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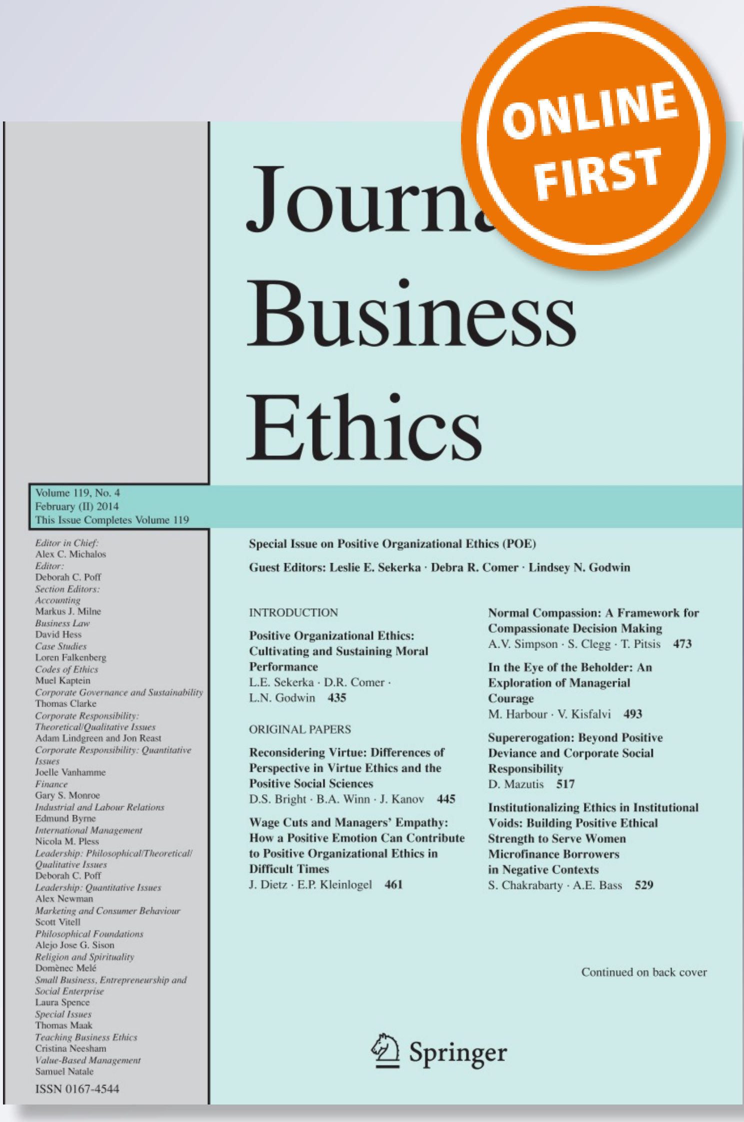

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Why Does Board Gender Diversity Matter and How Do We Get There? The Role of Shareholder Activism in Deinstitutionalizing Old Boys' Networks

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Abstract This essay bridges together social network and institutional perspectives to examine how women on boards, by breaking up directors' homophilous (e.g., all-male) networks, contribute to board effectiveness. It proposes that through real and symbolic representations, women enhance perceptions of the board's instrumental, relational, and moral legitimacy, leading to increased perceptions of the board's trustworthiness which in turn fosters shareholders' trust in the firm. Envisioning the gender diversification of boards as an event of institutional change, this article considers the critical role of shareholder activists and legislative support from the SEC in the deinstitutionalization of old boys' networks and the reinstitutionalization of gender diverse boards. This work is substantiated with evidence obtained through 34 semi-structured interviews, archival and documentary evidence.

Keywords Corporate governance · Corporate boards · Women on boards · Board diversity · Social networks · Institutional change · Shareholder activism

> 190 heads of state, 9 are women. In the corporate sector, women at the top, C-level jobs, board seats, tops out at 15–16 %. The numbers have not moved since 2002 and are going in the wrong direction. Sheryl Sandberg, COO of Facebook, December 2010 (www.ted.com).

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Introduction

Recent studies suggest that the lack of gender diversity in the boardroom is troublesome, raising ethical and performance implications as well as general stakeholder management issues (Catalyst 2012a; Grosvold 2011; Hillman et al. 2007). In 2012, only 16 % of American board seats were filled by women (Catalyst 2012b). Meanwhile, women represent almost 60 % of the workforce in the United States (www.bls.gov).

Scrutiny and pressure from regulatory bodies and a variety of stakeholders (Grosvold 2011; Harris et al. 2010; Terjesen et al. 2009) decry the lack of legitimacy of homophilous (e.g., all-male) boards. Arguments against homophilous boards range from the exclusion of an important and qualified social group from the leadership of businesses (Garratt 1997; Keasey et al. 1997), the hindrance of career role modeling to aspiring women (Bernardi et al. 2006; Ragins et al. 1998), and the lack of representation of primary stakeholders, such as female employees and customers, in decision-making positions (Carter et al. 2003; Kanner 2004; Wolfman 2007). In addition, homophilous boards are thought to be less effective in their governance functions, negatively impacting firm performance (Bear et al. 2010; Burke 1997; Kuhnen 2009).

Board gender diversity, simply defined as the proportion of women on the board, is also gaining in publicity as shareholders file numerous proposals and institutional investors release policy statements to contest the status quo (Harris et al. 2010). Meanwhile, the diversity quotas imposed by other countries such as Norway and Israel spawn a rich conversation recorded in the American public press and stimulate U.S. regulating bodies such as the Securities and Exchange Commission (SEC) to further examine the issue. As such, the multi-faceted and mounting

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pressures to gender diversify corporate boards make it a rich event of institutional change, while the topic remains largely understudied and generally confined to studies of the relationship between diversity indicators and firm performance (Bear et al. 2010; Daily et al. 2003; Dalton and Dalton 2010; Hillman et al. 2001; Terjesen et al. 2009). Therefore, the primary objective of this article is to examine how board gender diversity contributes to board effectiveness, through enhanced legitimacy, and the role of shareholder activism in spurring change in boards' institutionalized practices.

Previous studies have focused on the impact of board gender diversity on key corporate performance indicators, such as financial performance (Erhardt et al. 2003), corporate social responsibility (CSR) activities (Bear et al. 2010; Donker et al. 2008; Post et al. 2011), reputation (Bernardi et al. 2006; Brammer et al. 2009), corporate giving (Wang and Coffey 1992; Williams 2003), and on outlining the characteristics of female board members (Hillman et al. 2002; Singh et al. 2008). Notwithstanding these contributions, this article suggests that board gender diversity matters for a more fundamental reason: because through real and symbolic representations, women enhance boards' legitimacy and trustworthiness, fostering shareholders' trust in the firm and thus contributing to its market performance. Given that legal and market forces alone cannot uphold directors to their fiduciary duties to shareholders, legitimacy and trust are pivotal issues of corporate governance determining shareholders' willingness to take risks regarding the firm (Blair and Stout 2001). Yet, the importance of these concepts remains largely understudied in the corporate governance literature.

The remainder of this article proceeds as follows: after a brief note on the relationship between legitimacy and trust, I argue that directors' homophilous networks compromise the legitimacy of the board, and thus the trust that shareholders place in the board. Because networks represent the embeddedness of institutionalized practices, network behaviors reflect perceptions of legitimacy and are characterized by trust between actors within the network. Yet, stakeholders outside the network may perceive directors' networks—and the firm, by extension—to lack legitimacy, thus compromising the trust that they place in the firm (Suchman 1995). The mechanisms that render gender diverse boards more effective at generating trust are then described, notably the demonstration of instrumental, relational and moral legitimacy, leading to enhanced perceptions of the board's trustworthiness, which in turn enhance shareholders' trust in the firm.

