Gender Diversity on Corporate Boards in the MENA: Multiple Layers of Challenges and Conditions

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Abiding by conventional societal norms, countries in the Middle East and North Africa (MENA) adopt a more conservative view about women roles in society and their involvement in business activities. Given the region's institutional heterogeneity, firms are nevertheless likely to differ in terms of their flexibility and progressiveness regarding such institutional pressures. Improving gender diversity is essential in order to boost the MENA's economic growth and competitiveness. Various studies in this regard have evidenced the positive impact of gender-balanced leadership as it provides diversity in thinking, enhances decision-making, contributes to better conflict resolution, mitigates risks and governance-related controversies[1], improves employee retention and company reputation, effectively utilizes the firm's talent pool[2], and overall, enhances the firm's financial performance and organizational effectiveness.[3]

1. Challenges in Attaining Gender Balance on Corporate Boards in the MENA

The MENA region continues to undergo a series of transformations characterized by economic diversification and governance reforms aimed towards an inclusive society with social and economic opportunities for all and achieving gender balance in corporate leadership.[4] Closing the gender diversity gap in corporate roles remains another critical challenge in the region. The MENA's legal system, social and cultural norms, and family codes significantly limit the appointment of women to top-level executive positions. Nevertheless, substantial progress has been noticeable in the region, especially in the past few years, although to varying degrees depending on the countries.[5]

1 Lee, L. E., Marshall, R., Rallis, D., & Moscardi, M. (2015). Women on boards: Global trends in gender diversity on corporate boards. Morgan Stanley Capital International ESG Research, New York.
Thwing-Eastman, M. T., Rallis, D., & Mazzucchelli, G. (2016). The tipping point: Women on boards and financial performance. Morgan Stanley Capital International (MSCI) ESG Research, New York.
2 Catalyst. (2017). 2016 Catalyst Census: Women and men board directors. https://www.catalyst.org/research/2016-catalyst-census-women-and-men-board-directors.
Hunt, V., Layton, D., & Prince, S. (2015). Diversity matters. McKinsey & Company, 1(1), 15-29.
3 PwC. (2019). «Women in Work» Insights from Middle East and North Africa. https://www.pwc.com/m1/en/publications/women-in-work-index.html.
4 OECD. (2019). Corporate governance in MENA: Building a framework for competitiveness and growth, corporate governance. OECD Publishing, Paris.
5 World Economic Forum. (2019). Five ways to increase gender parity in the MENA region. https://www.weforum.org/agenda/2019/04/five-ways-increase-gender-parity-mena-middle-east/

Despite this progress, women's appointment to corporate boards remains modest as the region faces keys challenges to increasing women's representation in corporate leadership due to several factors, leading to progress being slower than in other regions. First, customary laws continue to exist in parallel with statutory laws in the region, discouraging gender equality and women's empowerment, where women are expected to take on domestic responsibilities primarily instead of working.[6] The region's restrictive legal framework, combined with conservative social and cultural norms, notably family codes and traditions, play a vital role in driving the gender gap in the labor market and in limiting women's activities. Thus, their appointment to corporate boards remains minimal as no constitutional measures on non-discrimination against women in the MENA have been implemented in company practices. Second, corporate governance codes in the MENA rarely and only broadly endorse gender diversity.[7] The region generally lacks targeted measures and quotas to encourage women's participation in corporate leadership. Moreover, company and security laws neither acknowledge the benefits of gender diversity nor mandate disclosure of gender information about board members and senior management. Third, women in the region are not granted enough support from colleagues, have limited interaction with firms' senior managers, and lack female role models, networking opportunities, and targeted leadership programs.[8] Conscious and unconscious biases against women in leadership are hence evident across the region. And lastly, the lack of reliable data and limited disclosure and transparency hinder the possibility of accurately assessing women's participation in corporate leadership.

6 OECD. (2017). Women's economic empowerment in selected MENA countries: The impact of legal frameworks in Algeria, Egypt, Jordan, Libya, Morocco and Tunisia, competitiveness and private sector development. OECD Publishing, Paris.

7 Inferences drawn after reviewing national corporate governance codes in the MENA region.

8 McKinsey. (2014). GCC women in leadership – from the first to the norm. McKinsey & Company, New York.

2. Multiple Layers of Conditions for Female's Appointment to Corporate Boards

Diversity is increasingly becoming an essential aspect of corporate board structure as it entails a greater variety of talents and resources that enhance the overall quality of firms' decision-making processes.[9] The inclusion of women on corporate boards amends the premises of major theories that define the antecedents and performance implications of board diversity for two main reasons. First, women's perceptions of themselves influence their career choices and aspirations and determine the extent and quality of female candidates for board nominations.[10] Second, cultural and social norms affect the public's perceptions of women differently than their perceptions of men, and thus, stimulate different reactions to their presence on corporate boards.[11] These aspects impact the appointment of women to corporate boards as well as their impact on firm performance. As such, the same conditions and characteristics that influence the appointment of females to corporate boards can likewise affect females' actual roles on these boards. Both perceptions, however, are shaped by the institutional environment in which they take place. It is hence crucial to make distinctions among the types of levers within the overall institutional context that impacts female board participation and their performance consequences, and to delineate the various ways board gender diversity is affected by different institutional layers.[12]

9 Hillman, A. J., Cannella Jr, A. A., & Harris, I. C. (2002). Women and racial minorities in the boardroom: How do directors differ? Journal of Management, 28(6), 747-763.
Zhu, D. H., Shen, W., & Hillman, A. J. (2014). Recategorization into the in-group: The appointment of demographically different new directors and their subsequent positions on corporate boards. Administrative Science Quarterly, 59(2), 240-270.

