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Corporate Boards Gender Diversity and Earnings Persistence: The Case of French Listed Firms

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Corporate Boards Gender Diversity and Earnings Persistence: The Case of French Listed Firms

Wafa Hili ^α & Prof. Habib Affes^σ

Abstract - This article empirically tests the impact of gender diversity of the boards of directors on earnings quality in general, and on earnings persistence in particular. Using a sample of 70 French firms listed at the SBF 120 index, we find that the enhancement of earnings persistence could not attributed to gender diversity. The results do not display significant differences among firms with female and male directors. Those results may be traced back to the socio-psychological attitude adopted by female directors, and by the visibility of barriers that would hinder their hierarchical progression.

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1. INTRODUCTION

Cornet and Warland (2008) define diversity as a set of personal, social and organizational characteristics that contribute to the development of identity and personality of individuals. This concept gives rise to a politics of optimization of human resources management, ensuring an equality of opportunities between all individuals in the workplace, regardless of their differences. At the organizational level, this can be illustrated through an equal representation of men and women in the top of the hierarchy, and also through an equal treatment that would not only guarantee social justice, but also dismantle all forms of discrimination (Campbell and Minguez-Vera, 2008, Cornet and Warland, 2008).

However, in spite of the initiatives that encourage the enhancement of women's representation in positions of big responsibility, their progress remains gradual and relatively slow. A survey carried away by Catalyst (2009) shows that, during the years 2009 and 2008, women represented 15.2% of the board seats of Fortune 500 companies. 90% of these companies have at least one woman in their corporate boards, while 20% have more than three women. During the year 2007 and 2006, respectively, women's percentage was 14.8% and 14.6% (Catalyst, 2007). Catalyst (2012a) presents a distribution of women in the different board's committee of Fortune 500 companies. In 2011, women represented

14.7% of members of audit committee (12.1% in 2010), 12.5% of members of remuneration committee (11.5% in 2010) and 19.2% of member of nomination and governance committee (16.9% in 2010).

In 2009 in Canada, women held 14% of FP 500 Companies' board seats. 41.9% of companies listed in the FP500 have no women in their board. This percentage becomes 39.5% in 2011. Moreover, in 2009, 19.3% of FP500 companies held 25% or more women, and in 2011 only 21% (catalyst, 2012b).

As regards the French context, the percentage increase of women board directors in the CAC 40 companies' board of directors was 16.5% in 2010 and increased to 20.6% in 2011 (Natividad, 2011). Besides, the promulgation of the law n°2011-103 of 27/01/2011 – implying women and men's equal representation in the board of directors and in the supervisory board and professional equality – has encouraged French companies to appoint more women in their boards. Indeed, in 2011, women's percentage in the CAC 40 companies' board of directors was 20.99%. This percentage reached 17.39% in the SBF120 companies and 15.21% in the SBF80 companies (Ethics and board, International board watch and ranking agency, 2011a). Among SBF120 companies, "Publicis" has the most important percentage of women directors (43.75%), followed by "Alten" and "Orpea" (40%) (Ethics and board, International board watch and ranking agency, 2011b).

As has been observed, these different percentages assume legislative and voluntary efforts that would foster women's promotion in organizations. Nevertheless, women encounter many problems that may hinder their progress and slow down the process of their promotion. Those problems commonly boil down to the "glass ceiling" phenomenon. This concept appeared in 1986, in a report published by two journalist of Wall Street Journal (Wirth, 2001). This metaphor is defined as the invisible barriers, based on bias, that prevent qualified persons, women in particular, from reaching senior positions (Wirth, 2001). Morrison et al. (1987) contend that the "glass ceiling" concept represents an obstacle to women's initiation into top hierarchical positions, not because of their lack of competence and efficiency but primarily because of their sex.

