorship is more unconventional for women, the women who decide to take such a career path may be the women who are less risk averse.

It appears from the research that women who are on the boards of financial regulated entities are likely to have a different attitude to risk when compared to the general female population. It appears likely that there is no difference between the level of risk aversion of male and female directors on boards of financial regulated entities.

<u>What effect does gender diversity on boards of financial regulated entities have on risk?</u>

The Gadhia Review, setting out the business case for gender diversity, stated that “*diverse groups tend to have a well-rounded view on business issues and risks*” (2016, pg. 19).

Given the research set out above, which indicates that female directors of financial entities have a different attitude to risk when compared to the general female population, the transferability of research carried out in other industries to the financial sector is questionable. As Sapienza et al. (2009) found, women entering the finance industry are less risk averse than women entering other industries. However, in circumstances where there is limited research looking at the effect of gender diversity on risk in the banking, insurance or wider financial sector, I have considered research which looks at other industries in my analysis, while sounding a note of caution. It may be of limited value and may even be misleading if its findings are applied to the financial sector.

Consentino, Donato, Montalto and Via (2012) while analysing listed companies in Italy, France, Germany, Spain and Norway, find that gender diversity on boards does not affect entities' leverage or total risk. They argue the alleged differences in women's risk profile on boards are used to discriminate against women. Sila et al. (2016) support the conclusions in Consentino, Donato, Montalto and Via's (2012) analysis, finding no evidence that gender diversity on boards influences equity risk. In their research, they control for reverse causality and risk being influenced by unobservable factors. They find that a board with a higher proportion of female directors is no more or less risk-taking than a more male-dominated board. Further, they state that risk is not a channel through which gender affects an entity's value. Looking at whether there was a reduction in the level of risks taken by Norwegian entities after quotas were introduced, Matsa and Miller (2013), found that there was no change in entities' leverage. They were of the view that risk aversion may not be a core element of female directors' approach to decision-making.

Sila et al. (2016) carried out an analysis of 130 bank holding companies and found that the effect of gender diversity on risk was the same as for their broader sample. They found that the percentage of female directors had no statistically significant effect on risk. Sila et al. (2016) were of the view that a gender difference in risk appetite could possibly be reflected in an entity's policies. They looked at four policies which could be indicative of a difference in risk appetite - compensation packages for the CEO, R&D expenditure, diversification and leverage. While they found that gender diversity affected the level of an entity's diversification at a 10 per cent level, they found that gender diversity did not impact any of the other risk policies that they measured. They found that overall gender diversity does not impact risk policies.

Other research has been more positive on the link between gender and risk. In a quantitative study of mainly private entities across 18 European countries, Faccio, Marchica and Mura (2016) found that entities with female CEOs have lower leverage and less volatile earnings. Brown et al. (2002) found that diverse boards in terms of gender tend to be more active and demonstrate better results in terms of risk management. Insolvency risk has been found to be negatively related to the proportion of women directors (Wilson and Altanlar, 2011), so the more women directors, the less likelihood the firm will become insolvent. Entities that have less women on their boards are more likely to take part in M&A activities and also to pay higher acquisition premiums (Levi et al., 2013). Meanwhile, loans that are made by female officers are more likely to be repaid on time (Beck et al., 2013).

In contrast with findings by Berger et al. (2014) that an increase in gender diversity on the boards of banks led to an increased portfolio risk, Adams and Ragunathan (2015) find that female directors on the boards of banks are linked to less risky business decisions. Despite that, Adams and Ragunathan (2015) state that "*although banks with more women perform better in our sample, our results do not represent compelling evidence for the "Lehman Sisters" hypothesis*" (pg. 7). Meanwhile, Cabo, Gimeno and Nieto (2012) found in their research that female directors tend to be excluded from the boards of riskier banking institutions.

In the research carried out by Adams and Ragunathan (2015), female directors made up 9.5 per cent of the boards in their sample of 365 US banks. It is also of interest that only 0.6 per cent of the directors in their sample were both female and banks executives. Therefore, the bulk of women on the boards of US banks were non-executive directors. It is questionable whether such a low percentage of female directors can have an effect on the risks taken by an entity. This is a recurring issue across the research and detracts from the strength of the findings of research in this area.

Research indicates that a critical mass of 30 per cent is needed for a minority group to have an impact (Zelechowski and Bilimoria, 2004; Erkut et al., 2008). Similar to the approach taken by Adams and Ragunathan (2015), most of the research in this area considers a board to be diverse for the purpose of their analysis if there is one woman on the board. Because there are so few boards with the 30 per cent critical mass, it is challenging to carry out quantitative research on the effect that a critical mass of women on a board has on risk.

Although Adams and Ragunathan's (2015) findings indicate that a level of gender diversity below the 30 per cent critical mass may still have an impact on risk, from the existing research it is not possible to assess the full impact that boards with 30 per cent female directors would have on risk in regulated entities.

Chapter 3 - Research Questions and Methodology

My main research question was, 'should financial regulators require regulated entities to have gender diversity on their boards?'

I broke that question into two sub-questions:

Question 1 - does gender diversity on boards make a difference to how boards operate and/or the risks taken by regulated entities; and
Question 2 – if the answer to question 1 is 'yes', what steps should financial regulators take to increase the level of gender diversity on boards of regulated entities.

These were not my initial sub-questions. However, they were the sub-questions I settled on having taken an inductive/deductive loop approach to this paper (Gummesson, 2000). By this I mean that I carried out a review of the existing literature and identified my sub-questions following that review. Then I completed scoping interviews during which I asked interviewees my sub-questions. Following a review of the answers provided by interviewees, I carried out further research in relation to the existing literature. The sub-questions were amended further following an additional review of the literature. This process was undertaken a number of times before the sub-questions were finalised. I completed 11 scoping interviews and 6 mock interviews in advance of commencing the interviews from which I collected data for my findings. Responses from the scoping and the mock interviews are not included in my findings and the individuals I carried out the scoping and mock interviews with are not listed in my table of interviewees. My research question and my sub-questions are referred to as my research questions.

Approach to answering research questions

I first wanted to assess whether gender diversity on boards of regulated entities makes a positive difference to how boards operate and/or to the risks taken by regulated entities. While the literature indicates that gender diversity on boards may make a positive difference to these areas, only a limited number of studies look specifically at regulated financial entities, for example banks and insurance companies. Also, the findings in the literature do not appear to be based on interviews with regulators and directors of regulated financial entities.

Through my research I wanted to add to the literature in this area by interviewing senior financial regulators and directors of regulated entities to obtain their views as to whether gender diversity on boards of regulated entities made a positive difference to how boards operate and/or to the risks taken by regulated entities.

It was clear, following the scoping interviews, that if the data from the interviews indicated that gender diversity on boards did not make a positive difference to how boards operated and/or to the risks taken by regulated entities, my research would not support an argument that financial regulators should take steps to increase the level of gender diversity on boards. If, however, having completed the interviews, the data indicated that gender diversity on boards makes a positive difference to how boards operate and/or the risks taken by regulated entities, then there would be an argument that regulators should look at this issue. In the interviews, I obtain views from interviewees on the steps that regulators should take to increase the level of gender diversity on the boards of regulated entities. I have included mini-case studies in Appendix C highlighting approaches taken in the UK, Australia and Norway to increase the level of gender diversity on boards.

Approach to interviews - How I selected my interviewees

In order to answer questions 1 and 2 I decided to interview senior financial regulators and directors of regulated entities to obtain "*valid and reliable data…relevant to the research question*" (Saunders et al., 2000, p.98). Individuals from these groups would be important to obtain views from, as they have direct experience from different perspectives of the effect that gender diversity has on how boards operate and on risks taken by regulated entities. Also, if steps were taken by financial regulators to increase the level of gender diversity on boards, these would be the groups that would be responsible for implementing any such steps and whose organisations would be directly affected by them. Carrying out interviews with individuals from these groups enabled me to triangulate my data from the interviews and to identify if similar views were held by the different groups (Denzin, 1970).

During the course of my research I identified that there are a number of international bodies that have either carried out research in relation to the benefits of gender diversity on boards or whose mandate is relevant to this issue. These bodies included the European Commission, the World Bank, the IMF, the OECD and the UN. In order to make the data from my interviews as robust and reliable as possible I decided to interview senior individuals, with relevant experience, from these organisations (Saunders et al., 2000).

I carried out 6 mock interviews with colleagues in the financial regulator where I work and with contacts in regulated entities. While the purpose of the mock interviews was to test the suitability of my interview questions, during the course of the mock interviews it became clear that potential issues with the pipeline of suitably qualified women was something that was likely to be raised during my research. After discussing the issue with the mock interviewees, I decided to add headhunters, with significant experience in recruiting for board level positions, to my list of interviewees so that I could obtain their views on potential issues with the pipeline.

When I had identified the categories of individuals I wanted to interview I set about making contact with potential interviewees. From the outset, it was my intention to interview both men and women (in order to help eliminate allegations of bias due to interviewees' gender) and to aim for the best calibre interviewees as possible so that I would get rich data from people with significant levels of experience at senior levels. I followed a theoretical sampling approach and I selected the interviewees purposively on the basis of their likely ability to contribute to the theoretical understanding of the subject (Saunders et al., 2000).

Given that I work for a financial regulator (the Central Bank of Ireland), I decided that it would be easier to build up interviewees in regulators in the first instance. To secure agreement for interviews with interviewees from the Central Bank of Ireland, I met with potential interviewees to discuss my research and confidentiality was assured. I then secured interviews with senior individuals in the Bank of England, the ECB, the IMF and the World Bank, through colleagues in the Central Bank of Ireland who had relationships with these individuals. In these cases, I was introduced to the potential interviewees over email and I followed up with an email explaining my research. I also informed friends through the use of social media that I was doing research in this area. I obtained access to additional interviewees that way including the Deputy Governor of the Central Bank of Brazil.

Once I had a prominent and experienced roster of interviewees from regulators and international bodies, I then set about building my roster of interviewees from regulated entities. I approached one third of these interviewees cold, but at that stage I was able to list a stellar roster of interviewees which gave my research credibility. I also used the snowballing approach, where ""*one observed subject passes the researcher on to another*", to get names of and to be put in contact with other interviewees (Sapsford and Jupp, 2006, p. 80). This allowed me to gain access to a greater number of people. Although naturally not all people I approached were in a position to provide an interview, I was happy with the number and the calibre of people who agreed to be interviewed. At this stage I approached headhunters, again listing the people who had agreed to be interviewed in my email. Lastly, there were a few names that arose in my research and through conversations I had. One was Avivah Wittenberg-Cox, a consultant who has written a number of best selling books in this area, and the other was Denise Wilson, the CEO of the Davies Review. I decided to add them to my list of interviewees as they are both experts in the area of gender diversity on boards and it was clear from the conversations that I had with other interviewees that they would add to the richness of my research and my understanding of the relevant issues.

Interviewee	**Title**	**Organisation***	**Group**
Phumzile Mlambo-Ngcuka	Under-Secretary-General and Executive Director of UN Women	United Nations	Policy expert
Věra Jourová	Commissioner for Justice, Consumers and Gender Equality	EU Commission	Policy expert
Gabriela Ramos	Chief of Staff (OECD) and Sherpa (G20)	OECD	Policy expert
Adrian Blundell Wignall	Special Advisor	OECD (Reserve Bank of Australia, BT Funds Management, Bankers Trust Funds Management)	Policy expert
Ann Margret Westin	Deputy Division Chief	IMF	Policy expert
Aditya Narain	Division Chief	IMF (Central Bank of India)	Policy expert
Ceyla Pazarbasioglu	Senior Advisor	World Bank (IMF)	Policy expert
Mary O'Dea	Senior Advisor	World Bank (IMF, Central Bank of Ireland)	Policy expert
Manuela Zweimueller	Head of Regulation	EIOPA (Munich RE)	Regulator
Philip Lane	Governor	Central Bank of Ireland	Regulator
Sharon Donnery	Deputy Governor	Central Bank of Ireland	Regulator
Ed Sibley	Director of Credit Institutions	Central Bank of Ireland (FSA, Bank of Ireland)	Regulator
Sylvia Cronin	Director of Insurance	Central Bank of Ireland (Augura Life, MGM International Assurance, AXA)	Regulator
Andy Haldane	Chief Economist	Bank of England	Regulator
Martin Stewart	Director of Credit Institutions	Bank of England	Regulator
Tony Volpon	Deputy Governor	Central Bank of Brazil (Nomura Securities, Standard Chartered Bank)	Regulator
Linette Field	Deputy Director General	ECB (Bank of Spain, FSA)	Regulator
Margarita Delgado	Deputy Director General	ECB (Bank of Spain)	Regulator
Stefan Ingves	Governor, Chair	Central Bank of Sweden, Basel Committee	Regulator
Fiona Muldoon	CEO, Director	FBD (Central Bank of Ireland, XL)	Director

Jeremy Masding	CEO, Director	Permanent TSB (Barclays)	Director
Richie Boucher	CEO, Director	Bank of Ireland (Royal Bank of Scotland, Ulster Bank)	Director
Eilish Finan	Director	JP Morgan, Metlife, New Ireland Assurance (AIG)	Director
Brenda Dunne	Director	Metlife (Canada Life, Ark Life)	Director
Paul Stanley	CFO, Director	Ulster Bank (Allied Irish Banks)	Director
Ellvena Graham	Director	Ulster Bank	Director
Michael Buckley	Director	KKR Alternative Investment Managers (Allied Irish Banks)	Director
Denise Kinsella	Director	Fidelity	Director
Mike Power	Director	St James' Place	Director
Judith Mortimer Sykes	Director	Harpenden Building Society	Director
Barbara Judge	Chair of Chartered Institute of Directors, Director	Chartered Institute of Directors (SEC, Samuel Montagu & Co, Bankers Trust)	Director
Sally James	Director	Bank of America Merrill Lynch, Moneysupermarket (USB)	Director
Matthew Elderfield	Director	Nordea (Lloyds)	Director
Laura Sanderson	Partner	Zygos	Headhunter**
Rachel Ingram	Consultant	JCA	Headhunter**
Angela Hocter	Partner	Inzito	Headhunter**
Louise Angel	Partner	Ridgeway Partners	Headhunter**
Avivah Wittenburg Cox	CEO	20-First	Expert**
Denise Wilson	CEO	Davies Review Board Ready Women?	Expert**
Kweilin Ellingrud	Partner, Leads McKinsey's Closing the Global Gender Gap Initiative	McKinsey	Expert**
Mark McLane	Global Head of Diversity	Barclays	Expert**
Carolanne Minashi	Global Head of Diversity	UBS	Expert**

**Many of the interviewees have experience in a number of different organisations and in the case of directors have been in the past and are currently directors in a number of organisations. A non-exhaustive sample of organisations they are currently working in or have worked in at a senior level in the past are listed. Where they are no longer in a specific organisation it is listed in brackets. Many of the directors are also directors of unregulated entities. Where this is the case only the regulated entities that they are (or have been) directors of are listed.*

***Although I gained valuable insights from these individuals I did not include answers from these individuals in my results. I took this approach because I wanted my results to be based on information from policy experts in international organisations, financial regulators and directors of regulated entities.*

I was aware that there could be an element of bias in my research as there was a risk that the individuals that I was put in contact with and the individuals who agreed to give their time to be interviewed were more likely to be supportive of gender diversity on boards than those who did not agree to be interviewed. This has been discussed further in Chapter 7. In order to correct for this potential bias, when asking for suggestions of other people to interview, I said that I also wanted to speak with people who were not supportive of gender diversity on boards.

<u>Approach to interviews - How I carried out interviews</u>

In advance of commencing the interviews I sent the interviewees an email with my interview questions, while explaining that it was a semi-structured interview, and also explaining the terms around confidentiality (See Appendix B). Given the senior positions held by the interviewees I was aware that they may not be open with me in answering the questions if they thought that their answers might be published as part of my dissertation and attributed to them. Therefore, to create an environment where the interviewees would be open with me as to their views without any concern as to the potential consequences, I gave interviewees assurances that I would not attribute any of their answers specifically to them. I asked interviewees if I could record the interviews for the purpose of preparing transcripts of the interviews and I prepared a transcript for each interview. Although recording interviews can provoke anxiety and inarticulateness among interviewees, this is not the case with elites, which my interviewees can be classified as (Zuckerman, 1972).

I asked interviewees for 45 minutes of their time for the interview. Interviews lasted between 40 and 90 minutes. Where interviews went over 45 minutes it was on the suggestion of the interviewee. Where possible, I carried out the interviews in person. I travelled to London, New York, Washington DC and Stockholm to carry out interviews. I carried out phone or Skype interviews where it was not practical, because of location or timing, to carry out the interviews in person. Although Saunders et al. (2000) suggest that conducting qualitative interviews by telephone may lead to issues of reduced reliability, emerging evidence indicates that issues of reliability with telephone interviews have largely been discounted (Denscombe, 2004). One interviewee completed the interview by responding to written questions.

The potential lack of objectivity inherent in qualitative research is something that I tried to guard against (Creswell, 2003). However, I was aware that it was a drawback of carrying out qualitative research and of using semi-structured interviews. I selected this type of interview style as given the expertise of the interviewees I did not want to limit their ability to provide me with their views and it allowed me to explore their views with them (Creswell, 2003). Also, semi-structured interviews were ideal because of how busy the interviewees were which meant that I would not get more than one opportunity to interview most of them (Bernard, 1988) and I did not want to miss out on any insights they could provide me with. I carried out semi-structured interviews with interviewees from different groups (regulators, directors of regulated entities and policy experts) to allow triangulation and to increase the validity of the findings (Robson and McCartan, 2016).

