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HOW MANAGERIAL GENDER DIVERSITY TRANSLATES INTO FIRM PERFORMANCE?

Bachelor's Thesis
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Abstract

This thesis explores how and why organizations with gender diverse top management often appear to perform differently than the conventional male-dominated organizations. More precisely, various reports have pointed out that firms led by women show improved financial performance and outperform the firms lacking the managerial gender diversity. However, the conclusive causal relations behind the differential performance have remained elusive and are difficult to identify. Furthermore, the observed performance premium, on average, appears to be rather small, context-dependent, and debatable. This suggests that the personal characteristics and skills of the female managers, and the situation-dependent broader social context of their organizations may significantly mediate the potential and observed financial success, which also challenges the popular rule-of-thumb stating that gender diversity invariably would equal increased profits.

Regardless of the steadily growing number of female directors globally, various obstacles, such as harmful social norms and cognitive barriers, still remain that hinder and prevent the passage of women towards the top management. Therefore, female managers arguably and potentially differ from men, for example, through their backgrounds, experiences, skill sets, and cognitive patterns. Women and their abilities are also perceived and evaluated often more critically by the surrounding people. Consequently, their preferred style of management, and the potential achievable and expected success of their organizations are likely also different. Hence, the performance premium may emerge in suitable conditions.

In this work, a range of special features of female managers – driving the potentially differential success of their organizations – are identified. The characteristics can be classified into three categories: 1) inherent special features and skills of the female managers that directly affect the organization's internal operations and performance, 2) indirect outward-bound effects that are reflected to the organizational performance via the altered expectations and perceptions of the external stakeholders and investors, and 3) the omnipresent broader institutional context that sets the frame for the appreciation, possibilities and overall success of the female managers.

Nonetheless, it is impossible to identify general rules or a single dominating feature of the gender diverse management that would guarantee success in all conditions. On the contrary, it is likely that varying sets of the identified drivers affect simultaneously and synergistically depending on the particular case, managers, organization, and the surrounding context. Furthermore, it is questionable whether gender itself is a meaningful or even a suitable measure in determining the diversity when aiming for optimized financial performance. While gender equality is a socially valuable goal in itself, considering only gender as the source of organizational success fails to capture important details and neglects personal variation within the genders, which makes the analysis inefficient, and prone to artifacts and biased analysis.

Keywords Managerial diversity, gender parity, performance, female managers, top management

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1. Introduction

The stereotype of a corporate manager or a boardroom member strongly resembles the Monopoly man – the world-famous caricature depicted on the classic property trading board game: An elderly, white Caucasian male with exuberant mustache, bowtie, and a top hat accompanied with a sly smile. Even though this view may sound outdated, it has remained surprisingly true and accurate up to this date. For example, according to the CS Gender 3000 report provided by Credit Suisse, on average only 20.6% of corporate boardroom members were women globally in 2019 (Kersley et al., 2019). Even though the numbers had approximately doubled during the previous ten years and the development towards managerial gender balance appears to continue, women in top management teams are still rather rare and tend to stir up a range of emotions and opinions both within the companies and from the external stakeholders (Kersley et al., 2019; Post and Byron, 2015; Zhang, 2020).

Recently, female managers, their the skills and knowledge, and their overall positive impact on the financial success of companies appear to have gained increased exposure in the news media and, indeed, reports and a range of studies have strongly highlighted that in many occasions gender-diverse management teams and female managers actually seem to promote firm performance and tend to outperform male-dominated organizations (for example, Jeong and Harrison, 2017; Kersley et al., 2019; Post and Byron, 2015; Zhang, 2020). Thus, it would seem that by promoting gender balance and equality in their top management teams and boardroom, the organizations could also straightforwardly enhance their financial success. However, the situation is unfortunately not that simple, since while correlation can be relatively feasibly determined, the true cause and effect relationships are often difficult to determine (Eagly, 2016). As depictively stated in the CS Gender 3000 report: *"A conundrum remains here as to whether greater diversity leads to a higher "Quality" business model or whether a high "Quality" business model leads to greater diversity."*(Kersley et al., 2019, p. 26)

Therefore, in this bachelor's thesis I will explore *How managerial gender diversity and the presence of female managers is translated into organization's actions and, consequently, also to economic success*. In other words, what women in the top managerial posts do differently compared to their male counterparts that makes them and their organizations stand out from the crowd, as suggested by the several reports and studies. Thus, this work is an effort to explain why organizations run by female managers or gender diverse organizations often would appear more profitable. The work is carried out as a literature review.

Within this work, gender is determined in a narrow sense with binary options; male and female. Accordingly, the effects of the presence of women in the top managerial positions on

the performance of the organizations are reviewed and evaluated. The definition of top managerial position, in turn, is determined rather broadly and includes both persons *"at the highest level of management of an organization"*, such as chief executive officers (CEOs), similar to the CS Gender 3000 report, and people within the boardroom (Kersley et al., 2019, p. 12). For the economic success, relative comparison to the reported benchmark control data in the published studies is used as such and not manipulated nor classified in more detail. That is, the main focus is kept on the means and methods that produced the observed differences in performance and not on its numerical analysis.

The possible reasons for the superior or otherwise deviating performance of the female-led organizations will be approached from three different but complementary points of view: 1) direct contribution to internal practices and decision-making within a company mediated by the personal skills, characteristics, and insights of the female managers, 2) indirect effects of female managers on the external stakeholder relations, perceived organizational image, and investor expectations, and 3) the broader institutional norms that drive and set the frame for the potential success or failure. While conclusive results and single dominating reason are near impossible to determine, and likely a legion of situationally dependent reasons always play a role, the social and culturally dependent factors appear to be of special importance. While the social norms and expectations often hinder the access of women to managerial positions in the first place, they also appear to have a significant role in accelerating or decelerating the female-led firms towards success as interestingly highlighted by, for example, Zhang (2020).