10 Barbulescu, R., & Bidwell, M. (2013). Do women choose different jobs from men? Mechanisms of application segregation in the market for managerial workers. Organization Science, 24(3), 737-756.

11 Lee, P. M., & James, E. H. (2007). She'-E-Os: Gender effects and investor reactions to the announcements of top executive appointments. Strategic Management Journal, 28(3), 227-241.
Ryan, M. K., & Haslam, S. A. (2007). The glass cliff: Exploring the dynamics surrounding the appointment of women to precarious leadership positions. Academy of Management Review, 32(2), 549-572.

12 Grosvold, J. 2011. Where are all the women? Institutional context and the prevalence of women on the corporate board of directors. Business & Society, 50(3), 531-555.
Grosvold, J., Rayton, B., & Brammer, S. 2016. Women on corporate boards: A comparative institutional analysis. Business & Society, 55(8), 1157-1196.

The MENA's legal frameworks, social and cultural norms, and religious beliefs greatly restrict women's participation in economic and political activities and encourage familial duties over career goals.[13] The recent efforts in closing gender gaps underlines the paradoxical setting of the region as females' access to education advances but their prevalence in corporate careers remains limited.[14] The MENA's institutional configurations differ significantly not only from developed economies but also from developing nations, hold a conservative view about women's role in society, and thus offer an interesting opportunity to investigate the impact of multiple layers of conditions that affect female's appointment to corporate boards as well as their roles on these boards and their consequent impact on firm performance. This article elaborates on the predictors of female board assignment at the firm, industry, and country level, as well as the impact of female directors on accounting and market performance measures.

3. The Antecedents of Female Directors in the MENA

Firm Size. Relying on the institutional logic and legitimacy concerns in assessing the predictors of female directorship, larger firms are considered to be more visible, experience higher public scrutiny, and need to abide by social norms in order to maintain their organizational legitimacy.[15] Larger firms are more likely to conform to societal expectations and are hence less likely to assign females to their corporate boards than smaller firms. Larger firms particularly in the MENA may be negatively impacted by the social stigma of female director appointments.

State and Family Ownership. The MENA region is characterized by a high degree of state-owned enterprises (SOEs) and family-held businesses. State- and family-owned firms are more likely to have female directors on their boards, as state-owned firms are further encouraged to abide by good corporate governance practices and family firms prioritize the retention of control. The institutional configurations in the MENA have predominantly led women to prefer employment in state-owned organizations over the private sector. The more stable job prospects and socially acceptable work hours and conditions lead more women to prefer state-owned firms.[16] For similar reasons, public sector firms not just in developing economies but also developing ones are more likely to have more gender balanced boards than private sector ones.[17] It is therefore socially acceptable for women to participate in the workforce through SOEs, resulting in a greater prevalence of female directors on their boards.

Family firms, on the other hand, prioritize the retention of control and typically do so through the appointment of family members to the board. In some cases, family firms may have no option but to appoint women directors if no male family members are available.[18] The weak legal and regulatory frameworks and corporate governance structures in the MENA suggest that family shareholders are more likely to run the company themselves rather than delegate the management to outsiders.[19] In addition, family firms are less sensitive to external pressures imposed by debt and equity markets as they primarily rely on their familial funding to finance their activities. This implies that they are likely to view any reduction in their legitimacy from the appointment of female directors as less consequential.

13 Hayo, B., & Caris, T. (2013). Female labour force participation in the MENA region: The role of identity. Review of Middle East Economics and Finance, 9(3), 271-292.
14 World Economic Forum. 2019. Five ways to increase gender parity in the MENA region. https://www.weforum.org/agenda/2019/04/five-ways-increase-gender-parity-mena-middle-east/.
15 Assenova, V. A., & Sorenson, O. 2017. Legitimacy and the benefits of firm formalization. Organization Science, 28(5), 804-818.
16 OECD. (2019). Corporate governance in MENA: Building a framework for competitiveness and growth, corporate governance. OECD Publishing, Paris.
17 Saeed, A., Belghitar, Y., & Yousaf, A. 2016. Firm-level determinants of gender diversity in the boardrooms: Evidence from some emerging markets. International Business Review, 25(5), 1076-1088.
18 Shareholders Rights. 2016. Women Representation on Boards of Directors on Mena Exchanges. Gender diversity research and policy paper, Beirut.
19 Peng, M. W., & Jiang, Y. 2010. Institutions behind family ownership and control in large firms. Journal of Management Studies, 47(2), 253-273.

