

Jobs for the Boys? The Glass Ceiling and the Market for Corporate Control

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Abstract

Women and ethnic minority groups hold few boardroom positions. In this paper, we adopt a novel empirical strategy to test whether this is caused by a lack of suitable candidates for director positions or, alternatively, by discriminatory barriers that prevent these groups from progressing up the corporate hierarchy. We study the determinants of director appointments following completed mergers and acquisitions. As directors at the acquisition target will be considered for an appointment at the newly merged firm, our approach allows us to observe the characteristics of successfully appointed target directors jointly with the characteristics of directors who have not been appointed to the board of the merged firm. Our results show empirical evidence consistent with biases in the recruitment of directors. We find that Hispanic directors are less likely to be appointed to the board of the merged firm. Further, the higher the number of female directors on the acquiring firm's board, the less likely it is that female target directors are appointed to the board of the newly merged firm. These findings cannot be explained by director or by merger characteristics.

Keywords: Mergers and acquisitions; Director retention; Board diversity; Tokenism.

JEL codes: G34, J62, J63

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1. Introduction

The proportion of female and ethnic minority directors at large listed firms has increased steadily over recent decades. However, the proportion of female and ethnic minority directors still remains much lower than the proportion of these groups further down the corporate hierarchy. Female directors held 17% of board seats in Fortune 500 companies in 2012, and ethnic minorities held 13.3% of these positions (Alliance for Board Diversity Census, 2013). High-profile executive appointments such as Mary Barra (General Motors), Indra Nooyi (PepsiCo) and Kenneth I. Chenault (American Express) therefore continue to be rare and exceptions to the rule as the corporate elites in the USA remain predominantly male and Caucasian.

The low representation of female and ethnic minority directors in boardrooms has given rise to the popular notion of a glass ceiling (Powell and Butterfield, 1994), which implies that the obstacles for certain groups of directors are greatest at the top end of the corporate hierarchy. The metaphor of a glass ceiling also implies that there are discriminatory barriers that prevent the promotion and progression of certain director groups up the corporate hierarchy.

Discrimination in the labor market is unjust, in most cases illegal and, in so far as it bars the best talent from positions of influence, economically harmful (Becker, 1957). Consistent with the view that discrimination against certain director groups has detrimental economic effects, a growing literature on board diversity (e.g. Johnson et al., 2013, Terjesen et al., 2009) views gender and ethnicity as proxies for unique resources that certain groups of directors may bring to corporate boards, such as diverse and valuable knowledge, information or skills (Wihters et al., 2012). Furthermore, there is evidence that

group dynamics, decision-making and outcomes are positively affected by ethnic board diversity (Carter et al., 2010; Hoogendoorn et al., 2013; Oxelheim and Randoy, 2003; Wang and Coffey, 1992).

In contrast to the glass ceiling perspective, a frequently asserted view is that the continued dominance of male and Caucasian directors can be explained by there being a limited number of suitably qualified female and ethnic minority directors. This view holds that the lack of gender and ethnic diversity in boardrooms is ultimately due to supply-side factors and not to biases in the director appointment process. Such supply-side factors may be rooted in the fact that certain groups of directors differ in terms of values (Adams and Funk, 2012), personal considerations around family formation and family life, investment in human capital, or career paths. All of these factors could have an impact upon the availability of suitably qualified candidates for boardroom appointments (Gregory-Smith et al., 2014) and may therefore explain why so relatively few boardroom positions are held by these groups.

The crucial challenge for empirical studies that aim to investigate whether or not the recruitment of directors is biased against certain groups is a partial observability problem: the low representation of female and minority directors in itself is not sufficient to identify a recruitment bias. Both supply- and demand-side arguments may explain why male Caucasian directors dominate US company boards. After all, studies on potential biases in the director selection process will typically only observe the characteristics of successfully appointed candidates. Data availability issues mean that these studies cannot observe information on qualified candidates who were considered for a directorship but not appointed. Yet, information on the latter group is crucial to understanding whether a glass

ceiling exists. Therefore, an empirical set-up is needed where all suitably qualified candidates for a directorship as well as the recruitment decisions can be observed to identify whether the low percentage of female and ethnic minority directors is actually rooted in barriers against these groups in the hiring process.

In this study, the empirical strategy we employ to test for potential biases in the recruitment of directors is based on board appointments after completed mergers and acquisitions (M&As). For each director on the board of the acquisition target, we can estimate the probability that (s)he is successfully appointed to the board of the newly merged firm. Specifically, we estimate whether gender and ethnicity are factors that determine the recruitment of a director, while controlling for individual characteristics that also determine director recruitment such as age and experience. M&A are a suitable scenario for examining the role of bias in director recruitment because it is common practice for some directors on the board of the newly merged firm to be recruited from the board of the firm that was acquired. Harford (2003) finds that on average 20% of executive directors are appointed to the board of the newly merged firm. Crucially for our study, it is fair to assume that directors at the target firm can be thought of as suitably qualified candidates that will be considered for a directorship at the newly formed company.

