GOVERNANCE THEORY AND BOARD DIVERSITY, WHERE DO THE RATIONALES FOR BOARD DIVERSITY AND GOVERNANCE THEORIES CONVERGE?

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ABSTRACT

Extensive previous research has discussed the merits of corporate board diversity, but less has been written about whether there exist points of convergence between the merits of board diversity and governance theories. In this paper, in order to investigate the existence of points of intersection, we first review in their historical context four of the most influential governance theories—agency theory, stakeholder theory, stewardship theory, and resource dependency theory—and then we discuss points of articulation between these theories and governance diversity literature. We then discuss whether board diversity rationales are supported in these governance frameworks. That is, we present a theoretical discussion viewing board diversity through the lens of various governance models: agency theory, stakeholder theory, stewardship theory, and resource dependency theory; it will perhaps provide further support for its merits.

Agency theory primarily focuses on board oversite and principal versus agent problems. We discuss why board diversity presents a possible deterrent to self-serving behavior by enhancing firm oversite. Stakeholder theory focuses on the representation of all stakeholders, and it appears to provide a robust theoretical basis for board diversity. Our discussion of stewardshiptheory focuses on issues of trust, altruism, and board competency to exercise its own shared mission with management. Our discussion of resource dependence theory presents literature on how diverse board members' resources are thought to improve board resources and span diversenetworks. We conclude with a summary discussion and table where we present the significant objectives of governance theory as it relates to board diversity. We define objectives as 1.) Control of managers by the board, 2) Control of managers by incentives, 3) Inclusion of all affected parties in decision making, and 4) Control social and financial environment. We conclude that stakeholder theory followed closely by resource dependency theory presents obvious articulation points to diversity theory that arises from their own theoretical frameworks. In contrast, agency and stewardship theories seem to have a more tenuous relationship to diversity theory, though not antithetical to it.

INTRODUCTION

Whether we attribute the beginnings of the theoretical concepts of Corporate Governance to Berle and Means in 1932 or to earlier debates of appropriate models of separation and control in the 1920s (Wells, 2010), the controversy surrounding how best to govern modern firms has been ongoing for almost 100 years. Yet, there are limitations to what we currently know about effective board governance and governance research. For example, no one approach to governance has been proven by credible, replicated research to be the best governance (Carver, 2001; Aguilera, 2020). Carver (2001) argued that there is no single definitive approach to governance because the corporate community has not decided all of what governance is supposed to accomplish.

In addition to the discussion of what theory of governance is most appropriate or successful, there is also the consideration of what specific actions and if there is a positive correlation between board composition and board effectiveness. One aspect of board composition is its demographic diversity. Its net impact on governance remains an important subject in the conversation of how best to protect the firm's owners' interest from managers' assumed self-interested behavior. The positive effects of diversity on board governance, for example, have been studied as a possible means of reducing corporate fraud (Butler, 2012), enhancing corporate disclosure (Gul et al., 2011), improving decision making (Elstad and Ladegard, 2010), and other positive outcomes.

Three major theories of board governance – agency, stakeholder, and stewardship resource dependency– contend as overlapping alternative governance paradigms capable of either explaining existing board behavior or offering a prescription for future board governance success (Huse, 2005). Agency theory argues that the firm's owners and the firm's managers are distinct entities, often with contrary or conflicting interests on firm-related decision-making matters (Smith, 1776; Berle and Means, 1932; Jensen and Meckling, 1976). In contrast, stewardship theorists argue that there is no real core conflict between owners and managers and that whatever conflicts may exist can be reconciled (Donaldson and Davis, 1991; Davis, 1997). Triangulating the agency-stewardship opposition, stakeholder theory offers its own form of reconciliation by including multiple constituents who have a vested interest in the firm's activities (Freeman, 1984; Jensen, 2000; Donaldson and Preston, 1995; Heath and Norman, 2004; Hsieh, 2009). In addition to these three main modes of governance, resource dependency theory offers another popular viewpoint by emphasizing how directors provide resources to the firm based on their unique characteristics (Booth-Bell, 2018). No single theory is used universally as the underpinnings of corporate governance research; consequently, the purpose of this paper is to extend the understanding of the literature and application of governance frameworks to corporate board diversity by discussing the theoretical-based frameworks of agency theory, stakeholder theory, stewardship theory, and resource dependence theory. Although other governance theories exist, these four frequently appear in the literature when researchers compare frameworks for governance (Durisin and Puzone, 2009; Daily et al., 2003;

Smallman, 2004, Rodriquez-Fernandez, 2016). As such, we have chosen these theories to discuss in this paper.