In a second tense, focus is placed on the role of shareholder activists in spurring institutional change through the deinstitutionalization of homophilous boards. Shareholders generally become activists when they experience distrust toward a firm, questioning the legitimacy of its practices. The rising number of shareholder proposals requesting that firms gender diversify their board thus represent actions taken to express shareholders' perceptions concerning homophilous boards' lack of legitimacy. Specifically, this article examines two complementary mechanisms that shareholders use in their pursuit of institutional change: the organization-level approach of activism, and the field-level approach of regulation (den Hond and de Bakker 2007). Taken together, these approaches represent strong pressure for the deinstitutionalization of old boys' networks on corporate boards, which threaten the legitimacy of non-complying firms. Grassroot strategies for the reinstitutionalization of gender diverse boards and directions for future research complete this article.

Hence, this essay offers an alternative view of the role of women in corporate boards' effectiveness, by bridging together social network and institutional perspectives intersected at the legitimizing processes that foster trust in governance. In doing so, it answers the call for a multitheoretic approach to board composition and for the examination of board structure and processes that enhance the organization's functioning with its environment (Daily et al. 2003; Grosvold 2011; Lynall et al. 2003). It also contributes to the scarce literature on board gender diversity by going beyond correlations between women and organizational factors and discussing, instead, the mechanisms that render gender diverse boards more effective, through both real and symbolic means anchored in legitimacy and trust. Finally, this article contributes to the shareholder activism literature by demonstrating that proposals requesting board gender diversity are powerful instruments of institutional change.

Corporate governance is a concept that transcends legal and market forces, such that turning to the informal processes that foster trustworthiness in directors is a promising path to enhancing governance practices (Blair and Stout 2001). Doing so encourages the use of non-traditional research methods (Klettner et al. 2010). Accordingly, the arguments developed herein are supported by 34 semi-structured interviews conducted among representatives of various network positions, and complemented with archival and documentary evidence relating regulative approaches, corporate boards' statistics and shareholder activism for triangulation.

Data and Method

Sample of Interviewees

Whereas this article adopts a network perspective, in order to target specific participants for the study, a starting point was the identification of five types of network constituents concerned with the issue of board gender diversity: board members, corporate officers, director recruiting agents, shareholders, and activists representing other stakeholders. Shareholder activism is an institutionalized mechanism designed to protect shareholders' interests, such that the governance reforms sought by shareholder activists are highly indicative of the governance practices that shareholders perceive as both legitimate and effective in protecting their interests (Daily et al. 2003). Shareholders typically become activists when they perceive that the board is not effective in its fiduciary function (Gillan and Starks 2007), that is, when they experience a level of distrust in the firm. In this role, shareholder filers represent various stakeholder categories who, in challenging firms and their board to change their governance practices, bring together the five types of network constituents that are of interest to this study.

Thus, a list of all the shareholder proposals submitted on the issue of board gender diversity in the U.S. during the 5-year period 2004–2008 was obtained from RiskMetrics, totaling 62 proposals. Since shareholders can file proposals with many firms, and firms can receive proposals from more than one filer, the 62 proposals targeted 52 different companies and originated from 13 different filers. An interview request was submitted to the 13 filers—in order to access representatives of shareholders' and activists' viewpoints—and to the 52 companies' investors relations' manager—in order to access representatives of directors' and corporate officers' viewpoints. Three interviews were obtained from these contacts, which were treated as pilot interviews. Through direct letters, personal contacts and referrals stemming from the pilot interviews, 34 other representatives of the five network categories preliminarily identified were contacted and agreed to participate in the study.

Table 1 shows descriptive statistics for the 34 respondents. Table 2 shows a summary of the 62 shareholder proposals by filer. The text of each proposal is generally similar, requesting that the firm commits to, or reports on, efforts to diversify the board. 38 of the 62 proposals were withdrawn by their proponent, indicating an outstanding level of engagement between firms and shareholder activists on the topic of board diversity. Included in Table 2 are the firms targeted by each activist. Finally, the range of filers presented in Table 2—from individual investors to large pension funds to religious organizations—suggests a wide spectrum of motives underlying proposals for board diversity, including financial performance, social equality and ethical values.

Whereas the sampling method pursued enables us to gain valuable insight into network connections related to board gender diversity, an ensuing limitation lies in likely referral biases, where interviewees might have suggested to contact certain actors precisely because of their (known) position on the issue or because of interviewees' relationships of convenience with these actors. However, all 34 interviewees were separated by several layers of connections since very few knew each other directly, and thus were less likely to offer similar perspectives. Still, it could be argued that the sample presents some degree of opportunism, which is generally the case for qualitative research on business elites, a method further justified by the general acceptance of non-random samples in qualitative research (Klettner et al. 2010; Stiles and Taylor 2001; Westphal and Bednar 2008). Other limitations inherent to qualitative data collection include the social desirability of the viewpoints expressed and a concern for coherence across responses (Krefting 1991). Thus, in order to increase the validity of the empirical data obtained through interviews, interviews are triangulated and complemented with reports and documentation produced by prominent governance agencies: Catalyst, the National Association of Corporate Directors (NACD), and the SEC.

Table 1 Description of respondents

Network position	Count by gender		*n* (Total = 34)
Board members	Male: 5	Female: 4	9
Corporate officers	Male: 4	Female: 3	7
Shareholders	Male: 5	Female: 4	9
Director recruiters	Male: 2	Female: 3	5
Other activists	Male: 0	Female: 4	4

Methodology

The semi-structured interviews comprised 22 questions that were at times augmented with follow up questions, with interviews lasting no longer than 1 h in total. Where many participants expressed concern over confidentiality and the use of the data, the interviews were not recorded but transcribed, and each participant was requested to review and approve the transcript. The data was content analyzed using the recurrence of keywords and meanings. Material divisions in viewpoints surfaced between network constituents and gender within network positions, although the viewpoints expressed within these categories were relatively congruent and appeared to reach "theoretical saturation" (Klettner et al. 2010) early on.

For instance, Table 3 shows a summary of each group's viewpoint on the importance of women on boards. These rationales are further categorized as either pragmatic or symbolic, where symbolic roles attributed to women can also be of relational or moral types, as elaborated further in

Table 2 Shareholder proposals on gender diversity by proponent, 2004–2008

Shareholder filer	% of total number of resolutions by filer related to board diversity	Resolution outcomes: number of withdrawals, votes, omissions	Firms targeted
Calvert Asset Management	31	28W, 4V, 0O	AmeriCredit, Amphenol, Apple, Astoria Financial, Cheesecake Factory, Commerce Bancorp, Danaher, Emulex, Everest, Expeditors International of Washington, FMC Technologies, Grant Prideco, Health Management Associates, Key Energy, Kinder Morgan, Lincare Holdings, Markel, New York Community Bancorp, North Fork Bancorporation, Panera Bread, Plains Exploration and Production, Renal Care Group, Roper Industries, Skywest, Smith International, Swift Transportation, TD Ameritrade Holdings, Zebra Technologies
Catholic Healthcare West	20	2W, 1V, 0O	American Greetings, Bed, Bath & Beyond
Christus Health	33	0W, 3V, 0O	Torchmark
Clean Yield	100	0W, 1V, 0O	Met-Pro
Connecticut Retirement Plans	22	1W, 1V, 0O	American Power Conversion, Gateway
Domini Social Investments	2	0W, 1V, 0O	Monster Worldwide
Episcopal Church	41	3W, 3V, 1O	L-3 Communication Holdings, Mueller Industries, Nabors Industries, Overseas Shipholding Group, Werner Enterprises, Zimmer Holdings
General Board of Pensions (United Methodist Church)	17	4W, 4V, 0O	Activision, CBS Corp, Rite Aid, Six Flags, Take Two Interactive Software, Viacom
Interfaith Center on Corporate Responsibility	6	0W, 1V, 0O	Computer Sciences
Marianist Society	100	0W, 1V, 0O	Computer Sciences
Oblates Mary Immaculate	8	1W, 0V, 0O	CBS Corp
Rossi Family	100	1W, 0V, 1O	Bank of American, Kimberly-Clark
Unknown	100	0W, 0V, 1O	General Motors
Wubbolding, K.	100	0W, 0V, 1O	Safeway

this article. An important observation is that some groups perceive the role of women as rather straightforward, such as male board members, who value the variety of viewpoints that women provide, enhancing the board's effectiveness. Other groups see the role of women as multifaceted, including symbolic representations of inclusion of that social group (relational) and of the firm's congruence in values with stakeholders' (moral).