We analyze the boards of a sample of firms involved in M&As and estimate the determinants of appointment of target firm directors to the board of the merged firm. Overall, our results point to biases in the recruitment of directors based on gender and ethnicity. Hispanic directors are less likely to be appointed to the board of the merged firm. Further, female target directors are less likely to be appointed the higher the representation of women on the acquiring firm's board. The latter finding is consistent with tokenism,

which means female directors are seen as symbolic representatives of their (Kanter, 1977). We control for director and deal characteristics to rule out explanations that the appointment decisions we find are driven by other director characteristics or deal characteristics.

Our study makes a number of important contributions. First, we contribute to the literature that examines the determinants of director selection. Director selection has long been an important issue in corporate governance research (Adams et al., 2010; Farrell and Hersch, 2005; Finkelstein et al., 2009; Hermalin and Weisbach, 1988). In particular, we contribute to the literature on director recruitment biases (Burke, 1997; Farrell and Hersch 2005; Gregory-Smith et al., 2014; Hillman et al., 2002; Mateos et al., 2011). Research in this area focuses on the gender of directors when directors are replaced and finds that firms are more likely to appoint female directors if a female director has recently left the board (Farrell and Hersch, 2005; Valenti, 2007).

Our paper uses a different empirical strategy that is based on changes in board composition after completed M&A deals. What makes our empirical strategy particularly suitable to study recruitment biases is that we can observe the characteristics of directors who were successfully appointed along with the characteristics of directors who would have been considered for an appointment but were not appointed. This enables us to isolate demand-side factors (such as recruitment biases) and supply-side factors (such as the availability of experienced candidates from minority groups on the target board). Therefore, the present study is able to disentangle demand- from supply-side arguments in a clearer way than previous research was able to.

Second, previous research focuses on the gender of directors (e.g. Adams and Ferreira, 2009; Carter et al., 2010; Mateos et al., 2011) and considerably less attention is paid to ethnic diversity. Some exceptions are Carter et al. (2003) who find that the probability of hiring an ethnic minority director in Fortune 1000 firms increases with firm size. Carter et al. (2010) examine the impact of African-American and Hispanic directors on firm performance. Our study contributes to this literature by analyzing the potential recruitment biases based on ethnicity as well as on gender using our novel approach of post-merger appointments. As regards ethnic minority directors, our study finds evidence consistent with recruitment biases against Hispanic directors.

Finally, our work links in with policy discussions regarding statutory intervention to create more diverse boards. Outside the USA, Belgium, Iceland, Italy, the Netherlands, Norway and Spain have some form of quota in place for female directors. The European Commission is considering putting quotas in place across the EU. These quotas vary in terms of whether they are mandatory (as in the case of Norway) or whether non-complying firms must simply explain why they fall short of the quota. Our results indicate the presence of recruitment biases against female board candidates. Therefore, our results back the spirit of quotas and other statutory initiatives that are designed to overcome biases in the recruitment of female and ethnic minority directors.

The paper is organized as follows. In the next section we develop the theoretical framework and formulate the hypotheses. In section 3, we explain how we collect and treat the data to obtain the variables used in the analysis. In section 4, we present the results of the econometric analysis. Section 5 concludes with the discussion of the obtained results.

2. Literature and hypotheses: Discrimination and tokenism

2.1 Discrimination

In the widest sense, diversity in the boardroom includes gender, age, ethnicity, race, nationality, culture, religion, constituency representation, independence, professional background, knowledge, technical skills and expertise, commercial and industry experience, and career and life experience (Milliken and Martins, 1996; Singh et al., 2008). In this paper, we focus on gender and ethnic diversity.

Different explanations may lie behind biases in the recruitment of women and ethnic minorities on boards of directors. There are several kinds of discrimination that can bias the selection process for the board of directors. First, taste-based discrimination may lead companies not to appoint suitably qualified female/ethnic minority candidates (Becker, 1957). Second, the abilities of women/ethnic minority candidates may not be correctly assessed. This could lead to statistical discrimination as described by Phelps (1972). Statistical discrimination occurs when women and ethnic minorities are judged according to the average characteristics of their group and not on the basis of their own personal characteristics. Therefore, statistical discrimination is closely related to mistake-based discrimination with respect to the systematic underestimation of the skills of women or ethnic minority directors (Wolfers, 2006).

Farrell and Hersch (2005) and Gregory-Smith et al. (2014) find evidence of gender bias in the appointment of female directors. For US and UK boards respectively, the authors find that upon the departure of a director, the appointment decisions are biased

toward replicating the gender of the departing director. Mateos et al. (2011) find evidence of several types of discrimination (taste-based, statistical and mistake-based) against women to explain the scarce presence of women on Spanish boards of directors. The authors argue that this is clearly inefficient, because it reduces the probability of choosing the best possible candidates for the company independently of their gender.

