

Women Directors and Corporate Social Responsibility

Richard A. Bernardi
Veronica H. Threadgill

Abstract

The successes and failures of organizations are contingent on the decisions of senior management and its board of directors. Personality and experiences may have a tangible effect on the decision making process. This study assesses whether or not gender has a tangible effect on an organization's decisions. A sample of Fortune 500 companies were examined to determine whether companies with a higher proportion of women on their boards of directors are more socially responsible. In general, a diversity of people generates a diverse set of opinions that impacts and improves the decision-making process. Our expectation was that gender diversity will increase socially responsible behavior by a corporation. The results of this study confirm our research question; an association was found between the number of female directors on a corporate board and the incidence of corporate social behavior including: charitable giving, community involvement, and outside recognition of employee benefits.

Keywords

Female Directors, Corporate Social Responsibility

Introduction

Campbell and Mínguez-Vera (2008) suggest that the diversity in board's composition can be measured using such demographics as: gender, age, ethnicity, nationality, educational background, industrial experience and organizational membership. The issue of having women on boards of directors is a topic that has been visited many times. While arguments have been presented both favoring and opposing the idea of increasing female representation, the majority of recent studies tend to show the positive effects of gender diversity on corporate boards. The number of women who serve on corporate boards is increasing. In 1995, only 9.6 percent of board positions in the Fortune 500 were held by women, compared to 13.6 percent in 2004 (Speedy, 2004, p. 24). In 2000, 73 percent of corporate boards had at least one female member, with 25 percent having more than one woman, up from 18 percent in 1998 (Anonymous, 2000, p. 25). By 2004, 87 percent of companies had at least one female director (Anonymous, 2004, p. 27).

With the ongoing increases in female representation on boards of directors, the benefits and costs of diversity on corporate boards have been widely discussed. A number of studies (Arfken et al., 2004; Carter et al., 2003; Daily and Dalton, 2003) have outlined the benefits of diversity. One major advantage is that having a variety of opinions from groups who have been traditionally underrepresented gives a company a broader range of knowledge and professional contacts than were previously available. Additionally, Bernardi et al. (2009, 2006) note that boards with a higher percentage of women were significantly more likely to appear on Fortune's "Best companies to work for" (2006) and Ethisphere's "Most ethical companies" list. However, a limitation of these studies is that they are 'snapshot' views of corporate social responsibility (i.e., only considering a one year timeframe).

Given the presence/absence of corporations on various published lists (i.e., Fortune's Best Companies to Work for list), we believe that a longitudinal evaluation is a more precise measure of corporation's sustained commitment to its

social responsibilities. Consequently, this study examines whether the increased female representation on corporate boards translates to measurable outcomes in the area of corporate social responsibility over a three-year period. Our research examined whether corporations with a higher number/percentage of female directors act on these priorities by engaging in activities that evidence corporate social responsibility.

Literature Review

Corporate Decision Process

More ideas, information, and resources are available when the company's board has access to different people and perspectives (Daily and Dalton, 2003). A diverse group tends to analyze decisions more thoroughly than one in which the members are all demographically similar. This sort of analysis reduces the potential for unethical decisions, as well as those that may harm a company's image (Arfken et al., 2004). Better decision making is more likely to prevail with a variety of opinions and independent thought (Arfken et al., 2004). This also makes the board more likely to challenge questionable management practices and thus reduce the risk of corporate corruption (Ramirez, 2003).

Companies with high female representation on their boards tend to have stronger corporate governance than those with few or no women on the board of directors (Rosener, 2003) and consider the needs of a wider range of stakeholders than male directors (Konrad and Kramer, 2006). This study also found that boards with three or more women were significantly more likely to have conflict of interest guidelines and company codes of conduct than all-male boards. Boards with female directors also tend to use more non-financial performance measures (such as innovation and social responsibility) to evaluate their companies than their all-male counterparts (Stephenson, 2004). This is especially important, as corporate governance policies have been under scrutiny following recent corporate scandals.