Although I had specific questions that I wanted to cover in the interviews, the order in which I asked the questions varied depending on the flow of the conversation. In some cases, interviewees moved on to a topic covered by a subsequent question without me asking the question. In many cases, interviewees in answering the questions alternated between the different topics and at times when answering a subsequent question provided extra clarity or altered their answer to an earlier question. Because I was carrying out semi-structured interviews, I was able to reframe the questions if necessary (Cassell and Symon, 2004) and clarify with interviewees if there was a conflict between their answers.

Some of the disadvantages of semi-structured interviews are that there is potential that interviewees will be unconsciously guided by the interviewer, that it is difficult to replicate the exact question across a group of interviewees and that it is challenging to carry out objective analysis of the data that is collected (Harrell and Bradley, 2009). The possibility of interviewer bias can also be an issue (Gummesson, 2000). Being aware of these disadvantages of semi-structured interviews enabled me to try to guard against them. Completing full transcripts following the interviews enabled me to accurately analyse the answers provided by the interviewees, identify key themes and become aware of the differences in the interviewees' responses (Bryman, 2008). It also assisted in increasing reliability by ensuring that the process could be replicated by others (Saunders, 2000).

However, there remains a risk that because I used semi-structured interviews and because of my own bias' in relation to this issue, that the initial data coming from the interviews and my interpretation of that data could have been compromised. There was also a risk that because I work for a financial regulator and some of the interviewees were from entities that are regulated by the financial regulator that I work for, they could have provided answers that they thought I would like to hear, as opposed to saying what they really thought. This is something that I tried to guard against by saying that I was not interviewing them in my capacity as a regulator and reiterating that I would not share their answers with any of my colleagues or other stakeholders.

Approach to interviews - Interview questions

The interview questions were designed to provide data relevant to answering Question 1 and 2. I piloted the interview questions with my mock interviewees. I completed a number of drafts of the interview questions before they were finalised. Even when they were finalised additional questions were added during the course of the interviews, for example in relation to a transparency requirement. This was a suggestion made by an early interviewee that a requirement for regulated entities to disclose the level of gender diversity on their board, and three layers down, would lead to more focus on the pipeline and to greater levels of gender diversity at senior levels of regulated entities.

I drafted the interview questions after having completed my initial draft of the literature review and mini-case studies, which are included in Appendix C. At that point I was aware (based on the literature) of the potential answers that interviewees may provide as to whether gender diversity on boards of regulated entities makes a positive difference. I was also aware of the types of steps that regulators could take to increase the level of gender diversity on boards. My interview questions were designed to verify whether the research in relation to the effect of gender diversity on boards of entities was equally applicable to regulated entities and to assess whether regulators should implement quotas or whether there were other less intrusive steps that they should take to increase the levels of gender diversity on boards.

Coding and analysis

When preparing my interview questions I formed pre-analytical categories. These categories were derived from the literature review and from the mock interviews I carried out. Then I structured my interview questions so as to make the coding and data analysis process more straightforward (Saldaña, 2015).

When I completed the interview transcripts I reviewed each of the transcripts. While reviewing the transcripts I wrote code words (headings) in the margins of each transcript. Most of these code words were the same as the pre-analytical categories I had identified. When I had completed this process for all of the transcripts I then considered whether any of the code words could be consolidated. For example, one of the code words was “lack of suitably qualified women”, another was “shortage of women” and another was “issues with pipeline”. I decided that the code word “number of qualified women” could be used instead of these and the data under the other code words could be consolidated. When I had decided on a list of code words I went through the transcripts and included the code words as headings and cut and pasted the script within each transcript so that it fit under the relevant code word. A new document for each code word was created and I cut and pasted the script from each of the interviews so that the relevant script for each code word was included together. So, taking the example of the code word, the "number of qualified women", I found that when the data from all of the interviews that related to the "number of qualified women" was in the one document it was easier to analyse for trends and to assess the number of times this main code word was mentioned in interviews and what the interviewees' views were in relation to this code word. I carried out the same process for each of the main code words. Within each main code word document, I created sub-code words following a similar process to Maitlis (2005 and 2007). This assisted with my categorisation and analysis of the data.

Spencer's criteria (2003) for assessing the quality of qualitative research, was used as a guide to make my research process as strong as possible. Although there are different views as to the appropriateness of using checklists for assessing the quality of qualitative research, I found Spencer's criteria helpful. I sought to increase the credibility of my research in a number of ways. Descriptively rich and comprehensive data was collected through triangulation in data sources and methods (Maxwell, 1996). Member checking was carried out by testing the code words I had selected, my interpretations and my conclusions with individuals from each of the groups that I interviewed (Lincoln and Guba, 1985). Feedback was obtained from individuals who I had interviewed and I cross checked my findings with individuals who had expertise in the area but were not part of my research (Kanter, 1977; Deacon et al., 1998). My dissertation was read by a number of colleagues and stakeholders with experience in financial regulation, before it was finalised, and I made amendments to the dissertation based on their comments.

<u>Other methodologies considered</u>

As set out in Chapter 1, there is a challenge with carrying out research to show the effect of gender diversity on boards, due to the current low rates on women on boards. I considered whether there was quantitative research I could carry out that would enable me to answer my research questions. I also considered doing a survey in which I asked a larger group of regulators and directors of regulated entities similar questions to those that I asked when conducting the semi-structured interviews. On reflection and having discussed the idea of a survey with colleagues I decided that carrying out semi-structured interviews would be preferable as I would get richer data from the interviewees. It also became clear during these discussions with colleagues that senior regulators and directors of regulated entities would be unlikely to complete a survey, whereas if I approached them in the right way I may be able to get access to carry out an interview. It would mean that the calibre and experience of the individuals I would be getting data from would be higher if I carried out interviews than if I sent a survey.

Chapter 4 - Results

I have set out the results from the interviews under the following headings:

- Difference gender diversity makes to how a board operates:
    - Groupthink
    - Decision-making
    - Culture
    - Preparation and Governance
- Difference gender diversity makes to risk
- Steps that should be taken by regulators:
    - Raise awareness
    - Non-binding guidance
    - Comply or explain
    - Quotas
    - Transparency requirements

I have also included tables which include a high-level summary of the responses together with representative quotations.

The below table, which is adapted from a similar approach used by Maitlis (2005), sets out the descriptions I have used when categorising the results and the corresponding percentages.

Description	Percentage of responses in this category
Very small minority	1-10%
Small minority	11-23%
Reasonable minority	24-36%
Minority	37-49%
Majority	51-63 %
Reasonable majority	64-76%
Strong majority	77-89%
Very strong majority	90-99%

<u>Difference gender diversity makes to how a board operates</u>

All except one of the interviewees said that they think that gender diversity on boards makes a positive difference in general, while a very strong majority expressed the view that it makes a positive difference to how boards operate.

The main aspects of how a board operates that interviewees said were positively affected by gender diversity can be grouped under the followings headings: groupthink; decision-making; board behaviour/culture; and preparation and governance.

Groupthink

A strong majority said that they thought having gender diversity on the board led to a reduction in the levels of groupthink. The views expressed in relation to the reduction in groupthink being linked to gender diversity on boards were expressed equally across all interviewee groups. By this I mean that the regulators, policy experts and directors of regulated entities all expressed similar views in relation to the effect of gender diversity on groupthink.

Director D6 stated that "*I think that just by having a gender diverse board you have less groupthink because of the different ways that men and women think you get a diversity of views.*" Meanwhile Regulator R6 stated that "*I've certainly seen instances where there have been a lack of gender diversity on boards and seen management where they have been overly prone to groupthink and a lack of challenge. The counter to that is that I'm now seeing slightly greater degrees of diversity including gender on boards, although less so at executive levels, and I think we do have better functioning boards.*"

Decision-making

A strong majority of interviewees said that they thought that having gender diversity on the board led to improved decision-making. Similar to the results in relation to groupthink these views were expressed equally across all interviewee groups.

Director D11 expressed the view that gender diversity made a difference to decision-making stating that "*100%, it's something which adds real value to an organisation in terms of contrarian views, in terms of different approaches to thinking, and therefore by definition coming to a better decision. I'm an absolutely 100% advocate. I'm passionate because I know it makes a difference. I think it is a massive benefit to the business of having voices that are women at senior levels.*" Regulator R2 also focused on the different approaches to thinking being brought to the board stating that "*you bring different thinking styles to a board and that brings better decision-making because people can see it from different angles.*"

Culture

A majority of interviewees said that they thought there was a change in behaviour and in the culture on the board when there was gender diversity. There were two main points that were made in the responses. One was that gender diversity led to a reduction in “laddish” behaviour and that if there was gender diversity on the board new directors were less likely to be found from within the directors’ existing networks and search firms were more likely to be used.

Referring to the “*laddish behaviour”* Director D2 stated that *“even men at very senior levels can be a bit ladsy. Even all those years later since I started being a director I'm still constantly amazed by the clubishness that can be there in boardrooms. I suppose any diversity would shake that off at best and that can be gender diversity or other types of diversity. There's no doubt that gender diversity forces men to change their behaviour. I don't know why but it does.*”

Preparation and Governance

A small minority of interviewees said that they thought that women were more prepared for board meetings than men were. A small minority of interviewees also said that they thought that gender diverse boards were more governance focused.

Question	Response	Representative quotations
Does gender diversity on a board make a difference to how a board operates?	Yes. A very strong majority said that gender diversity makes a positive difference to how a board operates. Only one interviewee expressed the view that gender diversity did not make a difference to how a board operates.	• I think it makes difference in the way the board operates. (D12) • I think diversity actually matters.(D1) • I think that gender diversity does make a difference on boards. (D2) • I definitely think having more women on boards does make a difference. (D9) • As a general principle diversity is a good thing, diversity of backgrounds. I think the corollary of that is that gender diversity is a good thing. Gender diversity as a general principle is a good thing. (D7) • My personal view is that gender diversity brings about the best outcomes. (R2) • I would say that for me the evidence is clear that on all boards, whether they're on financial firms or not that diversity absolutely does make a difference and I would broaden it out from gender diversity. I would say that diversity of all kinds makes a difference on a board and that I would say I know rather than my gut feel. Therefore I would say translating that that gender diversity of boards of regulated financial firms makes a difference to how firms operate. (R4) • I have seen myself, both in myself and others differences in behaviours based on who is in the room and therefore that type of experience leads me to conclude it probably does make a difference. So based on what I have read and my own experience it does make a difference. (R3) • Yes is my answer to whether gender balance on boards make a difference. (P3)

How does gender diversity on a board make a difference to how a board operates?	Groupthink. A strong majority said that they thought having gender diversity on the board led to a reduction in the levels of groupthink.	• I think that just by having a gender diverse board you have less groupthink because of the different ways that men and women think you get a diversity of views. In terms of risk you get more of a check and balance and thinking rather than groupthink. You're more likely to get a balanced view. (D6) • The problem with the board where everyone looks the same and has the same background is the groupthink problem. People are less likely to challenge each other and ask the awkward questions which is quite important. (D7) • I've certainly seen instances where there has been a lack of gender diversity on boards and seen management where they have been overly prone to groupthink and a lack of challenge. The counter to that is that I'm now seeing slightly greater degrees of diversity including gender on boards although less so at executive levels and I think we do have better functioning boards. (R6) • I think that it makes a difference to things like groupthink that's exactly what I mean. It's not necessarily a gender issue but just having people with different experiences and different perspectives around the table mean that you get a better and more considered final opinion. (R5) • We know what poor looks like, it's a single type of person and it leads to groupthink. (R2) • I think that there is a lot of discussion about getting diverse people on boards so as not to get stuck in groupthink which was a big problem with the crisis but really to hear other voices. It's really important to get good decisions to have diverse views. (P2) • I just think it stops groupthink. If you're on a board with virtually all men, they are inclined to think in the same way and in my view they're inclined to take more risks. In my view women look for more evidence and more balance in decision-making. By their nature women sometimes are more cautious. Perhaps it's because of everything that went before, people are more cautious now. If women were there before the crisis I can't tell how they would have reacted. Women are more inclined to look for options rather than just head down a path. (D12) • Groupthink, I'm not so sure. I think it's down to the individual mindsets. But I can see if you have all-male boards you may have a more aggressive one directional thinking or strategy or action. I would agree that there's less groupthink if there's gender diversity. (D13) • Women are not so worried about losing face in public. So, they are prepared to say stupid things and ask all sorts of questions. Whereas men and boys are more concerned about losing face. That may be an exaggeration but it's a very to the point observation. It may not be universally true but if it is true it's very very important to have a gender mix on boards. Not so much a different voice or sensitivity but a preparedness to say you don't know something. So, I think the hypothesis I have developed in my mind is that actually women are probably less susceptible to groupthink than men. (D8)

How does gender diversity on a board make a difference to how a board operates?	Decision making. A strong majority said that they thought that having gender diversity on the board led to improved decision-making.	• To me what really makes the difference is to have more women on a board together. I think this would make a difference in terms of decision-making and in terms of risks of the institution but it may be not easy to quantity in terms of figures. (R1) • You bring different thinking styles to a board and that brings better decision-making because people can see it from different angles. (R2) • It leads to better decision-making because from the studies I've seen it might be the decision that was about to be made anyway but if there are diversities around the boards they kick the tyres a bit more, they check it a bit more. The more people look at things from a very different angle the sounder it makes the decision you are about to make. (R4) • 100%, it's something which adds real value to an organisation in terms of contrarian views, in terms of different approaches to thinking, and therefore by definition coming to a better decision. I'm an absolutely 100% advocate. I'm passionate because I know it makes a difference. I think it is a massive benefit to the business of having voices that are women at senior levels. (D11) • If there are more women on the pitch I think there would be better decision-making. Things would be considered more in the round. (D5) • I think women are more likely to ask the hard questions. And women raise issues that men won't. I think they bring a different type of thinking. (D1) • Women all bring different questions and challenges to the table. (D13) • From my limited and anecdotal experience, I do have the impression from what I've read that where there is more diversity on boards and not just in terms of gender diversity but diversity generally on boards, having people with different opinions, means that the different elements are considered more carefully. In that sense, I think that having gender diversity on boards means that all the different aspects are more holistically considered. (R5) • I think that gender diversity is more likely to mean the monitoring is tighter. So, women are more likely to cross t's and dot i's. (D6) • The philosophical view underlying it all is that differences are a good thing. So, people bringing their own different experiences and different questions and different things to think about to debates. So, the more diversity you have around the table I think the more likely you are to get effective challenge because people are bringing different things. Whether that's gender or other types of diversity depending on their experience. (R3) • For the most part women that I'm on boards with have the same concerns, they have the same questions, they operate in very much the same manner as I do. They challenge more than men. Generally, the female NEDs questioned more and challenged more than males. Some men would be more challenging. Some men will be more accepting of the proposals and ask questions like has this had the approval of management, as opposed to challenging more. (D3)

How does gender diversity on a board make a difference to how a board operates?	Board behaviour/ culture. A majority said that they thought there was a change in behaviour on the board when there was gender diversity.	• A senior INED on the bank's board, a man, said to me he thought it made a difference when I joined the board. He said it changed things. I think it might stop some of the more laddy stuff. (D5) • There would be less of a clubby atmosphere among the men. I do think that sense of "we're all mates" exists. "No sorry we're not all mates - we're here to do a job and then we can go home." I think there would be less of impressing the alpha male type behaviour. I think women would improve all of that. (D5) • Even men at very senior levels can be a bit ladsy. Even all those years later since I started being a director I'm still constantly amazed by the clubishness that can be there in boardrooms. I suppose any diversity would shake that off at best and that can be gender diversity or other types of diversity. There's no doubt that gender diversity forces men to change their behaviour. I don't know why but it does. (D2) • I think a woman tends to make challenges in a different way. I think often times women tend to consider things. I think the EQ piece tends to be higher with women. And they tend to consider the management or the staff impact a bit more. But mostly I think it's the manner in which things are done. It's rare to find overtly aggressive challenge. But whether that's because so few women make it and those that do have long since learnt that if they show aggression they won't succeed. (D5) • Most boards I've on there have been at least 1-2 men who have said that before I joined certain issues would never have surfaced on the board. One male colleague said to me you throw something into the middle of the room we were all thinking it but we wouldn't have said it. (D4) • I've seen anecdotally that the conversations in the boardroom change. Women bring different and more emotional skills to the table. There are conversations and fears that can be expressed in more balanced terms depending on the culture of the board which depends a lot on the chairperson. (P3)
How does gender diversity on a board make a difference to how a board operates?	Preparation. A small minority said that they thought that women were more prepared for board meetings that men were.	• Anecdotally people say that the female board member asks more honest open questions. I've heard things like women really put the leg work in and do all the prep, that they are very well prepared. I've heard that said about women with the inference that some of their male colleagues probably don't. Anecdotally the conversation seems to be that women on boards genuinely adds a robustness to the conversation. A different point of view. And women are happy to challenge the status of quo. (D9)
How does gender diversity on a board make a difference to how a board operates?	Governance. A small minority said that they thought that gender diverse boards were more governance focused.	• I tend to find that women are more governance focused. More men may be more inclined to leave the company secretary to deal with governance issues whereas most women wouldn't take that approach. They'd be very cautious that everything is done appropriately. (D2) • We are using a search firm for the first time. My chairman would have been a bit more, "I know a fella who knows a fella and he's a good chap". Since we engaged the search firm we have seen women we wouldn't otherwise have seen and we have seen men we wouldn't otherwise have seen. (D5)

Difference gender diversity makes to risk

A question I asked interviewees was whether they thought that gender diversity on boards makes a difference to the risks taken by regulated entities. In answering this question a reasonable majority of the interviewees expressed the view that if you are in the financial sector your job is to take certain risks. A director of a credit institution said that "*banking is about taking risks, if you don't want to take risks you're not in banking. Any investment is uncertain. If every loan that a bank gave out had to be absolutely secure then many people would never get a loan*."