In the following chapters, relevant statistical background is first given regarding the managerial gender diversity and the number of women in top management in general. Thereafter, the accessibility of such high-power positions for women are discussed accompanied with a closer overview of how women-led organizations typically financially perform. Here, especially the magnitude and reliability of the often-stated performance premium of the gender-diversely led organizations is critically evaluated. Finally, the potential and plausible reasons for the differential performance of the female-led organizations – the main focus of this thesis – are explored in detail. A summary with concluding remarks is provided in the end.

2. Women in Management – Current Trends, Roadblocks, and Track Record

While women comprise 50% of the world's working-age population, the high-flying managerial and political roles are mostly filled by men. As stated in the Women Matter report by McKinsey (Desvaux et al., 2017) and CS Gender 3000 by Credit Suisse (Kersley et al., 2019), on average only 20-25% of ministerial and parliamentary roles, management positions, and boardroom seats are currently occupied by females globally. Bluntly, roughly 4 out of 5 places of power are occupied by men. Furthermore, if focusing purely on the amount of females among CEOs the number plummets to 4.4% (Kersley et al., 2019). Because of this gender gap in management, and in work force in general, women produce only 37% of the global gross domestic product (GDP) as highlighted by Desvaux et al. (2017). Therefore, narrowing the gender gap in order to improve female participation, gender parity and equality would be a valuable task already in itself, but it would also provide significant economic enhancements: Desvaux et al. (2017) have estimated that by closing the gender gap – including the top management positions – and increasing the participation of women in the work force, an increase of $12 trillion in the global GDP could be achieved by 2025. In terms of people this would equal to approximately 240 million new pairs of working hands and minds in the active labor force (Desvaux et al., 2017).

As the skills, knowledge, and equal rights of women have been globally agreed to be drastically underutilized and potentially of high value, the presence of women in management teams and boardrooms have been steadily climbing and roughly doubled since 2010, the current global average being settled slightly above 20% (Kersley et al., 2019). However, significant local variation in the amount of women in management exists around the globe ranging between approximately 3% (in Japan) and 34% (in Philippines). The differences appear to be strongly driven by the country practices, prevailing culture, and legislation rather than, for example, particular industry standards or stereotypes (Kersley et al., 2019; Zhang, 2020).

In addition to the changes in attitudes and social norms, certain population-level trends are favoring and promoting the increased participation of women in managerial roles and in the labor force in general: First, as reported by Dotsey et al. (2017) the retirement of the so-called baby-boomer generation – especially in the developed countries – will result in the decrease of the relative amount of working-age population, and particularly of men, which opens positions for the new generations including the growing talent pool of women. Consequently, development toward gender parity is expected (Dotsey et al., 2017; Kersley et al., 2019). Second, already in many countries women educate themselves further than men and hold a higher amount of university-level degrees, which will favor and drive the participation of

women in labor force in general, and specifically increase the relative and absolute amount of the highly competent female candidates for top managerial positions (Kersley et al., 2019). Nevertheless, the progress towards managerial gender equality is still far from complete, and women willing to achieve managerial positions are likely to encounter lots of hindrances along the way.

2.1 Drivers and Roadblocks of Female Managers

The route of women to managerial positions may be accelerated or hindered by various ways. While several structural hindrances still remain to be eradicated, there are also many acknowledged success stories in history that have enabled the current trend and desire towards the ever increasing gender diversity in managerial positions. Here, the positive steps that have led to the current situation are briefly described, after which a collection of the remaining significant obstacles are discussed.

Traditionally, women have had to choose between family and a career, and the choices have typically been mutually exclusive (Goldin, 2004). As analyzed by Goldin (2004) the expectations have evolved significantly during the 20th century from strict *"family or career"* in the early 1900s, through *"job then family"* followed by *"family then job"* and later *"career then family"* options in the middle 1900s, to the currently prevailing view, where it is mostly considered normal for women to have *both* family *and* a career at the same time (Goldin, 2004). Hence, women in management – and as a part of labor force in general – have become socially more acceptable and "normal" which in turn encourages their active participation and more equal gender representation.

In addition to the more encouraging atmosphere, certain technical discoveries have enhanced the participation of women in the economic world. Perhaps not that surprisingly, the inventions are mainly related to the historical – and arguably also rather limiting – stereotype of women purely as a mothers and house keepers. Discoveries, such as contraceptive pills, development of commercial infant formula for nursing, time-saving household technologies and appliances (vacuum cleaners, dish washers etc.), and general medical progress, which have decreased maternal mortality and the severity of childbirth related complications, have contributed significantly to women's lives by allowing them more and better control over their own bodies and health and more available time to be spent according to their desires (Bailey, 2006; Cavalcanti and Tavares, 2008; Kersley et al., 2019). Logically, this has also contributed to the growing level of education of women and their ability to participate in working life outside home as mentioned above.

According to McKinsey's Women Matter report, women, on average, are as ambitious as males and similarly *"--want to be promoted and reach a top management position."* (Desvaux et al., 2017, p. 30) Thus, the observed lack of female managers must stem from somewhere else than simple differences in personal goal setting. However, studies suggest that on a population level certain psychological differences between women and men exist. For example, females appear statistically less confident in their abilities and are also more risk-averse, which might be consequently reflected in their numbers at higher tier positions (Barber and Odean, 2001; Byrnes et al., 1999; Desvaux et al., 2017; Huang and Kisgen, 2013). Paradoxically though, a broad meta-analysis conducted by Jeong and Harrison (2017) suggests that by being less overconfident than men and by cautiously approaching risks, women could actually provide invaluable analytical thinking and quality in the strategic decision making. Hence, organizations seem to be missing and overlooking valuable mental capital. In short, psychological self-image appears as a potential factor limiting the amount of female managers, but at the same time organizations could truly benefit in the long run from identifying and nurturing less aggressive or dominating individuals, and encouraging them towards the managerial positions. However, self-image is always arguably also at least partially socially constructed and affected by experiences, which also highlights the importance of the surroundings that are discussed next (Bailey, 2003).