The elaboration of this article followed two inductive-deductive iterations. First, the three pilot interviews served the purpose of identifying the general terms in which the issue of board gender diversity is discussed, following which a review of the literature informed the choice of theoretical perspectives adopted in this article, that is, social network and institutional theories. In the second cycle, information obtained through interviews informed a critical review of the theory developed and provided important redirections to the argument. As such, rigor was placed primarily on the sound development of the arguments, where interview data served the role of guiding and augmenting the line of reasoning. Accordingly, interview data is presented throughout the text to support or direct an argument.

Throughout the process, I follow Gephart's (2004) guidelines for optimizing the use of qualitative data by first drawing from an important body of literature, gathering interview data aligned with the specific goals and objectives of the study, and using clearly defined constructs in the development of the argument instead of relying on interviewees' language. I also adopt Eisenhardt and Graebner's (2007) suggestion to offer a variety of perspectives in order to mitigate readers' bias toward convergent retrospective and impression management in interview data; in this case, I provide perspectives from

Table 3 Network respondents' view on the importance of women on boards

Network position (gender)	Why is board gender diversity important?	Type of justification
Board members (M)	Adds to board effectiveness because women bring a different perspective on issues discussed	Pragmatic
Board members (F)	Signals women's competence and equality in the workplace, provides role models	Symbolic relational
Corporate officers (M)	Demonstrates that the firm values gender equality and desires to represent important stakeholders of the firm	Symbolic relational
Corporate officers (F)	Substantiates the firm's credibility toward stakeholders, both internally (employees) and externally (shareholders, customers)	Pragmatic/symbolic relational
Shareholders (M)	Shows the board's openness, signals loyalty to shareholders' interests	Symbolic relational/moral
Shareholders (F)	Non-diverse boards are not acceptable because they impede performance and are socially unacceptable	Pragmatic/symbolic relational/ moral
Director recruiters (M)	Positively affects board effectiveness	Pragmatic
Director recruiters (F)	Shows responsiveness to stakeholders' concerns	Pragmatic/symbolic relational
Other activists (F)	Represents women's broader battles for inclusion and respect in society	Symbolic relational/moral

representatives of several network positions in the web of actors affected by the issue of board gender diversity.

A Note on Trust and Legitimacy

Since the separation of ownership and control, boards represent the bureaucratic structure employed to scrutinize management on behalf of shareholders (O'Connell et al. 2005; Weber 1978). As such, they embody the routinization of shareholders' distrust (O'Connell et al. 2005) by representing the mechanism that compensates for the information asymmetry that exists between managers and shareholders. Yet, the legal sanctions and market forces that generally define boards' role have failed to hold directors to their fiduciary duty of care, such that trust becomes a pivotal factor in firms' success (Blair and Stout 2001). Against this background, identifying the ways in which the board can signal trustworthiness to shareholders[1] is a fundamental—yet largely understudied—concept in corporate governance (Blair and Stout 2001; Mayer et al. 1995; Monk 2009). And, as argued in this article, one in which women play a critical role.

Before discussing further how the addition of women on the board contributes to generating trust, an important distinction must be made between trust and legitimacy. Legitimacy generally means that an entity benefits from the acceptance of its environment (Dowling and Pfeffer 1975; Suchman 1995), such that legitimacy is typically the norm and illegitimacy is an abnormal state requiring a response from the firm, pending failure (Massey 2001). Whereas a legitimate state implies that the firm's structure, principles and activities conform with the values, norms and expectations of society (Scott 1995), trust engages a deeper connection with a specific organization, which can only develop once a firm has first demonstrated legitimacy (Monk 2009). In this way, legitimacy is a precondition of trust because it sets the foundational principles on which organizations are expected to operate (Kaina 2008; Monk 2009). And, trust expansively rests on considerations that the firm conforms with both social and performance expectations (Monk 2009). In other words, to generate trust, the firm must first be perceived to operate legitimately, and it must also be perceived to present competence, or ability, in the production of its outputs.

In turn, in the specific context of the economic market that connects firms and shareholders, governance plays a critical role in engendering legitimacy (Monk 2009). Specifically, the board embodies a key governance function precisely because it links the firm to its institutional context (Hillman et al. 2000; Walls and Hoffman 2013). Legitimacy is a key resource of organizations (Oliver 1991) because it enables firms to be perceived as more trustworthy (Suchman 1995), which grants them access to myriad of additional resources needed to survive. Scholars generally endorse that firms can strategically manipulate their legitimacy by altering their practices to appear more conformant with expected norms and values (Dowling and Pfeffer 1975; Suchman 1995; Tost 2011). This article suggests that adding women on the board, by breaking up directors' homophilous networks, is one of the ways in

[1] It could be argued that boards' role is to generate trust among a broader array of stakeholders than shareholders alone. This paper focuses on the board-shareholder relationship because of the legal description of the board as a governance mechanism in place for the benefit of shareholders, whereas conceptually, firm performance may be expected to vary with perceptions of the firm's trust from other stakeholders as well.

which firms successfully enhance their legitimacy, and generate trust with stakeholders.

Directors' Homophilous Networks

Networks, defined simply as structures of social relations (Mizruchi and Stearns 2001), represent the configurations of relationships in which actors are embedded (Granovetter 1985). A common observation of interpersonal networks is that they tend to present homophily (Ibarra 1995; McDonald et al. 2008; Sorenson and Stuart 2008), that is, actors within a network typically present similar characteristics, including gender (Ibarra 1992). As one of the most prevalent mechanisms of tie formation, homophily conspires to produce and reinforce dense networks of similar actors (McDonald and Westphal 2003; Sorenson and Stuart 2008), such as all-male boards.

Homophilous relationships have strong positive features: they facilitate communication and enhance knowledge sharing between actors in a network (Ibarra 1995; Sorenson and Stuart 2008). Interacting with similar others also increases behavior predictability thus strengthening interpersonal bonds (Ibarra 1995). Previous research finds that individuals tend to associate on the basis of objective attributes such as gender, forming beliefs and attitudes that predominantly perceive those outside the category as untrustworthy (McAllister 1995; Turner 1987). In this way, homophilous relationships are characterized by a high level of trust (Brass et al. 2004; Joo 2003; Uzzi 1997). Indeed, Granovetter's (1985) conceptualization of actors as embedded in networks of interconnected relationships hinges on the trust that binds network nodes, an "explicit and primary feature" of these interactions (Uzzi 1997, p. 43).