Other studies do not test for a direct gender bias in the appointment of female directors but try to find signs of biases and stereotypes, for instance, when being a woman or belonging to a minority group is an important factor behind director selection. Burke (1997) interviews women serving on Canadian boards of directors and finds that the nomination process is often the result of an ‘old boy’s network’ where personal contacts and visibility to male board members is essential for appointment decisions. Hillman et al. (2002) find that female and African-American directors have more ties to other boards and higher levels of education than their white male counterparts. They argue that this could be a sign of salient effects and stereotypes about their ability to serve on corporate boards, in the sense that a certain level of success (e.g. advanced degree and/or prior board appointments) may help to overcome a perceived ‘lack of fit’ between women, racial minorities and corporate boards. Singh (2007) examines the presence of ethnic minority directors on FTSE 100 company boards and finds that ethnic minority directors have to have outstanding CVs and be known across a variety of sectors in order to be appointed.

Much less attention has been given to ethnic minorities in the literature, possibly because of lower levels of racial and ethnic diversity in the boardroom. The few studies on ethnic aspects of board demographics focus on the effects of ethnic diversity, group dynamics and decision-making, which in turn have an impact on the firm-level outcomes

with somehow inconclusive results. Wang and Coffey (1992) find that the proportion of female and minority board members is positively related to corporate social performance, which, they argue, is because women and ethnic minorities tend to be more responsive to a greater variety of stakeholders than their counterparts. Carter et al. (2003) find a significant positive relationship between the fraction of women or ethnic minorities on the board and firm value on publicly traded Fortune 1000 firms. However, Carter et al. (2010) find no systematic evidence that ethnically diverse boards affect the financial performance of major US firms listed in the S&P 500 index. Brammer et al. (2007) investigate the ethnic diversity of the corporate board of UK companies and find that diversity is very limited and somewhat less pronounced among executive positions.

The previous discussion leads to two initial hypotheses linking gender and the ethnic background of directors in firms that were taken over to the probability that these directors will be appointed to the board of the merged firm.

Hypothesis 1.a: Female target firm directors are less likely to be appointed to the board of the merged firm.

Hypothesis 1.b: Hispanic, Afro-American and Asian target firm directors are less likely to be appointed to the board of the merged firm.

2.2 Tokenism

One particular type of discrimination that could explain the low representation of women and ethnic minorities on boards is tokenism. According to this practice, minorities are added to boards when a board has low or no minority representation, but once a certain

representation has been achieved, the demand for additional minority representation disappears. Tokenism theory (Kanter, 1977) posits that when the proportions of different types of people within a given occupational work group are highly skewed (e.g. there are many more males than females, or many more Caucasians than any other ethnic groups), minority members become a symbol or a 'token' and are viewed as representatives of their social category rather than as individuals.

There is empirical evidence consistent with the argument that female outside directors may be appointed as tokens or because of a desire by firms to be seen as 'doing the right thing'. Burke (1994) suggests that often the first female director appointments to the board are token appointments made for symbolic value. In a study of the replacement of female directors, Valenti (2007) finds that firms are more likely to replace a departing female board director with another woman than to add a second or third woman when at least one other woman is a member of the board. The author argues that the reason behind this finding is the fact that the company believes that as long as there is at least one female director on its board, it is appeasing special interest groups and satisfying affirmative action advocates and concludes that this gives credence to the token argument. Similarly, Farrell and Hersch (2005) and Gregory-Smith et al. (2014) find that boards are more likely to appoint a female director when their representation is zero or low.

This discussion suggests the following hypotheses:

Hypothesis 2.a: Female target firm directors are less likely to be appointed to the board of the merged firm as the proportion of female directors on the board of the acquiring firm increases.

Hypothesis 2.b: Ethnic minority target firm directors (Hispanic and Afro-American) are less likely to be appointed to the board of the merged firm as the proportion of ethnic minorities on the acquirer's board increases.

3. Sample and variables

We obtain merger data from Thomson Financial's mergers and acquisition database (SDC Platinum). We include deals announced and completed between 1994 and 2008. The mergers involve firms listed in the USA and lead to the acquiring firm owning more than 50% of the target firm's equity as a result of the transaction. As standard in the literature, we exclude privatizations, self-tenders, spin-offs, leveraged buyouts and recapitalizations. We also stipulate that acquiring and target firms must not be engaged in another deal within two years after the completion date of a merger to avoid confounding mergers in our sample.