Regardless of the advancements in technology and attitudes, several social structures and conventions still limit the possibilities of women to access the positions of power. First, women may be perceived differently than men and considered as less qualified for managerial roles. That is, a cognitive bias favors the selection of men to top managerial positions and simultaneously limits the chances of women (Brenner et al., 1989). This is in line with the observation that in general managerial roles are strongly seen to be associated with masculine properties and, furthermore, such view appears to dominate especially among males (Koenig et al., 2011). According to the role incongruity theory of prejudice toward female leaders, this may be realized through two types of behavior: 1) women are seen as lacking the required skills and potential when seeking candidates for top management positions, and 2) the behavior and actions of women as leaders are evaluated as less favorable and with more criticism compared to men (Eagly and Karau, 2002).

Second, women are still responsible for undertaking considerably more unpaid work, i.e., domestic chores and childcare, than men, even though men have been improving their contribution (Desvaux et al., 2017; Kersley et al., 2019; Sayer, 2005). Consequently, as reported by Sayer (2005), men tend to have approximately 30 minutes more available free time per day compared to women, suggesting that considering all performed work (paid and unpaid) women actually toil for longer days. This uneven distribution of unpaid obligations is further reflected in the next points presented below.

Third, since women have less available time to promote their careers, they more frequently tend to preferably opt for flexible working hours and part-time jobs, as reported by Credit Suisse (Kersley et al., 2019). While flexible working arrangements as such can be considered as positive and desirable they, nonetheless, may be perceived by some employers and co-employees as socially less acceptable and as an indication of lacking motivation. As pointed out by Desvaux et al. (2017), part-time work also clashes with the modern work culture where continuous availability and ability to readily travel across globe are highly valued and often expected at the positions of power. This may then contribute negatively to the employee image and hinder career progression regardless of the actual skills and potential of the employee. However, as pointed out in the Credit Suisse report (Kersley et al., 2019), it is likely that the social attitudes become more favorable towards the part-time arrangement in the future, as the arrangement gains popularity and becomes “normal”, even though it might take a considerably long time.

Fourth, when having children, the adverse effects appear to still accumulate on women, which has been labelled as child penalty by Kleven at al. (2019). Due to the reasons presented above and since women often tend to work in lower paid jobs, women typically are the less-earning half in a family, which makes them the preferred option to stay home with the child to minimize the financial losses. As a result, the absence from work may deposit a significant impacts on the perceived professional competence, career progression, and earnings of mothers (Kleven et al., 2019). To be more precise, a childbirth results in the reduction of the earnings by 20 % on average, the effect is strongly gender specific and targeted to women, and it is also often transmitted across generations from mother to daughters (Kleven et al., 2019).

Finally, summarizing the points above, organizations typically suffer from the so-called leaky pipeline effect that essentially demonstrates that at every level of the organization, women tend to have lower chances of progress and more often drop out of the available work force (Desvaux et al., 2017; Kersley et al., 2019). Therefore, at the top level the competition over the managerial posts eventually and inevitably becomes strongly male-dominated. Consequently, it is obvious that for the organizations simply claiming their support for gender diversity or even actively hiring more women is not enough to fix the situation. Rather, the key is finding ways to hold on to the diverse personnel, use their strengths, and to progress their careers equally alongside men. However, this often requires systemic changes throughout the organization and likely is not easily achieved. But as later will be presented, institutional norms and social pressure have potential to promote significant outcomes, which may eventually be reflected also to these organizational conventions.

2.2. The Performance of Female-Led Organizations

Several studies and reports have highlighted that organizations with high gender diversity or firms led by women often tend to outperform similar companies under male leadership, suggesting that by not investing in gender diversity practically equals to losing money. Consequently, the view has also gained attention and coverage in the news media and it often appears to be presented as a simple "rule of thumb"-like fact. However, if looking closer, the situation is not that straightforward as strongly emphasized by, for example, Eagly (2016). Thus, a brief overview of the literature covering the performance of the female-led organizations or companies with high managerial gender diversity is given here before continuing to the actual core of this thesis in the next chapter, that is, how the gender diverse management actually diverges from the leadership of men, and how it translates into the observed potentially different performances that are summarized below.

Large scale studies that have been recently performed to conclusively capture whether female managers actually boost performance include both academic and business-related reports (Desvaux et al., 2017; Jeong and Harrison, 2017; Kersley et al., 2019; Post and Byron, 2015; Zhang, 2020). Such studies aim to capture increased reliability and validity through combining broad sets of data and results with global coverage. For instance, the Women Matter report by McKinsey states that there exists *"--a marked correlation between the presence of women in top management teams and the organizational performance of the company"* (Desvaux et al., 2017, p. 13). The results indicate that companies rated among the top 25% based on the gender diversity within their executive committee, have 47% larger return on equity than the companies having no women in their executive committees (Desvaux et al., 2017). Similarly, according to the CS Gender 3000 report by Credit Suisse, higher gender diversity appears to come with a strong "quality premium" and consistently higher share-price performance (Kersley et al., 2019). Moreover, their evidence suggests that the gender premium becomes further highlighted and enhanced in family-owned companies who appear to excel, for example, in terms of higher EBITDA (Earnings before interest, taxes, depreciation, and amortization) margins, lower reliance on debt, and increased cash flow returns. In addition, such companies often tend to show larger interest in environmental and social responsibility, and more actively promote sustainable actions. However, both McKinsey and Credit Suisse readily admit that their results express mere correlations, and causality nor other possible underlying reasons explaining the observations cannot be directly identified or confirmed from their data (Desvaux et al., 2017; Kersley et al., 2019).