However, previous research suggests that the benefits of homophily are principally located at the actor level, and may be gained at the expense of the organization's effectiveness (Sorenson and Stuart 2008). For this reason, homophily justifiably raises questions as to the legitimacy of the board, compromising the trust that shareholders place in the firm. For instance, McDonald and colleagues (2008) show that CEOs who interact with similar others gain personal psychological benefits but generate agency costs for shareholders in the form of lower firm performance, compared to CEOs who seek advice from dissimilar others located outside of their primary network. Mizruchi and Stearns (2001) observe a similar phenomenon in the banking industry, where managers exhibit a personal tendency to rely on strong ties—those whom they trust—thus creating conditions that render deals less likely to be closed successfully, that is, paradoxically impeding their firm's financial gains. In short, when individuals remain within their network, they engage in highly self-serving and immediately rewarding behavior at the expense of the organization's performance (Burt 2004; McDonald et al. 2008), or more precisely, of shareholders' interests.

This article suggests that similar dynamics are at play on corporate boards. Indeed, not only do boards often present homogeneous characteristics (Joo 2003), boards' homophily tends to perpetuate itself through successive directors. Whereas it is widely believed that obtaining a director appointment has much to do with being invited into a "secret club" (Strauss 2002, B1), previous research shows that board composition reflects the social networks of the organization's principal actors, such as the CEO (Lynall et al. 2003). Also, director interlocks with other boards that present female directors are more likely to have female representation (Hillman et al. 2007), and retiring directors tend to recommend successors with like characteristics (Joo 2003), while the most common method of director recruitment remains "shoulder tapping" by current directors (Hawarden and Marsland 2011).

Likewise, all the interviewees for this study described boards by using network-related terms. For example, a (male) retired corporate officer sitting on a board offers: "Directors generally become such because they know somebody." When asked about his opinion on the low representation of women on corporate boards, a (male) shareholder suggests: "A simple answer is old boys' networks. I don't know other reasons why." A (female) board member observes: "Naturally, men are most familiar with other men, fellow board members, community members, etc., so the issue is: how do you put in front of them other candidates that they don't know?" Another comments that "I see boards' lack of diversity as the last vestige of the who-do-you-know club. The issue points toward how people are recruited. Since it's largely a who you know methodology, that's bound to be self-eliminating."[2]

Similar to interviewees' conception of the board as the symptom of a network, Lynall and colleagues (2003) describe board composition as path dependent, meaning that only incremental changes from a path may occur, and that these changes may lead to suboptimal solutions that are difficult to exit, termed lock-in. Suffering from the same overembeddedness (Brass et al. 2004) that CEOs do, it is argued that non-diverse boards miss out on the richness of alternative viewpoints, which impedes their effectiveness. Perhaps more importantly, non-diverse boards are construed as less legitimate by shareholders—as evidenced by the number of shareholder resolutions requesting gender diversity—altogether hindering the trust that shareholders place in the board and the firm.

[2] The increasing role of professional agencies in directors' recruiting is slightly altering this dynamic, although it is still common for boards to first attempt to fill board seats through personal contacts and references and then, failing success, to resort to the expensive services of recruiting agencies.

Scholars note that trust is especially important in relationships where the trustees work in a self-directed format and where there are few interactions and control mechanisms enforceable by the trustors (e.g., shareholders), thus further empowering trustees (e.g., directors) to act on their own sense of duty (Blair and Stout 2001; Mayer et al. 1995). For instance, shareholders often have little voice in the nomination of directors (Joo 2003), and they have little if any direct interaction with directors to control or monitor their behavior (Ng 2008). These features of the shareholder–director relationship magnify the importance of trust and the role of visible, symbolic initiatives meant to convey boards' trustworthiness.

Mayer and colleagues (1995) describe trust as a minimizer of risk in relationships. For shareholders, most of whom invest with the expectation of financial gain (Lawrence and Weber 2011), trust—or more specifically the appearance of trustworthiness—as risk-reducing is especially relevant. From an extensive review of the literature on trust, Mayer and colleagues (1995) propose that three factors together explain the trustworthiness of trustees: perceptions of ability, benevolence, and integrity; where ability refers to skills and competencies, benevolence the extent to which the trustee demonstrates loyalty (Butler and Cantrell 1984) and a desire to serve the interests of the trustor, and integrity the perception that the trustee adheres to a set of principles acceptable to the trustor. The authors argue that all three factors of ability, benevolence, and integrity are necessary—yet none alone is sufficient—to generate trustworthiness (Mayer et al. 1995). And, perceptions of trustworthiness are built on perceptions of legitimacy, first (Suchman 1995). Merging insights on legitimacy and factors of trustworthiness from Tost (2011) and Mayer and colleagues (1995), below I argue that women directors enhance the instrumental, relational and moral legitimacy of the board, thus increasing perceptions of the board's ability, benevolence and integrity that are pivotal to fostering shareholder trust. These connections between types of legitimacy, factors of trustworthiness, and shareholder trust are depicted in Fig. 1, and expounded in the following section.

Women, Legitimacy, and Trust

A synthesis of previous literature on legitimacy judgments indicates that three dimensions are particularly salient: instrumental, relational, and moral, where instrumental legitimacy is the pragmatic consideration of an entity's value in relation to one's self-interested calculations, relational legitimacy rests in the affirmation of individuals' social entities and sense of self-worth, and moral legitimacy refers to an entity's conformity with moral values and ethical principles (Tost 2011). As such, shareholders may perceive the board of directors as instrumentally legitimate when it facilitates shareholders' ability to reach their self-defined goals (such as higher financial performance), relationally legitimate when the board signals that it treats individuals and social groups with self-worth and dignity, and morally legitimate when the board appears to uphold the same ethical values as shareholders and promote social welfare. This section discusses the ways in which women on boards foster shareholders' trust in the firm by bolstering the board's instrumental, relational and moral legitimacy, all the while demonstrating ability, benevolence and integrity—the factors that enhance the board's trustworthiness.

Instrumental Legitimacy: Women Demonstrate Ability

Shareholders may perceive the board as instrumentally legitimate when it appears to serve their interests, that is, to enhance the firm's financial performance. Given that this perception primarily derives from the board's demonstrated effectiveness in performing its various functions (Hillman and Dalziel 2003), instrumental legitimacy generates trust in the board's ability to carry out the tasks that shareholders attribute it. In turn, the board's ability is defined by the set of skills, competence, and expertise (Mayer et al. 1995) that enable directors to successfully execute their specific functions. The central argument here is not that women possess *better* skills, competence and expertise than their male counterparts. Rather, whereas an all-male board can receive criticism for selection biases grounded in homophilous demographics, a gender diverse board signals that women were recruited specifically because of their competence. As such, the enhanced instrumental legitimacy of gender diverse boards leads to increased trustworthiness based on either or both real and symbolic ability to perform directoral functions.

In addition, the effectiveness of networks has been demonstrated to increase when network participants reach across socio-demographic spaces to establish connections with actors otherwise disconnected from the network, or distant ties (Burt 1992; Sorenson and Stuart 2008). Joo (2003) relates that heterogeneous boards engage in more rigorous monitoring of one another. Such is the case because the type of diversity that gender brings to the table can represent functional conflict (Hillman et al. 2007), essential to effective monitoring, and especially relevant in the format of boards' activities, where boards meet in non-routine settings to address unique problems (Bear et al. 2010; Hillman and Dalziel 2003).

