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# WOMEN ON BOARDS OF DIRECTORS AND THEIR ROLE IN CORPORATE REPUTATION

# LAS MUJERES EN LOS CONSEJOS DE DIRECCIÓN Y SU PAPEL EN LA REPUTACIÓN CORPORATIVA

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**Abstract**

Gender diversity and its potential effects on several social, ethical or economic variables have been a frequent topic of academic research. Drawing on signaling theory and using a reputation index that is different from the commonly used, this paper re-examines the influence that the presence of women on the board of directors has on corporate reputation using a sample of Spanish firms.

This paper determines that board gender diversity plays an important role in the assessment of a firm's reputation and demonstrates that the mere presence of a single female director is not sufficient to improve reputation. As our findings suggest, the number of women and the percentage of women on the board are positively associated with corporate reputation, suggesting that a firm could improve its corporate reputation by increasing the number of women on the board.

**Keywords:** gender diversity, boards of directors, corporate reputation, signaling theory, corporate governance, reputation indexes.

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**Resumen**

La diversidad de género y su efecto potencial en variables sociales, éticas o económicas ha sido tema frecuente de investigación. Apoyándonos en la teoría de señales y usando un índice de reputación diferente a los usados en la mayoría de trabajos previos, este trabajo reexamina la influencia que tiene la presencia de mujeres en el consejo de dirección sobre la reputación corporativa de una muestra de empresas españolas de reconocido prestigio.

Los resultados sugieren que la diversidad de género juega un papel importante en la valoración de la reputación de las empresas y que la mera presencia de una única mujer en el consejo no es suficiente para mejorar la reputación. Además, el número de mujeres y el porcentaje de éstas en el consejo están asociados positivamente con la reputación corporativa, sugiriendo que una empresa podría mejorar su reputación incrementando el número de mujeres en su consejo de dirección.

Palabras claves: Diversidad de género, consejo de dirección, reputación corporativa, teoría de señales, gobierno corporativo, índices de reputación.

## 1. Introduction

Recently, a lot of effort has been made to increase women's presence in all social and economic sectors. In European countries, there are initiatives underway to achieve a more equitable female representation on the boards, and although the evidence shows that the number of women in management roles is increasing significantly[a], in general, it is still very low.

The presence of women on boards of directors and their influence on a wide range of social, environmental, ethical or economic variables have generated substantial interest over recent decades (Carter et al., 2010; Haslam et al., 2010; Post et al,. 2011; Margaretha and Isnaini, 2014). Specifically, some researchers, as Bernardi et al. (2006), Brammer et al. (2009) or Bear et al. (2010) have shown that the presence of women on boards of directors may affect corporate reputation, and Larkin et al. (2012) and Bravo et al. (2015) confirm that the presence of women on boards improves corporate reputation.

Several studies have found that corporate reputation has a positive influence on a variety of business-relevant variables such as the ability to attract better-trained personnel (Turban and Cable, 2003); corporate branding (Dowling, 2006); financial performance on the stock markets (Jones et al., 2000); or corporate financial performance (Roberts and Dowling, 1997). Therefore, the analysis of the influence of the presence of women on corporate reputation is relevant.
Many of the previous studies had used Fortune's Most Admired Companies Index to measure corporate reputation and we wonder whether the relationship women-reputation still holds when a different socioeconomic environment other than that represented by the Fortune Index is analyzed. The methodology to elaborate de Fortune Index does not comprise all the stakeholders of a firm, therefore this score is biased to the perceptions that executive, directors and analyst have about the firm which would differ of

**a.** The public sector has developed some noteworthy initiatives; one example is the legislative proposal of the European Commission (European Commission, 2012a) to achieve 40% female presence (in non-executive positions) on the boards of large listed companies by 2020. As a result, the number of women on boards between 2010 and 2012 has increased on average 1.9% in the European Union, with a remarkable 10% in France (European Commission, 2012b).

those that customers, providers and other stakeholders have. Moreover, the Fortune's Most Admired Companies Index reflects the overall results of the ten most admired companies of each surveyed stakeholder independently of its origin country; however, in our opinion, the stakeholder's knowledge about a foreign firm is limited in comparison of his knowledge about a domestic one. Finally, we have found that the previous literature on gender diversity on boards lacks empirical studies using as a measure of gender diversity other than the mere presence or absence of women.

Therefore, we propose: (1) to use an alternative corporate reputation index which comprises a different environment, cultural and socioeconomic backgrounds and which evaluates other firms from those usually analyzed by the Fortune Index; (2) to use a corporate reputation index which takes into account the perceptions of a wider group of stakeholders that those considered by Fortune Index; (3) to use a corporate reputation index which reflects the perceptions of stakeholders about domestic firms, due they should have a more accurate acknowledgement of those firms, leading to a more reliable assessment; and (4) to use different measures which take into account not only the presence of women on the board but also their representation in terms of number and, therefore, their weight and influence in terms of decision making.