The remaining portions of this paper are structured in the following manner: First, each section discusses the following theories, agency theory, stakeholder theory, stewardship theory, and resource dependency theory. The discussion of these theories and the important historical literature for each is followed by a discussion of how rationales of board diversity may converge with the related literature of each governance theory.

GOVERNANCE THEORY, CORPORATE GOVERNANCE, AND BOARD DIVERSITY

Agency Theory

Early agency theory, a recognition of the divergence of the interests of the owner (principal/joint-stock owners) and the interests of the managers (agents of the owners), can be traced back to the late 18th Century and Adam Smith's The Wealth of Nations (1776). According to agency theory, governance problems arise when owners and managers have different goals (Jensen and Meckling, 1976; Ross, 1973), and, most importantly, the owners (principals) are unable to write contracts for the managers (agents), which anticipate every possible point of conflict (Hart, 1995). Agency theory-based governance is thought to mitigate these problems by ensuring adequate monitoring of managers prone to act in their own self-interest. Given the assumptions about the nature of being human, agency theory further assumes that such self-centered behavior on the part of the agents, unless constrained, will result in counterproductivity for the firm and its owner(s). According to agency theory, this self-interested, bounded rationality, opportunistic, risk-averse converge on behavior is detrimental to the firm's health and the owner's wealth. Agency theory focuses on determining the best way to govern the contract between owners and managers (Eisenhardt, 1989). Owners can use the board as an information system to control and monitor executives and their assumed opportunistic behavior (Fama and Jensen, 1983; Eisenhardt, 1989). As firms seek to reduce owners' and managers' divergent interests and their potential cost to the organization, owners elect representatives or intermediaries to monitor their interests. According to agency theory advocates, this monitoring role is most often performed primarily by the boards of directors, who are best used as monitors. The board of directors is responsible for reducing owner/manager problems and their associated costs by astute monitoring managers' behavior and decision-making activities. According to agency theory, boards are the primary and first line of defense for controlling a manager's opportunistic behavior. Fama and Jensen (1983), Bebchuk et al. (2004), Fields and Keys (2003), Hart (1995), Sternberg (1999), Fama and Jensen (1983), and Moldoveanu and Martin (2001), and others use agency theory as the preferred framework to help explain the important role of governance. In governance research, agency theory is often the primary framework used as the theoretical basis for developing standards of good governance.

Agency theory has also often been used as a basis for those who argue the merits of board diversity. Several researchers (Butler, 2012; Dobbin and Jung, 2010; Carter et al.,2010; Fanto et al. 2011; Nielsen and Huse, 2010; Galbreath, 2011; Luckerath-Rovers, 2011) who take the agency view of governance, argue that diverse boards present a possible deterrent to self-serving

behavior. For example, Butler (2012) argues that diversity can help the board eradicate CEOs' "stacking the board." A diverse board, arguably, can influence the board nomination process and curtail the CEO clone syndrome or CEO parity concept—that is, selecting board members who are the CEOs of other companies who are happy to aid the CEO in his agendas through their voting preferences (Butler p 76).

Adams and Ferreira (2009) argue that diversity is a tool for decreasing self-serving management behavior, risk reduction, and greater management due diligence. They further explain that women arguably monitor more aggressively than men and indicate that women attend more meetings and are more likely to be assigned to monitoring-related committees than men (Adams and Ferreira p 301). Brown et al. (2002) found that boards with three or more women explicitly monitor whether the corporate strategy is being implemented. Gul et al. (2011) argue that gender-diverse boards result in more corporate transparency. Fondas and Sassalos (2000) found that boards with larger proportions of women were less likely to let CEOs dominate the board.

Other agency theory principles are thought to be enhanced with a diverse board in addition to their increased monitoring role. Diverse boards are thought to be more independent (Fondas and Sassalos, 2000). Women directors ask more questions and are less likely to allow board decisions without discussion (Terjesen et al., 2009). Kamalnath (2017) argues that diverse boards are less likely to fall victim to groupthink.