A recurrent finding in extant literature is that actors outside of one's network bring alternative viewpoints that are valuable to quality decision-making (Bear et al. 2010; Beckman and Haunschild 2002; Hillman et al. 2002; Joo

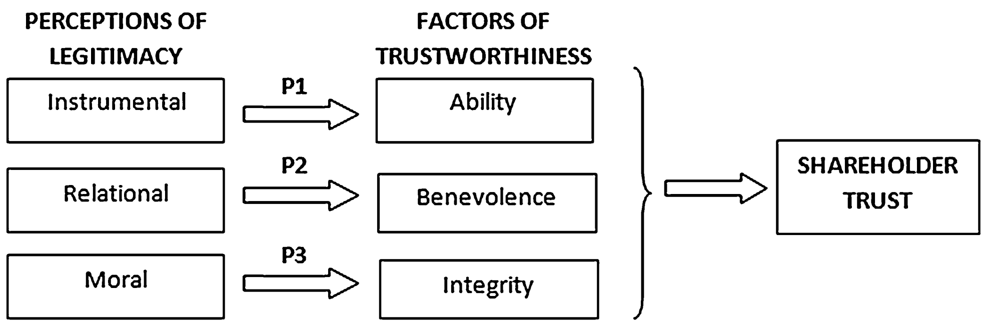

Fig. 1 Boards' legitimacy, trustworthiness and shareholder trust

2003; McDonald et al. 2008). These weak ties have shown to be particularly valuable to executives in high-responsibility positions (Brass et al. 2004), as are board members. Specifically, women present different cognitive bases that engender different attitudes, beliefs, and perspectives (Pelled et al. 1999). These inherent gender differences make women more prone to asking different questions, which enhances communication among board members (Bear et al. 2010; Tannen 2001). Previous research also shows that women can reduce agency costs by helping reign in CEO compensation costs simply by adding gender diversity to boards that are typically selected by male CEOs seeking demographically similar members in order to secure support for higher compensation (Westphal and Zajac 1995).

Directors' effectiveness is also informed by their expertise and strategic perspective from sitting on other organizations' boards, suggesting that directors are highly influenced by the information they are exposed to in their individual networks (Carpenter and Westphal 2001). Previous research shows that women directors are not marginalized but rather found in the largest components of the network (Hawarden and Marsland 2011), demonstrating their extensive linkages to different constituencies (Hillman et al. 2007), which enhance the board's access to nonredundant resources in decision-making. This ability is augmented by the fact that while a white male director sits on an average of 1.7 boards, a director with diverse demographics sits on an average of 2.2 boards (Joo 2003), generating further expertise and connections. In this way, women increase the pool of resources on which the board can draw on in performing its functions, resulting in added social capital and greater legitimacy (Bear et al. 2010; Beckman and Haunschild 2002; Dalton and Dalton 2010). Thus, women enhance the instrumental legitimacy of the board by acting as signals of the board's skills, competence and expertise in performing its given roles. In doing so, it enhances the board's trustworthiness on the grounds of perceived ability. Accordingly it is posited that:

Proposition 1 *Greater gender diversity increases the perceived instrumental legitimacy of the board, and the board's perceived ability to carry out its given roles, increasing shareholder trust.*

Interviewees provided additional instrumental justifications for including women on corporate boards, at times finding it difficult to articulate the specific dynamics at play. The (male) corporate secretary of a Fortune 20 company comments: "We believe that a diverse board is more effective. As a general rule, we think of diversity in a broader sense than gender alone, such as diversity of views and experience. This being said, a person's gender has a lot to do with the kind of views and experience that they have." A point that is corroborated by several corporate officers with board experience who add: "Women can bring in a different dynamic of how a board interacts or thinks about things. You're just much more likely to expand your breadth by expanding your gender representation." Another says: "Women bring a unique, gender-specific point of view that men cannot even begin to imagine and that is important to get out there." A (female) activist observes: "Women that rise to the top are generally smarter, they are more able to bridge differences and they can move things forward! In my experience, those who have made it to the top are extraordinary." A (male) senior corporate counsel offers: "We have an exceptionally well functioning board and it happens that out of 8 people 3 are women, including our Chairman and CEO. There is no doubt that women bring a different perspective that is enriching for all."

Relational Legitimacy: Women Show Benevolence

Relational legitimacy flows from the inclusion and dignifying treatment of individuals and social groups, in this case women. When appearing relationally legitimate, a board may show a closely related attribute, that is that directors are benevolent, contributing to perceptions of the board's trustworthiness. Benevolence is the extent to which a trustee (director) is perceived to promote the interests of the trustors (shareholders) beyond its own egocentric motives (Mayer et al. 1995). This element of trustworthiness is especially relevant for directors because shareholders largely rely on directors' fiduciary duties to construct their perceptions of trust in a firm (Marcoux 2003). Indeed, fiduciary duties are the foundation of modern corporate law, where a fiduciary duty is the legal requirement that the trustee acts for the exclusive benefit of the trustor even when—and especially when—the trustor cannot monitor or control the trustee's behavior, thus the importance of trust in the relationship (Blair and Stout 2001). As such, fiduciary duties demand other-regarding behavior (Blair and Stout 2001), that is, benevolence.

Perceptions of relational legitimacy and benevolence are related through the demonstrated unwillingness to take advantage of a vulnerable social group or individual, even when personal gains may favor doing so. Previous research shows that board gender diversity can enhance a firm's reputation and credibility in labor markets (Hillman et al. 2007) because board gender composition acts as a signal of the value that the firm places on women in the organization in a manner that directly influences stakeholders (Bear et al. 2010). In this way, women on boards signal relational legitimacy in regards to the female gender group.

And, whereas male directors gain personal benefits from homophilous networks, as outlined previously in this article, adding women on the board signals that male directors value the inclusion of this social group for the benefit of shareholders, further displaying loyalty to this group (Butler and Cantrell 1984). For instance, McAllister (1995) finds that trust in an actor increases as s/he demonstrates citizenship behavior. Thus, as male directors appoint women as fellow directors, they show good faith in serving the firm's interests beyond their personal desire for comfort in a similar socio-demographic group, therefore enhancing the board's trustworthiness based on perceptions of benevolence.

It is important to note that whereas benevolence is often accorded to women in general, through gender stereotypification (Struch et al. 2002), the present argument rests on male directors' demonstration of benevolence in their addition of women on the board. In other words, even though women may be perceived as more benevolent, when male directors include women on the board, they convey their willingness to put shareholders' interests first, despite their preference for homophilous networks. Thus:

Proposition 2 *Greater gender diversity increases the perceived relational legitimacy of the board, and the board's perceived benevolence, increasing shareholder trust.*

A senior counsel for a large retailer comments: "I think that lack of gender diversity on the board does compromise a firm's legitimacy. In fact, I suspect that if a large publicly traded company does not have at least one woman on its board, they are probably actively trying to change that. They would *have* to be paying attention to that issue… and part of it is certainly for fear of being targeted as an outlier in a negative view." Another executive adds: "It's no longer the norm to have an all-white male board. The more diversity plays in this space, the more you will get called out and be subjected to negative scrutiny from large investors." Similarly, the vice-president of a prominent director recruiting agency offers: "Many clients come to us specifically because they want to hire a woman and they seek a particular candidate profile to fit their demands. It's just the case nowadays that boards actively seek to represent the female gender almost by fear of being pointed fingers at for not doing so."

Speaking to the appearance of benevolence generating trust, an investor comments: "From my perspective, board diversity is a symptom of good governance. It is really saying that their governance is open—more responsive—in general, to stakeholders and society. It is signaling that the board realizes it's more than their club and themselves doing good for themselves: it's about their constituency and showing that they are not arrogant to those stakeholders who are affected by the organization."

Moral Legitimacy: Women Convey Integrity

Moral legitimacy arises from the congruence of values between shareholders and directors. Morally legitimate firms may also convey integrity, an important factor of trustworthiness. Integrity is the trustor's perception that the trustee upholds a set of principles valuable to the trustor (Mayer et al. 1995). The idea of congruence between the parties' values is also central to the concept of integrity, indicating its strong relationship with moral legitimacy (Butler and Cantrell 1984; Sitkin and Roth 1993).