Next, we match the M&A data with director data from RiskMetrics. Since RiskMetrics only contains director data for S&P 500, S&P MidCaps and S&P SmallCap firms, this restricts the number of firms in our sample. For both acquiring and target firms, we match the merger data with RiskMetrics' director data using the last fiscal year before the announcement of a deal. RiskMetrics contains information on directors from company

proxy statements or annual reports such as age, gender and ethnic background as well as director shareholdings and the number of other directorships each director holds. Where RiskMetrics records are incomplete, we recover missing data from proxy statements filed with the Securities and Exchange Commission (form DEF-14A) as well as company publications and various online sources (e.g. Marquis Who's Who). This leaves us with a sample of 139 deals and 1,170 directors. Finally, accounting data are from Compustat and equity data from the CRSP database.

3.1 Dependent variable

The dependent variable (*Appointment*) measures whether or not target firm directors are appointed to the board of the merged firm following the completion of a deal. Specifically, 'Appointment' equals 1 for each director who is on the board of the firm that was acquired one year prior to the acquisition announcement as well as on the board of the merged firm one year after completion of the merger. The variable is 0 otherwise.

3.2 Independent variables

In the search of possible bias in the new board member appointment decision, apart from a gender dummy variable (*Female*), we define three ethnic minority variables: Afro-American (*Ethnic: African-American*), Hispanic (*Ethnic: Hispanic*) and Asian (*Ethnic: Asian*). We also construct these independent variables using data from RiskMetrics.

Additionally, to test hypotheses related to tokenism, we include the percentage of women (*%Women on Acquirer's board*) and the percentage of ethnic minorities (*%Minorities on Acquirer's board*) in the year prior to the M&A.

It is also possible to categorize the position held on the board into Chief Executive Officer (*CEO*), or whether simply as executive director (*Executive*). Additional personal details on individual directors are available in the form of the descriptor as to whether the director owns shares in the company (*VotingPower*). We opt for a dummy variable because most directors do not have any shares (84.8% of the sample) and of those that do, most have a large shareholding in the company.

Finally, in the analysis of the new board member appointment decision, we also use the entrenchment index (*E-index(Acquirer)*) as a measure of how powerful the CEO is. The E-index, as defined by Bebchuk et al. (2009), includes eight governance provisions that appear to provide the CEO at least nominally with protection from removal or the consequences of removal. Therefore, higher values mean more protection ('entrenchment'). Pre-2006, the index is only available biannually so we use the most recent index value before the acquisition in those cases. We also use the board independence of the acquirer firm (*%Independent (Acquirer)*) as a proxy of shareholder power. Independent directors are appointed as a way to monitor the CEO or to provide the firm with new resources. It is in the former role that the proportion of independent directors is a proxy of shareholder power, although incomplete.

3.3 Control variables

Next, we detail the control variables regarding additional personal information on individual directors used in the estimations along with some rationale for their inclusion.

Age can have an effect on the probability of retention since most pension schemes for US executives allow retirement on full benefits at the age of 65. So, we have a dummy

variable (*Age>65*) that takes value 1 if the director is older than 65 and 0 otherwise, which is entered with a negative sign. We choose this value because 65 is the typical retirement age and directors are unlikely to be retained beyond this age (only 5.7% of them are appointed to the new board). Extant research suggests that the effect of director age on firm outcomes is equivocal because it is a proxy for both experience and risk aversion (Johnson et al., 2013). In this regard, director age can be seen as an indicator for valuable experience but also higher risk aversion.

Li and Aguilera (2008) argue that directors' expertise that is specialized or complementary is particularly valuable for the newly formed firm. Kor and Sundaramurthy (2009) find that firms benefit from directors' general and industry-specific human capital. Since target directors with expertise that is valuable to the acquirer are less likely to leave post-acquisition, we proxy for this using the following variables.

Acquirer industry's expertise (*SameIndustry*) can be measured as firm- and industry- specific experience (Certo, 2003; Gimeno et al., 1997; Pennings et al., 1998). For industry-specific experience, we count the number of appointments each target firm director has in the acquiring firm industry. To include a proxy for complementary expertise (*Generalist*), we include the number of different industry divisions where the director served in the year prior to the M&A deal. To contrast this, we measure specialized expertise (*Specialist*) using the maximum number of director appointments in the same industry division in the year before the M&A deal.

Interlocking directorships (*Interlocking*) between the board of the target and the acquirer bring valuable social capital to the new firm since it can help reduce information

asymmetry and uncertainty during the acquisition process (Li and Aguilera, 2008). According to the literature on interlocking directorships, director selection is seen as a way to gain access to critical resources derived from a director's network position (Mizruchi and Stearns, 1988).

We also add a variable to measure the number of other board positions that a director has (*Outsidedirectorships*). This variable reflects an individual's social capital (Kim and Cannella, 2008), and director selection may reflect the social capital a potential director possesses. Li and Aguilera (2008) propose measuring social capital by whether a target director can bridge the structural holes in the inter-firm networks of the newly formed firm and offer non-redundant sources of information. Finally, we include deal/firm dummies in order to avoid omitting any deal/firm variable that may influence the impact of a director's characteristics on the probability of retention.