Foreign Shareholders. Foreign investors are relatively less compelled by the MENA region's social and cultural norms and would rather follow their home countries' approach to this matter. Foreign shareholders from more developed economies are subject to more advanced institutional frameworks that also shape the strategies of the firms they invest in.[20] Home country institutions are thus likely to influence foreign shareholders' investment strategies in MENA countries with institutional configurations that do not necessarily consider female representation to be a priority in board assignments. Following a home-bias in their institutional logic, foreign investors are thus more likely to invest in firms with female directors or promote higher female representation on the boards of the firms in which they invest.

Industry Female Representation. Although female participation in the labor force is limited in the MENA, certain industries, such as education and health care, have higher female representation.[21] As such, some industries may be viewed as more fit to employ women and appoint them to leadership positions.[22] This is reinforced by institutional normative forces because for firms operating in industries in which females represent larger portions of the employment base, the appointment of female directors is less likely to be perceived as a serious deviation in norms among stakeholders.[23] Stakeholders also regard female directors as qualified insiders in industries with higher female representation. Therefore, women's appointments to board seats are socially more acceptable in industries with a higher representation of women.

Gender Parity. Gender parity refers to a society where women enjoy equal access to higher education levels, health care, employment and appointment to top executive positions, and political empowerment. On the one hand, women in countries with greater gender parity are more likely to possess the types of human capital suitable for board positions. On the other hand, firms operating in countries with greater gender parity are more likely to leverage the knowledge, experience, and values that female directors bring to decision-making. Higher gender parity, therefore, not only promotes the overall legitimacy of females in economic activities, but also limits the questionability of female board appointments.[24] While MENA countries primarily promote women's education, gender parity in its various aspects is advancing in the region, although the extent of these progressions varies from one country to the other.[25]

4. Female Directors and Firm Performance in the MENA: Between the Upper Echelon View and the Institutional View

The impact of female directors on firm performance is shaped by cultural and social views of women in the labor force. Female directors in the MENA region contribute to firm value but their appointment constitutes a serious deviation from established norms with respect to the perceived role and ability of women in society. Specifically, MENA firms that have female directors are likely to be perceived as violating deeply-rooted institutional norms that view men as more capable organizational leaders. It is thus crucial to distinguish between firm performance in terms of accounting measures and firm performance in terms of market measures.

20 Meyer, K. E., & Thein, H. H. 2014. Business under adverse home country institutions: The case of international sanctions against Myanmar. Journal of World Business, 49(1), 156-171.
Morck, R., Yeung, B., & Zhao, M. 2008. Perspectives on China's outward foreign direct investment. Journal of International Business Studies, 39(3), 337-350.

21 OECD. 2019. Corporate governance in MENA: Building a framework for competitiveness and growth, corporate governance. OECD Publishing, Paris.

22 Adams, R., & Ferreira, D. 2009. Women in the boardroom and their impact on governance and performance. Journal of Financial Economics, 94, 291-309.

23 Hillman, A. J., Shropshire, C., & Cannella Jr, A. A. 2007. Organizational predictors of women on corporate boards. Academy of Management Journal, 50(4), 941-952.

24 Post, C., & Byron, K. 2015. Women on boards and firm financial performance: A meta-analysis. Academy of Management Journal, 58(5), 1546-1571.

25 World Economic Forum. (2019). Five ways to increase gender parity in the MENA region. https://www.weforum.org/agenda/2019/04/five-ways-increase-gender-parity-mena-middle-east/.

Based on the upper echelons view that the impact of gender diversity usually stems from the different qualities, cognitive skills, and experience women directors offer, a positive relationship between female directors and firm performance in terms of accounting measures is expected.[26] The region's traditional and conservative views on female participation in the workforce, however, cannot be overlooked. It is hence vital to consider institutions that alter societal attitudes regarding female workforce participation and succession into higher level roles in the corporate world.[27] As such, a negative relationship between female directors and firm performance in terms of market measures is expected, reflecting the MENA's socio-cultural views of women in leadership roles.

5. Conclusion

Enhancing women's participation in corporate leadership is crucial for the comprehensive economic growth needed to improve the MENA's competitiveness and global integration. Gender diversity on corporate boards has been proven to benefit both firms and economies. Failing to implement policies and undertake measures ensuring a sustainable gender-balanced leadership in the region would be a missed opportunity.

The MENA's institutional configurations and conservative social and cultural norms, the lack of adequate corporate governance structures, the absence of academic research and empirical evidence in the region in this regard, and the reforms and progress that the MENA continues to undergo in order to decrease gender gaps reinforce the necessity for and the timeliness of such research. The aim of this article is to underscore the importance of comprehensively examining multiple layers of conditions at the micro and macro levels that impact female board directorship. This article additionally highlights that while female directors' various skills and qualities are appreciated by the firm, they are subject to a biased evaluation in the market, which oftentimes impairs their actual performance.

26 Hambrick, D. C. 2007. Upper echelons theory: An update. Academy of Management Review, 32: 334-343.

27 Haveman, H. A., & Beresford, L. S. 2012. If you're so smart, why aren't you the boss? Explaining the persistent vertical gender gap in management. The ANNALS of the American Academy of Political and Social Science, 639(1), 114-130.