The point that was repeatedly made was that it is not about not taking risks, it is about taking calculated risks, trying to look at it from all angles. As a policy expert said "*it's this excessive risk taking that we're looking at.*" A strong majority of interviewees expressed the view that the quality of the decision-making process, the level of debate and discussion, looking at the issues from different angles will help to reduce excessive risk-taking. It was not that they believed that women had a different risk appetite, it was that the improvement in decision-making which results from gender diverse boards would mean that better decisions would be made in relation to risks.

A strong majority were of the view that gender diverse boards reduced a regulated entity's risks. The reasons for this link closely in with the comments made on gender diversity reducing levels of groupthink and improving decision-making. A strong majority of the interviewees that said that gender diverse boards reduced risk said that this was because better decisions were made by regulated entities because there were more diverse views put on the table and there was more challenge before decisions were made. A distinction should be drawn between this and whether a firm's risk appetite would be different if there was a gender diverse board. All of the interviewees that raised this issue expressed the view that the risk appetite of a regulated entity would not change if there was a gender diverse board.

The following comments by Policy Expert P8 reflect the views expressed by a strong majority of interviewees: *"I would tend to agree that women aren't more risk averse but it's that they would prefer a better case to be made. So, it's not that their risk appetite is less but their desire to be more convinced that the risk mitigation is in place is more. Which means in a sense that they're probably more concerned about impact and outcome. Therefore, they would tolerate as high a level of risk as anyone else if they were convinced that there was a little bit better mitigation available. I would qualify that a little bit. I wouldn't say that they are more risk averse or they take less risks but that they would prefer to make sure that the safety nets are in place so that there's more mitigation in case things don't work out."*

Regulator R5 pointed out "*people always say that women are more risk averse*". Despite this only a small minority expressed the view that female directors are more risk averse than male directors. A majority of interviews expressed the view that female directors do not have a different attitude to risk than male directors. A reasonable minority said that they did not know whether female directors had a different attitude to risk than male directors.

Question	Response	Representative Quotations
Do gender diverse boards reduce risk?	Yes. A strong majority were of the view that gender diverse boards reduced a firm's risks. The reasons for this link closely in with the comments made on gender diversity reducing levels of groupthink and improving decision-making. A strong majority of the interviewees that said that gender diverse boards reduced risk said that this was because better decisions were made by firms because there were more diverse views put on the table and there was more challenge before decisions were made. A distinction should be drawn between this and whether a firm's risk appetite would be different if there was a gender diverse board. All of the interviewees that raised this issue expressed the view that the risk appetite of a firm would not change if there was a gender diverse board.	• Any complete elimination of one segment of your target population is a risk. Not to get those perspectives and to begin to understand parts of the world is risky. I think they tend to reduce risk by being more representational for one. (P3) • I would have to ask you to tell me that from your research. My personal opinion on this is that I think men and women approach decision-making very differently. And having that balance of how we approach decision-making absolutely reduces risk. Then bringing those two types of decision-makers together and debating I think that comes to potentially a different outcome and absolutely lowers the risk. (D10) • I don't think that having women on the board makes a difference to the outcome in terms of risk profile but I think that women have to get everything on the table. I don't know why and I don't want to engage in cliche but it's my experience. Everything is put out there and available for discussion when women are on the board. (D8) • The key question is what is the risk to the business of not having women in key positions. Do you generate a monoculture. There is absolutely no doubt that there is a city monoculture around lads where the women have to become like lads. That's the real challenge breaking up monocultures. When you're in a group and there are different sorts of people you have to examine your own assumptions more and explain things more from first principles. (D8) • If I think about the Lehman Brothers versus Lehman Sisters thing. If I think of the Irish banks some of them had women on them. I bet you if you had run the lead up to the financial crisis again with 50-50 women and men on the boards you would have had a different outcome. It was very cliquish, men playing golf with each other. I think it would have been harder to be one or two women minority on the board but if you had numbers and could act as a balancing act to the prevailing ethos about more and more and more that would have had beneficial results. (D7) • The women on the boards that I've seen have asked the challenging questions but not in a non-awkward way, but they just persisted with it. I think that's the risk-benefit there. (D7) • Diversity is good for risks as it brings different perspectives. But then I'm thinking let's not generalise and let's look at the women I've seen in senior roles. I don't know if there's something about being a woman that makes you better at risk. Diversity of background, diversity of feeling is very important. I think in terms of risk you want a specific background, someone who has the technical skills of risk and also the technical enquiring mind and willingness to ask the common sense question and I think that's not gender specific. (D7) • I wouldn't agree that there's no difference in the type of risk the firms take when there are women on the boards. Think it goes back to the level of challenge. To me if proposals were questioned and they weren't proceeded with because of that then that will reduce the level of risk. I think that it must be hard to measure levels of risk. (D3)

Do female directors have a different attitude to risk?	No. A majority expressed the view that female directors do not have a different attitude to risk than male directors. A reasonable minority said that they did not know whether female directors had a different attitude to risk than male directors. A small minority expressed the view that female directors are more risk averse than male directors.	• People always say that women are more risk averse, I don't know if that is true or not, but in line with the question we're talking about now I think that you are more likely to get a more balanced view of risk-taking. So, in that sense I think that it would have a positive impact in terms of the level of risk taken. So, I mean it would probably reduce the risk. (R5) • Risks, that's not something I would have a view on because I see no evidence either way. Instinctively it could go either way because you could say women are more risk averse with money. But you could have women being more creative which could lead to different types of risks. (R4) • Do I think men and women have a different attitudes to risk? The research isn't in. (P3) • Another thing I've noticed is that women seem to be more able to get into the detail with questioning rather than just accepting things at a higher level. They probably are not necessarily more risk averse but more wanting more evidence or assurance. (D6) • I think that women are better at stress testing. (D4) • There's evidence of women considering downside risk more and as investors managing their own company. (D5) • They certainly wouldn't take the risk without covering all the boxes. (D2) • Women that make it senior levels are typically very driven and ambitious. What's to say they would have acted any differently to a man that is driven. I think women truthfully are more risk averse because they like to know the detail. But I'm not sure that would have made a hell of a difference. (D12)

<u>Steps that should be taken by regulators</u>

<u>Raise awareness</u>

All interviewees were of the view that regulators should raise awareness as to the benefits of gender diversity on boards with an international policy expert (P3) stating "*I think it's incredibly important to start talking about it*." Interviewees had different ideas as to how regulators should go about raising awareness. These ideas can be split into three categories 1) raise awareness with regulated entities through supervisory interaction including through conversations and correspondence with the regulated entity 2) raise awareness publicly by publishing papers and giving speeches 3) raise awareness among other regulators and for example in the case of banking, raise awareness with the ECB and the Financial Stability Board.

As well as expressing the view that regulators should raise awareness, a strong majority were of the view that there was a need for increased awareness as to the benefits of gender diversity on boards as regulated entities may not be aware of these benefits. As one Director (D5) put it "*I don't think boards genuinely believe that this will make a difference. I think that they are doing it more for PR. If I'm honest I think most of them know that the world has changed and they have to get with the program more than they really believe that having women makes a difference.*" A comment that was made by a small minority of interviewees was that the regulator needs to be careful in how it talks about this issue. As one policy expert stated (P3), **"***we keep saying women on boards which is really irritating to men. So, we need to talk about gender balance."*

Raise Awareness	**Response**	**Representative quotations**
Would you support this step?	Yes. All interviewees were of the view that regulators should raise awareness as to the benefits of gender diversity on boards.	• Regulators should try to raise awareness of the benefits of diversity. (D2) • There wouldn't be unintended consequences of that. (D5) • I don't see any disadvantages of a regulator trying to raise awareness of this. (D7) • My own predilection would be to find ways of going down this road without legislation. You tend to have the wrong sort of debate often when you have legislation. (D14) • I would say regulators should take steps to encourage and promote gender diversity. I don't think there are any drawbacks from regulators trying to raise awareness of the benefits of gender diversity. I think everyone has the responsibility of trying to raise awareness about women in leadership. (MM) • Raising awareness definitely and this could be one of the ways of doing that. Awareness raising is always positive. (R5) • For us it is much more important to raise awareness. Our intention is to raise awareness and potentially to create a big number of potential candidates that could enrich this group. (R1) • Absolutely. (D12) • I think raising awareness is a better way. It's a bit like cajoling. (D13) • We could also raise awareness through engagement with industry groups. (R8)
Effect of this step	Very few interviewees commented on whether they thought that raising awareness would make a difference to the level of gender diversity on boards. The interviewees that commented on the effect that raising awareness would have said that they thought that it would lead to boards being more aware of the difference that gender diversity can make.	• It's really to promote other views that haven't been heard before and we can't afford not to listen because it's too costly for all of us. Take a positive view and work with the banks to spur them, to incentivise them to be champions. Get their buy in. (P2) • I don't think that there is an appreciation of the real strategic benefits of different ways of thinking about problems and talking about them that gender diversity brings. I think getting to an understanding of the strategic benefit is a long haul. (D8) • I'm struggling to think of another country that has taken a proactive stance on this that hasn't had a positive shift. (D9)
Would there be pushback against this step	No. Given that all interviewees were in favour of raising awareness it is implicit that there would not be pushback.	• I think you're pushing an open door. Most boards have it on their agenda. (D13)

Non-binding guidance

Interviewees were asked if they would support a regulator going beyond simply raising awareness of the benefits of gender diversity on a board (through supervisory interaction, publicly and with other regulators) and implementing non-binding guidance setting out the levels of gender diversity that regulators would expect to see on boards. Non-binding guidance could for example state that regulators expect to see a minimum of 30 per cent of each gender on boards of regulated entities. If regulated entities failed to comply with that 30 per cent minimum level, there would be no sanctions. A strong majority of interviewees were in favour of non-binding guidance being issued. Although a strong majority were in favour of non-binding guidance being issued, a reasonable majority were of the view that there would be pushback from industry against such non-binding guidance.

A reasonable majority of interviewees said that non-binding guidance would only work if there was the threat of quotas in the background. A number of interviewees, all of whom had experience in the UK, said that the voluntary approach set out in the Davies Review in the UK only worked because there was the threat of quotas in the background. As one director stated (D1) "*targets only work if quotas are in the background."*

One international policy expert warned against "*norm setting*" by selecting a particular percentage for a target saying that the norm in the UK has now been set at 30 per cent following the Davies Review. This individual's view was that by setting the percentage at 30 per cent, that would become the level that was considered acceptable and there would be no pressure on regulated entities to go beyond 30 per cent.

Non-binding guidance	Response	Representative quotations
Would you support this step?	Yes. A strong majority were in favour of non-binding guidance.	• I do think that guidance should be issued. I think guidance should be seen as sort of a starting point. My own experience is that you need to have pretty strong guidance first of all. I think that guidance needs to be represented very strongly. That's one of the markers that regulators will be looking at to tell them about the culture is whether there is real diversity in the firm. (D14) • I think that would be excellent. (D5) • Regulators can say they prefer to see gender diversity but it's not mandatory and see what happens. Targets only work if quotas are in the background. (D1) • I think that targets would be a very good thing and that firms should be encouraged to have more women. So there would be a target of the minimum percentage of women. At least boards would have to demonstrates that they are actively trying to find more women. (D3) • Non-binding guidance would be the regulator being a shadow director. (D11) • I think it would be a failure if you moved to guidance. I think if the regulator does your first approach in a proper way it will naturally happen because half the population are women. (D11)
Effect of this step?	A reasonable majority said that non-binding guidance would only work if there was the threat of quotas in the background.	• Regulators can say they prefer to see gender diversity but it's not mandatory and see what happens. Targets only work if quotas are in the background. (D1) • Why we've been successful in the UK, it's recognised and the government signalled that if the Davies report and voluntary targets didn't work we would have probably imposed quotas over time. (D10)
Would there be pushback against this step?	Yes. A reasonable majority were of the view that there would be pushback.	• I think there would be a lot of pushback. There would be huge resistance. Because it's very male dominated. There are some people who really get it and there's four times as many who don't get it at all.(D14) • I think that women on boards would be very supportive of that but because boards are still made up of a majority of men they might be resistant to that and there might be pressure from boards. But the pressure might be coming from a male perspective. (D3)

Comply or Explain

I asked interviewees if there was evidence that gender diversity on boards made a positive difference, if they would support the regulator implementing a comply or explain regime whereby the regulator set a target for gender diversity on the board and regulated entities would either have to comply with it or to explain why they could not comply. A reasonable majority were in support of comply or explain. The support for comply or explain was split evenly among interviewee groups. One Director (D1) said that *"I like comply or explain. I think it's one of the best corporate governance rules we have.Yes, I think comply or explain would be a good way to do this."* While another Director (D5) said that "*I think it's better than an arbitrary quota.*" The timing of this intervention was key with a small majority saying that regulators should first try to bring about change by raising awareness and implementing non-binding guidance. A policy expert (P2) put it that *"if nothing happens then I think comply or explain definitely.*"

A small majority said that most regulated entities would try to comply. There was a split between interviewees who thought that regulated entities would try to comply and those that thought that regulated entities would use the 'explain' tool without trying to comply. One Director (D4) who believed that regulated entities would try to comply said that "t*he impact of that is that firms and directors don't want to be in the explain part. If everyone ignores this, then it is not worth anything. But normally what happens is that the best rise to the top. And everybody raises the bar. So, I think it's much better than lip service."* A Regulator (R3) was much more negative on the chances of regulated entities complying, saying that *"if it becomes palatable to have an okay explain or an okay excuse I think it can let firms off the hook*" while a policy expert said that "*the problem with comply or explain is they just won't do it.*" A strong majority were of the opinion that the most common excuse for not complying would be that there was a shortage of suitably qualified women. As one Director (D8) stated, "*most firms would say that they looked to the field and they had the best candidates for the job and that none of them are women.*"

A reasonable majority said that there would be pushback against comply or explain. A number of interviewees said that if it was framed as being comply or explain or quotas then comply or explain would be received more positively. One Director (D11) was vehemently against comply or explain saying that "*there will be no banks for women to be in if we're not careful. If your model is comply or explain and quotas and you're telling banks to do things then it will be just another example for investors of what Ireland is doing wrong and they will take their capital and there will be no Irish banks because there will be no capital.*"

Comply or Explain	Response	Representative Quotations
Would you support this step?	Yes. A reasonable majority were in support of comply or explain. The timing of this intervention was key with a small majority of saying that regulators should first try to bring about change by raising awareness and implementing non-binding guidance.	• I like comply or explain. I think it's one of the best corporate governance rules we have. Yes, I think comply or explain would be a good way to do this. (D1) • Comply or explain, I think it's better than nothing. (D4) • I think it's better than an arbitrary quota. (D5) • I don't think you'll be able to impose binding requirements straightaway. I like the idea of the comply or explain regime. (D6) • I would probably be cautious. I'd say less, try one degree less. Which is guidance and league tables and transparency and challenging people and maybe go to comply or explain later. (D7) • If you're a policymaker you're thinking you have a limited amount of political capital. What do I want to spend it on? Maybe the political winds would shift and if I had the opportunity I would go for it. So, if it was quiet on other fronts and I had a lot of goodwill behind me and there was something in the media, the environment. This could give me good backing. So, if there was an old boy insurance company that had no female directors that had gone bust then I might say let's go for this, this is a good time. But if there wasn't a fertile environment would I spend a lot of political capital on that if I had a lot of things to fight for. If I just had it without any of that consideration would I go for it. Then I think yes comply or explain or harass and transparency. Somewhere between the two maybe. (D7) • Having a comply or explain regime might be a good thing. It's probably not a bad idea to not worry about hearts and minds but just get the numbers right because then the hearts and minds will start to follow. Because if you try to change the hearts and minds over time this will take a long time. It starts with Emmeline Pankhurst and is still going on I think. (D8) • Having targets is the same as comply or explain and I agree with them. (D10) • If nothing happens then I think comply or explain definitely. (P2) • So overall I would say I'm not a fan of comply or explain. I probably lean more towards some kind of intervention. (R3) • I kind of like that methodology. It has real backbone to it and it does get change. You see the Australians used this. You either comply or you explain what you have done to try and get the percentage of women on boards. I like this as it still ultimately keeps the reins of the decision-making in the hands of the execs. Which I think is important. But it also really does expect progress to happen. (D9) • More typical for a regulator would be a comply or explain type regime. Where you've an indicative target and if you don't comply with it within a period of time, having a mechanism whereby you have to explain why not, might be helpful. (R8)