Most US corporations have adopted some aspects of an agency theory incentive-based model with unsuccessful results (Dobbin and Jung 2010). This model includes paying managers for increasing stock price through stock options (shareholder focus) and financing new expansion with debt to leverage shareholders' investment. While many US firms have applied the agency theory principles that increase corporate entrepreneurialism and risk, they have not applied agency theory principles that bolster monitoring and increase executive oversite (Dobbin and Jung, 2010). Board Diversity, and the argued rationales, could perhaps be one such principle that strengthens monitoring and prevents groupthink (Rameriz, 2003). With its focus on the need for a board that limits management's self-interested behavior through monitoring, the agency theory model of governance would suggest that a diverse board of directors could be instrumental in assisting the board with its monitoring and oversight roles.

Other than agency theory, there are other theoretical foundations to describe and predict effective board governance (Roberts, 2002; Roberts et al., 2005). The singular use of agency theory to explain effective board governance might limit and prevent us from understanding the broad series of roles board diversity may play in board dynamics and success.

Stewardship Theory

Agency theory, discussed above, purports to constrain the opportunistic behavior of managers. In the absence of tight constraints, they act in their own interests even when those interests are contrary to the owners' desires and often in conflict with the firm's overall viability. In the most egregious of such cases, management's actions will not only not maximize the profit to the owner but may also bring ruin upon the firm. This understanding of board dynamics is the basis of the principal-agent argument for agency theory. Stewardship theory assumes that

organizational managers are practically motivated to perform their tasks with the firm's best interest in mind.

Consequently, there is no apparent need for any incentives or sanctions to get the managers to fulfill their functions, as they are guided by altruism towards the firm rather than their own self-interests. The parties are described as principal and steward, where the principal delegates their collective responsibilities to the steward to act on the principal's behalf. Trust is considered one of the core philosophies of stewardship frameworks (Mayer et al. 1995). The stewardship theory argues that the board as steward and management act as a single collective stewardship team. The board's role is to support and assist management in accomplishing the firm goals. Stewardship paradigms and their advocates argue that management recognizes that its interest and those of the firm are virtually the same: what is preferable for the firm is good for the manager. By working towards the collective success of the firm, managers also meet the needs of the steward. For stewardship theory, managers seek other ends besides financial ones; these include a sense of worth, commitment to firm goals, job satisfaction, and a sense of accomplishment. Stewardship theory suggests that executives inherently seek to do a good job, maximize firm profits, and maximize shareholder returns. Their work is not necessarily for financial self-interest but because of a sense of duty to the firm. Stewardship theory highlights the need for all board members (regardless of independence of position) to operate at the highest levels of performance. For example, an examination of Fortune 500 corporations by Kesner (1987) found a significant positive relationship between the proportion of inside directors and returns to investors, lending support that management seeks to advance the firm in a manner that also benefits investors.

Davis (1997) explains that in stewardship theory, the underlying premise is that the executive's behaviors are aligned with the owners' interests. Davis also states that most stakeholders' interests are addressed in the stewardship model since the organization's successful performance adds value to most organization stakeholders. However, who defines 'successful performance' and who is the best judge of performance since the board and management act as a cohesive team in the stewardship model? For example, higher salaries for stakeholding employees may cause the price of the firm's products to increase. Price increases would not be in the best interest of customer stakeholders. Similarly, closing a plant in one location and consolidating to another may be best for financials but may decrease government entities' tax revenues. Stewardship structures may not correct the problem of competing accountabilities.

Stewardship theory has been used to support arguments for the single CEO/Chairman position's appropriateness. "Specifically, as regards the role of the CEO, stewardship structures will assist them in attaining superior performance by their corporations to the extent that the CEO exercises complete authority over the corporation and that their role is unambiguous and unchallenged." (Donaldson and Davis, p. 52) This situation is attained more readily where the CEO is also chair of the board, "Power and authority are concentrated in one person" (Donaldson and Davis, p 52). Corporations whose board structures had a dual CEO chair were compared with those where the chair was independent of the CEO. Research has found that dual CEO structures outperform independent chair structures. Thus, contrary to agency theoretic

expectations, CEO duality is associated with a higher return to shareholders than is an independent chair of the corporate board.