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A comprehensive literature review helps delineate the main causes of glass ceiling. In fact, this concept is inextricably connected with stereotypes and bias against women, to tokenism, to the absence of sponsoring, to the exclusion from informal networks, to managers' reluctance, if not aversion, to appoint women in positions that generate revenues, to family-work conflict and to the lack of experience in the realm of leadership.

In an attempt to avoid glass ceiling, researchers have suggested many strategies (Fitzsimmons, 2012; Jonsen and Maznevski, 2010; Wirth, 2001), highlighting the importance of the adopting gender diversity politics in organizations, and mainly, in governance instances.

In this article, we try to demonstrate whether women's representation in French boards of directors can affect their credibility and transparency, through the examination of the effects on earnings quality, and especially on earnings persistence. Indeed, our research question is as follows: what is the impact of the boardroom's gender diversity on earnings persistence?

To solve this issue, we set two goals:

1. The first objective draws from the insights of socio-psychological literature and resources dependence theory, in order to explain the research relation and present the different attitude toward board diversity.
2. The second objective is based on the agency theory. It examines the role of women in the enhancement of control and the ensuring of a better earnings quality.
3. This research will be organized as follows: first of all, we present a literature review that examines the impact of women's presence in the board of directors on earnings quality. We, then, suggest an empirical grounding in the French context.

II. BOARDROOM GENDER DIVERSITY AND EARNINGS PERSISTENCE: LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

Socio-psychological literature has been interested in the ethical gap between men and women. In fact, many researches display a perceptible divergence in the attitudes and leadership style of managers and administrators of both sexes. Mason and Mudrack (1996) show that men, longing for earnings and cherishing career success, are more likely to violate the law to reach competitive success than women are. These authors add that, unlike men, women are more interested in harmonizing relations and assisting the others. Accordingly, they are less likely to transgress business ethics.

Besides, Klenke (2003) also suggests that, opposite to men, women are mostly concerned with interpersonal relations and rules conformity in the

exercise of power. They often attempt to create an atmosphere of confidence by using transformational strategies such as the impression and the motivation of management rather than the dependence to contractual arrangements and seniority.

Furthermore, the latter adopts a participatory and democratic leadership style, based on confidence (Trinidad and Normore, 2005). This style allows them to establish cooperative relationship with managers which facilitates their access to information and reduces informational asymmetry (Jelinek and Adler 1988).

Another aspect of socio-psychological literature shows that, when it comes in financial decision making, women display a much more important aversion to risks than their male counterparts (Riley and Chow, 1992; Sunden and Surette, 1998; Barber and Odean, 2001; Bliss and Potter, 2002). Thus, in the presence of problems in financial reporting process, women directors are more likely to further expand their control as well as the inquiries realized on this subject.

Women's adhering to business ethics is likely to reinforce the social responsibility in organizations. Indeed, the governance role of board of directors stretches beyond the shareholders' wealth maximization to include their ethic treatment (Van der Walt et al., 2003). In their study, Bear et al. (2010) demonstrate a positive association between the number of female directors and the intensity of social responsibility indexes. Women's presence demonstrates great awareness of social responsibility norms.

All the researches aforesaid, which are part of the socio-psychological literature, show that compared to men, women embrace greater ethical values in their decisions and in the exercise of their power. Their presence in the management and governance instance would therefore inhibit all fraudulent attempts in the organization, and more particularly, all attempts at earnings manipulation.

In the economic and financial literature, two main theoretical perspectives – agency theory and resources dependence theory – as well as the business case of diversity, underpin the logic behind board of director diversity (Van der Walt et al., 2003).

Agency theory confers on board of directors a supervisory role, which requires the appointment of qualified, independent and self-controlled specialist directors (Bathala et Rao, 1995).

According to Carter et al. (2003), diversity boosts the board independence and activism, and advocates a procedural justice, assuring a direct representation of shareholders and stakeholders interests in the decision making process (Luoma and Goodstein, 1999).