Effect of this step?	A small majority said that most firms would try to comply. There was a split between interviewees who thought that firms would try to comply and those that thought that firms would use the 'explain' tool without trying to comply.	• I think for example of what has happened under board size which is comply or explain. The impact of that is that firms and directors don't want to be in the explain part. If everyone ignores, this then it is not worth anything. But normally what happens is that the best rise to the top. And everybody raises the bar. So, I think it's much better than lip service. (D4) • Frankly if I'm on the board and something needs to be explained I'll go come on let's correct it. Because there's a reason why these regulations encourage you to go one direction. (D4) • I think if comply or explain works it works very well because you're not mandating but the reality is you're creating a principle of transparency. Organisations will have to explain externally and to themselves what they're doing and why. Most firms would say that they looked to the field and they had the best candidates for the job and that none of them are women. That's how that would go but I still think that having to say that creates the necessity of thinking about it next time. It's inculturating. So I'm a fan of comply or explain but I think where you set the calibration matters quite a bit. I think that would be one way of doing it. (D8) • There is a pragmatism that if you've really genuinely done a search and for whatever reason you can't find a female who you think is the best fit it gives you the opportunity to go with a man who is the best fit. (D9) • I think comply or explain has been quite useful. I'm thinking of comply or explain in the context of financial regulation generally. The effect is similar to having binding regulations in some ways because in most cases if you have to publish your compliance most subjects would actually comply. So I think it's quite a smart way of getting the same result as binding requirements while having that perceived flexibility. So, I think it's quite a powerful tool. (R5) • I don't agree that comply or explain would work well. I'm worried that that sort of thing could end up giving a very negative message. To me it's about a culture change that welcomes diversity, that embraces diversity. If you do comply explain where do you stop. It's not just about the board. Do you put them on all senior committees too? (R4) • Comply or explain for me, I've had mixed experience both in terms of seeing how it has worked or not internationally. If it becomes palatable to have an okay explain or an okay excuse I think it can let firms off the hook. (R3) • The problem with comply or explain is they just won't do it. (P3) • Comply or explain, perhaps because if it's just a guideline I don't think anyone would comply. The reasons people would give for not complying would be shortage of women. You'd make sure you have to have women on the recruitment panel. If you're forcing that you don't get the right calibre of woman sometimes. (D12)

Would there be pushback against this step?	Yes. A reasonable majority said that there would be pushback against comply or explain. A number of interviewees said that if it was framed as being comply or explain or quotas then comply or explain would be received more positively.	• I think there's enough going on about gender diversity for comply or explain not be seen as a big issue. I think once you have a comply or explain regime people are exposed to more gender diversity. I'm not saying name and shame but you might consider doing something like that. (D6) • I think that comply explain could be a smarter way to deal with the issue, in terms of achieving almost if not the same end result but maybe with a little bit more buy in or more acceptance from the industry side. (R5) • I think the challenges around this are increased bureaucracy, increased frustration, increased costs. Because you're having to look further longer and harder for a female board member – creates additional costs but none of that negates the opportunity and benefits of doing that. (D9) • There will be no banks for women to be in if we're not careful. If your model is comply or explain and quotas and you're telling banks to do things then it will be just another example for investors of what Ireland is doing wrong and they will take their capital and there will be no Irish banks because there will be no capital. (D11)

<u>Quotas</u>

I asked interviewees if there was evidence that gender diversity on boards made a positive difference, would they support the regulator implementing a binding quota. The views expressed by the interviewees were spread equally across the interviewee groups. A small majority said that they would support quotas. 30 per cent was mentioned as the quota level by a majority of interviewees. The majority of those who said that they would support quotas said that they would do so reluctantly. A Director (D1) who was in support of quotas said that "*it's a fine balance. But on balance I don't like the idea of quotas but I like the effect of them.*" A Regulator (R6) who ultimately expressed support for quotas expressed similar reluctance initially, saying that "*I think it is all degrees of problematic. I think there are issues with quotas. And I would rather we lived in a world where we didn't have them. But other solutions aren't coming. Maybe quotas are necessary.*"

Although a majority said that they would support quotas, the timing of implementation of quotas was key and a reasonable majority of the interviewees who said they would support quotas said that they would like to see the regulator try to bring about an increase in gender diversity through taking other steps before imposing quotas.

The interviewees who said that they would not support quotas were asked if they would support quotas if all other attempts by the regulator to improve gender diversity failed. A majority of this subset of interviewees said that they would support quotas in these circumstances if there was strong evidence that gender diversity made a positive difference. Director R4 said that "*If you have firms that just ignore it then I think you do have to do something. A bit like what they did in the UK with the first 25% target. I think there are ways of making it happen but if it still doesn't happen then*

I think you need to call it. I think having that threat in the background can make things change." Regulator R1 said that quotas would be "*a last resort*" and would not be imposed "*at a very early stage*", saying that "*we prefer to convince and not impose*."

A reasonable majority of interviewees spoke about the negative effects of quotas. The negative effects which were mentioned most often were in relation to there being a shortage of suitably qualified women and the best candidate not getting the role. One Director D12 said that if you start with quotas "*you're going to end up with the wrong people*" and "*will have women in roles who aren't competent enough and lack credibility.*" The achievability of complying with a quota came up again and again with a small majority of interviewees referring to the inadequate pipeline. As Director D6 stated "*the pipeline hasn't been thought through. You can't impose or even suggest targets if your baseline is so low that it would take years to get there because you don't have the talent going through."* Another possible negative effect of quotas that was referred to by interviewees was the possibility of female directors being considered 'tokens'. Regulator R5 stated that *"the drawbacks of having quotas and having a very strong bias towards promoting gender diversity is that then you get people commenting that so-and-so got this position because she's a woman. It doesn't help to put the person off to a good start in terms of the organisation."* Director D13 said that he did not "*think it's healthy for female participants going into roles. They might think they are only here because of the quotas.*"

A strong majority said that there would be pushback against quotas. However, the extent of the pushback would depend on when quotas were introduced and whether the regulator had tried to increase gender diversity by taking other steps before imposing quotas.

Quotas	Overall Response	Representative Quotations
Would you support this step?	Yes. Small majority said that they would support quotas. The majority of those who said that they would support quotas said that they would do so reluctantly. Although a small majority said that they would support quotas the timing of implementation of quotas was key and a majority of the interviewees who said they would support quotas said that they would like to see the regulator try to bring about an increase in gender diversity through taking other steps before imposing quotas.	• I don't think I'd call them quotas, I think you should call them specifications. I basically think that having a specification to have a woman is a good idea. (D1) • I think it's a fine balance. But on balance I don't like the idea of quotas but I like the effect of them. (D1) • I think it is all degrees of problematic. I think there are issues with quotas. And I would rather we lived in a world where we didn't have them. But other solutions aren't coming. Maybe quotas are necessary. (R6) • At this stage in my career I actually do think that quotas are a good idea. At one point I wouldn't have been in favour of quotas. Now I think that it's a price worth paying that people might say that a woman just got the role because she's a woman. (R4) • Quotas may not be the best way of going about things but I do think that sometimes that's needed to get things going. That is to have gender equality and to enhance decision-making. I think it becomes more important from the regulators point of view, whose job it is to focus on financial stability. I think it's easy to make a case. (P2) • Everyone's against EU quotas. Every senior woman I've talked to and most men have been against them until they realise there's no progress until you put them in. And then you put them in and they find all these women who didn't exist. (P3) • There probably should be a mandatory requirement for a 3rd of women on a board or to at least have one woman on every board. (D3) • I'm not a big fan of quotas. I think there are probably cases for quotas. (D10) • I would generally in the past have been someone who was quite concerned about them and that people should get things on merit and all that. (R3) • I would stop short of quotas. I'm quite biased. I've never been fond of quotas. It would be very hard to move me to a quota. (D5) • I wouldn't start with a quota because once you get to formal quotas the evidence in Scandinavia where they have quotas is that actually it hasn't penetrated down into the organisation. (D11) • I'm not a believer in legislative quotas. I'm a believer in changing people's minds and hearts. Minds and hearts have to change first and then you have the legislation. I wouldn't be optimistic about hearts and minds changing as a result of experience of gender quotas. (D14) • I'm not a fan of enforced gender targets. (D8). • I would say I understand the huge frustration about the lack of progress of women in the exec group. And I think the glacial pace of change is creating more and more momentum for the quotas idea. (D9)

Would you support this step if everything else failed?	Yes. The interviewees who said that they wouldn't support quotas were asked if they would support quotas if all other attempts by the regulator to improve gender diversity failed. A small majority of this subset of interviews said that they would support quotas in these circumstances.	• If you have firms that just ignore it then I think you do have to do something. A bit like what they did in UK with the first 25% target. I think there are ways of making it happen but if it still doesn't happen then I think you need to call it. I think having that threat in the background can make things change. (D4) • It should be a very last resort that you mandate it. I think there is a way to bring the industry on this journey. If you teach them about best practice hopefully you won't need to mandate it. (D4) • I can see the argument for this and I can also see the resistance. I don't think I could answer that until I saw evidence of lack of progress in comply or explain. Sometimes in these things you have to go step-by-step. (D6) • This would be a last result. And not at a very early stage. We prefer to convince and not impose. (R1) • My general view about regulation is probably firms should be given an opportunity to think about things themselves in the first instance before you make interventions because interventions can have unintended consequences and also interventions may only be required at a particular point in time and they may not need to be permanent interventions. (R3)

Effect of this step	A reasonable majority of interviewees focused on the negative effects of quotas. The negative effect mentioned most often was around there being a shortage of suitably qualified women and the best candidate not getting the role.	• I hope that there'll be so many women on boards now that it won't be unusual. That's the point of quotas, to get women forced into the system and then they're there. (D1) • The positives are the quotas will work. (D9) • I can see though how quotas might drive action to get to levels that regulators might find appropriate. (D13) • I don't think mandating it would have a negative effect on Ireland because I think that Europe may mandate it first. (D4) • The negatives are as soon as you start to remove from the execs the sense that they are really the people responsible for this, you remove that sense of commerciality. (D9) • I see the disadvantages of quotas. Women disqualify themselves because they don't like the idea. And men have the opportunity to snipe. (D1) • Then men get demotivated and say that I'm not going to progress because management positions are given to a woman. (R5) • The problem with quotas is they're seen to be unfair and that's fairly difficult to overcome without a fair amount of training with the public. (P3) • If you start from the top with quotas you're going to end up with the wrong people. (D12) • The concern I have about regulators getting involved is that it will force banks to comply without dealing with the issue of not having a proper pipeline. We will have women in roles who aren't competent enough and lack credibility. (D12) • Also, there could be issues with the achievability of hitting the target. (D13) • Do you end up not having the best candidates in the role? (D13) • I think that what has happened with the whole gender diversity is that the pipeline hasn't been thought through. You can't impose or even suggest targets if your baseline is so low that it would take years to get there because you don't have the talent going through. (D6) • I think targets are always a double-edged sword. I'm strongly of the view that you need to have diversity. People need to explain what they're doing. My own personal view is that targets can have negative consequences. (R2)
Would there be pushback against this step?	Yes. A strong majority said that there would be pushback against this step. However, the extent of the pushback would depend on when quotas were introduced and whether the regulator has tried to increase gender diversity by taking other steps before imposing quotas.	• I don't see a challenge for [my firm] if gender quotas came into place. (D10) • I would react really badly to being set targets, guidelines, comply and explain. If I got told to do something like that I would probably question my own capability. The regulator has to be careful that they don't diminish the roles of senior executives in Irish banks. I think the level of trust between regulator and bank would fall even further. (D11)

Transparency requirements

Transparency requirements were suggested by the second individual I interviewed and I asked all subsequent interviewees what their views were on them. There was very strong support for transparency requirements among interviewees. When asking interviewees for their views on transparency requirements I explained that they would be a requirement for regulated entities to state publicly what their level of gender balance was at board level and three layers down.

The reason that was given by the strong majority of interviewees for why they would support transparency requirements was because it would help to improve the pipeline. The following comments by Director D13 reflected the views expressed by a strong majority of directors *"I have no difficulty with the Central Bank doing this softly through league tables. With them pushing this and explaining why. Because it does make a difference from the data that we have. That's the way I would do it. It's not an unimportant thing to focus on.*" A small number of interviewees said that there should be evidence produced first that transparency requirements were needed. One interviewee was strongly against any transparency requirements, regardless of the evidence that was produced. As this individual put it "*they will lead to suboptimal decisions because people are chasing diversity because of the league tables*" (D11).

There was a very strong view that transparency requirements would draw attention to the pipeline of women at senior levels and that this attention would provide impetus for regulated entities to try to improve their pipeline. As Director D5 put it "*the transparency requirements would help to make a difference because it would highlight the issue and how stark it is*". A number of directors referred to potential media focus on the transparency statistics as being a driver towards improved gender diversity statistics. Director D13's comments captured this sentiment "*I think if there was some public visibility of what the makeup of boards was in terms of gender balance our friends in the media would delight in calling it out. That in itself, that sort of peer pressure, would push the target levels that institutions have.*" A small minority expressed views that there may be negative effects with one director saying the negative effect could be that businesses may not want to do business in the countries that had transparency requirements and a policy expert saying that once regulated entities saw that other regulated entities had similarly low levels of gender diversity they may relax and not take any steps to improve.

A small minority expressed the view that there would be pushback against transparency requirements with Director D7 saying that he was "*sure there be resistance from regulated entities to the rule.*"

Transparency requirements	Response	Representative quotations
Would you support this step?	Yes. A very strong majority supported transparency requirements. A small number of interviewees said that there should be evidence produced first that transparency requirements were needed. One interviewee was strongly against any transparency requirements, regardless of the evidence that was produced.	• I would be totally in favour of that. (D5) • There is no reason why transparency on the number of employees of each gender at different levels shouldn't be published. (D6) • My dream policy of regulatory measures would be and still is to make companies publish gender stats more clearly. Board and CEO level and three layers down. If we could just get that as a regulatory measure I think that would be less contentious and more revealing. Why not just be transparent. Why not have regulatory requirements around transparency which they all say they buy into. (P3) • I think it would be a really good thing to do. You would demonstrate then how unequal things are. (H1) • That's a better way of using peer pressure. I've absolutely no difficulties with that. I've no difficulty with the disclosure or transparency. (D13) • I have no difficulty with the Central Bank doing this softly through league tables. With them pushing this and explaining why. Because it does make a difference from the data that we have. That's the way I would do it. It's not an unimportant thing to focus on. (D13) • I think firms should have a compulsory section in their reports on diversity and how that percolates through the organisation. (R2) • It makes sense. This should be for reasonably senior levels. It makes sense from a pipeline perspective. (P2) • If you start putting the transparency thing up you will actually not maximise value for the shareholders. If you have transparency requirements though they will lead to suboptimal decisions because people are chasing diversity because of the league tables. League tables or transparency are complete nonsense because they drive the wrong decisions. (D11)

Transparency requirements	Response	Representative quotations
Effect of this step	Positive. There was a very strong view that transparency requirements would draw attention to the pipeline of women at senior levels and that this attention would provide impetus for firms to try to improve their pipeline.	• That might change culture because everyone would want their numbers to look reasonable. I'd be very supportive of all initiatives that help women to succeed and reach their potential. (D3) • I think the transparency requirements would help to make a difference because it would highlight the issue and how stark it is. (D5) • It would highlight an issue that at the junior levels you have ogles of women who are doing not well paid work and as you go up there are fewer and fewer women. (D5) • That would give you the information about the pipeline and how realistic it is. It's so true that's what gets measured gets done. Once things get tracked and exposed in a transparent way it does focus the mind. (D6) • One of the things I really noticed is that when you published comparative information people get competitive and they start to take action. (R5) • I was wondering if you were to take the 130 ECB significant institutions and you were to publish statistics on gender diversity on their boards. I think that could be quite a powerful tool to raise awareness and maybe to start a debate and some institutions would feel that they may need to do something to look better in the picture. This is something coming from my experience not as a banking supervisor but from working in big institutions that this is something this is quite a powerful tool. It needs to be something that is visible. (R5) • If the ECB were to publish that information it may be interesting, people may look at this. We would have to see whether there was the appetite in the ECB to publish that sort of information. (R5) • I think if there was some public visibility of what the makeup of boards was in terms of gender balance our friends in the media would delight in calling it out. That in itself, that sort of peer pressure, would push the target levels that institutions have. (D13) • The only negative in terms of transparency would be if it led to businesses not wanting to do business in Ireland. (D3) • I can’t see any negative consequences of putting a transparency requirement in place. (D5) • The eventual drawback of transparency is everyone would realise that everyone else is pretty badly off so they could relax. (P3)

Transparency requirements	Response	Representative quotations
Would there be push back against this step	No. A strong majority said that there would not be push back against transparency requirements. A small minority expressed the view that there would be pushback against transparency requirements.	• There would be push back. You do hear concerns expressed that Ireland is becoming an increasingly difficult place to do business and because of the swathes of legislation that are coming through. (D3) • I'm sure there be resistance from regulated entities to the rule. (D7) • I don't think that there would be lots of pushback against transparency requirements. If they had any sense, there wouldn't be. (D12) • I don't think there would be pushback, I think the one thing you need to be really careful of in this is avoiding duplication. Because there would rightly be pushback if the FRC came out with one reporting standard, the PRA and FCA came out with another reporting standard, the ECB came out with another reporting standard that would be a nightmare. So, there has to be consistency and thoughtfulness about the burden that's being placed on firms. (H4)

Chapter 5 - Discussion

Having set out the results of the interviews in Chapter 4, I will now discuss and interpret the results. In doing so, where possible, the results will be linked with the literature which is set out in Chapter 2 and the literature will be used to help explain the results. Where the results diverge from the literature this will be highlighted. It will also be highlighted where the results provide support for previous studies in this area.