Stewardship theory also rests on ideas of ethical leadership. Caldwell et al. (2008) offer a discussion of ethical stewardship in governance. One of the governance elements they discuss is the meeting of organizational goals. They argue that ethical stewardship includes creating long-term wealth and achievement in the best interests of all. To accomplish this, they believe leaders are responsible for creating, articulating, clarifying goals, and pursuing outcomes that benefit the firm. It follows from their perspective that everyone will do well when the firm does well. Board diversity or board heterogeneity is thought to be one vehicle to one approach that may improve governance decision-making and enhance firm growth and development.

Board diversity is not limited to simple changes in the demography of board members but also a diversification of goals and objectives of the board and the corporation. Of course, whatever changes are recommended by boards and corporate executives are subject to profit optimizing constraints. Still, just as the natural environment over the past sixty years has begun to force the business community to internalize at least some of the externality costs of pollutions, the social environments are also unable to continue to absorb the externalities of inequitable distribution of resources based on gender, race, and socio-economic status.

Caldwell et al. argue that ethical stewardship, which focuses on ethical leadership and trust, is critical to the achievement of "long-term organizational wealth by generating increased employee commitment." (2008, 161). Within this context of generating organizational wealth through ethical leadership and trust, the question of females' role on the board is discussed.

Given the historical role of women within the corporate business environment, even if there is some hesitation about the changing role of women as CEO, perhaps there will be more acceptance of increasing the representation of women on governance boards. There is some empirical evidence that women approach and respond to ethical questions in statistically different ways from men. (Kennedy & Kray 2014, Gavious et al. 2012, Gill 2010, Valentine & Rittenburg 2007, Loo 2003, Franke et al. 1997). Other studies show a significant association between the presence of at least one woman on the board and a lower likelihood of financial restatements, signaling greater financial oversight (Abbott et al., 2012, Wahid 2019). Wahid (2019) argues that firms with diverse boards commit fewer financial reporting mistakes and engage in less fraud. Diverse boards also appear to engage in less aggressive tax strategies (Chen et al., 2019). It is much too early to attempt to predict whether increasing the proportion of women in executive and board positions within major corporations will have any long-term impact on the health of the corporation itself and its profits or on the social environment in which it operates, either due to the ethical leadership model or due to some other contributor factor.

What does appear to be certain is that role of women in the corporate world is moving towards greater decision-making authority. Therefore, stewardship theory supports board diversity, as a diverse group of directors may be more likely to act ethically in its stewardship role.

A diverse board can be a tool for creating outcomes that will benefit all firm stakeholders. Solomon (1992) argues that ethical stewardship integrates long-term wealth creation, a commitment to stakeholders' interests, and reinforcing goals of organizational fairness. This

aspect of stewardship speaks directly to board diversity. Therefore, those that govern the firm should be the most interested in providing leadership that results in the most significant outcome for all stakeholder interests. Just as directors under stewardship theory have the firm's best interest at heart, they must also have the necessary skills and diversity of ideas to meet these noble intentions best. Historical context leads to a difference in thoughts and ideas in diverse individuals, resulting in higher quality board decisions. Directors only know what they know, no matter the right intentions. Diversity can enhance stewardship by leveraging the additional positive outcomes a diverse board can provide.

Board diversity research suggests that the financial performance of diverse boards is often superior to the financial performance. (Farrell and Hersch 2005, Smith et al. 2006, Hussein and Kiwia 2009). Peterson Institute for International Economics (Noland et al. 2016) studied 22,000 global companies and found that firms that went from zero women at the board and executive levels to a 30 percent representation at these levels saw an average increase of 15 percent in net revenue margin. Similarly, due to differences in knowledge, experience, and values, diversity influences board decision-making and board activities that ultimately affect firm performance. Post and Byron (2015) find that firms with more female directors tend to have higher accounting returns. Adams and Ferreira (2009) find that boards with one or more women reported better attendance from all members. Diversity has been directly linked to an increase in innovation in Fortune 500 companies. Miller and del Carmen Triana (2009) find that racial and gender diversity positively affects firm innovation and reputation. As a result, stewardship theory would appear to support efforts for a diverse board due to literature that provides rationales for board diversity as a means to accumulate the most effective board. The most effective board can thereby exercise its altruistic stewardship governance most beneficially.