Diversity

Gender diversity among a board of direc-

tors is also closely tied to a company's internal culture (Bernardi et al., 2002). According to Ramirez (2003), the only means of achieving meaningful diversity in both the workplace and society as a whole is by starting with corporate governance - corporate boards of directors. Bernardi et al. (2004) showed that electing women to a company's board leads to more women in the company being appointed to senior management. For example, companies that began 1995 with female directors had 30 percent more women in senior executive positions than companies that had all-male boards in 1995 (Rosener, 2003, p. 17). Additionally, companies with female directors tend to have benefits that are more woman-friendly, such as longer maternity leaves than companies with only male directors (Dolliver, 2004). As the board of directors becomes more receptive to women, this positive attitude tends to trickle down into all levels of the company (i.e., from executives down to the staff). For example, the presence of female board members also signals potential to current female employees about their chances for advancement within the company (Rosener, 2003; Bernardi et al., 2004).

A more even gender mix on the board of directors also helps a company better understand and attract the diverse population that has the potential to become its clients (Arfken et al., 2004). This allows a company to better penetrate its existing markets. How important are female directors to a company's understanding of consumers? According to some, "women either control or influence nearly all consumer purchases, so it's important to have their perspective represented on boards" (Gutner, 2001, p. 134). In 2004, women wrote 80 percent of all checks, spent over \$5 trillion on consumer and business purchases, and made up nearly half of all investors (Flynn and Adams, 2004, p. 35). Women purchase over 75 percent of all goods and services in North America (Stephenson, 2004, p. 3). Women are a huge market force, and understanding the female perspective is essential to generating goods and services that meet consumer wants and needs. One example of this can be seen in Nike's addition of a women's division. In 1990, Jill Conway, who at the time was the only female board member at Nike, worked to persuade her fellow board members that Nike needed a division focusing on women's sports apparel. While her proposal was initially rejected, she finally convinced the rest of the board. By 1993, the women's division accounted for 20 percent of domestic revenues, and revenues for the division were continuing to grow (Rosener, 2003, p. 9).

Financial Considerations

The benefits of having female directors translate into financial success as well. New ideas and perspectives become new strategies, products, and services, which generate sales and profits. A recent study shows that the level of diversity on a board of directors is directly associated with shareholder value as companies with more diverse boards use these advantages to improve themselves (Carter et al. 2003). One author likens diversity and experience to intangible assets that generate returns for shareholders (Biggins, 1999). As companies increase the number of women serving on their boards, their customers tend to be more satisfied, revenues and profits tend to increase, and the companies tend to develop a more positive corporate environment. When measured by return on assets and return on investment, companies with diverse boards were significantly more profitable than companies with homogeneous boards (Erhardt et al. 2003). According to Catalyst, companies with the highest percentage of female board members returned 34 percent more to shareholders than companies with the lowest percentage of women (Speedy, 2004, p. 24).

Other Considerations

While having women on a company's board of directors has many potential benefits, these benefits do not come without a measure of cost. Several articles have mentioned the disadvantages of attempting to diversify a company's board of directors. Companies with smaller boards tend to be more homogeneous, and composed of individuals who are close to the company and familiar with its inner workings. While this situation may lack gender diversity and its associated benefits, it can be the best means of operation for a company by keeping the business (Iverson, 1995).

Another objection is that corporations are not instruments of social change; consequently, corporations should not be diversified unless there is a clear economic benefit. Several corporations were brought under scrutiny for opposing efforts to diversify their boards. These companies did not want to disrupt effective boards solely to promote diversity. Nucor CEO Ken Iverson refers to this as "social engineering" (i.e., diversity for its own sake) and feels that it is at odds with providing what is best for shareholders (McMenamin, 1995).

While arguments can go both ways, there has been an increased demand for women on corporate boards. Companies want directors that reflect the demographics of the American population as well as their specific consumer bases (Rosener, 2003). One survey showed that 24 percent of all new directors appointed to S&P 500 companies in 2004 were women - up from 19 percent in 2003 (Marshall, 2004, p. 17). Consulting firms and executive recruiters have been met with a flurry of demands for senior-level women to serve as directors (McMenamin, 1995). Overall, today's corporate board is composed of younger, more diverse members than in the past (Anonymous, 2000). A recent study that focused on academia, found that women were generally more ethical (Becker and Ulstad, 2007) than their male counterparts. Research also notes that women were more sensitive to unethical behaviors (Stedham, et al., 2007).