Nonetheless, academic reviews and meta-analyses appear to rather well agree with and support the reports of the two consulting and finance giants, even though often with more modest magnitudes and increased caution. For instance, a meta-analysis by Post and Byron

(2015) covering 140 studies have reported conclusions that the increased representation of women in boardrooms is slightly positively but still statistically significantly associated with accounting returns. With the accounting returns, also known as firm profitability, they refer to *"how well a firm utilizes its assets and investments to generate earnings and represents past or short-term financial performance"* (Post and Byron, 2015, p. 1549). In addition, they reported a conditionally positive correlation between the boardroom diversity and market performance, which covers the *"perceptions and expectations of a firm's future or long-term value"* (Post and Byron, 2015, p. 1549). That is, correlation was found to be practically zero, but it may turn positive in countries with high gender parity, i.e., where women have more equal possibilities and capabilities in terms of education, employment, political influence, and overall economic activity. However, note that here again mere correlation is confirmed and not causality. In addition, conditionality and context-dependent outcomes were recognized to play important roles in certain occasions. Hence, given that different organizations always experience their own distinctive internal and environmental characteristics, it could be argued if it is even practically relevant to draw conclusions based on large data sets and to average out the effects of gender, because then case-specific environmental features become completely lost and impossible to analyze.

The importance of context is also highlighted by Jeong and Harrison (2017) who have scoured through and summarized the results of 146 studies covering 36 countries to identify how the increased representation of women in CEO position and top management teams, i.e., within the so-called upper echelons, affect both the long-term and short-term financial performance. Similar to the findings of Post and Byron (2015) presented above, they observed a weak but, nonetheless, positive relationship between the amount of women in the upper echelons and the long-term financial performance of organizations. However, when focusing on the short-term market returns, a still weak but this time negative correlation was found, which indicates that the effects of gender diversity are not always unconditionally positive. They also attempted to analyze the potential reasons behind the observed effects which will be discussed in more detail in the following chapters. In short, the long-term performance boost was interpreted to be a result of reduced risk-taking behavior in the companies driven by the increased representation of women, whereas the short-term market losses appeared to stem from the negative perceptions and expectations of investors and outside stakeholders towards the female directors. Nonetheless, they were able to make an important conclusion that there is no evidence showing that having women included in the upper echelons would, on average, result in the decline of the organizations' performance, and in most cases the opposite is actually true. Hence, there should be no reasons not to hire female managers or expect them to perform poorer compared to men just because of their gender.

While overall positive correlation seems to exist between gender diversity and performance, its magnitude is generally rather low, which results from the noisy research environment and readily context dependent results. Then, it is not perhaps surprising that some studies have reported identifying no obvious link between the female representation in the boardrooms or top management and the financial performance (Carter et al., 2010; Rose, 2007; Shrader et al., 1997). Furthermore, also negative associations have been reported: For instance, in Norway an immediate drop in stock price and a decrease in market valuation have been observed following the announcement and adoption of boardroom gender quotas, that demonstrates also the power of investors and their perceptions in addition to direct managerial characteristics (Ahern and Dittmar, 2012). Therefore, it appears that when pursuing results with practical significance for a certain organization, the social surroundings ought to be preferably also tightly included in the analysis.

In summary, statistically on average only a slight performance boost – if any – in general might expected from more gender diverse top management and boardrooms, while the environment still often has a considerable moderating effect (Jeong and Harrison, 2017; Post and Byron, 2015; Zhang, 2020). Furthermore, as already reminded above, the results describing the association of gender to performance are typically mostly mere correlations, and the exact reasons behind the observed performance boosts or declines often remain elusive. For instance, as pointed out by Post and Byron (2015) easily observable characteristics of managers, such as their ethnicity or gender, are often preferred in research because they are easy to measure, whereas directly and reliably measuring or observing, for example, their cognitive and mental frames is near impossible. Thus, simple and obvious traits are often used as proxies for other expected and more complicated characteristics, which potentially affects the quality of the analysis. Accordingly, Eagly (2016) has pointed out that scientists involved in the gender-performance research, in general, should be more aware of the potential flaws in their analysis methods, and more actively communicate also the uncertainties and the exact conditions affecting the observed outcomes. Therefore, possible harmful and inaccurate generalizations could be better avoided. Nonetheless, there undoubtly exists occasions where female managers may provide a performance boost or decline, and various efforts and theories have been made to understand what exactly are the special characteristics of the female managers that translate into this observed exceptional organizational performance. Such potential special features of the female managers are discussed next.

3. What Makes Gender Diverse Management Different?

Aa shown above, it appears that female-led or gender diverse management in general would allow a slight performance premium (Jeong and Harrison, 2017; Kersley et al., 2019; Post and Byron, 2015; Zhang, 2020), even though also completely opposite results have been reported, which makes the drawing of decisive conclusions difficult (Ahern and Dittmar, 2012; Carter et al., 2010; Rose, 2007). In addition, the particular field of study is ideologically rather charged and, therefore, poses challenges both to the statistical methodologies and to the scientists analyzing them as has been pointed out by Eagly (2016). In short, the observed magnitude of the correlation between the gender diversity of the top management and the firm performance, even though often stated to be statistically significant and positive, is, on average, only small in magnitude and debatable. In other words, even though considerable performance boosts (or declines) may be observed at certain conditions, often approximately equal amount of opposite examples exist which, then, converges the average correlation to near zero values (Eagly, 2016). This suggests that the personal effect of the female managers and/or the context would play a significant role. Below, the potential factors driving the observed deviating performances are explored in more detail.