Organizations convey their identity to stakeholders by engaging in symbolic representations of actions that indicate their ethical values (Bansal and Kistruck 2006). For instance, it has been noted that firms with higher percentages of women on their board are more likely to include their pictures in annual reports (Bernardi et al. 2002). As shareholders are increasingly voicing their requests for more women on boards (Singh 2005), notably by filing shareholder resolutions that reflect pressures from a wide array of stakeholders (David et al. 2007), they are indicating their value preference for gender diversity, and expressing their discontent with the firm's discrepancy in practices. As such, shareholder resolutions expose gaps in the congruence of values between shareholders and the firm, a signal that shareholders are questioning the legitimacy of the firm's practices; or, in the case of shareholder proposals addressing board composition, the board's practices.

Furthermore, in its advisory function, RiskMetrics typically supports these proposals by recommending a "vote for" option on proposals related to board gender diversity

(Harris et al. 2010), testifying of the mainstream position advocated on the issue. In fact, myriad of examples show that firms actively seek to add females on their board as a result of these stakeholder pressures (Catalyst 2012b; Hillman et al. 2007), and it is generally purported that board gender diversity is an important component of a firm's legitimacy (Milliken and Martins 1996). And, therefore, of its trustworthiness (Suchman 1995). Hence, it is suggested that adding women on the board enhances the firm's moral legitimacy by showing that the firm cares about the issue of gender diversity, as shareholders do. This congruence in values increases shareholders' perceptions of the firm's integrity, an important building block of trustworthiness. Therefore:

Proposition 3 *Greater gender diversity increases the perceived moral legitimacy of the board, and the board's perceived integrity, increasing shareholder trust.*

Harris and colleagues (2010) claim that information related to board diversity provides investors with information on corporate culture and values that enable them to make more informed investment decisions. These signals are important because they convey information that is assumed to be meaningful and that is not readily observable in circumstances of information asymmetry (Bear et al. 2010), such as the agent–principal relationship that characterizes shareholders and managers, mediated by the board of directors. In agreement, the manager of an investment firm claims: "The issue of board gender diversity is of critical importance for two reasons: one, because it reflects a broad societal issue. […] Secondly, our clients care." These types of arguments refer to stakeholders' perceptions of the board's moral legitimacy, that is, that boards—and the firm, by extension—place value on the female social group and that diversity embodies an ethical value that stakeholders believe is right.

Having argued that women on boards can increase the firm's legitimacy and trustworthiness, a fundamental underpinning of boards' effectiveness, the next section turns to understanding the role of shareholder activism in the process of increasing the number of women on boards. In order to do so, the gender diversification of boards is envisioned as an event of institutional change where the preponderant role of activists and legislation in deinstitutionalizing old boys' networks and reinstitutionalizing diversity is explicated.

The Gender Diversification of Boards: An Event of Institutional Change

Institutional change essentially refers to the process of deinstitutionalization and reinstitutionalization of field frames, that is, first the abandonment of a socially accepted practice and its replacement by a new practice that becomes norm (den Hond and de Bakker 2007). Institutional change occurs when stakeholders perceive that organizational practices lack instrumental, relational, or moral legitimacy (Tost 2011). The argument outlined above suggests that shareholders perceive the low representation of women on boards to compromise all three types of legitimacy. Yet, as discussed in the previous section, networks create pressures for institutions to perpetuate themselves, by acting as a reinforcing system of activities that are embedded in the challenged practice (Greenwood and Hinings 1996). In this way, institutional change is constrained by the strength of the network such that only forceful pressure can effectively bring about the desired change—a challenge cut out for activists, who play a critical role in the deinstitutionalization phase (den Hond and de Bakker 2007). Den Hond and de Bakker (2007) argue that there are two paths to field-level change: activists can work at the field level by directly attacking the institutional pressures surrounding firms, for example, by appealing to regulating bodies for legislation. Or, they can work at the organizational level by attempting to convince individual members of the field to change their practices in hope that these individual changes will diffuse to the field through firms' networks.

Deinstitutionalizing Old Boys' Networks Through Shareholder Activism

Activists are those groups who challenge firms to comply with their demands by articulating societal preferences for a specific change in practices and mobilizing other stakeholders in some form of social movement (den Hond and de Bakker 2007). The ways in which activists achieve change in corporate practices is a topic largely understudied in extant literature (den Hond and de Bakker 2007). As such, this section seeks to provide some insight as to the motivations and tactics that shareholder activists employ when requesting greater gender diversity from corporate boards, and how firms perceive and respond to these requests.

The prevailing tactic that shareholders use to exercise voice is the process of shareholder resolution filing (O'Rourke 2003). Whereas a firm's legitimacy reflects the extent to which it is embedded in the system of institutionalized beliefs and actions in which it operates (Suchman 1995), when shareholders file a resolution against a firm, they effectively question the firm's legitimacy, revealing a degree of distrust in the organization. Previous research confirms that shareholder resolutions directly challenge firms' prevailing institutional frames (Reid and Toffel 2009), by signaling shareholders' dissatisfaction with managerial practices (Gillan and Starks 2007). In doing so, shareholder proposals reveal the governance practices that shareholders perceive as legitimate and effective in protecting their interests (Daily et al. 2003).

From an agency perspective, shareholder activism represents a tactic designed to protect shareholders from managers' self-interest (Daily et al. 2003), and it is supported by SEC rule 14a-8 (O'Rourke 2003). As such, the process of shareholder resolution filing represents a structure of interactions that embodies the routinization of shareholders' distrust of management (O'Connell et al. 2005). And, as one of the most powerful stakeholder of the firm, shareholders can significantly influence the firm's policies through this practice.

One such shareholder activist comments: "We usually try to dialogue first, but if that does not work, we file a resolution. I think that our approach is very reasonable, we are only seeking to represent the interests of our investors. […] We haven't always created change, but in instances where we got really engaged, it made a big difference. For the issue of board gender diversity in particular, it's an area that I'm sure we and shareholder activists in general have had a pretty powerful effect."

A senior corporate counsel reports: "Shareholders have an important role to play in raising things for consideration." Another adds: "We are cognizant of why activists have different positions and part of the role that we have to play is to discern those that have more mainstream concerns or fringe interests." A board member comments: "The company is run for the benefit of shareholders, so shareholder input has to be taken seriously."

Effectively, shareholder activists seek to raise awareness for their issue (David et al. 2007) in hope to spur field-level institutional change (den Hond and de Bakker 2007). As such, they address issues that they believe society—and regulators—will support (Mathiasen and Welsh 2007), issues that arise from changing perceptions of legitimacy in regard to institutionalized practices given emerging societal trends. A corporate consultant observes: "What matters is public opinion, not shareholders. For the most part, shareholders are institutional, meaning that some brokerage house is holding a whole bunch of shares, for example CalPERS [sic]. So, with respect to what drives board change, it is public opinion." Therefore, shareholders are quick to grasp that their leverage is deeply anchored in a broader social dimension, one that appeals to normative ideals and is conveyed through moral language.

Den Hond and de Bakker (2007) observe that institutional change systematically begins with activists stimulating the deinstitutionalization of field frames by setting forth morally legitimate claims. As mentioned above, and grounded in Suchman's (1995) definition, moral legitimacy refers to shareholders' judgments of whether the board effectively promotes social welfare. A prominent community figure and board member comments: "Firms are responsive to how they look; if you are a consumer products company with women as your primary target market and the board is all men, it does not look good." She continues: "To effect change, you need to embarrass the board! Boards are responsive to news stories, social media, any type of sensationalism, really." A shareholder activist corroborates: "Shameful issues are generally successful." A partner in a large accounting firm observes: "Board diversity is a hot topic because it is a little bit of a social stigma, especially here in the U.S. where it's the country of equality. No company wants to be labeled as not equal to gender."