Sarbanes-Oxley requires corporations to have more independent directors, and an entire generation of male directors is resigning due to age. These factors led to a number of openings on corporate boards, and companies are considering more women than before for these positions. For example, some research suggests that the additional women bring to a board's decision-making process is enhanced when there are three or more female members on the board (Bernardi et al. 2009; Konrad and Kramer, 2006). While the number of boards with this level of membership was 76 in 2005, 84 of the Fortune 500 companies had this level of female membership in 2006 (Catalyst, 2007).

Social Responsibility

McGuire (1963) defines social responsibility as an obligation to society that extends beyond a company's economic and legal responsibilities. Socially responsible behavior also benefits companies. A 1999 study showed that the most important non-financial factors for investors were social performance towards the community, women, minorities, and employees, as well as environmental and product safety (Cox et al., 2004). Additionally, corporate social responsibility can lead to increases in financial measures. Better employee motivation, customer goodwill, and lower transaction costs result from corporate social responsibility (Cox et al., 2004); however, the benefits also extend beyond the corporation.

Ramirez (2003) presents an interesting view of the effect that corporations have on American society. Because wealth and economic strength play such a large role in society, the behavior of corporations will also have a great impact on American society.

However, this corporate behavior is often influenced from the highest levels, with attitudes at the director level trickling down to all aspects of the company (Bernardi et al., 2005). Those companies that promote gender diversity by setting an example with their boards of directors are, in effect, promoting the advancement of women within their companies and in society. The question then remains: are those companies that bring women onto their boards of directors more likely to be involved in other positive social actions? We examined whether there was an association between female directors and measurable corporate social responsibility.

RQ: Does an association exist between the gender mix on the boards of directors of Fortune 500 companies and the incidence of these corporations' social responsibility?

Methodology

Overview

This study looked at 143 companies that were included in the Fortune 500 list over a three year period. The data were drawn from annual reports that were available from company websites and Mergent Online. Each annual report was examined to determine if it included pictures of the company's board of directors, as well as information on the company's social responsibility activity. The social responsibility activities were broken up into nine areas spread across four categories, and each company was given a score based on its involvement in each area of social responsibility. A regression analysis was performed to examine both total scores and category scores to a number of independent variables.

Defining Corporate Social Responsibility

To fully examine this area, the concept of social responsibility must first be defined. One study (Pava and Krausz, 1998) defines social responsibility through both specific actions (such as charitable donations, environmental awareness, and employee stock ownership) and outside ratings. These outside ratings included lists such as "100 Best Companies to Work For," "50 Best Companies for Women," and "50 Best Places for Blacks to Work." While these work as criteria for measuring social responsibility, they do not yet comprise a definition of the concept. McWilliams and Siegel (2001) consider corporate social responsibility to be "actions that appear to further some social good, beyond the interests of the firm and that which is required by law" (p. 117). Another important consideration is that "a comprehensive assessment of a firm's social performance should encompass a range of aspects" (Cox et al., 2004, p. 29). Under this definition, corporate social responsibility can be broken down into actions that improve three groups: employees, the industry, and society as a whole (Brown, 2001, p. 1).

Measuring Corporate Social Responsibility

The social responsibility rating system for this study incorporates several of these ideas. The score was based on each company's involvement in four different aspects of social responsibility: employees, environmental concerns, community involvement, and charitable giving. Each company's rating was based on the information in its annual report, 10-K filing with the SEC, or equivalent annual statement. The annual report was chosen because it is universal across industries, readily accessible, and provides a means of comparison over time. While this does not include all available information about a corporation's social responsibility (i.e., websites and other types of reports), it is a standardized means of measurement. This study also relied heavily on self-

reported information; the employee rating was based on outside evaluations, while the other three areas are based on information provided in the annual report.

Dependent Variables

Our dependent variables of corporate social responsibility examined the level of corporate awareness demonstrated by a commitment to: (1) employees, (2) community involvement, (3) monetary contributions, and (4) environmental consciousness. Corporate responsibility towards employees was gauged using three lists: "100 Best Companies to Work For," "50 Best Companies for Minorities," and "100 Best Companies for Working Mothers." The first two lists are created by Fortune magazine. The "50 Best Companies for Minorities" list looks at a variety of criteria, including corporate culture, hiring and promotion practices, and diversity initiatives (Hickman et al., 2003, p. 103). The "100 Best Companies to Work For" list is largely based on employee opinions of a company's human resource practices and corporate culture, as well as an objective evaluation of the company's practices and employee benefits (Levering et al., 2003, p. 127). The "100 Best Companies for Working Mothers" list is compiled by Working Mother. This list is based on work/life initiatives offered by each company, as well as how equitably family benefits are provided within the company. These three lists look at a wide variety of elements making up employee satisfaction, and provide a fair basis of comparing social responsibility regarding employees.