As presented by Zhang (2020), the recent research pursuing the potential benefits of the gender diverse management can be typically divided into two different approaches: The first approach focuses on the "direct" effect of the gender diversity within the organization, that is, how the female managers affect the culture, practices and mental potential of a firm resulting in altered performance, whereas the second approach concentrates on how the adoption of a gender diverse management is reflected outwards to the investors and stakeholders and, consequently, to the expectations and the perceived value of a company. Accordingly, the following two sub-chapters are organized based on similar classification. However, also a broader cultural contexts has been observed to affect both the female-guided organizations and their stakeholders, which sets an important background frame for their interactions and potential. Thus, the third sub-chapter focuses on the role of broader institutional and cultural norms that have been reported, for instance, by Zhang (2020) to mediate the possibilities and success of the female-led organizations in various occasions.

Before diving further into the special features of the female managers, it is important to notify that when studying the significance of female managers – or any managers regardless of their gender –, the underlying assumption generally is that the managers' actions and decisions truly matter. In other words, they really have the opportunity to control how the organizations behave and evolve, and are able to affect the overall financial performance. The assumption is supported, for example, by statistical analyses showing that the effect of CEOs on the variability

of the long-term profitability of companies can be as high as ca. 40% (Hambrick and Quigley, 2014; Mackey, 2008). This indicates that managers – especially CEOs – have an exceptionally large potential to influence how their organizations succeed financially. The assumption that managers matter forms also the baseline of this work, and it is not particularly explored any further. Nonetheless, it is important to remember that this is not always the case as shown by, for instance, a study executed by Bertrand and Schoar (2003). According to their data, managers may have limited ability to affect certain aspects of an organization, such as investments or organizational practices, depending on the context and their personal "fixed" properties (Bertrand and Schoar, 2003). However, this view becomes also – at least partially – included in the following discussion as it is related to the constraints posed on managers by the social and managerial context, i.e., the topic of the third sub-chapter.

3.1. Direct Effects on the Organization's Internal Behavior

Several theories and studies have sought to explain what exact properties and actions of female managers cause their organizations to perform differently (statistically often slightly better) than the companies maneuvered by men. However, as mentioned above, the performance of both a manager and an organization is typically strongly context-dependent and, thus, it is near-impossible to identify general and conclusive rules for why gender diverse management would be more successful in navigating towards success. Instead, a varying combination of drivers can be expected to play a role in different cases. Hence, here a selection of potentially important recognized factors are presented, namely, 1) the effects of different cognitive approaches and skills of female managers according to the upper echelons theory, 2) specific behavioral traits, especially risk-averseness, (on average) of women compared to men, and 3) improved decision making and divergent thinking in diverse groups.

First, the upper echelons theory, developed by Hambrick and Mason (1984) states that 1) *"executives act on the basis of their personalized interpretations of the strategic situations they face"*, and 2) *"these personalized construals are a function of the executives' experiences, values, and personalities"* (Hambrick, 2007, p. 334; Hambrick and Mason, 1984). The "upper echelons" refers to the top managers of an organization, and, thus the theory suggests that in order to understand and fully capture the reasons why organization perform or act in certain ways, the thought patterns, biases, and characteristics of their most influential personnel, i.e., the top managers, should be studied. In other words, managers have significant power in determining the strategic decisions and, therefore, can be seen as the reason behind the organization's success or doom.

In agreement with the upper echelons theory, correlations between certain performance traits of managers in general – such as strategic flexibility, gender, education, servant leadership,

and tendency towards narcissistic personality features – and organizations' financial and social responsibility performance have been established (Chatterjee and Hambrick, 2007; Huang, 2013; Nadkarni and Herrmann, 2010; Peterson et al., 2012). Compared to men, female managers, for instance, typically more likely tend to have higher education university degrees, represent unconventional routes to top management by more often coming from backgrounds outside business, are more committed and interested in good communication and personal skills, have broader pastime interests, and may have broader empirical understanding and better insights to certain consumer and stakeholder segments (Carter et al., 2003; Groysberg and Bell, 2013; Hillman et al., 2002). Therefore, through their skills, networks, and experiences, women are potentially able to broaden the expertise and understanding of the whole top management or boardroom, which may become reflected to the quality of future strategic decisions. Nonetheless, in order to make a difference, a suitable context is required where such skills are useful, and the organization and practices should allow them to be used.

Second, certain personality and behavioral traits have been observed to be, on average, more typical in women than men that can be beneficial in managerial positions. For instance, women appear to be more risk averse, which has been observed to be associated with, among others, lower volatility of earnings and the increased chance of survival of an organization – that is, with features that are essential for firms' long term stability and success (Faccio et al., 2016). In agreement, Jeong and Harrison (2017) have reported statistical evidence that the reduced risk-taking of female managers is actually a significant mediating and explaining factor in why organizations with gender diverse management appear to display a slight performance premium. Also, in general it appears that high risk-seeking strategies, on average, tend to yield negative returns, which supports the notions presented above (McNamara and Bromiley, 1999). Moreover, according to Barber and Odean (2001) women typically do not as often show the overconfidence frequently recognized in male managers, which, then, results in better thought-out decisions and rarer involvement in financially uncertain projects and, consequently, statistically better financial outcomes.