4. Main results: Recruitment biases and tokenism

Table 3 shows that both female and Hispanic directors have less probability of being appointed after an M&A. These results are consistent with biases in the recruitment of female and Hispanic directors and are consistent with hypotheses 1a and 1b. Perhaps unsurprisingly, our control variables indicate that target directors who are CEOs and target directors with shareholdings in the target are more likely to be appointed to the board of the newly merged firm. Target directors who are close to or above the typical retirement age are less likely to be appointed to the board of the newly merged firm.

Next, we test whether the biases in the recruitment of directors can be explained with reference to tokenism. In Table 4, we consider the effect that the presence of female

and ethnic minority directors on the board of the acquiring company has on the likelihood of appointing a female/ethnic minority director to the board of the target company. In the presence of statistical discrimination, the interaction between female/ethnic minorities and the percentage of female/ethnic minorities on the acquirer's board is shown with a positive sign. By contrast, a negative coefficient is consistent with the presence of tokenism.

The results presented in Table 4 show that the higher the female representation on the acquirer's board, the less likely the board will appoint additional female directors. This confirms hypothesis 2a and shows that tokenism is a key factor behind biases against the recruitment of female directors. Figure 1 illustrates the presence of tokenism in female board appointments further. The figure shows the probability of appointment to the new board by different levels of female board participation at the acquiring firm's board. The results show that even as board participation moves from no females to 10% of the acquiring board, the appointment probability of a female target director is reduced from a slightly (although statistically significant) positive effect to clearly negative values. In model 3 of Table 4, we consider if tokenism exists in the appointment of ethnic minority directors. The results show that this is not the case. The appointment probability of Hispanic or African-American target directors does not depend on the presence of directors from these ethnic groups on the acquiring firm's board. We therefore reject hypothesis 2b.

5. Additional analyses: Which directors are ‘tokenized’

In this section we present additional analyses regarding which female directors become subject to tokenism (executive versus non-executive directors) and whether tokenism is driven by powerful CEOs or powerful boards.

5.1 Executive versus non-executive directors

If women and ethnic minorities are regarded as an out-group in a business elite context (Singh and Vinnicombe, 2004; Tsui et al., 1992; Westphal and Milton, 2000), they could be subject to barriers in their access to board-level positions (Yoder, 1991). Indeed, research has consistently shown that categorizations (i.e. group categorizations based on criteria such as gender or race) are sufficient to produce in-group bias, or discrimination toward out-group members (Messick and Mackie, 1989; Tajfel and Turner, 1986).

The literature on minority influence in groups suggests that minority group members can avoid or minimize out-group biases by creating a perception of similarity between themselves and majority-group members (Ragins, 1997). This way, alternative biases of in-group categorization (i.e. identities that all group members share) can be created between minority and majority directors. In the context of M&As, women and ethnic minorities who have prior experience as executives on the target board may be able to leverage this status as a similarity trait with the directors and the CEO on the merged board.

We therefore expect female executive directors to be subject to tokenism less frequently than non-executive directors. In particular, we expect target female CEOs to be less frequently subject to tokenism than other female directors. To test this proposition, we

separate executive and non-executive females in Table 5 to see if one of the groups is more affected by tokenism. We find that the coefficient of tokenism is negatively significant for non-executive female directors but not for executives. This implies that tokenism is relevant only for non-executive female directors. In model 5 we find a similar effect for female CEOs. Generally speaking, tokenism is not present if target directors hold executive positions. Finally, in model 6, we show that tokenism is relevant only when the female director has no voting power. We can interpret this to mean that having voting power reduces the probability of being ‘tokenized’.

5.2 Do CEOs or boards drive tokenism?

There is evidence that CEOs exert a major influence when selecting a new board member (Lorsch and MacIver, 1989; Mace, 1971; Shivdasani and Yermack, 1999). O’Reilly III and Main (2012) argue that one motive that might induce a CEO to add a woman to the board is reputation. The authors argue that when CEOs are faced with concerns about how to justify high levels of compensation, they may wish to signal that the firm is progressive with regards to diversity.

Several governance scholars suggest that CEO control over the director selection process represents an important source of managerial entrenchment (Fredrickson et al., 1988; Kosnik, 1987; Mace, 1971; Wade et al., 1990). A long line of research implies that the composition of boards will be largely determined by attempts by powerful CEOs to co-opt existing directors and influence the selection and retention of directors so that directors who are inclined to closely monitor management are avoided and those who are more likely

to be sympathetic to that particular CEO's interests are selected (Finkelstein et al., 2009; Hermalin and Weisbach, 1998; Shivdasani and Yermack, 1999; Westphal and Zajac, 1995; Zajac and Westphal, 1996). Drawing on this literature, it could be argued that powerful CEOs will be more prone to appoint female candidates since belonging to a tokenized group makes it more likely that this group will be a less active monitor (Torchia et al., 2011).