The second area of corporate social responsibility was community involvement, which is composed of three elements: charitable giving, the creation of community programs, and employee volunteer programs. The first aspect is whether a company donates to or otherwise supports an outside organization that works for some social good. The second element is whether the company has developed its own program or foundation that works for a charitable cause. The final aspect looked at whether or not a company has an employee volunteer program, or involves its employees in charitable causes.

The third area of corporate social responsibility was monetary contributions, which involves two specific criteria. The first is whether or not a company sets a fixed percentage or amount to donate each year; this percentage can be based on sales, revenues, assets, or any similar financial measure. The second aspect of contributions is whether or not the company has an arrangement in place to match charitable contributions made by employees.

The final area of corporate social responsibility was environmental consciousness. This is a very broad area, because this research looks at companies across a number of industries with varying degrees of environmental impact. Because the definition chosen for social responsibility involves actions exceeding what were legally required (McWilliams and Siegel, 2001, 117), the criteria is met if the company's annual report mentions any environmental initiatives that extend beyond the regulations that apply to its industry.

The social responsibility score is both a qualitative and quantitative measure. Each area was considered individually and its various aspects equally weighted. However, larger companies have the ability to sponsor more programs, engage in numerous environmental efforts. Our method controlled for this size advantage by using nominal values. For example, social responsibility towards employees has three aspects, each of which was worth one point - each aspect was given a value of one or zero based on whether it was present or absent. These individual scores were combined to create a quantitative score that was

Table 1. Pearson Correlation Coefficients

Variables	Sum CSR	8	7	6	5	4	3	2
1. Sum Pictures	.13	.15	.09	.03	.15	.15	.21	.20
	.12	.08	.28	.72	.07	.08	.01	.01
2. Sum Female Director	.38	.05	.18	.31	.30	.93	.41	
	.00	.54	.03	.00	.00	.00	.00	
3. Sum Directors	.23	.10	.06	.24	.09	.10		
	.01	.24	.49	.00	.28	.23		
4. % Female Directors	.32	.00	.17	.25	.28			
	.00	.94	.04	.00	.00			
5. Sum Employee	.44	.04	.02	.11				
	.00	.60	.81	.21				
6. Sum Community	.89	.26	.51					
	.00	.00	.00					
7. Sum Charitable	.62	.15						
	.00	.07						
8. Sum Environmental	.40							
	.00							
.XX Correlation coefficient (i.e., square root of R ²)								
.YY Univariate significance of association								

used to compare companies. The total score was out of nine points (i.e., one point for each aspect for three years): three allocated to employees, three to community involvement, two to charitable giving, and one to environmental consciousness. This score was used to perform a regression analysis.

Independent Variables

Our independent variables were similar to those used in Bernardi et al. (2009, 2006, 2005, 2004, 2002). Bernardi et al. (2009, 2006) note that boards with a higher percentage of women were significantly more likely to appear on Fortune's "Best companies to work for" (2006) and Ethisphere's "Most ethical companies" list. Bernardi et al. (2005, 2002) noted that companies that provided pictures of their boards had a higher percentage of female directors (2002) and minority directors (2005). Bernardi et al. (2004) found that corporations with higher percentages of female directors also had higher percentages of upper-level female executives.

Our first independent variable is Sum Pictures. Similar to the procedure used by these prior authors, we examined the annual reports of our sample to determine which of these companies provided a picture of their boards of directors. However, our variable is the sum of the number of pictures of boards of directors a company provided over the three-year timeframe of our research in their annual reports. Consequently, this variable

takes on values from zero (i.e., no pictures) to three (i.e., pictures of the board provided in each of the three years).