Similarly, women tend to favor more cooperative decision-making processes compared to men. Bart and McQueen (2013) have reported that women are especially more accomplished in utilizing complex moral reasoning (CMR) reasoning method out of the three possible alternatives. CMR refers to situation where the person effectively takes into account the opinions and rights of other people, and aims to make fair decisions via active social collaboration and consensus-focused approach (Bart and McQueen, 2013). Hence, the general benefit and what is best for the organization and its personnel is more often given the highest priority. In comparison, men typically tend to favor the other two reasoning approaches which are personal interest approach, and normative reasoning, respectively (Bart and McQueen, 2013): In short, in the personal interest approach, the manager is driven by self-interest and

ego, and seeks to avoid personal troubles, while the normative method is strictly bound and guided by rules and prevalent norms making it rather technical and socially "cold". Therefore, even though personal and normative reasoning would be technically correct and sound, the decisions neglecting the benefits of cooperation may lack important information and insights and, thus, lead to sub-optimal results. However, it is important to remember that these are all statistical generalizations, and the thought processes of individual male and female managers may show considerable variation and unpredictability. Different processes are also typically affecting simultaneously.

Women may also appear more thorough and hardworking and take their managerial roles with increased seriousness. This may be at least partially dependent on the environment as women often are required to undertake extra efforts to achieve credibility and they need to, in a sense, prove their skills in practice, and "earn" their managerial positions (Post and Byron, 2015). For example, women have been reported to more seriously prepare for meetings and more actively perform their boardroom monitoring duties (Adams and Ferreira, 2009). Therefore, women may become more intensively shaped and (self-)trained into better leaders as a response to their experienced hard environment and related additional gender-specific challenges while pursuing managerial status. Furthermore, women often appear to have stricter ethical standards and they more actively promote responsible corporate practices, and prefer to avoid certain unethical business practices, which may eventually contribute to, for example, better corporate reputation and brand image, and indirectly also to financial success (Franke et al., 1997; Pan and Sparks, 2012).

Third, in addition to the special personal skills and features of the female managers, gender diversity – and diversity in general – has been reported to be reflected into improved group thinking and better quality decisions: By disturbing the coherence of the typical male-dominated groups, the conventional – sometimes even near-automated – decision-making processes become challenged, and the relevant inputs and potential outcomes are analyzed more thoroughly (van Knippenberg et al., 2004). Therefore, risky and potentially unfavorable decisions are identified and prevented with increased probability which promotes organization's financial stability and chances for success. In general, the potentially poorer and high-risk decisions made by groups consisting of very similar individuals have been explored and explained by group polarization theory (Sunstein, 1999). Simply put, the theory states that when like-minded people – equipped with certain similar pre-assumptions – interact and discuss with each other, the likely outcome is that the persons reinforce each others' mutual assumptions and they become "radicalized", i.e., after the interaction their initial thoughts have become more extreme than in the beginning. Thus, the group of like-minded people tend to reinforce and urge their initial shared perceptions towards a more radical points of view. However, breaking the uniformity, such as the dominating gender imbalance, of the group

appears to often positively affect the quality of the group's decisions and increase analytical thinking (Sunstein, 1999).

Nevertheless, it is important to remember that also the benefits of gender diverse groups in decision-making are complex and somewhat context dependent, and should not be expected to occur immediately merely by increasing the portion of women in the groups. For instance, Homan et al. (2007) have shown that while gender diverse groups seem to perform better than homogeneous groups, differences between two otherwise similar diverse groups can also be detected depending on their expectations and prejudices: In a controlled experiment, the groups that initially were persuaded to see diversity as strength appeared to outperform the other diverse group who believed that homogeneous group composition would be more efficient (Homan et al., 2007). Thus, managing the beliefs and assumptions of people would appear to be a potentially valuable tool in situations involving management of interactions and cooperation between people from diverse backgrounds. Consequently, various assumptions mediate also the potential effects of gender diversity.

There has also been discussion that in order to the gender diversity benefits to properly take effect and for the minority representatives to be taken seriously, a certain demographic structure or diversity threshold would need to be crossed (Ely, 1994). Specifically, a critical mass of three has been rather often investigated and recognized significant (Konrad et al., 2008; Strydom and Yong, 2012; Torchia et al., 2011). At lower numbers, female managers may be perceived merely as tokens, that is, their appointment to the upper echelons is mainly symbolic and, therefore, the women do not have enough authority or weight to truly affect the organization's financial status or actions (Strydom and Yong, 2012). Instead, a stronger group of minority representatives would appear essential for their voices to be properly heard. Furthermore, the surrounding cultural context and perceptions of the stakeholders naturally determine the prerequisites how well and effectively women – or any managers – are able to operate. Hence, the stakeholder-related and institutional norm effects on the performance of female-led organizations are discussed next, respectively.

3.2 Outbound Effects on the External Perceptions and Expectations

There are examples that having women as managers and in the boardroom may have certain indirect effects on the organization's performance because stakeholders tend to see them as a reflections of certain organizational aspects, such as social and corporate responsibility, which in turn affects, for example, the expectations and beliefs of the potential investors. Therefore, the external effects of gender diversity focus especially on certain perceived concepts, such as the reputation and image of the organization, or market valuation, as described by Zhang

(2020). Here, selection of rather typical potential examples – both positive and negative – are given. However, these are again highly context-dependent and, generally, a collection of reasons should be expected to be affecting the potentially observed performance boost or decline, instead of a single dominating reason.

One significant possible positive reflection of female managers is their polishing effect on the organization's reputation and image. For instance, the reports highlighting the positive correlation between female managers and financial performance, increased monitoring activity of gender diverse boards, or the observed tendency of diverse boards to pay approximately ~15% higher dividends compared to firms without diverse boards, may increase the trust and interest of investors towards such gender-diversely led organizations (Byoun et al., 2016; Desvaux et al., 2017; Jeong and Harrison, 2017; Kersley et al., 2019; Post and Byron, 2015). Similarly, it has been reported that organizations achieving good positions in the Fortune's diversity ranking typically show increased market valuations due to the good reputation (Zhang, 2020). Such increased financial interest may be leveraged, then, into higher sales and profits.