At the outset of the discussion I think that it is worth emphasising that the interviewees indicated that they were answering the questions based on their own experience. While a limited number of the interviewees were familiar with research in relation to the effect of gender diversity on boards, even the interviewees that indicated an awareness of the research, said that they were answering based on their own experience and what they had observed when acting on boards or when interacting with boards.

Does gender diversity make a positive difference?

Many of the interviewees said that they believe that gender diversity is important from an ethical perspective. This is consistent with Singh et al.'s (2001) research in relation to the desirability of board gender diversity from an equitable perspective. This view was expressed equally by male and female interviewees. They held the view that it was unfair to have such low levels of women at the top echelons of regulated entities. However, a very strong majority of interviewees said that regulators did not have a role in increasing gender diversity on boards for purely ethical reasons. A strong majority of interviewees said that regulators have a role in this area if there is evidence that gender diversity on boards makes a positive difference to how boards operate and/or to the risks taken by regulated entities.

Difference to how boards operate

All except one of the interviewees said that gender diversity on boards of regulated entities makes a positive difference in general, with a very strong majority saying that it makes a positive difference to how boards operate. This result is supported by the literature which is set out in Chapter 2. The areas that gender diversity on boards makes a difference to, which are highlighted in the literature, were nearly identical to the areas that interviewees highlighted in the answers they provided.

The three main areas in which interviewees said that gender diversity on boards made a difference to how boards operate were decision-making, groupthink and board behaviours/culture. Overall the results of the interviews supported the literature in relation to these three areas. These three areas are discussed in more detail below.

An area that was highlighted in the literature that was not reflected in the answers provided was the attendance rate at board meetings. None of the interviewees made any comments in relation to there being a difference in the attendance rate of female directors. This could be because there is no difference in the attendance rate at board meetings between male and female directors on boards of regulated financial entities. Or it may be that, although such a difference exists, it was not something that was observed by the interviewees.

Decision-making

A strong majority of interviewees said that they thought that gender diversity on the boards of regulated entities leads to improved decision-making. The benefits of gender diversity with regard to decision-making are supported by the literature. What I found particularly interesting was that the explanations provided by the interviewees as to how gender diversity improves decision making were mirrored by the explanations provided in the literature. For example, Terjesen, Sealy and Singh (2009) state that female directors frequently ask questions which leads to decisions being less likely to be nodded through. Director D1 stated that "I *think women are more likely to ask the hard questions. And women raise issues that men won't. I think they bring a different type of thinking*." Zelechowski and Bilimoria's (2004) finding that because women come to the board with different experiences than men they are likely to bring a different voice to decision-making was reflected in comments made by Regulator R2 that women "*bring different thinking styles to a board and that brings better decision-making because people can see it from different angles.*" The literature which refers to female directors being better at monitoring than male directors (Adams and Ferreira, 2009; Adams and Ragunathan, 2015) also found support, with a number of interviewees raising this as a benefit of gender diversity and Director D6 stating that "*gender diversity is more likely to mean the monitoring is tighter. So, women are more likely to cross t's and dot i's.*"

My results provide support for the literature which indicates that gender diversity on boards has a positive effect on the decision-making process. While the existing literature did not focus specifically on boards of regulated entities, my results indicate that the findings in the existing literature may also be applicable to boards of regulated entities. Given the consistency between my results and the literature I have provided support for the case that gender diversity on boards of regulated entities leads to improved decision-making.

The potential negative aspects of gender diversity on boards that were referred to in the literature were not reflected in the answers provided by any of the interviewees. For example the literature refers to the possibility of conflict, as consensus may be more difficult to achieve, and it being potentially more time consuming for directors to reach consensus (Terjesen, Sealy and Singh, 2009). These potential negative consequences of having more questions and scrutiny before decisions are made by a board may be risks of greater gender diversity on boards. The fact that they were not mentioned by interviewees may be because I did not ask specific questions in relation to conflict, and these other potential drawbacks, as opposed to because drawbacks do not exist. Without carrying out follow-up interviews I could only speculate as to the reasons why the potential negative consequences of gender diversity on the decision-making process were not mentioned by interviewees.

Groupthink

"Groupthink occurs when people adapt to the beliefs and views of others without real intellectual conviction. A consensus forms without serious consideration of consequences or alternatives, often under overt or imaginary social pressure." (Nyberg, 2011, pg. 8)

It was clear from the literature that levels of groupthink are likely to be reduced when there is gender diversity on the board (Robinson and Dechant, 1997; Daily et al., 2003). This was confirmed by a strong majority of the people I interviewed, with very little difference observed in the answers provided by directors on boards of regulated entities and regulators. Maznevski's (1994) finding that homogeneity among directors is likely to lead to groupthink was supported by similar comments from the interviewees, the majority of whom were unfamiliar with Maznevski's work or any of the other literature in this area. As Director D7 put it, "*the problem with the board where everyone looks the same and has the same background is the groupthink problem. People are less likely to challenge each other and ask the awkward questions which is quite important.*" Through the interviewees' experience of being on boards, and dealing closely with boards, they were of the view that women bring different perspectives and voices to the table, to the debate and to the decisions, which was the same as what Zelechowski and Bilimoria (2004) found in their research.

As stated above, a strong majority of interviewees held the view that gender diversity on boards of regulated entities would reduce the level of groupthink. This result is consistent with and provides support for the findings in the literature that gender diversity on boards makes a positive difference to groupthink. This result also enables the existing literature to be extended to say that gender diversity on boards of regulated entities has a similar effect to gender diversity on boards in general, when it comes to groupthink. Given the consistency between my results and the literature I have provided support for the case that gender diversity on boards of regulated entities reduces the level of groupthink.

Board behaviour/culture

An issue addressed in the literature, that was reflected in comments made by a small majority of interviewees, was that gender diversity on boards results in more civilised behaviour and sensitivity to other perspectives (Bilimoria, 2000; Fondas and Sassalos, 2000). Interviewees referred to a reduction in a "*clubby atmosphere*" and "*laddy behaviour*" when there was gender diversity on the board. It seems obvious that civilised behaviour and sensitivity to other perspectives are essential for a board to operate effectively. Singh's (2008b) research also supports the view that boards operate more effectively when there is gender diversity on the board. None of the interviewees said that gender diversity on boards had negative effects on board behaviour and/or culture. However, the comments that were made by interviewees as to why gender diversity had a positive effect on board behaviour and culture were quite disparate. While I would say that they are generally consistent with the literature I would like to see further research carried out on this area before drawing strong conclusions from the results in relation to this topic.

Governance

The literature provided support for the case that gender diverse boards are more governance focused (Singh and Vinnicombe, 2004; Heidrick and Struggles, 2010). This was not reflected to the extent that I expected it to be in the responses provided by the interviewees. Only a small minority of interviewees said that they thought that gender diverse boards were more governance focused. I had expected this view to be held more widely, given the findings of studies I had reviewed. In the absence of further interviews it is not possible to accurately assess the reasons why there appears to be a divergence between the literature and my findings in relation to governance.

Conclusion

My results provide strong support for the view that gender diversity on boards of regulated entities makes a positive difference. My results are largely consistent with the literature in relation to the effect that gender diversity has on how boards operate.

Where there are divergences between my results and the literature, it is that the literature highlights potential drawbacks of having gender diversity, which were not apparent from my results. The other area in which there was a divergence is that all of the ways in which gender diversity can affect how the board operates, that were highlighted in the literature, were not apparent from my results. Overall, however, my results and the literature together provide strong support for the case that gender diversity on boards of regulated entities makes a positive difference to how boards operate, particularly in relation to decision-making and groupthink.

Difference to risk

Given Christine Lagarde's comments when speaking about Lehman Brothers that "*female leadership is… probably more risk-averse*", I wanted to test whether the literature and my interviewees provided support for that assertion. Only a small minority of the interviewees made reference to women on boards of regulated financial entities being more risk averse than men. A reasonable majority of interviewees did not believe that there was a difference in the risk aversion of male and female directors. This is a significant finding and it adds to and supports the growing body of literature which finds that there is no difference in the levels of risk aversion of women and men in the financial sector (Sapienza et al., 2009).

When discussing risks, the point was made by a reasonable majority of interviewees that in the financial sector it is necessary to take risks to survive. For example, a director of a bank said that "*banking is about taking risks, if you don't want to take risks you're not in banking. Any investment is uncertain. If every loan that a bank gave out had to be absolutely secure then many people would never get a loan*." Interviewees referred to the need to take calculated, considered, improved risks and to avoid taking excessive risks.

Despite the majority of interviewees holding the view that there was no difference in the level of risk aversion between male and female directors, a reasonable majority of interviewees said that there was a difference in the level of risk taken by regulated entities when there was gender diversity on the board. This difference was not due to any difference in risk aversion between male and female directors. It was because on gender diverse boards decisions made by the board underwent greater challenge, the quality of the decision-making process was improved, the level of debate and discussion increased, issues were looked at from all angles, and there were more diverse views coming into the mix. This led to risks being reduced because better decisions in relation to risks were ultimately made. This view can be captured in the following sentiments expressed by a policy expert "*I wouldn't say that they are more risk averse or they take less risks but that they would prefer to make sure that the safety nets are in place so that there's more mitigation in case things don't work out."*

The literature provides some support for gender diversity on boards of regulated entities leading to less risky business decisions being made (Adams and Ragunathan, 2015). However, more research in this area is needed, particularly looking at boards of regulated entities where there is a 30 per cent critical mass of each gender on the board.

My findings provide strong support for the case that gender diversity on boards of regulated entities has a positive impact on risks. My findings in relation to risks contribute to the research as they indicate a way in which gender diversity affects the risks taken by regulated entities. They also lend support to Christine Lagarde's comments in relation to Lehman Brothers, not because of a difference in risk aversion, but because of a difference in the level of analysis and discussion around risks.

What steps should regulators take to increase levels of gender diversity on boards?

My research provides strong support for the view that gender diversity makes a positive difference to how boards operate and the level of risks taken by regulated entities. The question then arises as to what regulators should do about this. Although there has been a movement towards greater gender diversity on boards (Hoel, 2008; Cabo et al., 2012; Visser, 2011), financial regulators are not leading the charge. This may change if the Financial Stability Board focuses on gender diversity on boards.

Raising awareness

As set out in Chapter 4, there was a consensus among the interviewees that if there was evidence that gender diversity on boards made a positive difference, regulators should raise awareness of this. From my interviews with regulators and my research, it does not appear that this is an area that regulators are currently focused on. However, there was a view that now that regulators are moving from dealing with the fallout from the global financial crisis, to more of a business as usual state, that gender diversity on boards will be looked at.

While comments such as those made by Christine Lagarde are useful in drawing attention to this issue, I found that there was a lack of awareness among the interviewees of the literature in this area. Although their views were generally consistent with the findings in the literature, in most cases they were not familiar with the literature supporting the case for gender diversity. There was a greater awareness of the findings in the literature among interviewees in the UK than in other countries. This appears to be due to the high-profile reports (Davies, 2011; Gadhia, 2016) in the UK, setting out the case for gender diversity on boards.

It is clear from my results that regulators should raise awareness of the benefits of gender diversity, both within their own organisations and within the entities they regulate. Regulators can raise awareness within regulated entities through supervisory interaction with regulated entities. For example, by asking regulated entities to provide their diversity policies and data in relation to their gender balance at senior levels. However, regulators themselves first need to become aware of the benefits of gender diversity on boards and convinced that this is something they should focus on. The work of the Financial Stability Board on corporate governance could act as a catalyst for raising awareness with regulators. As an international policy expert stated "*it's incredibly important to start talking about it.*" As illustrated in my case study of the UK in Appendix C, carrying out reviews headed by high profile individuals can help to draw attention to this area and get people talking about it. The approach in the UK to raising awareness could be used as a template in other countries. One issue that was raised by interviewees, and that the UK appeared to overcome, was that the discussion needs to be mainstreamed. As international policy expert (P9) stated, *"one thing that happens is that you have specialised events on stuff like this where you draw the same crowd."*

In summary, my results support the view that regulators should raise awareness of the benefits of gender diversity. This awareness raising should also take place at a supervisory level with regulated entities. Lessons can be taken from countries like the UK in how to raise awareness publicly.

Non-binding guidance

A strong majority of interviewees were supportive of regulators issuing non-binding guidance if there was evidence that gender diversity on boards made a positive difference. The non-binding guidance would set out a level of gender diversity on the board that regulated entities should adhere to. This level could be referred to as a target. However, there would be no way to enforce the target if regulated entities failed to meet it.

Even though this target would not be binding, a reasonable majority of interviewees said that there would be pushback from the financial sector against any such target. Reasons provided for pushback were that it would be seen as a first step towards quotas and that male directors would be resistant to any such targets.

A reasonable majority of interviewees said that they did not think that the targets would be complied with if there was not the threat of quotas in the background. As can be seen by the approach taken in the UK where there were targets of 25 per cent (Davies, 2011), there was a threat that if the targets were not met that quotas would be looked at. As stated by Director D10 *“why we’ve been successful in the UK, it’s recognised that the government signalled that if the Davies report and that voluntary targets didn't work we would have probably imposed quotas over time.”*

If issuing non-binding guidance or setting targets on the desired level of gender diversity on boards, a decision would have to be made as to what the level should be. A large minority of interviewees referred to the need for a critical mass of the minority gender for them to make a difference. The critical mass that was referred to was 30 per cent, or 3 on a board of 10. This is consistent with the research which refers to a critical mass being needed for a minority group to have an impact (Zelechowski and Bilimoria, 2004; Erkut et al., 2008). As such, 30 per cent would appear to be a logical level to include in any non-binding guidance or target issued by a regulator.

Comply or Explain

A comply or explain regime sets out a target and regulated entities are either required to comply with it or to explain why they have not complied. For example, a regulator could require regulated entities to have 30 per cent of each gender on their board. If regulated entities did not have 30 per cent of each gender on their board, they would have to explain to the regulator why they had not complied with this requirement. There would be no sanction for non-compliance, providing an explanation as to why the regulated entity did not comply would be sufficient.

A reasonable majority of interviewees said that they would support a comply or explain regime if there was evidence that gender diversity on boards made a positive difference. However, the timing of this intervention was considered important by interviewees. A majority of interviewees said that regulators should try to bring about an increase in the level of gender diversity on boards, through raising awareness and non-binding guidance, before looking to implement a comply or explain regime. The idea of a stepped approach was mentioned by a large number of interviewees. Only a small minority of interviewees said that regulators should implement a comply or explain regime or quotas without first trying to increase the level of gender diversity through raising awareness (including through supervisory interaction) and by using non-binding guidance. The view was expressed that regulators should start with the least onerous policy to increase gender diversity on boards and move over a defined period to other steps if there was not a sufficient level of change.

A majority of interviewees said that they thought that a comply or explain regime would be effective in increasing the level of gender diversity on boards. There was a disproportionately large percentage of directors in that group, as compared with the group that said that a comply or explain regime would not lead to an increase in gender diversity. Conversely there was a disproportionately large percentage of regulators in the group that said that a comply or explain regime would not lead to an increase. So, in effect, the directors said that things would change with a comply or explain regime, while the regulators said that regulated entities would rely on the explain part and the level of gender diversity on boards would not improve. This was the only area in which there was a marked difference between the views expressed by directors and regulators. As illustrated in Australia, the comply or explain regime led to an increase in gender diversity among most of the companies targeted, however there were a number of companies that failed to comply.

Quotas

My results in relation to quotas demonstrated that there was support for quotas if other less onerous steps to increase gender diversity on boards failed to achieve an increase. A strong majority of interviewees said that there would be pushback against quotas. However, if regulators followed a stepped approach and implemented other steps to increase gender diversity on boards before introducing quotas, a reasonable majority of interviewees said that it would be more difficult for regulated entities to pushback. A reasonable minority of directors said that they would be less critical of quotas if there was a reasonable lead time provided before quotas were introduced, with five to ten years being mentioned.

There was a recognition among interviewees, that if there was evidence that gender diversity on boards made a positive difference, that regulators should take concrete steps to increase the level of gender diversity on boards. There was a widespread view expressed that the evidence that gender diversity made a positive difference would have to be stronger for quotas to be imposed than it would have to be for regulators to take other steps to increase gender diversity on boards. A strong majority of interviewees said that if there was evidence that gender diversity on boards improved decision-making, reduced groupthink and made a positive difference to the risks taken by regulated entities that regulators should look to take steps in this area.

There was widespread recognition among interviewees that Norway had introduced quotas and that quotas were being introduced in other European countries. A reasonable majority of interviewees said that the other steps to increase gender diversity on boards would not be effective unless there was the threat of quotas in the background. This was similar to the views expressed in the literature as to why the approach taken in the UK was successful (Davies, 2015).

A reasonable majority of interviewees spoke about the negative effects of quotas. The criticisms and negative effects they mentioned were the same as those in the literature. Interviewees expressed the view that quotas would hinder the shareholders' right to self-regulation and to select who they think would be best for the organisation (Teigen, 2012). They also said that they were discriminatory to men and the quality of the board could be reduced if there were no suitable female candidates (Dale-Olsen et al., 2013). The view that there would be an insufficient number of suitably qualified women to satisfy quotas featured prominently. It is interesting that a similar argument was made in Norway prior to the introduction of quotas and it was found subsequently that female directors on the boards in Norway were more qualified than men. The majority view from the headhunters I interviewed was that there would be a sufficient number of suitably qualified women to fill a quota of 30 per cent. A small number of female directors that I interviewed were strongly against quotas because they said that quotas would make them feel like a token on the board.