Our second independent variable is Sum Female Directors. For this variable, we counted the number of women on the boards of directors for companies that provided pictures of their boards in their annual reports. For companies that did not provide pictures of their boards of directors in their annual reports, we examined the each company's proxy statement to determine the number of women on the board. These statements usually contained words indicating gender (i.e., he, she, Ms., Mr. etc.). If there was no indication of gender in the proxy statement, we went to the web and looked for data on the individual (i.e., press statements or articles indicating gender). Our variable sums the number of female directors for each company over the three-year period of our research.

Our third independent variable is Sum Directors. For this variable, we counted the number of directors in each company's annual re-

port. The final variable was the sum of the number of directors over the three-year period of our research. Our fourth independent variable is the percent of Female Directors. For this variable, we divided the Sum Female Directors by the Sum Directors for each company. Our percent of Female Directors variable represents the percentage of female directors over the three-year period of our research.

Analysis

Overview of the Sample

This research is an extension of Bernardi et al. (2002); consequently, we expect to determine whether or not their finding that corporations with an increased level of female representation on their boards of directors leads to a higher level of corporate social responsibility. The data in Table 1 show the significance levels for the correlations among our variables. The data indicate support for Bernardi et al.'s (2002) finding that pictures of the board of directors in the corporations' annual reports over a three-year period positively associate with higher levels of female directors ($p < .02$) and the percent of female directors on the board ($p < .08$). Additionally, our data also indicate that the level of female representation on corporate boards associates with the size of the board ($p < .00$). Consequently, our data support the earlier findings of Bernardi et al. (2002) over a

Table 2. Stepwise Regression Models

Term	Coefficient	T Stat	Prob T	Partial R ²	Adjusted R ²
Panel A: Employee Issues					
Intercept	-0.17	-0.60	0.55		
SumFemDir	0.19	3.80	<0.00	.093	0.086
Panel B: Community Issues					
Intercept	1.59	3.17	<0.00		
SumFemDir	0.35	3.92	<0.00	.098	0.092
Panel C: Charitable Activities					
Intercept	0.13	0.71	0.48		
SumFemDir	0.07	2.16	0.03	.032	0.025
Panel D: Environmental Issues					
No significant variables					
Panel E: Sum CSR					
Intercept	2.40	3.31	<0.00		
SumFemDir	0.62	4.87	<0.00	.144	0.138
SumFemDir	Total number of female directors over the three-year period.				

three-year period.

The correlation matrix also indicates that female representation on boards of directors associates with corporate social responsibility (female directors: $p < .00$; percent of female directors: $p < .00$). The data indicate that both the number of female directors and the percentage of female directors associate with EMPLOYEE, COMMUNITY, and CHARITABLE. The data also indicate that the overall size of the board associates with the COMMUNITY variable but none of the other three variables used to measure corporate social responsibility.

Corporate Social Responsibility (RQ)

We used stepwise regression as our initial modeling process because we wanted to determine the order in which the variables went into our model and their individual contribution to that model's explanatory power (i.e., each variable's partial R²). We used the regression models provided in JMP (SAS Institute, 2009) statistical and discovery software, which is a statistical package designed for use on a personal computer. The adjusted partial R² in our tables are from the stepwise regression modeling. After identifying the variables that were significant at the 0.05 level, we also analyzed the reduced set of variables using multiple regression; the data in the tables are from these analyses.

Our research question examines whether an association exists between the gender mix on the boards of directors of Fortune 500 companies and the incidence of these corporations' social responsibility. The data were analyzed using multiple regression for the five dependent variables demonstrating corporate social responsibility: EMPLOYEE, COMMUNITY, CHARITABLE CONTRIBUTIONS, ENVIRONMENT and TOTAL CSR (i.e., the sum of the first four dependent variables).

In a linear regression model, the Intercept term is the constant (or average) when all of the independent variables are set to zero. The values for Sum Female Director indicate that the levels of Employee, Community, Charitable, and Total CSR increase when female member(s) are present on a corporation's board of directors. The data indicate support for our research question; however only one independent variable was significant in four of the five models shown in Table 2 for the various individual measures of corporate social responsibility and for the combined variable. Our analyses indicate that the FEMALEDIR associates with four of our five dependent variables: EMPLOYEE ($p = .00$), COMMUNITY ($p = .00$), CHARITABLE CONTRIBUTIONS ($p = .03$), and TOTAL CSR ($p = .00$). Sum Pictures was only marginally significant ($p = 0.08$) for the Sum Environmental variable.