Stakeholder Theory

Stakeholder theory argues that firms are accountable not only to shareholders but to a larger and sometimes more vague assemblage of individuals and groups who have tangential, intersecting, and overlapping interests with those of the firm and its principals. This larger assemblage is called stakeholders. Consideration of these additional stakeholders will assist the firm with long-term success. The term stakeholder is widely used to describe the many groups of people with a vested interest or 'stake' in an organization (Freeman, 1984; Key, 1999; Donaldson and Preston, 1995; Coates et al.,1995, Carney et al. 2011). Stakeholder theory's premise is that the firm has multiple constituents who have a vested interest in the firm's activities. These constituencies' interests may often diverge or even conflict with each other, and the firm's expressed interest. These stakeholders are not only comprised of financial stakeholders but also those who are in some way directly or indirectly affected by the firm's decisions and behavior. Thus, a firm's stakeholders and customers, as well as those communities that experience the firm's ecological, economic, political, and social influence, are stakeholders, direct and indirect, visible and invisible, voluntary and unconscious in the actions and decisions of the firm (Freeman, 1984, p. vi).

Stakeholder theory expands beyond the viewpoint of good governance from one purely concerned with financial gain to one of ethical treatment of stakeholders. These expanded

viewpoints include being perceived as a good corporate citizen and gaining a sense of legitimacy, credibility, and integrity amongst the firm's stakeholders (Fondas, 2000, Mattis, 2000). A strong stakeholder-based board can encourage the firm's strategies to include ethical treatment of stakeholders (Van der Walt, N. and Ingley, C., 2003).

Managers must develop and implement processes that satisfy all groups who have a stake in the business (Freeman, 1984). This process aims to manage and integrate the relationships and interests of shareholders, employees, customers, suppliers, communities, and other groups to ensure long-term success. A stakeholder approach emphasizes the management of the firm's business environment and ecological environment, relationships, and the promotion of shared interests. Freeman rejects the single aim of maximizing shareholder wealth, and instead, stakeholder management is a task of balancing and integrating multiple relationships and objectives. A stakeholder approach encourages management to develop strategies by looking out from the firm and identifying and investing in all the relationships that will ensure long-term success.

Donaldson and Preston (1995) also compare and contrast the stakeholder theory to the classical agency theory. They describe and explain some of the more important distinctions, problems, and implications of the stakeholder concept and clarify and justify its essential content and significance. They believe that stakeholder theory is comprised of three distinct aspects. The third of these aspects they describe are normative viewpoints. Normative stakeholder theory's primary concern is to ensure that all individuals and groups who share the costs of the firm's activities play a role in the firm's decisions making. Those who follow a normative stakeholder theory of management are concerned with the moral or philosophical implications of how corporations ought to manage their stakeholders. All stakeholders' interests have intrinsic value, and only considering shareholders is 'morally untenable' (p.88). The firm must identify, and property weigh all stakeholders for the company and pursue strategies that balance those frequently competing interests.

A more significant concern of using a stakeholder theory model is the subjectivity involved in identifying all stakeholders and their relative importance to each firm. This subjectivity can leave firms without clear indications of which actions they should pursue, given the conflicting interests often present among various stakeholder groups. Jensen (2001) presents similar concerns regarding stakeholder theory. According to Jensen, "stakeholder theory should not be viewed as a legitimate contender to value maximization because it fails to provide a complete specification of the corporate purpose or objective function. While agency theory provides a clear direction for companies and boards, shareholder value, stakeholder theory provides no such definition and can result in frustration and blurred goals. Without the clarity of mission provided by a single-valued objective function, companies embracing stakeholder theory will experience managerial confusion, conflict, inefficiency, and perhaps even competitive failure" (Jensen, 2001 p.9.).

Sternberg (1999) also takes issue with stakeholder theory. Sternberg argues that stakeholder theory is misguided, giving no guidance on how multiple benefits to stakeholders should be balanced or how stakeholder groups should be defined. Additionally, she disagrees with the sense that stakeholder management not only must take all stakeholders into account, but

that management must be accountable to these stakeholders (Sternberg, p. 7). Additionally, she highlights several concerns with the stakeholder theory and particularly with stakeholder entitlements. Sternberg believes that although it is correct and ethical to consider the effects of a firm's actions on various stakeholders, firms cannot reasonably be accountable to all of their stakeholders. Sternberg further argues that stakeholder theory is incompatible with good corporate governance because stakeholders as a class are too diverse in interest. She writes that a critical element of good corporate governance is accountability. According to Sternberg, good corporate governance must provide mechanisms for aggregating these accountabilities into measurements to be successful. Without a clear set of guidelines to whose benefits should be balanced or how to balance their divergent needs, it is impossible to have a sufficient standard to measure managers and directors.