Furthermore, these moral and relational claims do not necessarily exclude shareholders' self-interest, meaning that shareholders can engage in activism based on morally legitimate arguments because they ultimately believe they will benefit from the new field frame that they seek to institutionalize, which was referred to above as instrumental legitimacy. As such, when shareholders challenge the board's composition in a proposal, they are effectively claiming that the board does not represent the moral values of gender equality that shareholders believe are right, and that in doing so, it compromises their interests. Hence, activists' moral claims are matched with pragmatically legitimate arguments, which are central to the process of reinstitutionalization of a new practice (Greenwood et al. 2002).

Where board gender diversity is an issue that sits at the intersection of governance and social change, juxtaposing moral and pragmatic claims is especially important. A corporate officer comments: "All activism is relevant since it brings up some conversation at shareholder meetings, but 75 % of the meeting is then diverted to why is there no more dividends… effectively, there is two kinds of activism: investor activism, whose goals and objectives are mostly governance related—board composition, say on CEO pay, do we get to vote on stock options, etc. That is very powerful. The other, is the activist shareholder requesting social change, such as the environment, climate change, etc. They're often like a voice crying in the wilderness…"

For this reason, small investors, such as religious organizations or special interest groups, who are generally perceived as advocates of social change, may co-file proposals with more prominent parties, such as institutional investors, who are most often successful in negotiating a satisfactory outcome by communicating directly with managers (Gillan and Starks 2007; Johnson et al. 1996). The advocacy manager of a boutique investment firm confirms: "We do a lot of co-filing because we are small." Indeed, coalitions represent excellent opportunities for shareholder activists to increase their status vis-à-vis the targeted firm, share resources with peer firms that endorse the same advocacy goals and ultimately utilize a greater portion of the network's social capital which helps strengthen the blow to the field frame in deinstitutionalization while supporting a pragmatic argument for the new practice. The next section discusses how shareholders can gain yet greater power by involving regulators in their reinstitutionalization effort.

Reinstitutionalizing Diversity with the Help of Legislative Approaches

Once a field frame has been destabilized, activists promote the adoption of a new field frame to replace it. Greenwood and colleagues (Greenwood and Hinings 1996; Greenwood et al. 2002) propose that the reinstitutionalization phase hinges on a justification that provides compelling reasons for the adoption of the proposed new practice and not another, what effects the practice might have, and why the practice is particularly relevant. Suchman (1995) describes pragmatic legitimacy as that which appeals to the calculated self-interest of the organization's closest constituents. In promoting board diversity, therefore, shareholders must support that the new practice will provide performance returns that will benefit both the firm and the shareholders, in addition to the argument that board diversity simply makes sound moral sense. In other words, pragmatic arguments are essential to the success of this phase because they portray the solution offered—increasing the proportion of women on the board—as the firm's rational choice in addition to the firm's moral choice (den Hond and de Bakker 2007).

In this regard, it appears shareholders and activists have successfully conveyed their claims in regard to board gender diversity. A board member reports: "I think that board diversity is an issue on two levels: boards are not diverse and that's bad in itself. Two, because a company, for fully understanding its environment, needs a board that represents the market and no market is 100 % male." A corporate counsel offers: "There's no doubt that the notion—that might still exist in some companies, by the way—that old boys' networks can be an acceptable-looking board is defeated. Shareholders go crazy with the idea that boards are just too "clubby" as opposed to bringing different points of view and asking the hard questions. It's just healthy to reflect the investor community and society in general." The manager of a large institutional fund augments: "It's [board diversity] definitely a prominent issue, and it's becoming more prominent globally. For example, at ICGN [the International Corporate Governance Network], I would put that on the list of the top 10 things talked-about most."

O'Connell and colleagues (2005) argue that one of the most common mechanisms that stakeholders employ in their effort to rationalize their relationship with the firm is legislated participation, whereby activists negotiate with the firm through a government agency that fosters stakeholder participation, such as the SEC, in this case. The authors highlight the importance of regulatory support in stakeholder participation during processes of institutional change, by legislating access to information, for example. Likewise, Jensen (1993) suggests that legislative approaches give weight to pragmatic argumentation by activists by effecting coercive pressure through threats of regulation. Consistent with this argument, Reid and Toffel (2009) find that threats of regulation cause firms to adopt practices promoted by a broader social movement. Therefore, legislative approaches provide invaluable support to activists' efforts.

SEC Rule 407(c)(2)(vi)

Legislative approaches on board diversity are nonetheless bound by the provisions of American law which consider diversity quotas unconstitutional (Joo 2003). Therefore, it is highly unlikely that the U.S. will impose rules mandating any proportion of board seats to be filled with women, as is the case in several other countries such as Norway, for example (Catalyst 2012a). Rather, the issue of board diversity is considered one of private law between shareholders and management such that corporate law limits itself to issues of procedure (Joo 2003). Accordingly, in response to significant pressures for greater board gender diversity by shareholders and other stakeholders (Hillman et al. 2007), on February 28, 2010, the SEC has effected a new rule—407(c)(2)(vi) of Regulation S-K—requiring that public firms add to their proxy disclosure statements regarding board diversity (www.sec.gov).

Specifically, the new SEC rule requires disclosure describing the nominating committee's process for identifying and evaluating nominees for director, any differences in the manner in which the nominating committee evaluates nominees for director based on whether, and if so how, the nominating committee considers diversity in identifying nominees. Disclosures should also include whether the nominating committee has a policy with regard to the consideration of diversity in identifying nominees, describe how the policy is implemented, as well as how the committee assesses the policy's effectiveness (www.sec.gov).

Whereas the rule does not define diversity and applies in a broader sense than to gender alone, firms can develop and disclose their own standards for what constitutes diversity on their board (Harris et al. 2010). Harrison and Klein (2007) define diversity along both demographic characteristics, such as gender, race, ethnicity, tenure, education, and functional background, and non-demographic ones, such as values, attitudes and conscientiousness. In much the same manner, the SEC proposes that firms may define diversity expansively, moving beyond demographic concepts, including differences in viewpoint, professional experience, education, skill, or other qualities and attributes that contribute to board heterogeneity (www.sec.gov). Lee and colleagues (2011) examine firms' filings since the new SEC rule's implementation and find that few have formal diversity policies but that many consider diversity in their governance guidelines. In addition, they find that most firms focus on diversity of backgrounds and skills of directors rather than race or ethnicity, while a few explicitly consider gender.

Even though the new SEC rule represents an additional tool for shareholder activists seeking greater gender diversity, we need to be reminded that disclosure does not mandate diversity, and perhaps justly. Most interviewees, especially women, report being opposed to a law mandating any type of diversity quotas on corporate boards. The idea was often likened to affirmative action efforts, the effectiveness of which is highly ambiguous (Nye 1998). Women worry about firms doing the minimum to meet the requirements, to adopt a compliance-based approach which would "undervalue the benefit of board diversity." They also express concerns for tokenism (Bear et al. 2010), where women would fill board seats but be accorded little voice or influence. Many worry that those women who already are on their way or have achieved these high level positions would be devalued following a legal ruling. A prominent social activist comments: "If you're willing to sacrifice two or three generations of place-holder women who have no power and don't get listened to… if checking the box for gender diversity is the starting point, women will have an uphill battle from thereon to prove that they are competent."