Although a reasonable majority of the interviewees started off by saying that they were against quotas, it become clear during the course of the interviews that while they did not like the idea of quotas, a strong majority of interviewees held the view that quotas may be necessary. Extrapolating from my findings, there are two conditions that would need to be satisfied before there would be support for regulators implementing quotas to require regulated entities to have gender diversity on their boards. The first condition is that the positive difference that gender diversity makes on boards would have to be shown. The second condition is that regulators would have to show that they had taken other steps to try to increase gender diversity on boards before imposing quotas. It is only after fulfilling these conditions that I think regulators should use quotas to require regulated entities to have gender diversity on their boards. While it is arguable that there is sufficient evidence to satisfy the first condition, currently regulators would not be in a position to show that they have satisfied the second condition.

Transparency requirements

A suggestion which was put forward by an expert that I interviewed was that transparency requirements would help to draw attention to issues with the pipeline and lead to improvements in the pipeline. I put this expert's suggestion of transparency requirements to the rest of my interviewees and a very strong majority of them were in favour of transparency requirements. The transparency requirements suggested to the interviewees were that regulated entities would be required to publish details of their gender balance at board level and three layers down. A very strong majority of interviewees said that this would have a positive impact on the pipeline and they supported the implementation of such requirements. Looking at the UK and Australia they both have elements of transparency requirements as part of their approach to increasing gender diversity on boards. However, they have both focused the transparency on the board and not at the layers beneath.

There was a recognition among interviewees that there was a problem with the pipeline which was sometimes masked by the use of non-executive directors on boards. Looking at the UK and the increase in gender diversity on boards in the five years following the Davies Review (2011), only 2 percent of that increase was at the executive level (Davies, 2015). In the sample used by Adams and Ragunathan (2015) of US banks during the financial crisis, female directors made up 9.5% of boards, however only 0.6% of board positions were made up of female executive directors. There is currently very little data available on the gender balance in the layers below the board. The introduction of transparency requirements would help to address this lack of data and draw attention to this issue.

In Chapter 1 I mentioned HBOS and commented that although 25 per cent of directors were women, that did not prevent the ultimate demise of HBOS. A factor which may have been relevant in the case of HBOS is that the majority of the female directors did not have a background in banking. The view was expressed by interviewees that having transparency requirements in place and focusing on the pipeline would be likely to increase the number of suitably qualified female candidates for director roles.

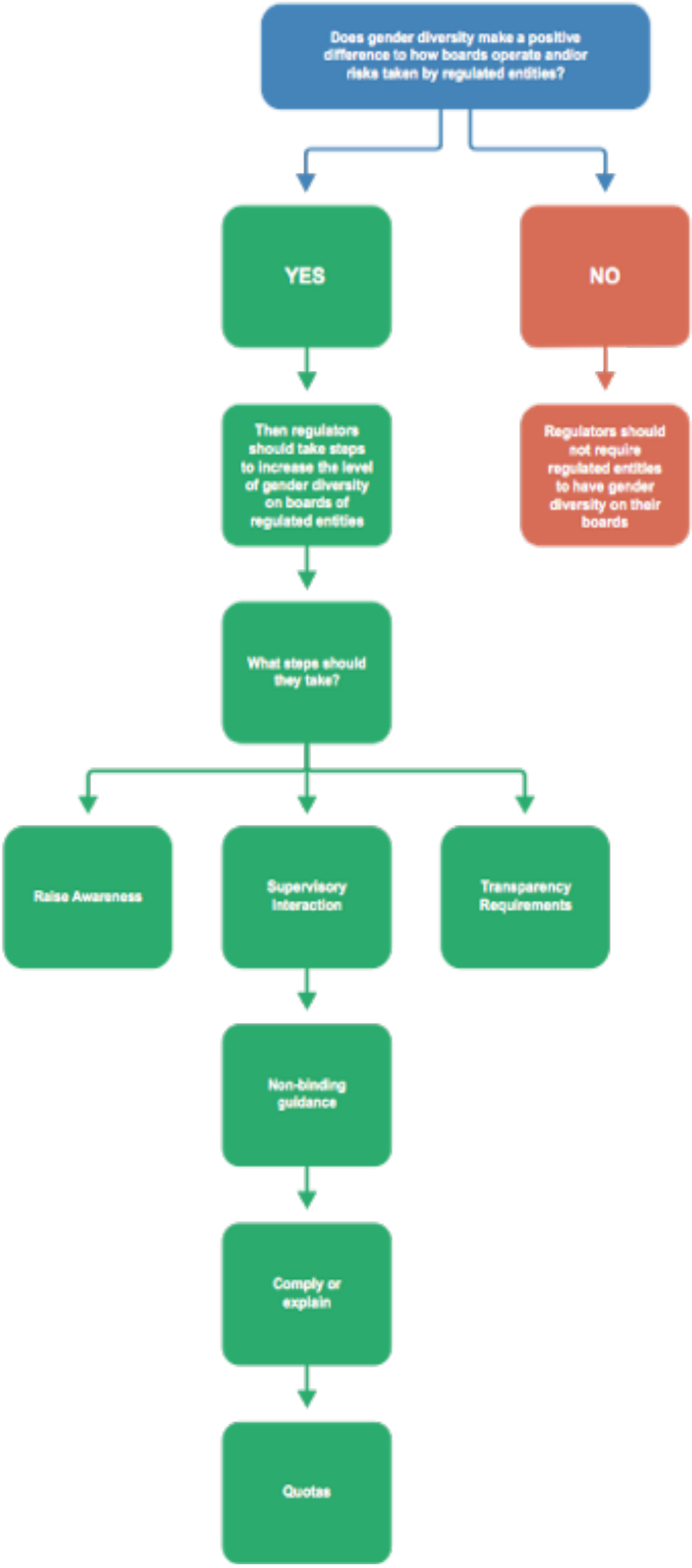
In terms of timing, a strong majority of interviewees expressed the view that transparency requirements should be implemented at the same time that regulators start to raise awareness of the benefits of gender diversity on boards, or shortly after the awareness raising process commenced.

Conclusion

I am not aware of any literature setting out an approach for financial regulators to increase the level of gender diversity on boards of regulated entities. My research adds to the literature as it provides a template for a proposed ‘stepped approach’ which can be followed by regulators. My research also provides an indication of the level of challenge and the types of challenge that regulators may encounter in following this stepped approach. The inclusion of a transparency requirement in the form suggested is an approach which I am not aware of having being suggested for regulated entities previously. It appears that transparency requirements could have a positive impact on the gender balance in the layers below the board and not just on the board. This is something that was recognised as positive by a very strong majority of the interviewees.

I have included a diagram illustrating the proposed approach on page 61.

Should regulators require entities to have gender diversity on their boards?



Chapter 6 - Recommendations

My recommendations are split into those for regulators, those for regulated entities and those for academics.

Regulators

There is currently very little focus among financial regulators on gender diversity on boards. This is something that my results indicate needs to change. Financial regulators should consider gender diversity as not just a ‘nice to have’ but as something that helps to reduce groupthink, improves the decision-making process, that may contribute to a desirable board culture and that leads to improved risks being taken.

Regulators should put plans in place to raise awareness of the benefits of gender diversity on boards. Awareness could be raised through supervisory interaction, by organising CEO fora, giving speeches and publishing papers. Regulators should also put transparency requirements in place to help draw attention to and to hopefully improve the pipeline of suitably qualified women. As indicated in the results, publishing data on the current levels of gender diversity at the top layers of regulated entities, would draw attention to the paucity of women at senior levels and it would put pressure on regulated entities to increase the levels of gender diversity throughout their organisations. Depending on the length of time it would take to introduce transparency requirements, regulators may also decide to carry out analysis and publish data on gender diversity at senior levels within different segments of the financial industry (for example, banks, insurance companies, investment firms, stockbrokers) using information they have received from regulated entities as part of fitness and probity applications for senior roles.

If neither raising awareness of the benefits of gender diversity, raising gender diversity as a priority through supervisory interaction, nor implementing transparency requirements, have a positive impact on the level of gender diversity on boards, my research and results indicate that regulators should follow a stepped approach. Such a stepped approach should commence with introducing non-binding guidance, then a comply or explain regime and ultimately quotas, if necessary. I would advise regulators to set out their step plan and proposed timeline at the outset. It will then be clear to regulated entities that if the level of gender diversity does not increase to a particular level within a certain period of time, regulators will take the next step in the step plan. This will also give regulated entities that may be concerned about the pipeline, a clear timeframe within which to address issues with their pipeline.

I would also advise regulators to carry out further research in this area. If regulators decide that they need more evidence of the benefits of gender diversity on boards before they can implement requirements in this area, then they should set out what type of evidence would be sufficient to satisfy them that gender diversity makes a positive difference. They should then design research which may be able to provide that evidence. For example, one suggestion for research that was provided by an interviewee was to have supervisors carry out case studies on regulated entities and assess the behaviour of boards by sitting in on board meetings and analysing whether they observed different behaviour on boards that had a gender balance. Some of the research that I have recommended that academics carry out could possibly be carried out by regulators or by a collaboration between academics and regulators.

It would also be important for regulators for assess whether any of their own actions are having unintended consequences of limiting the level of gender diversity on boards. For example, one interviewee suggested that the fitness and probity requirements may make regulated entities reluctant to propose female directors because they may be less likely to have the typical experience expected by regulators for board positions.

Another option for regulators would be to work through the Financial Stability Board to advocate for a more widespread requirement in this area, rather than just having changes being made by individual financial regulators. If the Financial Stability Board focused on this area and included it as part of its review of corporate governance, it could bring about lasting change. A number of the interviewees mentioned the Financial Stability Board and said that they would like to see it take steps in this area. The view expressed by these interviewees was that it would be more likely that the Financial Stability Board would take steps in this area if a number of national financial regulators had already taken steps. It may be that some national financial regulators will need to be thought leaders and take initial steps in this area before it is focused on at an international level.

Regulated entities

I would advise regulated entities to raise their awareness as to the benefits that gender diversity can bring to their boards and their entities in general. This awareness needs to be raised at the top levels in regulated entities.

Regulated entities should assess what their gender balance is at all levels in their organisations and publish this data to show that they are focused on gender diversity and on improving the pipeline. They should follow the recommendations included in the Gadhia Review (2016) on how to improve gender diversity at senior levels.

I would also advise shareholders to become more aware of the benefits of gender diversity on boards. As institutional investors are starting to become more aware of the benefits of gender diversity on boards they have started to press for greater gender balance at board level. Much of the changes to board composition in the UK came about following pressure from institutional investors.

Academics

Although it was clear from my interviews that the interviewees thought that gender diversity made a positive difference, very few of the interviewees were familiar with any of the research in this area.

It would be beneficial if academics built more of a link with regulators and regulated entities in terms of highlighting the research that they are doing in this area and the findings of the research. To this end it would be useful if academics, as well as publishing the findings of their research in the traditional peer reviewed journals, could also promulgate their research to a wider audience.

Another suggestion is that academics could link with regulators to obtain access to data collected from regulated entities which could be used for research in this area. The findings of the research could then be published by regulators and other outlets. This research could, for example, take the form of case studies of failed regulated entities to identify if there was a link between the gender balance on the board and decisions that were made/risks that were taken, that led to the regulated entity's failure.

Chapter 7 - Conclusions

I have set out a critique of my research, my comments on how I would approach the dissertation differently, suggestions for further research and my concluding comments below.

Critique and limitations of my research

I made an assumption, based on initial scoping interviews I carried out, that if gender diversity on boards was shown to improve how boards operate and/or reduce the risks taken by regulated entities, that regulators should take steps to try to improve the levels of gender diversity on boards. It could be that even if there was strong evidence that gender diversity made a positive difference to how boards operated, and to the level of risks taken by regulated entities, that regulators should not take any steps in this area. It could be argued that this is not the role of a regulator. There is a pure view of supervision put forward by some regulators that they should only do what they have the power to do in legislation and that they should not seek to broaden their mandate or to look for additional powers. If, for example, regulators decided to put a comply or explain regime or quotas in place, regulators, depending on the regulatory framework they operate within, may need new powers to do so and may need to get those powers from national parliaments. It could be argued that gender diversity on boards is not something for regulators to take action in relation to, unless or until they are given specific powers to do so by legislation.

All of the interviewees knew that I work for a financial regulator. Some of the interviewees are directors and CEOs of entities that are regulated by the Central Bank of Ireland, where I work. This may have influenced their approach to the interviews. I tried to mitigate against this by telling interviewees that I would not attribute anything that they said during the interview to them and I was not carrying out the interviews or the research in my capacity as a lawyer in the Central Bank of Ireland but as an Executive MBA student in Warwick Business School. Despite these assurances, the answers I was given may have been affected by where I work. In order to assess whether there was any such impact, I carried out an analysis of whether there was a difference in the answers provided by directors of entities regulated by the Central Bank of Ireland and directors of entities that were regulated by other regulators. Although the directors of entities regulated by the Central Bank of Ireland expressed slightly more negative views in relation to action being taken by the regulator, I did not observe any difference in responses in relation to the effect of gender diversity on how a board operates and in relation to risk.

There may have been bias among the interviewees in favour of gender diversity on boards as it is arguable that if the interviewees did not agree that there were benefits from gender diversity, they would not have agreed to take part in my research. The interviewees may have provided answers that they thought were politically correct and may have wanted to be seen to be supportive of gender diversity even if they did not believe that it made a difference. There is also a risk that my bias in favour of gender diversity may have skewed my interpretation of the data and my subsequent findings and analysis of the results.

I decided not to deal with the effect that gender diversity has on a regulated entities' financial performance in the dissertation. As explained in the literature review, I decided to take this approach because the view that a regulated entity's financial performance was not of concern to a regulator (as long as it was not failing and it was meeting the prescribed requirements) came up regularly in the interviews. However, it could be argued that a regulated entity's financial performance is integral to financial stability and as such, should be considered by financial regulators when deciding whether to take steps to increase the level of gender diversity on boards. A limitation of my dissertation is that it does not assess the effect of gender diversity on a regulated entity's financial performance.

While I have looked at the effect of gender diversity on how boards operate and the level of risks taken by regulated entities, there are clearly other factors beyond gender diversity which influence these areas. By focusing on the effect of gender diversity on these areas, I am not discounting the fact that there are also other factors at play. Decision-making, for example, is clearly affected by more than just gender diversity among the decision makers. While one factor that may affect decision-making is gender diversity, there are also other factors that will affect decision-making. In focusing on gender diversity, I have not discounted these other factors.

<u>How would I approach the dissertation differently?</u>

The ways in which I would approach the dissertation differently mainly relate to how I structured my research. I attempted to bring the literature review to an advanced stage before I commenced the scoping interviews. If I was commencing my research again I would spend less time on the literature review at the outset. Having prepared a short initial literature review I would then do a number of scoping and mock interviews and analyse the data from those interviews. Based on that data I would go back and carry out a more focused literature review, which in turn would help me to be more focused in my interview questions. I would have the inductive/deductive loop as a more central component to how I approached the dissertation.

While I recorded all interviews, and transcribed them after the interviews (with the exception of the mock and scoping interviews, which I did not record), I did not start analysing the data until I had most of the interviews completed. In hindsight, it would have been beneficial for subsequent interviews if I had analysed the data after each interview. I could then have amended the interview questions in a more structured way. The interview questions were amended based on some of the answers given by interviewees, for example the suggestion in relation to transparency requirements. However, if I had the information I have now I would go back and ask further questions. Making better use of the scoping and mock interviews would also have assisted in identifying any additional questions that would have been desirable, in advance of commencing the main interviews.

I interviewed directors from a range of different types of regulated entities. If I was starting the research again I would consider focusing on a specific type of regulated entity, for example banks or insurance companies.

<u>Suggested areas for further research</u>

Having carried out this research I am surprised that financial regulators are not more focused on gender diversity. I think it would be worth examining why this is the case. Certainly, over the past eight years, since the financial crisis, financial regulators have been focused on the fallout from the financial crisis. Immediate and tangible improvements, like strengthening of capital and liquidity requirements, have been made to strengthen the regulatory regime when it comes to credit institutions. It may be that prior to the financial crisis there was not as much focus on the benefits of gender diversity on boards because there was not as much research available showing its benefits. Now that regulators are starting to enter more of a crisis prevention state perhaps there may be more appetite for regulators to carry out further research in this area.

Regulators gather a huge amount of data from regulated entities, including relating to fitness and probity. They should use this data to assess whether there is a difference between regulated entities that have gender diversity on their boards, and at senior levels, and those that have no gender diversity. For example, if regulators could show that there was a difference in the compliance history of regulated entities that had gender diversity on their boards, and at senior levels, it would give regulators a strong basis to impose gender diversity requirements.

It could be worth examining the extension of regulators' powers and what circumstances accompany the lead up to additional powers for a regulator. Is it that for regulators to get legal powers to implement quotas that there would have to be a financial crisis or some other catalyst? Could a regulator succeed in obtaining controversial additional powers in a stable, steady financial global market, absent of financial turmoil? It may be that the window of opportunity that followed the 2008 financial crisis has been missed.