In this context, Daily et al. (1999) claim that the improvement of the control role of boards is guaranteed by greater gender diversity. Kesner (1988) also finds that women are more likely to be present in important

committees of the board, such as, audit, remuneration and nomination committees.

The amelioration of the disciplinary role allows the cut of agency costs. In fact, using two agency costs proxies (the free cash flows and poor growth or dividend payout ratio), Jurkus et al. (2010) find a negative and significant relation between agency costs and boardroom gender diversity for firms that show a weak external governance structure.

In accordance with resources dependence perspective, board of directors is considered as an important strategic resource for organization, given that it connects firms to external resources, such as, capital access, competitors and markets connections (Ingley and Van der Walt, 2003). Indeed, the selection of competent and influential directors is beneficial for the firm: it allows for the decrease of dependency and the gain of resources, which can enhance its legitimacy, increase the information communication channels and establish an atmosphere of counsel and assistance.

In the light of the previous observations, the main question is to know whether women directors hold the required skills to master the complexity of organizational environment.

Although a number of researchers have pointed out the failure of heterogeneous board of directors (Adams and Ferreira, 2009), many others have been in favor of their diversity, elucidating the principal advantages of feminine representation.

A study conducted by Robinson and Dechant (1997) shows that diversity provides efficient solutions to complex problems. Those authors suggest that variation of perspectives, which emerges from diversity, leads decision makers to consider more perspectives and to examine them with caution.

Hillman et al. (2007) stipulate that increased female participation in management and governance allows an optimal use of resources contributing to the creation of competitive advantages. Singh et al. (2008) show the importance of board heterogeneity by investigating the profile of new-appointed women. They reveal that women are highly qualified and well experimented, which favors a greater diversity of their boards. From their part, Farrell and Hersch (2005) highlight the enhancement of firm reputation through the appointment of women in their boards of directors.

In a similar vein, according to Thomson and Lloyd (2011), this feminization broadens the range of skills and helps solve the problem of the lack of competency. However, it provides access mainly to resources which have particular, distinct and complementary features and competencies. Besides, board heterogeneity enhances creativity and innovation, which can revitalize leadership through a better understanding of environment complexity, more adjustment, and greater ability to cope with ambiguity and to take perceptive decisions (Kang et al., 2010).

As has been observed, all the theoretical arguments presented speak in favor of boardroom gender diversity. What is more, they are reinforced with empirical works which have presented the business case for diversity. Actually, many researchers have examined the impact of board of director gender diversity on financial and accounting performance. Varied results are obtained. Some of them highlight the existence of positive and significant relationship (Mahadeo et al., 2012; Rayan and Haslam, 2005; Carter et al., 2003; Erhardh et al., 2003), whereas others find the opposite and show a negative association between gender diversity and performance (Adams and Ferreira, 2009; Bohren and Strom, 2005; Shrader et al., 1997) or assume the neutrality of the relation (Carter et al., 2010; Francoeur et al., 2008; Rose, 2007; Randoy et al., 2006).

The existence of an association between board of director gender diversity and performance allows us to question its potential relation with earnings quality. An empirical literature review shows that the majority of researches, investigating this relation, have been mainly interested in earnings management as a measure of earnings quality (Srinidhi et al., 2011; Sun et al., 2011; Labelle et al., 2010; Gul et al., 2007). Few researches have examined other attributes.

Earnings quality represents one of the principal tenets of actual performance organizations. It represents an indicator of future performance and a useful measure for firm's value valuation (Dechow and Schrand, 2004). In fact, four approaches can be followed to measure earnings quality; the value-relevance, the conservatism, the earnings management and the time-series properties of earnings (Schipper and Vincent, 2003). Earnings persistence, being the last approach, measures the probability of earnings steadiness or growth in future periods (Richardson, 2003). Better earnings persistence signals a good earnings quality (Richardson, 2003).