Heath and Norman (2004) argue that the breakdown of the governance relationship in the Enron era's scandals was at heart a failure of these firms and their shareholders to protect themselves against agency problems. Consequently, corporations that conform to a stakeholder governance paradigm may be less likely to engage in such excesses because of a genuine altruistic commitment to stakeholder rights. They conclude that the employees, managers, and shareholders all have a common interest in the enterprise's success.

Board diversity presents a potential opportunity in managing the difficult decisions of identification and ranking the plethora of stakeholder interests. This is achieved by the way board diversity may impact firms' stakeholder management. Boards can affect a firm's stakeholder management in two ways; first, by establishing its strategy to recognize non-financial and financial shareholders. Second, by providing valuable insights that will help the firm to manage different and often competing interests. Fernandez & Thames (2018) find that boards with high levels of gender, ethnic and international diversity will help firms adopt a stakeholder orientation and will be able to provide the firms with essential knowledge for superior stakeholder management (Fernandez & Thames, 2018). Homogenous boards often do not understand how similar they think due to their similar demographic characteristics and backgrounds (Fondas and Sassalos, 2000). A diverse board will include members representing different ranges of experiences and potentially holding differing values and perspectives. While board diversity does not prevent the subjectivity of addressing stakeholder importance between groups, this diversity could give voice to a more diverse group of stakeholder voices. It could also encourage management to identify previously overlooked stakeholder groups and invest in the long-term success of stakeholder relationships.

The stakeholder theory viewpoint is based on a belief that various groups are essential to a firm's survival and success. This belief would seem to suggest that a stakeholder viewpoint would naturally lead to consideration of multiple groups and multiple interests, including diversity, as a beneficial element. As such, the stakeholder theory of governance should support board diversity arguments from the normative viewpoint of representation, equality, and fairness rather than increased returns. Normative perspectives on board diversity are associated more with corporate ethics than financial performance. Consequently, the normative viewpoint to increasing board diversity means diversifying the board should be done because it is the right thing to do, not because of any particular business rationales. If stakeholder theory values

acknowledging diverse stakeholders, representation on the board of diverse groups seems to be consistent with this value set.

While stakeholder theory is concerned primarily with identifying which stakeholder's interest takes precedence in firm decisions, there also remains the question of how managers and directors share power when making these decisions. Determining who has the ultimate power of decision-making is a question discussed within the context of stakeholder theory and stewardship theory.

Resource Dependency Theory

Pfeffer and Salancik (1978) argue that to survive, an organization must acquire needed resources. Resource dependency theory explains that all organizations depend on other organizations to provide these resources and seek ways to attain them while maintaining their autonomy. In the context of boards, resource dependency theory is based on the assumption that director relationships with those outside of the board result in capital consisting of both human capital such as experience, expertise, reputation; as well as social (relational) capital such as the network of ties to other firms and external groups (Hillman and Dalziel, 2003, p. 383). Additionally, resource dependence theory examines how this type of firm capital, based on board relationships, should provide resources to the firm. Board directors can help acquire resources from important elements outside the firm, including financial capital, political capital, or various forms of influence held by stakeholder groups (such as customers, suppliers, and communities). Resource dependency theory suggests that directors serve as both providers of resources and monitors of managers as purported in the agency view.

Thus, in addition to their monitoring managers, directors provide expertise and resources including (1) strategic advice and expertise; (2) communication channels to external organizations; (3) support from important elements outside the firm; and (4) legitimacy (Pfeffer and Salancik, 1978). Wernerfelt (1984) defines resources, as anything that is thought of as a firm's strength or weakness (Wernerfelt, 1984 p 172). Resource dependence suggests that a board's provision of resources is directly related to firm performance (Hillman and Dalziel, 2003,

p. 386). Zahra and Pearce (1989) describe the board's role from the framework of resource dependency. This includes company reputation, establishing contacts with the external environment, and giving advice and counsel to executives (p. 292). According to resource dependency theory, one way that directors assist the board is by reducing external dependency. Specifically, resource dependence literature argues that boards of directors are a primary method for absorbing critical elements of environmental uncertainty into the firm (Boyd, 1990). Hillman (2005) argues that because of the uncertainty government regulation creates for business; many firms have sought to "co-opt" government by creating linkages between the firm and politicians.