By contrast, tokenism can also be a consequence of shareholder pressures. If we capture shareholder power by board independence, then more independent boards would be more engaged in tokenism behavior. Using the entrenchment index (*E-index*) as an indicator of how powerful the CEO is and board independence as an indicator for shareholder power, we test whether stronger CEOs or stronger boards are more prone to tokenism.

In Table 6, we try to find possible drivers for tokenism by building two interaction terms. In the first case, we use the acquirer's E-index as an indicator of how powerful the acquirer's CEO is. We interact this variable with the tokenism effect (female director multiplied by the proportion of female directors), and, as can be seen in model 7, there is marginal evidence that the higher the E-index is (i.e. more entrenched CEOs), the less likely women will be affected by tokenism. Another possible source of tokenism is shareholder power, which we capture using the percentage of independent directors on the bidder's board. In this case, we find no significant effect for the shareholder power interaction implying that this factor is not able to explain tokenism.

6. Conclusions

In the present article, we test for the presence of biases in the recruitment of directors. Next to demand-side factors, such as the so-called glass ceiling effect, supply-side factors (when suitably qualified individuals are overlooked for an appointment) can also explain why women and ethnic minorities are rare on the boards of large listed firms. We use M&As as a natural scenario to empirically analyze when directors are appointed to the board of an acquiring firm following an acquisition. Since some (but not all) directors of the target firm are appointed to the board of the acquiring firm, we can use these recruitment decisions to identify the determinants of director appointments while simultaneously observing the characteristics of directors who are considered for a post but not appointed.

The results indicate that Hispanic directors have a lower probability of being appointed to the board of the acquiring firm than directors of other ethnic groups. We also find that women face a subtle form of discrimination, in the sense that they are more likely to be added to the acquiring firm's board when the bidder board has low or no existing female representation. We interpret this result as evidence of tokenism where women are added to the board as representatives of their category to comply with existing norms regarding the appointment of women or to satisfy affirmative action advocates. Once a low level of female board representation has been achieved, female directors are less likely to be appointed.

However, when female directors have prior experience as executives of the target board, and are possibly able to create the perception of similarity to bidder directors, the negative perceptions about their out-group status relative to the majority that limit their

influence during the nomination process seem to be avoided or, at least, alleviated. We find that females who hold executive director roles or are shareholders in the target firm are not subject to tokenism. Generally speaking, our results show that the more influential female target directors are, the less likely they are subject to tokenism. Finally, the evidence is consistent with the fact that powerful CEOs are less prone to tokenizing women. This could be interpreted as an attempt by powerful CEOs trying to ‘showcase’ best practice in order to compensate for poor firm performance (O’Reilly III and Main, 2012).

Our results have important implications since biases in the recruitment of women and Hispanics to the corporate elites is clearly unjust and may be potentially economically harmful if this reduces the probability of choosing the best candidates for the post independently of their gender or ethnic group.

Evidence of biases in the appointment process supports a range of public policy initiatives aimed at overcoming such biases. For instance, discrimination against Hispanics should be counteracted by active ethnic equality policies, such as those that target search, screening and selection activities in the recruitment processes for board positions that may enhance the discovery of hidden resources among ethnic minorities. Affirmative action policies have been traditionally used in the United States in the case of African-Americans and, at least from our results, seem to have been effective. We find no recruitment biases against African-American directors. Therefore, establishing similar quotas, such as the one for women, may be useful to overcome biases against Hispanic directors. For instance, after the female board quota was introduced in Norway in 2003, the proportion of female directors increased from 9% to 40% (Ahern and Dittmar, 2012).

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Table 1: Number of deals

	# of deals	# of directors
1996	29	178
1997	10	89
1998	18	176
1999	17	154
2000	16	136
2001	6	43
2002	5	45
2003	14	131
2004	13	112
2005	7	69
2006	4	37
Total	139	1,170

Table 2: Summary statistics

	N	Mean	Median	Min	Max	S.D.
Female	1,170	0.08	0	0	1	0.27
Minority	1,170	0.05	0	0	1	0.20
Age>65	1,170	0.24	0	0	1	0.43
Executive	1,170	0.42	0	0	1	0.49
CEO	1,170	0.23	0	0	1	0.42
SameIndustry	1,170	1.06	1	0	5	0.66
Specialist	1,170	0.49	0	0	5	0.97
Generalist	1,170	0.67	0	0	5	1.11
Interlocking	1,170	0.01	0	0	1	0.11
Outsidedirectorships	1,170	0.74	0	0	8	1.22
VotingPower	1,170	0.13	0	0	1	0.34
Employment: CEO	1,170	0.23	0	0	1	0.42