In the US context, Krishnan and Parsons (2008) investigate the association between earnings quality and the proportion of women senior managers. They use six measures of earnings quality: asymmetric timeliness and conservatism, earnings skewness, accrual-based measure of conservatism, smoothness, avoidance of loss tendency and persistence. Among 770 observations during 1996-2000, they find that high gender diversity firms report more conservative earnings than low diversity firms. Results also show a negative association between earnings smoothing, avoidance of loss tendency and management's gender diversity, and a positive and significant association with earnings persistence.

Using a large sample of Chinese listed firms reported earnings, during the period 2001-2006, Ye et al. (2010) find no significant earnings quality difference for firms managed by female and male executives. They use four measures of earnings quality: earnings

persistence, the accuracy of current earnings as indicators of future cash flows, the association between earnings and stock returns and the absolute magnitude of discretionary accruals. Their results are incompatible with the studies conducted in developed country. The authors indicate that the divergence of results boils down to the absence of ethical value differences between men and women in China because of the spread of socialist egalitarian ideology since the founding of communist China in 1949. This runs counter to developed countries, such as the U.S. and the U.K., where females possess different social role expectation and values, as noted in the prior literature. The authors provide another interpretation of their result which consists in the fact that obstacles to success in the executive position are much more visible in China than in the U.S., and as a result, these barriers becomes much easier to break down.

In this respect, our **research hypothesis** is the following: *There has been a positive association between board of directors' gender diversity and earnings persistence.*

III. RESEARCH DESIGN

a) Sample and data

Our sample includes accepted companies in the French SBF 120 index throughout 2007 and 2010. From the initial sample (480 firm-year observations), we have eliminated financial companies (36 firm-year observations) and estates (28 firm-year observations). The reason behind this elimination lies in their specification in the reporting and the publication of their financial data. Besides, we have also eliminated foreign companies (20 firm-year observations) and those governed with supervisory boards (100 firm-year observations) since our goal is to investigate the association between board of directors' gender diversity and earnings quality. Finally, we have put aside companies with missing data (16 firm-year observations). Sample determination is summarized in the table 1.

Table 1 : Sample determination

	firms/years
Initial sample	480
Financial companies	36
Estate companies	28
Foreign companies	20
Companies with supervisory boards	100
Companies with missing data	16
Final sample	280

Financial and accounting data have been collected from annual reports and consolidated accounts of French companies, which are available in the websites of these companies. Data related to the composition and the other characteristics of board are culled from their reference documents.

b) Measurement of variable

To test the relation between board's gender diversity and earnings persistence, we use different variables.

Dependant variable

*Earnings persistence: according to the relevance approach, the persistence of earnings represents an important indicator of earnings quality (Mohammady, 2010). It encapsulates the extent to which earnings persist in the following periods. The persistence is measured in the next regression (Dechow et al., 2010; Ye et al., 2010).

$$R_{it} / TA_{it} = \alpha_0 + \alpha_1 R_{it-1} / TA_{it-1} + \varepsilon_{it}$$

Where;

R is operating income

TA is total assets

i and t index are respectively firms and years

Earnings persistence is identified by the coefficient α_1 . A value close or superior to the unity indicates greater earnings persistence, which is representative of high earnings quality.

Independent variable

*Gender diversity of board of directors (DIVERS): it is a dichotomous value that takes the value of 1 in presence of women in the board of directors and 0 otherwise.

Control variables

*The presence of block holders: it is measured by the percentage of capital held by the main shareholder. This measure has been used by Fernández and Arrondo (2005), with other researchers who have shown its influence on earnings quality (Halioui and Jerbi, 2012; Bryan et al., 2004).