Consequently, firms in heavily regulated industries were more likely to have directors who were former politicians than firms in less-regulated sectors. Government officials can provide valuable advice and counsel regarding the public policy environment of a firm; communication links to existing government officials, bureaucrats, and other political decision-makers; influence over political decisions; and legitimacy. Hillman found that ex-politicians serve as conduits of information and offer access to important political resources that are

incredibly beneficial to firms operating in highly regulated environments. Political connections are just one example of how board members provide vital resources to the board. Board capital can also help acquire resources from helpful elements outside the firm, such as financial capital influence and influence with political bodies or other important stakeholder groups (such as customers, suppliers, and communities).

Resource dependency theory supports board diversity rationales primarily in two ways: 1) firm environmental pressure: some firms are more directly impacted by pressures from diverse groups either through the supply or demand side of the firm's market; 2) diverse resources to diverse firms. Firm environmental pressures are constantly putting pressure on firms to adjust their behavior. Some of those environmental pressures arise from demographic heterogeneity of the environment. For instance, women board members appear to be more valuable to certain types of companies (Hillman et al., 2007; Brammer et al., 2009). Specifically, women appear to provide unique attributes to the boards of large firms that face demands for greater female visibility because the products that these firms offer are purchased primarily by or for females, firms operating in industries heavily dependent on female employees, and firms with ties to companies with female board members were likely to have women directors on their board.Thus, the make-up of boards appeared to incorporate the environmental pressures faced by firms. They argue that firms strategically select board members as a means to reduce environmental pressure and uncertainty.

Similarly, Brammer et al. (2009) find a reputational effect of women directors in certain firms where firms operate closely to consumers. Gaining a diversity advantage may be attained not only by increasing the number of members of diverse groups but also by changes in the quality of board representation. Pfeffer and Salancik (1978), for example, argue that prestigious or legitimate persons or organizations represented on the organization's board signal to the rest of the world the value and worth of the organization (p.145); this is an example of the legitimizing role that members of the board play as signifiers of diversity (even in the absence of significant numbers of the underrepresented group) both to other board members as well as to external stakeholders. Consistent with resource dependency theory, Provan (1980) finds that firms that can attract and entice influential community members onto their boards can acquire critical resources from the environment. In one study, women directors were shown to have greater community influence and have statistically significant differences in their backgrounds compared to male directors (Singh et al. 2008). Thus, with respect to the role of females in the executive corporate environment, in some cases, executive females are the symbolic and actual appeasement of the claim not only for greater female representation by females as consumers and by underpaid female workers, but also as de facto spokeswomen for women rights and in the case of black women for the rights of black people and other non-white peoples as well.

Second, resource dependency theory supports board diversity due to diverse directors' distinctive attributes and backgrounds and the opportunity to exploit these board members' unique contacts and social capital. According to Booth-Bell (2018) and Van der Walt and Ingley (2003), diverse directors enjoy different types of network ties and social capital. Additionally, diverse directors belong to different social or community groups; therefore, the firm should acquire (with their appointment) the ability to span critical structural holes. Board diversity

presents an opportunity for firms to access the diverse connections brought to the board, thus enabling it to span different contacts. These connections may be critical to providing a bridge to new and diverse firm resources. Board diversity offers the opportunity for the firm to access the diverse groups of contacts, relationships, and social ties that diverse directors may bring, thus increasing the potential resources available for the firm.