Table 3: Probit estimation of the probability of director appointment

	(1)	(2)	(3)	(4)	(5)	(6)
Age>65	-0.850*** (0.186)	-0.836*** (0.188)	-0.850*** (0.184)	-0.837*** (0.185)	-0.851*** (0.184)	-1.035*** (0.180)
Ethnic: Hispanic	-4.263*** (0.412)	-4.203*** (0.423)	-4.261*** (0.412)	-4.263*** (0.413)	-4.487*** (0.435)	-4.500*** (0.447)
Ethnic: African-American	-0.273 (0.357)	-0.237 (0.340)	-0.304 (0.356)	-0.247 (0.360)	-0.289 (0.355)	-0.334 (0.373)
Ethnic: Asian	0.597 (0.792)	0.564 (0.795)	0.598 (0.793)	0.636 (0.806)	0.525 (0.785)	0.934 (0.668)
Female	-0.485** (0.246)	-0.427* (0.239)	-0.491** (0.246)	-0.489** (0.248)	-0.504** (0.244)	-0.619** (0.241)
SameIndustry	0.287 (0.189)		0.300 (0.189)	0.276 (0.190)	0.302 (0.188)	0.274 (0.188)
Specialist	-0.173 (0.125)		-0.172 (0.125)	-0.146 (0.116)	-0.189 (0.124)	-0.150 (0.121)
Generalist	0.121* (0.073)		0.121* (0.074)	0.146** (0.062)	0.119 (0.073)	0.103 (0.072)
Interlocking	0.653 (0.479)	0.672 (0.482)		0.660 (0.475)	0.625 (0.486)	0.731* (0.441)
Outsidedirectorships	0.050 (0.079)	0.085 (0.058)	0.051 (0.080)		0.059 (0.078)	0.077 (0.076)
VotingPower	0.585*** (0.220)	0.623*** (0.215)	0.578*** (0.221)	0.590*** (0.220)		0.782*** (0.221)
Employment: CEO	0.793*** (0.159)	0.750*** (0.157)	0.801*** (0.158)	0.800*** (0.158)	0.868*** (0.157)	
Observations	1,170	1,170	1,170	1,170	1,170	1,170
Deal FE	Yes	Yes	Yes	Yes	Yes	Yes

Robust standard errors in parentheses

*** p<0.01, ** p<0.05, * p<0.1

Table 4: Probit estimation of the probability of director appointment

VARIABLES	(7)	(8)
Age>65	-0.847*** (0.186)	-0.847*** (0.186)
Ethnic: Hispanic	-4.448*** (0.443)	-4.131*** (0.643)
Hispanic * %Minorities on Acquirer Board		-0.641 (1.368)
Ethnic: African-American	-0.321 (0.364)	-0.071 (0.606)
African-American * %Minorities on Acquirer Board		-2.526 (5.371)
Ethnic: Asian	0.588 (0.798)	0.595 (0.797)
Female	0.163 (0.351)	-0.492** (0.245)
Female * %Women on Acquirer Board	-7.977*** (2.967)	
SameIndustry	0.294 (0.191)	0.300 (0.193)
Specialist	-0.186 (0.127)	-0.182 (0.128)
Generalist	0.127* (0.074)	0.121* (0.074)
Interlocking	0.671 (0.481)	0.664 (0.480)
Outsidedirectorships	0.043 (0.080)	0.047 (0.079)
VotingPower	0.613*** (0.223)	0.583*** (0.221)
Employment: CEO	0.816*** (0.161)	0.802*** (0.161)
Observations	1,170	1,170
Deal/Firm Dummies	Yes	Yes

Robust standard errors in parentheses

*** p<0.01, ** p<0.05, * p<0.1

Table 5: Probit estimation of the probability of director appointment

VARIABLES	(9)	(10)	(11)
Age>65	-0.840*** (0.187)	-0.852*** (0.187)	-0.849*** (0.187)
Ethnic: Hispanic	-4.289*** (0.444)	-4.309*** (0.453)	-4.258*** (0.431)
Ethnic: African-American	-0.325 (0.364)	-0.360 (0.365)	-0.319 (0.369)
Ethnic: Asian	0.624 (0.824)	0.612 (0.803)	0.605 (0.804)
Female	0.194 (0.369)	0.223 (0.366)	0.191 (0.367)
Executive	0.050 (0.196)		
Female * Exec *	-5.136 (3.330)		
%Women on Acquirer Board			
Female * Non-exec *	-12.185** (5.212)		
%Women on Acquirer Board			
Female * CEO *		-4.907 (3.180)	
%Women on Acquirer Board			
Female * no CEO *		-10.112** (4.165)	
%Women on Acquirer Board			
Female * Voting Power *			0.012 (5.833)
%Women on Acquirer Board			
Female * no Voting Power *			-9.569** (3.741)
%Women on Acquirer Board			
SameIndustry	0.291 (0.193)	0.302 (0.192)	0.303 (0.192)
Specialist	-0.191 (0.128)	-0.188 (0.127)	-0.188 (0.127)
Generalist	0.129* (0.074)	0.132* (0.074)	0.132* (0.074)
Interlocking	0.674 (0.481)	0.676 (0.479)	0.671 (0.480)
Outsidedirectorships	0.047 (0.080)	0.042 (0.080)	0.039 (0.080)
VotingPower	0.605*** (0.223)	0.606*** (0.222)	0.571** (0.225)
Employment: CEO	0.769*** (0.207)	0.798*** (0.162)	0.809*** (0.161)
Observations	1,170	1,170	1,170
Deal/Firm dummies	Yes	Yes	Yes