As noted in Table 2, only one variable entered each model; Table 1 suggests the explanation for these results. Our independent variable Sum Pictures (Sum Directors) was only significant for our Sum Environmental (Sum Community) dependent variable. Additionally, Sum Female Directors was not significant for our Sum Environmental Variable. Our independent variable Sum Female Directors was more significant and/or explains more of the variation than either Sum Directors or % Female Directors for the dependent variables Sum Employee, Sum Community and Sum Charitable. Additionally, a component of % Female Directors is Sum Female Directors; consequently, once Sum Female Directors entered the model, % Female Directors was no longer significant.

Conclusion

After analyzing the available data, several associations become evident. The presence of female board members has tangible effects on a company's social responsibility. This agrees with much of the previous research that has been done in studies of similar topics. The number of women on a company's board is strongly correlated with social responsibility in three areas (employees, community, and charitable contributions), as well as with overall social responsibility. Also, the presence of pictures of a company's board is correlated with attention to environmental issues.

The first area that exhibited an association with the number of female directors is that of social responsibility to employees. The employee component of this study is based on measures that include a company's benefits and policies toward female employees. This correlation was in line with findings by Dolliver (2004) that showed a link between family friendly benefits and female directors. This finding concurs with Rosener's (2003) article suggesting that advancement opportunities for women were more available in companies with female board members.

The next association was found between the number of female directors and community involvement. Companies with women on their boards are more likely to sponsor or create organizations that benefit the surrounding communities and also are more likely to have a formal employee volunteer program in place. These results confirm those presented by the Bernardi et

al.'s (2009 and 2005) studies that showed that companies with female directors put more emphasis on non-financial performance measures, such as social responsibility.

Third, the number of female directors has a positive relationship with a company's charitable giving habits. Companies with women on their boards were more likely to have matching donation programs and/or commit themselves to charitable giving. However, our data indicate that only 3.2 percent of the variation was explained by our model (i.e. the other 96.8 percent cannot be explained by variables we used in this research), which provides an opportunity for future research.

With these findings, it is no surprise that the total social responsibility score was also positively correlated with the number of female directors at a company. This confirms the study's initial hypothesis. A significant positive correlation exists between the presence of female board members and corporate social responsibility. Companies wishing to increase their socially responsible behavior may want to consider having more female board members. The effects of social responsibility on employees, public image, and surrounding communities are far-reaching, and many companies look for any available advantage in these areas. By bringing women on their boards, companies can open up a

world of opportunities and advantages.

A concern is whether our measure of corporate social responsibility is valid and similar to measures used in other research. Our measure of corporate responsibility towards employees was computed using three lists: "100 Best Companies to Work For," "50 Best Companies for Minorities," and "100 Best Companies for Working Mothers" for the three-year period of our research. For the employee measure of our overall dependent variable, we mirror past research in corporate social responsibility. For our remaining four parts of our overall variable, we used a similar methodology as these three studies. Consequently, we believe our measure was comparable to those used in prior research.

This study has two limitations that must be discussed in order to contextualize this research. First, this study relied only on information presented in annual reports; therefore, some companies may engage in social responsibility and report it through means other than the annual report. Second, many companies and organizations were involved in humanitarian and charitable efforts after terrorist attacks and natural disasters, which may lead to abnormally high social responsibility scores.

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Authors

Richard A. Bernardi

Corresponding Author
Gabelli School of Business
Roger Williams University
Office: (401) 254-3672
Fax: (401) 254-3545
Email: rbernardi@rwu.edu

Richard A. Bernardi, Professor of Accounting at Roger Williams University, is a retired Air Force lieutenant colonel who flew B-52s and FB-111s. Dr. Bernardi received a PhD in Accounting from Union College in 1992. He has published over 90 articles as well as receiving Teaching Excellence Awards from Roger Williams University and the State University of New York.

Veronica H. Threadgill

Gabelli School of Business
Roger Williams University

Veronica H. Threadgill is a graduate of Roger Williams University's Honors Program. After graduation, she worked for a Big-Four public accounting firm. She has since moved into the private sector as an accountant and is working on her masters' degree.