SUMMARY DISCUSSION

Table 1:
Major Objectives of Governance Theories

Objectives	Agency	Stewardship	Stakeholder	Resource Dependency
Control of managers by boards	X			X
Control of managers by incentives		X		X
Include all affected parties in decision making			X	X
Control social and financial environment				X

This paper has attempted to review four theories of board governance – agency, stakeholder, stewardship, and resource dependence theory- not only to highlight their impact on boards governance but also to ask how these four theories serve to advance or inhibit board diversity. While diversity was seldom specifically addressed until the last few decades, corporate governance theory is important to board diversity researchers and policymakers, as board behavior and norms may be directly influenced by the type of governance model the firm has chosen to adopt. Suppose a board adopts an attitude of agency theory type governance. In that case, good governance may place a strong focus on diligent board oversight of management, an almost singular focus on shareholder value in their decision making, and directors who are motivated to establish themselves as expert directors and have an incentive to develop reputations as experts in their monitoring function (Fama and Jensen, 1983). Conversely, suppose one adopts an attitude of stakeholder theory type governance. In that case, good governance may strongly emphasize how well the board manages the interests and needs of its many stakeholders. Stakeholder governance would result in a board that can successfully prioritize competing stakeholder claims (Mitchell et al. 1997). A resource dependency theory of governance would result in a board that emphasizes connecting the firm to information and contacts to help the firm reduce its external dependencies (Pfeffer and Salancik, 1978). Lastly, suppose one adopts a viewpoint of stewardship theory type governance. In that case, good governance may take a strong emphasis on board and management collaboration, ethics, board competency and diversity, an assumption of trust in management, no need to separate CEO and Chairman (Donaldson and Davis 1991), and an assumption that everyone is working for the firm's best interest (Davis 1997). The selection of these four theories for discussion does not seek to ignore other theories' legitimacy and provides an opportunity for subsequent discussions using other alternative governance frameworks to inquire about the validity of board diversity rationales.

Table 1 above summarizes the finding concerning the points of convergence between governance theory and diversity theory. The column heading represents the four theories

investigated, and the row headings are the major objective of each of the four theories. Reading across a row, the question answered is who has a primary concern with a particular object. Thus, reading across the first row of the four theories, which is primarily concerned with using the board to control managers? Agency and Resource Dependency. What is immediately apparent is that agency and stewardship theory both focus on controlling managers. Stakeholder theory focuses on the board where the various interests concerned with the products or services produced by the firm can be shared in the firm's governance. The manager-owner conflict is not an essential concern for stakeholder theorists. Finally, it becomes apparent that resource dependency theory, because of its focus on controlling the environment in which the firm does business, has an interest in managers, owners, their conflicts, and their resolutions. The dependency theory is equally concerned with the organizations that are external to the firm.

Not surprisingly, stakeholder theorists are interested in diversity to the extent that the diverse interests are stakeholders in the environment that the firm either produces or to whose production it contributes. Thus, stakeholders for a multinational corporation would engender a rainbow of stakeholders, while a mom-and-pop corner store would not. Moreover, to the extent that the stakeholder theory is concerned with those impacted by the firm, then searching for stakeholders, by necessity, would include all those impacted. Thus, although diversity is not a direct concern of stakeholders, to the extent that diversity is embedded in the stakeholder population, stakeholder theory embraces diversity.

Similarly, resource dependency theory recognizes diverse groups to the extent that those groups, organizations, and individuals influence the firm's survival and health. Thus, in both the resource dependency theory and stakeholder theory, there seem to be both obvious and immediate points of articulation, points of convergence between the interests of diversity theory and these two theories of governance.

The points of articulation for agency or stewardship and diversity theory are not quite as obvious. It would seem that unless these two theories expand and reformulate themselves beyond manager-owner conflict, then diversity theory's point of articulation will be on a case-by-case basis. Diversity will find itself swinging between the interests of agency and stewardship depending on the social, economic, and political environment in which the firm finds itself doing business.

Understanding which governance theory is being assumed helps provide an enhanced discussion on how board diversity may help the board within that government framework. For example, board members' behavior may directly follow stewardship norms and cooperation versus agency theory-based oversight. The governance theory will also influence the types of primary responsibilities the directors seek to fulfill, such as focusing on stakeholder accommodation. Perhaps, unlike the other two governance theories, stakeholder theory and stewardship theory seem to have explicitly extended the concerns of governance beyond the classical concerns of Adam Smith—i.e., beyond the joint holding companies, charter companies, like the East India Company, where business interests were the interests of owners, managers, and the King of England—to include all those who were affected by business owners and those who worked or collected income from their business ventures. Although a particular board or members of a board may find agreement between their own social concerns and one specific

governance framework, the literature is not able to provide much empirical guidance at this time as to whether there is a practicable relationship between board diversity and the board's theory of governance.

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