I have focused in this paper on gender diversity on boards. A recurrent theme in my research was that the benefits of gender diversity at board level can also be seen from having gender diversity at other levels in regulated entities. Further research should examine whether the benefits of having gender diversity at board level would be equally applicable at other layers in regulated entities.

Diversity beyond gender diversity has not been considered in this research. It could be that other types of diversity, for example ethnic diversity, may bring the same benefits to a board as gender diversity does. Additional research into the benefits of different types of diversity is certainly warranted.

Finally, working closely with a regulator who is attempting to increase the level of gender diversity on the boards of regulated entities would allow significant insights to the process, and would provide the researcher with a case study, analysing what worked well, what failed, and what could be improved upon. Such a case study would facilitate the creation of a road map for regulators intent on addressing the lack of gender diversity on the boards of regulated entities.

Conclusion

Christine Lagarde's comments in relation to Lehman Brothers are what drew my attention to this issue. They led me to question whether gender diversity on boards of regulated entities makes a positive difference and, if so, whether regulators should take steps to increase the level of gender diversity on boards. Having analysed the existing literature and carried out qualitative research, by interviewing people with particular expertise and insight in relation to these questions, I am now in a position to draw the following conclusions:

1) gender diversity on boards of regulated entities makes a positive difference to how boards operate and to risks taken by regulated entities;
2) financial regulators should take steps to increase the level of gender diversity on boards of regulated entities; and
3) these steps should commence with raising awareness (including through supervisory interaction) and implementing transparency requirements. They should move to non-binding guidance, comply or explain and eventually to quotas if there is not an increase of gender diversity to a 30 per cent level over a specified period.

So, to answer my main research question, financial regulators should require regulated entities to have gender diversity on their boards, but they should not impose such a requirement without completing other steps first. It appears from my research that greater gender diversity on the boards of Lehman Brothers, Northern Rock and Anglo Irish Bank would have made a positive difference to the decision-making process and to the level of groupthink. It also appears that risks taken by these credit institutions would have been subjected to greater challenge and debate, ensuring that the risks were more considered. Whether greater gender diversity on their boards would have made a difference to their ultimate outcome, is impossible to say.

My research provides support for the view that gender diversity on boards of regulated entities is deserving of increased focus by regulators, regulated entities and international policy makers. I have set out why this is the case and provided a foundation for further research, both on the effect of gender diversity on boards of regulated entities and on the steps regulators should take to increase the level of gender diversity on boards.

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Appendix A

Theories
a) Social identity theory
b) Gender self schema theory
c) Social characteristics theory
d) Social network theory
e) Social psychological theory
f) Resource dependence theory
g) Human capital theory
h) Contingency theory

a) Social Identity Theory

According to social identity theory, individuals see themselves as members of certain groups such as gender, race and class (Tajfel and Turner, 1986). Individuals then define themselves and others based on whether they are members of the same groups. Individuals are more likely to provide higher evaluations for members of the same groups. This then makes it difficult for individuals to join groups that have a majority of members from a specific group that they are not part of. This theoretical framework had been used to explain women’s exclusion for social networks. It has also been put forward as a possible explanation for the lack of women on boards (Singh and Vinnicombe, 2004).

Kanter (1977) in his work on homosocial reproduction highlights how male dominated power structures are replicated in firms. This was also used to describe how male CEOs are more likely to lead boards composed of people who are in the same groups as them, male, of similar age and of similar background and experience (Daily and Dalton, 1995).

b) Gender Self-Schema Theory

Individuals have a psychological construction of themselves, which is commonly based on gender. These psychological constructions are known as gender self-schemas. They are mental models that information is processed through. Male gender self-schemas are based on values, roles, beliefs and norms that are considered appropriate for men, such as income autonomy, provider, aggression, dominance, achievement, endurance, and exhibition (Konrad, Ritchie, Lieb and Corrigall, 2000). It has been found that successful women are disliked for contravening gender roles (Eagly and Karau, 2002) unless they prove their femininity (Heilman and Okimoto, 2007), thereby complying with the female gender self-schemas. Female gender self-schemas are based on values, roles, beliefs and norms that are considered appropriate for women such as homemaker, affiliation to others, deference, and abasement (Konrad et al., 2000). When men and women enter the workforce these gender self-schemas are present (Terjesen, Freeman and Vinnicombe, 2007). Although individuals may hold different gender self-schemas, gatekeepers may have views of gender appropriate behaviours and roles that may bias their selection of directors (Oakley, 2000).

c) Status Characteristics Theory

Status characteristics theory explains how standards of ability for low status group, such a women, are higher than the standards of ability for high status group, for example men (Terjesen, Sealy and Singh, 2009). In order for a woman to be considered of high ability she will have to provide more evidence than a man (Biernat and Kobrynowicz, 1997). Hillman, Cannella and Harris (2002) consider this theory alongside women's traditional outside status and find that women directors are much more likely to have an advanced degree than male directors. This theory could be used to undermine the argument that there is a shortage of suitably qualified women to fill director roles.

d) Social Network Theory

An elite group can be viewed as a social network with social network theory predicting that individuals with access to resources that are most valuable to the firm are most likely to enter that social network. Directors act as linchpins in a network of linkages between firms, they contribute to their boards and firms while also assisting other members of the network and acting as a socially cohesive group (Westphal and Zajac, 1995; Windolf, 1998). Directors recommend and sponsor individuals like themselves who they know are likely to fit into this pre-existing mould. Firms can increase their chances of acquiring resources by becoming more central in networks and linkages with other firms (Hillman et al., 2002). Drawing from a study of 89 female and 99 male directors, it was found that female directors are more likely to join subsequent boards at faster rates than men, thereby increasing the networks and linkages available to their firms (Hillman et al., 2002). Other studies have shown that women can provide greater access to resources and networks (Milliken and Martins, 1996; Fray and Guillaume, 2007).

Individuals who have been in CEO positions are particularly attractive because of their extensive networks. This may count against women as there is such a low number of female CEOs. It appears that in a world where men are in the majority at top echelons of the corporate world, this theory may go towards providing an explanation as to why women are not appointed to director roles as often as men.

e) Social Psychological Theory

Social psychological theory predicts that individuals who are in majority status can potentially exert a disproportionate influence on group decisions (Westphal and Milton, 2000). Therefore, if women have minority status on a board they may not be in a position to influence the board due to internal group dynamics (Carter et al., 2010). Individuals who are outside of the homogeneous groups may be considered as a threat (Kanter, 1977). As a result, adding women to a board of directors may isolate them as a token where they stand out strongly and differences between them and the homogeneous group are highlighted.

Westphal and Milton (2000) explore whether a women's social exclusion due to minority status could be overcome by ingratiatory behaviour. Having less homogeneous groups on the board can have both positive and negative effects. Forbes and Milliken (1999) have found that having different viewpoints on less homogeneous boards can lead to coordination problems. Having a more diverse board can also lead to less group cohesion and lead to members being less cooperative and to more conflict (Lau and Murnighan, 1998). Some of the benefits are that minority members are more likely to encourage divergent thinking when making decisions (Westphal and Milton, 2000). Kim et al. (2009) argue that board diversity improves the breadth and speed of firms' strategic action capability.

f) Resource Dependence Theory

A number of studies on the benefits of gender diversity on boards view firms as operating in an open market where they need to exchange and acquire resources to survive (Terjesen, Sealy and Singh, 2009). This creates a dependency between the firm and external parties to attain the resources that are required. The board of directors can provide linkages between the firm and external parties to enable the firm to attain those resources. Corporate governance literature maintains that the directors are selected to provide the best linkages (Pfeffer and Salancik, 1978).

Under resource dependence theory directors have been said to fall under one of four types "insiders," "business experts," "support specialists," and "influentials" (Hillman, Cannella, and Paetzold, 2000), with each type having different linkages. These linkages can include advice and counsel, legitimacy (Hillman and Dalziel, 2003), and ways of obtaining preferential access to commitments or support from external parties (Pfeffer and Salancik, 1978). The advantage of a board's network is that it can provide access to capital, to senior industry figures (Van der Walt & Ingley, 2003) and regulators (Macey & O'Hara, 2003).

Diversity scholars use resource dependence theory to explain why in today's business environment firms require directors with a breadth of resources (Terjesen, Sealy and Singh, 2009). Peterson and Philpot (2007) have examined the odds of men and women being appointed to standing committees and find that women's resource dependency linkages make them more likely to be appointed to some committees than others.

However, Carter et al (2010) are of the view that resource dependence theory underlies some of the strongest arguments for a business case for board diversity. They go beyond looking at the network that directors bring but look at the unique information sets that are available as a result of diversity which they find leads to better decision-making. Diverse directors are said to bring different perspectives and approaches to problems which enhances problem solving and improves the quality of decision-making (Forbes and Milliken 1999). Depending on the resource dependency linkages considered important for a particular firm this theory could be used either to explain why there was or was not gender diversity on a board.

g) Human Capital Theory

Human capital theory analyses the role of an individual's stock of education, skills and experience in enhancing the capabilities that benefit individuals and their firm (Becker, 1964). Tharenou, Latimer and Conroy (1994) argue that compared to men women have fewer stocks, they have made fewer investments in education and work experience and this results in lower pay and promotion.

Although women are less likely to have experience as business experts they are likely to be just as qualified as men in several important qualities including education (Terjesen et al., 2009). In order to be considered for appointment as a director, individuals must bring extensive stocks of human capital to the table (Kesner, 1988). An assumption that is commonly held by gatekeepers (the people who appoint directors to boards) is that women are less qualified than men and therefore lack adequate human capital for board positions (Burke, 2000). CEOs fear appointing women who do not already hold a directorship, but they do not hold the same fear for men (Peterson and Philpot, 2007). Meanwhile both men and women presume that women are less competent than men in a male dominated environment (Carli, 1990) and therefore have less human capital. Singh, Terjesen and Vinnicombe (2008) found while studying human capital dimensions of new directors of FTSE 100 firms in the UK, that women are more likely to have MBAs and international experience. They also found that new female directors are significantly more likely to have experience on the boards of small firms but they are less likely to have CEO/COO experience. Human capital theory predicts that board performance will be affected by diversity as a result of its diverse and unique human capital (Carter et al., 2010).

h) Contingency Theory

According to contingency theory, gender diversity can have either a positive or negative effect on the financial performance of a firm depending on the circumstances of the firm (Carter et al., 2010; Fiedler 1967). Bringing this further, Aguilera et al. (2008) argue that the effectiveness of corporate governance changes, for example increasing board diversity, can depend on the firm's size or age, the firm's development, the firm's innovation in different markets and sectors, and the regulatory and institutional limits on the firm's business. Aguilera et al. (2008) go on to explain that in the firm's infancy the resource and knowledge contributions of directors may be more important than monitoring but this will change as it grows and requires access to external resources and requires more of a monitoring function. It is argued that it will be more open to board gender diversity at that juncture. Adams and Ferreira's (2009) findings on gender diversity on boards are consistent with a contingence theory view (Cabo, Gimeno and Nieto, 2011). They argue that although boards which are gender diverse are tougher monitors, which is normally considered to be positive, gender diverse boards may harm firms that are governed well, as further monitoring would be counterproductive.

Appendix B

Dear [ ]

Thank you again for agreeing to support my research into whether financial regulators should require regulated entities to have gender diversity on their boards.

This research forms part of my MBA studies, and it is an area that I find particularly interesting given my experience in a financial regulator during the financial crisis. My research is looking at whether gender diversity on boards makes a positive difference to regulated entities and if so, whether financial regulators should take steps in this area.

In my research I have considered the effect of gender diversity on boards under the following four headings:

1) how boards operate (eg. attendance rates at board meetings, the level of challenge before decisions are made, monitoring role, groupthink);
2) the level of risks taken by firms (eg. because there may be differences in risk aversion among men and women);
3) firms' financial performance (eg. ROA, Tobin's Q, share price, risk of insolvency); and
4) firms' level of compliance with legal requirements (I am not aware of any research under this heading).

I have set out the interview questions below. As the interview is designed to be a semi-structured interview, the conversation is likely to diverge in places from the exact questions set out below. The questions below have been designed to provide a set of 'talking points'.

The first two questions refer to the above headings. The last two questions refer to a series of steps that could be taken by financial regulators. These steps were identified following a pilot study that I carried out.

Interview Questions

A. Do you think that gender diversity on boards of regulated financial firms makes a difference to any of the following areas?

1) Do you think that it makes a difference to how boards operate?
2) Do you think that it makes a difference to the level of risks taken by firms?
3) Do you think that it makes a difference to firms' financial performance?
4) Do you think that it makes a difference to firms' level of compliance with legal requirements?
5) Do you want to add anything to what has been said?

B. Do you think that financial regulators should take steps to promote gender diversity on boards of regulated financial firms if there was evidence that such gender diversity made a positive difference?

1) What if it had a positive effect on how boards operate?
2) What if it had a positive effect on the level of risks taken by firms?
3) What if it had a positive effect on firms' financial performance?
4) What if it had a positive effect on firms' level of compliance with legal requirements?
5) Do you want to add anything to what has been said?

C. If financial regulators were to take steps to promote gender diversity on boards what do you think those steps should be?

1) Should they raise awareness of the benefits of gender diversity on boards?
2) Should they issue non binding guidance in relation to financial regulators' expectation of gender diversity on boards?
3) Should they introduce a comply or explain regime (requiring firms to either introduce gender diversity on boards or to publicly explain why they have not)?
4) Should they impose binding requirements mandating gender diversity on boards?
5) Should they take a different step that I have not mentioned?

D. What do you think the challenges (if any), and the consequences (positive or negative), would be if financial regulators were to take steps to promote gender diversity on boards of regulated entities?

1) What would the challenges (if any), and the consequences (positive or negative), be of raising awareness of the benefits of gender diversity on boards?
2) What would the challenges (if any), and the consequences (positive or negative), be of issuing non binding guidance in relation to financial regulators' expectation of gender diversity on boards;
3) What would the challenges (if any), and the consequences (positive or negative), be of introducing a comply or explain regime (requiring firms to either introduce gender diversity on boards or to publicly explain why they have not);
4) What would the challenges (if any), and the consequences (positive or negative), be of imposing binding requirements mandating gender diversity on boards;
5) Do you want to add anything to what has been said?

<u>Confidentiality</u>

Answers to the questions, and any discussion will be treated in a confidential manner. A list of all interviewees will be included in the final dissertation however where answers are used in the dissertation they will not be attributed to a specific interviewee, unless the interviewee has agreed to me doing so. Neither will the answers be used in a way that can be attributed to a specific interviewee, unless the interviewee has agreed to me doing so. Where I wish to attribute a quote to a specific interviewee I will seek their permission in advance of including any quote that I wish to attribute to them. Any notes, recordings or working material will be securely disposed of once the dissertation is completed.

Thank you for your time. I am happy to share my final dissertation with you and for you to distribute it amongst your colleagues.

Kind regards.

Siobhán

Appendix C

Literature and mini-case studies on what steps can be taken to increase gender diversity on boards

There has been a movement towards greater gender diversity on boards (Cabo et al., 2012). This movement has taken different forms in different countries with some countries having established quotas for listed companies, while others have taken a voluntary approach to advocate for greater gender diversity (Cabo et al., 2012; Hoel, 2008; Visser, 2011).

I carried out mini-case studies of countries that have taken different approaches to increase the level of gender diversity on boards. I chose the UK, Australia and Norway as between them they have taken the following approaches to increase the level of gender diversity on boards: 1) raising awareness; 2) non-binding guidance; 2) transparency requirements; 3) comply or explain and; 4) quotas. While there are other countries that have taken similar approaches, I selected the UK and Australia because they are English speaking countries, which would make it more straightforward to do my research. I selected Norway because it was the first country to introduce quotas, which meant there was likely to be more research available on the effect of the quotas in Norway than in other countries that had introduced quotas.

I am not aware from my research of any financial regulators having implemented quotas or even voluntary targets for regulated entities. In Europe there are legal requirements in place for insurance companies and banks to have diversity policies. These requirements are contained in Solvency II and CRD4. However, there is no requirement that these diversity policies address gender diversity. In the US, the Securities and Exchange Commission ("SEC") Chairman Mary Jo White said recently that the SEC would propose a rule to have more information publicly available about the diversity of directors of regulated entities (Michaels, 2016).

The approaches taken by countries can be split into 3 different categories. I have explained these approaches, in the form of mini-case studies, by focusing on a country where that particular approach was taken.

1) United Kingdom - An awareness raising approach was taken with the use of high profile reports on the benefits of gender diversity which were followed by non-binding targets that firms were under public and industry pressure to comply with. There were also limited provisions in relation to transparency and comply or explain for listed firms.
2) Australia - Gender diversity requirements were included in legislation, with firms required to either comply with the requirements or to explain why they were not complying.
3) Norway - Binding quotas were implemented for Norwegian PLCs, backed up by the threat of being delisted if they failed to comply.

United Kingdom - awareness raising/non-binding guidance/transparency/comply or explain

I would classify the approach taken by the UK as one of awareness raising along with the use of non-binding guidance/targets. There have been a number of high profile reviews completed on the issue of board diversity, which included the Higgs, the Davies and the Gadhia Review. I have included a brief overview of each of these reviews as I think that they provide a useful roadmap of the approach and steps taken in the UK.