Recently shareholder activism has also been on the rise, where the investors require and expect the organizations to commit themselves to sufficient social and corporate responsibility actions. Accordingly, gender diversity may function as one of the significant sub-criteria and, therefore, fulfilling certain gender diversity requirements can seen as responsible and something to be expected from a trustworthy organization (Broome and Krawiec, 2008; Roberson and Park, 2007). Sufficient diversity can then be seen, for example, as a signal of the organization's gender-progressive culture, and as pre-emptive mitigation of potential diversity-related regulatory risks, both of which can be classified as desirable characteristics for the potential investors (Broome and Krawiec, 2008). The respect of the customers and investors may then be observed as increased market share or market valuation. If the organizations fail to match the expectations of the investors, decreased funding and sales and, consequently, overall lower financial success becomes more likely. On the other hand, investor activism can also be seen as an important driving force that promotes the increase of gender diversity within the top management (Broome and Krawiec, 2008).

Negative outward reflected effects of female managers have been often noted to be linked to gender-biased perceptions, or to performance declines due to decreases in group cohesion and commitment (Ahern and Dittmar, 2012). For instance, since managerial roles are stereotypically considered masculine, nominating female managers may result in a dip in the organization's market valuation as they would be perceived as "unfit" for the positions by the investors (Koenig et al., 2011; Lee and James, 2007). Additionally, Ahern and Dittmar (2012), who have monitored the stock price development of Norwegian firms before and after the

adoption of new legislation that required that a minimum of 40% of the firms' directors should be women, have reported how forced gender quotas may have negative results. They found a significant performance drop in firms who had to increase the amount of their female directors to fulfill the new requirements, and stated the decline to be related to a considerable change in the characteristics of the top management teams: For instance, on average the directors became younger and had less CEO experience, and the firms were observed to make more acquisitions and achieve poorer accounting results after the changes. However, even though the lack of experience appears as a significant factor and the results are interesting, also in this case it should be noted that the data did not allow direct determination of causal relationships between the reduced age, gender or experience on the observed performance. Then again, though, it has been reported that organizations tend to typically encounter an increase in their stock price and competitive advantage after being awarded for their pro-diversity work (Hannon and Milkovich, 1996; Wright et al., 1995). Overall, this once more highlights the context-dependency of gender diversity benefits. Therefore, the mediating effects of broader institutional and social context are discussed closer in the next chapter.

3.3. Mediating Effects of the Broader Institutional Frame

While the effect of female directors to organizational performance may be directly related to their personal skills and features, or indirectly realized through stakeholder perceptions as presented above, social and cultural context always appears to play a mediating role (Zhang, 2020). The managers or organizations do not function in a vacuum and their surroundings often determine whether the managerial gender diversity is seen as positive or negative, and the magnitude of the effect. Therefore, the broader social context of an organization should be actively considered when analyzing the significance and effects of gender diverse management as has been convincingly stated by Zhang (2020). Therefore, the larger institutional contexts – specifically, the mediating effects of normative and regulatory frames – is discussed below.

Zhang (2020) divides the broader institutional context of organizations and its legitimacy into two categories: normative and regulatory practices, respectively. Normative legitimacy is based on social and cognitive standards. Therefore, actions are considered desirable and acceptable based on the normative frame, when they follow the norms and regulations that are jointly agreed upon and shared within the population; for instance, if female managers and gender diversity is socially appreciated. Then again, regulatory legitimacy is based on more technical aspects, such as legislation, rules, monitoring, sanctions, and institutions. Therefore, regulatory acceptance is gained by adhering to law, regulations and standards; for example, by fulfilling quotas of female managers. How well the organizations' practices – here, especially the gender diversity practices – conform to these two forms of institutional legitimacy largely

affect the observed outcomes and performance. Moreover, these two frames often interact, and mutual or synergistic effects arise which might make the distinction of their relative importance difficult (Zhang, 2020). However, in general the socially-determined normative practices appear often to be more significant, whereas the regulatory legitimacy alone could be identified insignificant certain situations, i.e., it may be contingent on the social norms (Zhang, 2020). Both of these effects potentially play a role, for example, behind the expectations of investors, and how the female managers may be both positively (because of organizational awards for pro-diversity actions) and negatively (male-dominated gender bias in management) perceived depending on the context, as described in the previous chapter (Hannon and Milkovich, 1996; Koenig et al., 2011).

Zhang (2020) has reported that in circumstances, where the gender diversity has both high normative and regulatory appreciation, gender diverse organizations tend to express significantly higher revenues and market valuation. To be more precise, it was suggested that especially the social norms appeared to influence the behavior and views of the investors, workers and other stakeholders on gender diversity, which becomes then, consequently, reflected in the observed valuation of the organization. Interestingly, an analogous effect has been experimentally demonstrated in small scale by Homan et al. (2007) by showing that diverse groups that believe in the strength of diversity tend to outperform similar diverse groups that have been made to believe that homogeneous composition would be more advantageous. That is, the reality matching the social consensus exhibits better changes for success. Furthermore, Post and Byron (2015) have found that the presence of women in the boards is more positively correlated with organization's financial performance in countries, where higher gender parity prevails and diversity is seen as a valuable asset. Since gender parity is affected both by social attitudes and legislation, it is also a case example of the mutual interplay of the normative and regulatory frames.