*The presence of deficit (loss): it is a dichotomous value that takes the value of 1 for loss making-firms and 0 otherwise.

c) Empirical results

In an attempt to empirically vindicate our hypotheses, we propose the following empirical model:

$$R_{it} / TA_{it} = \alpha_0 + \alpha_1 R_{it-1} / TA_{it-1} + \alpha_2 DIVERS_{it} + \alpha_3 R_{it-1} / TA_{it-1} * DIVERS_{it} + \alpha_4 BLOCKS_{it} + \alpha_5 R_{it-1} / TA_{it-1} * BLOCKS_{it} + \alpha_6 PERTES_{it} + \alpha_7 R_{it-1} / TA_{it-1} * PERTES_{it} + \varepsilon_{it}$$

Given the lagged endogenous variable (R_{it-1} / TA_{it-1}) among explicative variables, the estimation of this model by classical methods – such as the ordinary least square procedure, the fixed-effect model, and the generalized least square method – can generate biased and divergent estimators. Four sources of bias can be identified: simultaneity, reverse causality, temporal correlation of errors and omitted values (Judson and Owen, 1999).

To solve these problems, many techniques based on Generalized Method of Moments in panel data (GMM), such as those of Arellano and Bond (1991), can be deployed. Those techniques control the individual and temporal effects and resolve the problem of variables endogeneity.

Arellano and Bond (1991) adopt first difference GMM estimators, which is a two-step method. The first step consists in considering, for each period, the first difference of equation to be estimated to go beyond country specific effects. This step, however, is not sufficient since this differentiation can lead to a correlation between error term and the tardy dependent variable. To grapple with the problem, the authors move on to a second step. It consists in instrumenting the explicative variable of the first difference equation, trying to mitigate the endogeneity problem generated by the presence of lagged dependant variable among explicative variables.

To further examine the GMM estimator efficiency, two tests were conducted (Arellano and Bond, 1991): the Sargan test of over-identifying restriction, that enables to examine instruments validity, and the Arellano and bond autocorrelation test.

In this research, the two-step first difference GMM estimator will be carried out with OxMetrics 6.

Table 2 recapitulates the principle results of our estimation.

GMM estimator efficiency and model quality

The results presented in table 2 indicate the validity of the instruments used since the Sargan test does not reject the null hypothesis of the validity of the tardy variables used as instruments (p-value = 0.106). Moreover, we notice the absence first order correlation of errors (AR1) given that the risk behind rejecting the null hypothesis of the Arellano and Bond autocorrelation test is high (p-value = 0.520). Consequently, we can confirm the efficiency of the first difference GMM estimator and the soundness of the results.

The statistic Wald (joint) presumes the good quality of the model with significance threshold of 1% (p-value = 0.000). We then reject the null hypothesis and we assume the global significance of the model. Wald (time) statistics also show the absence of temporal effect significance.

Results interpretation

The results indicate an important earning persistence because the coefficient α_1 is significantly positive and near to the unity ($\alpha_1_{GMM2} = 0.830989$). The question to be raised now is whether there is any difference in earnings persistence level that can be put down to the gender of directors.

The results shows a positive and insignificant coefficient of the interaction variable ($R^*DIVERS$). This indicates the absence of significant differences in earnings quality between observations with male and female directors. These results are discordant with those of Krishnan and Parsons (2008) and concordant with those of Te et al. (2010).

Table 2 : Earnings persistence comparison between firms with male and female directors

Arellano et Bond (1991): first difference GMM estimator		
Dependent variable	R	
Independent and control variables	GMM1 - first step	GMM2 - second step
$\Delta R(-1)$	0.865417 (0.010)***	0.830989 (0.010)***
$\Delta DIVERS$	0.00667543 (0.338)	0.00884964 (0.175)
$\Delta DIVERS(-1)$	-0.00461478 (0.431)	-0.00146381 (0.796)
$\Delta R^*DIVERS$	0.00890764 (0.909)	0.0138680 (0.858)
$\Delta R^*DIVERS(-1)$	0.0294620 (0.448)	0.00621445 (0.848)
$\Delta BLOCKS$	-0.0716776 (0.057)	-0.108754 (0.000)***
$\Delta BLOCKS(-1)$	-0.0477683 (0.047)**	-0.0722361 (0.000)***
$\Delta R^*BLOCKS$	1.76826 (0.000)***	1.78386 (0.000)***