Higgs Review 2003

In the wake of a number of corporate scandals in the late 1990s, the Higgs Review of Corporate Governance (the “Higgs Review”) called for significant changes to the composition of corporate boards. The Higgs Review sought greater diversity among board directors on corporate boards. The response in relation to gender diversity following the Higgs Review was poor. Between 2003 and 2010 the percentage of women on the boards of the FTSE 100 companies rose by just four percentage points from 8.6% (101 directorships) to 12.5% (135 directorships) (Gadhia, 2016).

Davies Review 2011

At the time the Davies Review was published women held only 12.5 percent of FTSE 100 board seats (Davies, 2011). Looking at those same 100 companies, according to a report by the Equality and Human Rights Commission in 2008, at the then existing rate of change it would take over 70 years to achieve gender-balanced boardrooms (ECHR, 2008).

The Davies Review recommended that the Financial Reporting Council “*amend the UK Corporate Governance Code to require listed companies to establish a policy concerning boardroom diversity, including measurable objectives for implementing the policy, and disclose annually a summary of the policy and the progress made in achieving the objectives*” (Davies, 2011, pg 4).

The Davies Review did not recommend quotas stating that they believed that board appointments should be made on the basis of business needs, skills and ability. Only 11% of consultation responses were in favour of a legislative quota regime in 2011 (Davies, 2011). However, the Davies Review stated that if there was not an increase in the level of gender diversity then the issue of quotas would have to be revisited. The Davies Review stated that it was clear a voluntary, business-led approach was likely to win the support of key stakeholders. However it advocated non-binding targets because they made firms measure their progress, which made the conversation happen at a senior level and actions then followed (Davies, 2015).

The Davies Review was successful in drawing attention to the issue of gender diversity on boards and it led to increases in the level of gender diversity on boards and in the level of support for gender diversity on boards. In 2011 when the Davies Review (2011) was published, 12.5% of directors of FTSE 100 companies were women, and just 7.8% of directors of FTSE 250 companies were women. By 2016 the number of female directors on FTSE 100 Boards had increased to 26.1% and the number of female director on FTSE 250 Boards had increased to 19.1% (Davies, 2015; Gadhia, 2016). There are no all male boards in the FTSE 100 and only 15 in the FTSE 250, compared to 152 all male boards in 2011 (Davies, 2015; Gadhia, 2016).

Following the increased level of gender diversity on boards in the UK in the five years following the Davies Review, Chairmen have reported on the positive impact women are having at the top table, the changing nature of the discussion, level of challenge and improved all round performance of the board (Davies, 2015). Chairmen have overwhelmingly reported the "*positive impact of improved gender balance, the benefit of diverse perspectives, more challenging debates and improved decision making*" (Davies, 2015, pg. 13).

Gadhia Review 2016

Jayne-Anne Gadhia, the CEO of Virgin Money led a review which was carried out with the support of the UK Treasury and which was published in March 2016 (the "Gadhia Review"). It was titled 'Empowering Productivity Harnessing the Talents of Women in Financial Services'.

Mark Carney, the Governor of the Bank of England, was quoted in the review as saying that "t*he business case for fairness, equality and inclusion is clearer than ever, and financial institutions must embrace diversity in their organisation in order to reap the benefits*" (pg. 3). He went on to say that the "B*ank of England already recognises the value of diversity and has put inclusion at the heart of its practices, working hard to ensure progress in this area*" (pg. 3). Ms Gadhia stated the following in her introduction to the review "*the achievement of a balanced workforce at all levels in Financial Services will undoubtedly improve culture, behaviours, outcomes, profitability and productivity*" (pg. 4). She stated that almost all of the top jobs are in the hands of men which arguably contributed to the financial crisis.

The Gadhia Review looked at a sample of 200 firms active in UK Financial Services and found that there was 23 percent female representation on boards but only 14 percent female representation on executive committees. It stated that political pressure and media focus had been on gender diversity on boards which may go towards explaining the improvement in the gender diversity on boards but not on executive committees. The 14 percent figure on executive committees is very close to the 12.5 percentage level of women on boards which existed when the Davies Review was completed in 2011. The Gadhia Review suggested that this level may be a natural floor that female representation will fail to move beyond in the absence of measurement, scrutiny and action.

The Gadhia Review recommended that "*every Financial Services firm operating in the UK be encouraged to publish its own inclusion strategy and targets on an annual basis - and that progress against these internally generated targets be reported*" (pg. 5). It recommended that the strategy be pushed from executive committee level from a senior member responsible for its design, execution and success. The Review suggested that the success of these measures be part of the annual bonus outcome for all senior executives. By making a link between variable remuneration and progress on internal plans for gender outcomes it was thought that it would incentivise senior executives and focus their minds on the issue of gender diversity.

The actions recommended in the Gadhia Review are voluntary and form part of a voluntary Charter that the UK Treasury has asked firms to sign up to. However, the Gadhia Review states that if large sections of the financial industry do not implement the Review's recommendations it may lead to calls for the UK Treasury to re-examine whether a more prescriptive approach is required.

Hampton Review

The UK Government announced in February 2016 that they have commissioned another report in this area, with Sir Philip Hampton, the Chair of GlaxoSmithKline, having been appointed to lead an independent review on increasing representation of women in the Executive level of FTSE 350 companies. This review will switch the focus from gender diversity on boards to "*building the pipeline for female Executives and emerging Non-Executive Directors, to continue the work already done on increasing Board representation*" (Gadhia, 2016, pg. 24)

Women on Boards and the 30% Club

Organisations such as Women on Boards and the 30% Club were instrumental in advocating for more gender diversity at senior levels and making the business case for such diversity by focusing on how increasing gender diversity positively correlates with superior firm performance. They were very successful in getting business leaders to be sponsors and champions for greater diversity by raising awareness of the economic benefits of gender diversity (H1).

Reporting Requirements

It is clear that in the UK public reporting and accountability has led to improved gender balance in listed firms (Gadhia, 2016). Following the implementation of recommendations included in the Davies Review, UK listed companies are required to report publicly on board gender diversity (Gadhia, 2016). The UK Corporate Governance Code, on a 'comply or explain' basis, requires listed companies to report on their board diversity policy and objectives for implementing the policy. The Companies Act 2006 requires listed companies to include entries in their strategic report on the gender balance of directors, senior managers and employees.

These requirements are focused on listed firms and therefore are not applicable to the majority of the regulated financial firms in the UK. As stated in the Gadhia Review these requirements, "*with a* *few notable exceptions such as Lloyds Banking Group, Deutsche Bank, Barclays and RBS, do not cover the depth of reporting that is required to appropriately bring scrutiny to the talent pipeline and the progression of women from the mid-tier"* (2006, pg. 26).

Conclusion

As illustrated above the level of gender diversity on the boards of UK listed companies has increased significantly since the Davies Review was published in 2011. Through the use of high profile reviews and the work of voluntary organisations, awareness was raised on the economic benefits of gender diversity on boards. This increased awareness, together with the very public pressure and focus on firms to reach non-binding targets, led to an increase in the level of gender diversity on boards. The threat used in the Davies Review that quotas would have to be reconsidered if the level of gender diversity on boards did not improve, cannot be ignored as a potential factor in contributing to this voluntary change.

Australia - comply or explain

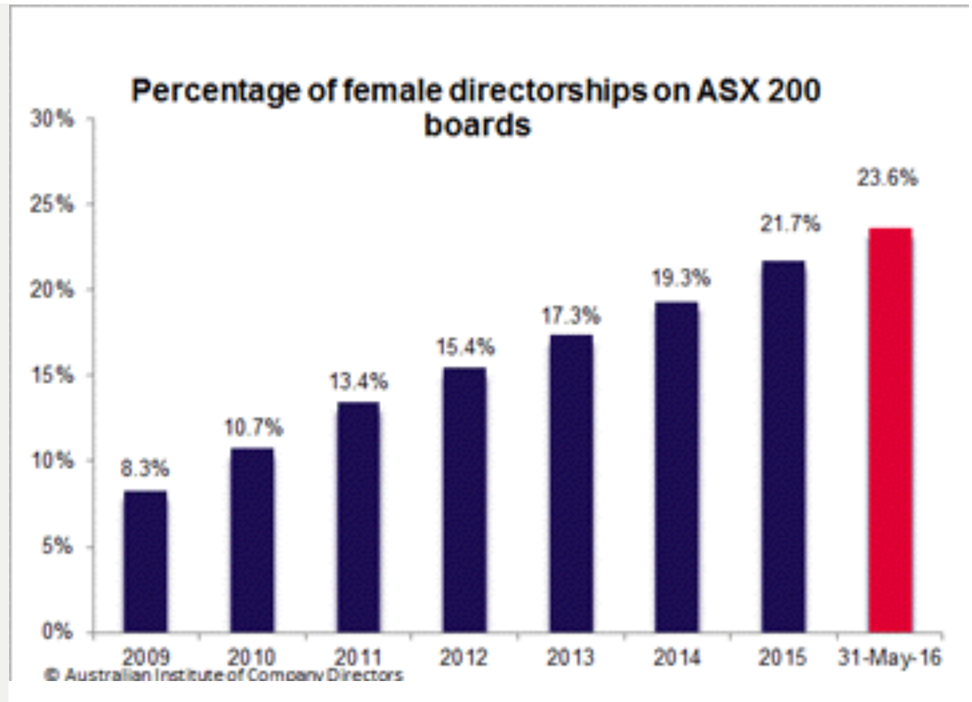
Australia sought to increase the level of gender diversity on their boards by introducing a 'comply or explain' requirement which required listed firms to either appoint women to their board or to explain why they had not. This requirement was enforced by the Australian Stock Exchange.

The Australian Stock Exchange has published corporate governance principles that require that companies:
(1) establish and disclose a summary of a diversity policy which includes a requirement for the board to establish measurable objectives for achieving gender diversity;
(2) disclose annually the objectives established and progress towards achieving them; and
(3) disclose annually the proportion of female employees in the entire organisation, senior executive positions and women directors on the board.

Companies listed on the Australian Stock Exchange are required to comply with these governance practices.

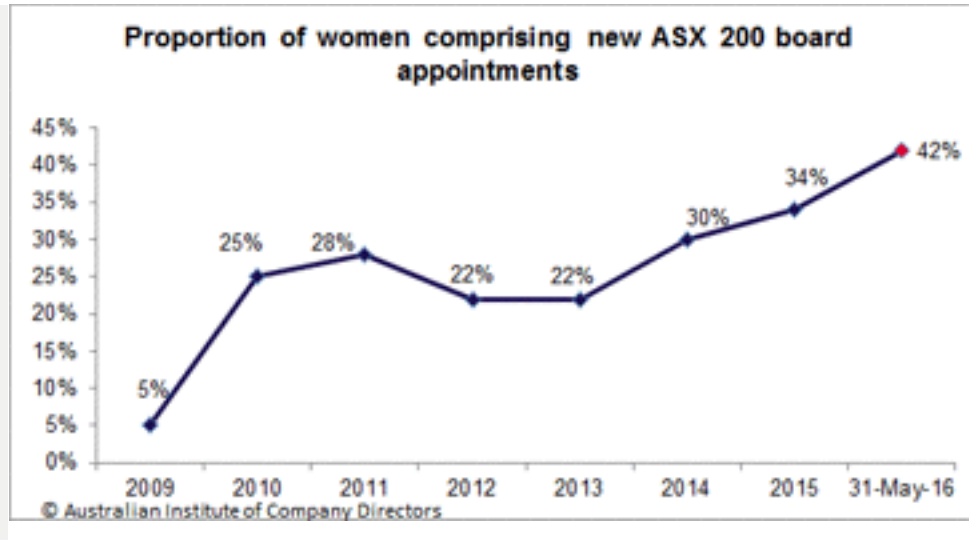
Australia had a second key initiative that helped to improve the gender balance on boards. The Australian Institute of Company Directors (AICD) diversity initiative included a chairmen's mentoring program that has led to a number of female director appointments since it was implemented. The AICD backed Australian Securities Exchange diversity reporting guidelines were adopted in 2010 and started a board training program for women in the corporate pipeline.

In 2009 there were 8.3% female directors on ASX 200 boards. This percentage had increased to 23.6% in May 2016. 20 of ASX 200 boards have no female directors.



Source: AICD

The proportion of women comprising new appointments has increased dramatically from 5% in 2009 to 41% in the first half of 2016.



Source: Research conducted by the Australian Institute of Company Directors

<u>Norway - quotas</u>

The percentage of women on Norwegian PLC boards through the 1990s hovered at about 5 percent (Dale-Olsen et al., 2013). Laws were passed by the Norwegian Parliament requiring that women should comprise roughly 40 percent of the board of directors in all PLCs by 1 January, 2008, otherwise firms would be dissolved. The law was initially based on voluntary compliance but if the threshold was not met by July 2005 it would become mandatory for all PLCs (Dale-Olsen et al., 2013). The reform was an example of government intervention to improve gender equality in corporate management. Norway was the leader of a pack of countries that introduced similar reforms such as Spain (2007), Iceland (2010), France (2011), the Netherlands (2011), Belgium (2011) and Italy (2011) (Teigen, 2012).

It is not surprising that Norway was the first country to introduce quotas given Norway's reputation as an egalitarian country, ranking as a leader in gender equality (Inglehart and Norris, 2003). There was concern in Norway in relation to the gender imbalances in senior management and on boards (Teigen, 2012). There was a push for gender diversity on boards for social fairness reasons (Noon, 2007) and to correct what was seen as a democratic problem (Teigen, 2012). At the end of 2012 Norway's shareholding in companies listed on its stock exchange amounted to 35 percent. The state's shareholding was seen as another reason for promoting gender diversity on boards of listed companies (Teigen, 2012). Business case arguments were also made for implementing gender diversity quotas on Norwegian boards (Teigen, 2012).

Criticism of quotas

Teigen (2012) sets out arguments as to why board quotas can be criticised, including hindering the shareholders' right to self-regulation and to select the board member they think would lead to the most success for the company. Quotas can also be seen as discriminatory towards men. The quality of the board could be reduced if there was no suitable female candidate but one had to be appointed to satisfy the quota (Dale-Olsen et al., 2013). There is also a risk that quotas could lead to tokenistic changes and could negatively affect women on the board (Fagan et al., 2012).

Effect of quotas on Norwegian firms

Dale-Olsen, Schone and Verner (2013), make an argument that logically, if women were of inferior quality, due to lack of experience or skills, then if firms were forced to appoint women to the board it would have adverse affects on the firm's performance. If the low percentage of women on the board prior to the quotas was as a result of discrimination, it was argued that the introduction of quotas would bring better quality candidates on the board and would lead to better performance by the companies.

The impact of the reforms on firm performance was negligible. Ahern and Dittmar (2012) espouse that the quotas had a negative effect on Tobin's Q having studied 130 Norwegian PLCs from 2001 to 2009. However, the performance results could have been caused by business cycle trends which also affected markets across other Scandinavian countries, as opposed to performance results which were isolated to Norway where the quotas were introduced. The global financial crisis in 2008 had an effect on companies globally, and any negative effect on Tobin's Q could be attributed to the financial crisis, and not the quotas, particularly in the absence of a strong control group. Dale-Olsen, Schone and Verner (2013) identify a number of selection problems with Ahern and Dittmar's study which lead one to question the strength of the results. Similar selection problems arise with Matsa and Miller's study of 100 large Norwegian and Swedish PLCs from 2006 to 2009 (2013). They compare the return on assets for Norwegian and Scandinavian firms and find that the Norwegian quotas had a detrimental effect on firm performance. Criticisms of this study made by Dale-Olsen, Schone and Verner include that this study had "*a weak methodology, face selection problems, and ignore the potential differential impact of the reform depending on board size*" (2013, pg. 117).

Ahern and Dittmar's (2012) and Matsa and Miller's (2013) studies reach similar conclusions that quotas impact negatively on firm profits. However, the study by Dale-Olsen, Schone and Verner (2013), which do not find any adverse effect arising from quotas, appears to have a more robust methodology than the previous two studies. It should be noted that there are also weaknesses in the Dale-Olsen, Schone and Verner (2013) study as it is only evaluating the performance from 2007. While the quotas were not made mandatory until 2008, the authors justify considering 2007 as a post quota year because the average representation of women on boards was 36.7 percent in 2007 (Dale-Olsen, Schone and Verner, 2013, pg. 119). Although they had data for 2008 and 2009, the authors considered those years as "*not suited as reform evaluation years*" (pg. 123), because of the effects of the financial crisis. However, the difficulty of only evaluating 2007, even though the 40 percent gender board diversity was nearly hit, is that there would not have been time for the gender diversity on the board to have an effect on the firms' performance. Surely it would take time for board decisions to feed through to the performance of the firm and to be measurable using performance indicators. Whereas this study finds that the quotas had a negligible performance effect, this was hardly surprising given how soon after the increase in gender diversity on boards that the performance was measured. This is a weakness that the authors acknowledge. The authors posit that their results imply that either the short term influence of gender diversity on boards is low or that the newly appointed women do not bring different resources and perspectives to the men they replaced.

One change that Dale-Olsen, Schone and Verner (2013) identified was that in 2007 firms became more leveraged and there was an increase in equity and debt. A possible explanation for why this occurred that was given by the authors was that there was a shortage of capital for both Norwegian PLCs and limited companies on financial markets as the financial crisis approached. Whereas the previous two studies focused solely on PLCs, this study uses Norwegian limited companies as a control group as limited companies were not affected by the quotas. The authors conclude that given the ambiguous business case arguments and negligible performance consequences, but improved gender equality, the quotas have been a success.