Robust standard errors in parentheses

*** p<0.01, ** p<0.05, * p<0.1

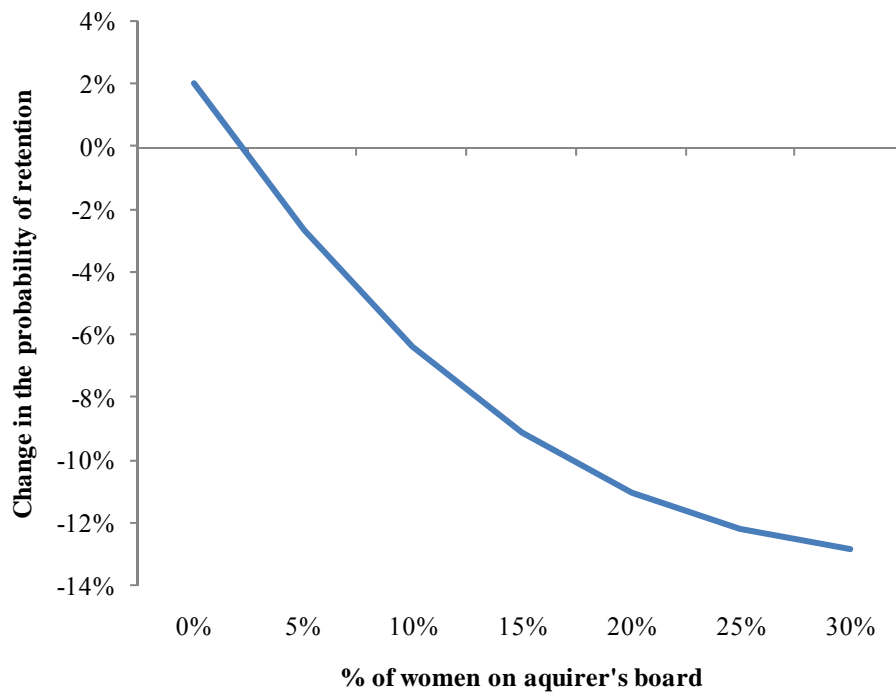
Table 6: Probit estimation of the probability of director appointment

VARIABLES	(12)	(13)
Age>65	-0.838*** (0.186)	-0.846*** (0.186)
Ethnic: Hispanic	-4.272*** (0.431)	-4.459*** (0.453)
Ethnic: African-American	-0.306 (0.372)	-0.305 (0.368)
Ethnic: Asian	0.631 (0.831)	0.585 (0.798)
Female	0.260 (0.353)	0.209 (0.354)
Female *	-17.136**	-16.040
%Women on Acquirer Board	(7.076)	(14.892)
Female * E-index (Acq) *	3.837*	
%Women on Acquirer Board	(2.248)	
Female * %Independent (Acquirer) *		10.092
%Women on Acquirer Board		(17.453)
SameIndustry	0.295 (0.191)	0.293 (0.191)
Specialist	-0.188 (0.127)	-0.187 (0.127)
Generalist	0.135* (0.075)	0.128* (0.074)
Interlocking	0.677 (0.481)	0.676 (0.481)
Outsidedirectorships	0.034 (0.080)	0.040 (0.080)
VotingPower	0.604*** (0.221)	0.613*** (0.223)
Employment: CEO	0.820*** (0.162)	0.817*** (0.161)
Observations	1,170	1,170
Deal/Firm dummies	Yes	Yes

Robust standard errors in parentheses

*** p<0.01, ** p<0.05, * p<0.1

Figure 1: Change in the probability of retention of a female director



% of women on acquirer's board	Mean effect	5th percentile	95th percentile
0% women	2.0%	0.0%	6.4%
10% women	-6.4%	-24.2%	0.0%
20% women	-11.0%	-49.3%	0.0%
30% women	-12.9%	-61.4%	0.0%

Mean effect is the variation in the probability of retention if the director is a woman. This probability changes depending on the % of women on the acquirer's board.