Δ R*BLOCKS(-1)	0.824353 (0.001)***	0.776843 (0.001)***
Δ PERTES	-0.0297398 (0.015)**	-0.0252801 (0.035)**
Δ PERTES(-1)	-0.00291363 (0.839)	-0.00857143 (0.536)
Δ R*PERTES	-0.176491 (0.290)	-0.162957 (0.309)
Δ R*PERTES(-1)	-0.249616 (0.241)	-0.172553 (0.404)
Constant	-0.00549495 (0.123)	-0.00619065 (0.080)*
T2010	0.00671700 (0.201)	0.00767025 (0.132)
Wald (joint)	1.252e+004 (0.000)***	1.296e+004 (0.000)***
Wald (dummy)	2.512 (0.285)	3.317 (0.190)
Wald (time)	2.512 (0.285)	3.317 (0.190)
Sargan test	24.71 (0.000)***	4.497 (0.106)
AR(1) test	0.4153 (0.678)	0.6427 (0.520)
AR(2) test	NaN NaN	NaN NaN

Notes : The model used: first difference GMM of Arellano and Bond (1991), two steps, R: operating income, Divers: dichotomous value that takes the value of 1 in presence of women in the board of directors and 0 otherwise, BLOCKS: percentage of capital hold by the main shareholder, PERTES: dichotomous value that takes the value of 1 for loss firms and 0 otherwise.

***1% significance threshold

**5% significance threshold

*10% significance threshold

Along these lines of interest, these results can be expounded by the socialization process that obliges women to adopt norms and qualities compatible with the culturally-established gender roles. Given the historical masculinity of management and governance instance, women can encounter problematic situations when they hold a management or leadership position because these social roles remain stereotypically masculine. In this situation, envisaging role conflicts, women can violate what they consider appropriate behaviour (Eagly et al., 1995).

Women's adoption of such attitude is further enlarged upon in Kanter's study (1977). The author confers the quality of the "token" to women, since they enter the workplace having their social and gender category historically disproportionately represented. The token status raises their visibility and their performance control.

Indeed, the directors of one sex usually adopt the better qualities of the other to become more efficient and successful.

With reference to the Ye et al. (2010) study, another plausible interpretation can be assigned to

these results. It has to do with the visibility of barriers that prevents women from hierarchical ascension, due to the strengthening of the French legal framework concerning feminine representation in the management and governance positions as well as organizational consciousness.

The results also show that blockholders affect earnings persistence negatively, which corroborates with Bryn et al. (2004) results. The variable loss has no significant effect on earnings persistence, which is not compatible with previous literature.

IV. CONCLUSION

This article has been devoted to studying the effect of directors' gender diversity on one earnings property; i.e., persistence. A theoretical literature review highlights the importance of female presence in terms of rules conformity, preferences for change, risk aversion, etc. Most of the studies that have examined the relation between boards' gender diversity and earnings quality have been focusing on the earnings management aspect, and have come up with varied results. Few researches have dealt with earnings persistence that

represents one of the most important earnings quality attributes. Using a sample of 280 firm-year observations from the French SBF 120 index, we find that the observation that pays special attention on sexual heterogeneity does not display a significant difference in earnings persistence, compared to firms with homogeneous boards of directors (women's absence). We attribute this result to socio-psychological factors and to the visibility of barriers that hinders women's hierarchical ascension.

Given the importance of earnings quality, firms can turn to other governance mechanisms, such as the enhancement of board of directors' heterogeneity, in terms of functional backgrounds, education, age, etc., in order to improve corporate governance.

Last but not least, a promising area for future research is to investigate the extent to which other board' heterogeneity characteristics affect earnings quality.

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