Others, especially men, seem more open to the idea. The president of a medical company observes: "This country has achieved a lot through regulation. When society decides that having diversity on boards is important and tries to do it with voluntary initiatives and gets frustrated, then we'll get there through the legislative channel." A corporate consultant claims: "I think the SEC has an enormous responsibility to support good governance because corporations are going to do whatever they're regulated to do. Since we believe boards are more effective with women, then maybe it takes a law to get there…" Taking a more expansive view on the topic, a senior corporate counsel comments: "There is a broader debate on the struggle between public and private control. By and large, I think that the private realm (investors raising the issue and getting boards to buy into that) is a better way to go than regulation because you're coming to the table buying into it where companies are usually weary of regulation and antagonistic to it." The corporate secretary of a Fortune 20 company augments this view: "I think that for big companies, it probably would not have much impact since for all I know, it is presumed by every major company board search at this point that gender diversity is an important criterion. So, my guess is that big firms are already there or close to in terms of board gender diversity." In other words, it could be that board gender diversity has much to do with individual firms' contexts and networks, as discussed above. In this case, the individual approach of shareholder activism holds much promise compared to the field-level approach of legislation.

Nevertheless, the new SEC rule does enhance directors' nominations procedural legitimacy. Suchman (1995) argues that socially acceptable techniques and procedures may extend moral legitimacy to an organization, especially when outcomes are not clearly defined. In this case, greater gender diversity on corporate boards can mean a wide range of outcomes, from including at least one woman on the board to including more than three women in order to avoid tokenism or even parity in numbers with men directors. With such undefined desired outcome, the new SEC rule mandating that firms disclose the process and considerations granted to diversity in selecting directors is much aligned with transparency as a fundamental principle of good governance (Gaa 2010) and is likely to appease a significant portion of the constituents that deem non-diverse boards morally illegitimate.

Discussion

The reconsideration of the board of directors as an entity primarily vested with a trust function, resting on perceptions of legitimacy and trustworthiness, represents a novel approach to corporate governance. This argument is anchored in the observation that the roles of the board derived from traditional theories of governance fail to take into account that directors' homophilous networks severely hinder shareholders' perceptions of the board's legitimacy, while the perpetuation of these homophilous networks is a highly institutionalized practice. Perceptions of legitimacy matter because they lead to perceptions of trustworthiness (Suchman 1995), largely influencing the trust that shareholders place in the firm's governance, and further affecting the firm's market performance.

Against this background, this article has developed an argument suggesting that gender diverse boards increase the board's instrumental, relational and moral legitimacy, leading to enhanced perceptions of trustworthiness and shareholder trust in the firm. As such, it is noteworthy that the role of women in boards' effectiveness is not solely based on cognitive factors, where it might be implied that women have better qualifications than their male counterparts. Rather, it is their inclusion on the board that testifies to directors' cognitive trust in the women's ability to perform governance functions that shows directors' benevolence, and thus signals the board's loyalty to shareholders' interests and values. Therefore, even while it could be argued that another type of diversity—based on ethnicity or functional background, for example—could accomplish these same objectives, this article supports the idea that the gender diversity component is of supreme importance to other measures of diversity because of the strength and symbolism embedded in the signal of gender diversity. This claim is also concordant with the prevalent moral values of our society, and the pragmatic benefits that previous research attribute to gender diverse boards (Bear et al. 2010; Erhardt et al. 2003; Terjesen et al. 2009).

Within this view, three points appear particularly salient to discuss and offer promising directions for future research. First, despite the broad connection between firms' governance legitimacy as a foundation of trust (Monk 2009), previous literature does not offer a rich account of the relationships between legitimacy judgments and factors of trustworthiness. The present article undertook this challenge in the explanation of the substantive and symbolic role of women on corporate boards. However, it would be interesting to explore whether these relationships hold in different contexts of corporate governance and in other business phenomena. For instance, does instrumental legitimacy always enhance perceptions of ability and relational legitimacy perceptions of benevolence? And, does moral legitimacy boost perceptions of integrity?

Second, as presented in this article, the prevalence of homophily in voluntary networks is well documented in the literature. However, stakeholder pressure to deinstitutionalize homophily—and the perpetuation of voluntary networks—is also increasing. In this context, recent observations indicate that firms increasingly negotiate directly with various stakeholders, or join organizations in their network, thus blurring the lines of network nodes by importing the practices and values of others into their organization (O'Connell et al. 2005). These initiatives help firms maintain legitimacy by standing in a better position to perceive change in societal and stakeholder expectations (Suchman 1995). Hence, it would be interesting to examine the rising role of director recruiting agencies in mitigating the tension between the board's legitimacy and shareholder trust in the board. For instance, are shareholders' perceptions of the board's legitimacy and trustworthiness enhanced by the addition of directors (whether male or female) recruited through third-party professional agencies? And, do women recruited in these ways effectively increase the level of trust that shareholders place in the board?

Finally, this article has focused on the role of shareholder activists in initiating and thrusting institutional change in boards' homophilous representations. Coupled with SEC rule 407(c)(2)(vi) of Regulation S-K, the power of shareholders appears significant in the deinstitutionalization of homophilous boards and the reinstitutionalization of gender diverse boards as the new norm. It was beyond the scope of this article to examine the role that other activists play in this process, however, there is reason to believe that supporting businesses (such as director recruiting agencies) and social activists focused on the issue (such as 2020 Women on Boards, for example, www.2020wob.com) also have an important part in this issue.

Previous research suggests that the coupling of moral and pragmatic arguments is most effective at destabilizing the legitimacy of an ongoing practice and reinstitutionalizing a new norm (den Hond and de Bakker 2007). The interviewees of this study proposed suggestions to include women on boards intuitively using this rationale. For instance, corporate officers and board members referred mostly to pragmatic arguments: "Wouldn't it be great to say: if you want to have a great company, then have a diverse board—research shows that." They point to the study of other successful organizations with gender diverse boards and to heightening the profile of qualified candidates that might be outside of directors' personal contacts. In other words, creating structures such as networks, recruiters, and community directories. A director recruiting agent adds: "Many firms come to us specifically because they seek to recruit a woman on their board and don't know one from their personal networks." Corporate officers also recall the issue of the glass ceiling and the importance of mentoring women to top management positions. One executive comments: "It comes back to earning trust: women need to feature themselves as a trusted member of the team that can deliver on what they have to do."

Yet, shareholders and activists are concerned that change is most effective when driven organically. Understanding that their activism tactics are interfering to some extent with the board's structural process of selecting directors, they regret that change only comes about through advocacy efforts. Both of these groups would rather see directors casting a wider net when nominating a fellow board member, by consulting with third-party recruiting agencies, for example, and see the criticality of board members' own advocacy for candidates that they believe should replace them. A shareholder activist concludes: "You have to find champions within shareholders or the board itself. It's a multi-faceted approach that involves a lot of hard work and frustration—we just have to keep making some noise."

Conclusion

This article has argued that women on boards play an important role—both substantive and symbolic in nature—in enhancing perceptions of the board's legitimacy and trustworthiness, thus fostering shareholder trust in the firm. By first enhancing perceptions of the board's instrumental, relational and moral legitimacy, women contribute to the board's trustworthiness through directors' demonstration of ability, benevolence and integrity. Accordingly, the primary contribution of this article is the reconsideration of the processes through which gender diversity affects board effectiveness in generating shareholder trust, and affecting firms' market performance in this way. Evidence collected through semi-structured interviews with 34 network constituents—corporate officers, board members, director recruiting agents, shareholders, and social activists—corroborate this argument and further denounce the lack of legitimacy of homophilous boards.

Envisioning the deinstitutionalization of old boys' networks on corporate boards as an event of institutional change, this article considers the critical role of shareholder activists and legislative support in the reinstitutionalization of gender diverse boards. Whereas moral and pragmatic claims are generally accepted as most effective in spurring institutional change, this article explicates how shareholder activists, together with SEC rule 407(c)(2)(vi), represent a powerful force in this institutional change process. Finally, while the network representatives interviewed in this study generally oppose regulation mandating gender quotas on boards, they propose novel and applicable strategies for the inclusion of women on boards.

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