On the other hand, according to Zhang (2020) if only low institutional normative and regulatory legitimacy exists, high gender diversity appears to negatively correlate with the organization's performance. Thus, if gender diversity is not appreciated by the environment, organizations pursuing gender parity may be perceived as harmful and suspicious, which makes the organization subject to poorer appreciation and harmful prejudices. This poses a risk that in such environments the female managers would be seen as mere tokens without true power or significance, and not as competent directors (Strydom and Yong, 2012). Therefore, gender itself would not determine the organization's performance – as also statistically confirmed by Zhang (2020) –, but instead its conformity to the generally accepted and expected norms and regulations dictates its public image and the related potential level of success. This agrees, for example, with the broad meta-analytical studies of Jeong and Harrison (2017) and Post and Byron (2015) who have recognized mostly weak and context-

dependent associations between the gender diversity and the financial performance of an organization.

4. Conclusions

Women comprise roughly 50% of the World population but yet remain globally clearly underrepresented in top managerial positions and boardrooms (Desvaux et al., 2017). Nonetheless, the trend is towards gender parity and the number of female directors is increasing, even though the progress is slow (Kersley et al., 2019). During the history several technological and social disruptions, such as contraceptive pills and changes in gender prejudices and attitudes, have enabled the current positive development. Nevertheless, several obstacles still remain.

As proponents for hiring more female directors and promoting gender diversity, several studies and reports have claimed that organizations led by women or with gender diverse management typically achieve higher financial results (Desvaux et al., 2017; Jeong and Harrison, 2017; Kersley et al., 2019; Post and Byron, 2015). Even though the results generally reveal only correlations, and no causation, the statement that gender diversity promotes financial success has been often taken as a rule-of-thumb. However, the reality is more complex, as conditionally positive, negative, and non-existent correlations have also been reported (Ahern and Dittmar, 2012; Carter et al., 2010; Post and Byron, 2015). Moreover, it is often near impossible to confirm whether the diversity is the cause or the consequence of the successful business performance. Nonetheless, on average the gender-diversely led organizations would appear to show slight positive performance premium, which suggests that at least gender itself should not be a reason not to hire women as directors. Overall, it appears that the personal characteristics of directors and the surrounding context play a significant role, which is apparent from the large observed variation in the performance of gender-diversely led organizations (Eagly, 2016).

When considering why exactly female-led organizations actually would function or perform differently than male-dominated firms, the explanations can be grouped into three categories: 1) direct effects of the female managers inside the organization, 2) changed perceptions and expectations of the outside stakeholders, customers, and investors because of the female directors, and 3) the mediating effects of the greater institutional and cultural frame that determine the limits for the potential and success of the organization and how its managerial gender diversity is perceived (Zhang, 2020). These three categories are not mutually exclusive but, instead, a collection of various reasons from different categories are likely to affect simultaneously and synergistically on how the female directors and their organizations succeed on a case-by-case basis. Thus, it is difficult to create a set of explicit rules covering all the organizations with a gender diverse management in general. Moreover, even though the overall magnitude of the financial premium brought by female managers may be rather small and

debatable, they may still potentially possess some unusual, useful and profitable skills that men would lack. Also, there exists no explicit reasons or evidence why women could not succeed as managers at least as well as men.

Regardless, it appears that when evaluating the significance of gender diversity to performance, the broader environment and social context would be especially valuable to consider (Zhang, 2020). Simply, in a pro-diversity environment, progressive gender practices of organizations are likely to provide an increased performance premium, whereas if the diversity is not valued within the relevant institutional context, the organizations likely will face poor valuation and success even though promoting diversity and female directors. Therefore, from purely economic point of view organizations could potentially pursue better financial returns, at least in short term, by conforming to the widely accepted norms and expectations of their surroundings even though if they were against gender equality, rather than by blindly expecting that promoting diversity results in increased profitability regardless of the context.

Overall, it would seem that the expectation that hiring female managers would directly result in better financial outcomes because of their gender, is rather oversimplified, even though they potentially and arguably can diversify the practices and decision-making of the organizations. However, focusing merely on the gender, will not be able to capture all the relevant features of managers, even though it may indicate the presence of certain important characteristics (Post and Byron, 2015). Similarly, the gender-performance studies and their results ought to be interpreted and applied with caution, since also there gender is often approached as an easily measurable proxy of certain more complicated features, and the field is subject to various prejudices and ideological interpretations (Eagly, 2016). Consequently, the true reasons behind the observations may remain hidden (Post and Byron, 2015). Therefore, it is probable that the actual skills and characteristics of an individual and their context eventually turn out to be more important for their success regardless of their gender – It may be that gender is often just easier to observe and understand and, thus, reaches more coverage both in research and in the news media.

In conclusion, while managerial gender equality is socially desirable and worth pursuing, it should not be simply taken as a guarantee of financial performance or a direct reason to hire – or not to hire – someone as a manager. On the other hand, statistically speaking there also appears to be no reason to think that women would be worse managers than men in general. Instead it seems that often the personal skills and capabilities, and the broader context largely determine and affect the observed outcomes. Furthermore, statistical evidence exists that gender itself does not correlate with the economic success of organizations (Carter et al., 2010; Rose, 2007; Shrader et al., 1997; Zhang, 2020). Nonetheless, pursuing gender diversity and

parity has a large social value already in itself. In organizational contexts, however, it is perhaps worth considering whether gender is the correct or even suitable measure to determine the diversity when aiming for performance boost, but instead should the focus be on more precise personality types and skill sets that may hide behind the mask of genders, accompanied with suitable complementary environmental analyses. Therefore, in the future research it might be of interest to take a step closer to the actual personality traits of managers – instead of using gender as a debatable proxy – and similarly explore which exact managerial features and skillsets are intentionally or subconsciously expected and promoted in the society – both through normative and regulatory legitimacy – and whether managers conforming to such norms would still be able to spur their organizations to above average performance regardless of their gender. Such approach would potentially further illuminate the balance and mutual significance of the environmental and manager-bound factors in determining the success of the managers and their organizations, and assist to clarify the image of an optimal manager for various contexts.

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