Hence, in this paper, we propose using the Merco Index, which ranks the more reputed Spanish firms; this index takes into account the opinion of a wide range of stakeholders and includes the best-known companies in the country. Moreover, Spain is an interesting context for our study because, as in other European countries, much effort is being made to increase the presence of women on boards. Therefore, it could be helpful to show managers that their efforts in attracting diversity are recognized and assessed positively by stakeholders when they score corporate reputation.

The literature has provided several definitions of corporate reputation. Fombrun and Shanley (1990, p.204) defined corporate reputation as the "public's cumulative judgments of firms over time", for Fombrun (1996, p.72) corporate reputation is "a perceptual representation of a company's past actions and future prospects that describe the firm's overall appeal to all its key constituents when compared to other leading rivals"; for Ferguson et al. (2000, p.1196) reputation is "the knowledge about a firm's true characteristics and the emotions towards the firm held by stakeholders of the firm". Meanwhile, for Waddock (2000, p.323) reputation is the "organization's perceived capacity to meet its stakeholders' expectations."

These definitions show that corporate reputation is based on the sum of all stakeholders' expectations about the ability of a firm to satisfy them. Owing to information asymmetries, these stakeholders rely on informational signals to generate their expectations. One of the signals expected to affect corporate reputation is a board's attributes such as gender diversity. In this sense, it has been suggested that the presence of women on boards brings an important body of knowledge and skills to the firm, which leads to business benefits that can positively affect the perceptions of stakeholders about corporate reputation.

The paper is structured as follow. The next section gives a brief overview of the determinants of corporate reputation. Next, we discuss the nature of the relationships between the presence of women on the board and corporate reputation, and some specific hypotheses that link both factors are presented. The data are described in the third section, and the results are shown in the fourth. A final section presents relevant conclusions and suggestions for practice.

## 2. Theoretical Review and Empirical Evidence

In view of the various definitions of corporate reputation shown above, it follows that there is no consensus about how reputation should be assessed or who the receptors of that assessment are. However, Chun

(2005) identifies three schools of thought, which are in current use within the reputation paradigm: evaluative, impressional and relational. In the evaluative school, reputation is assessed by its financial value, from the short-term financial performance of the organization. The key audiences are stakeholders, whose main interests are the firm's financial attributes, such as shareholders or the CEO (Chief Executive Officer). In the impressional school, reputation is assessed in terms of the relevant stakeholders' impression of the organization rather than for any financial performance. The concepts of image and identity are typically used in this current of thought. The key stakeholders are the employees and the customers. Finally, the relational school suggests that reputation is a reflection of the experiences of the stakeholders, both internal, such as managers or employees, and external, such as consumers or providers.

In this context, Walker (2010) identifies some of the most common theories used to analyze corporate reputation: institutional theory resourced based view and signaling theory. In particular, institutional theory and signaling theory provide useful support in understanding the implications of board characteristics, like gender, from the perspective of corporate reputation.
Institutional theory suggests that the greater degree to which an organization is recognized among stakeholders and stands out relative to competitors, the less uncertainty that stakeholders face in evaluating firms as potential suppliers of product and services (Rindova et al., 2005).

On the other hand signaling theory suggests that the process of building reputation can be understood as a signaling process in which a firm's strategic choices send signals to observers who use them to form impressions of the firm (Basdeo et al., 2006).

Signaling theory highlights that firms reduce uncertainty, and therefore information asymmetries when they make choices that show their attributes to outsiders that do not know them (Spence, 1973). Therefore, these choices serve as signals that enable stakeholders to assess relevant firm attributes, such as whether a firm is a producer of high or low quality goods and overall, generate their expectations about a firm's ability to satisfy their own interests (Fombrun and Shanley, 1990; Brammer and Millington, 2005).

Thus, information asymmetry is the core of signaling theory, and it plays a relevant role in the scope of corporate reputation, where the information used in the process of building the reputation has two notable features (Stiglitz, 2000). First, one party may not be fully aware of the features of the other, and second, one party is concerned about the current and future behavior of the other. In this paper signaling theory is used as the main theoretical framework.
Basically, signaling theory posits that insiders (signalers) transmit a positive unobservable quality of a firm via an observable quality of the firm (the signal) to outsiders (receivers). The purpose is to cause an action that benefits the signaler and that the receiver would not otherwise have done (feedback).

In recent years, management literature has analyzed a wide range of signals and the context in which they are sent[b] . There are a range of observable signals (firm debt, dividends, board attributes, top management team characteristics, …) that firms (through their managers, CEO's, board of directors, etc.) can send to diverse stakeholders (shareholders, potential investors, customers, employees, competitors, job applicants…) as an indicator of their firms' positive unobservable qualities (ability of the firm to generate profits in the future, social responsibility degree of the firm, environmental consciousness, …).

As Gabbioneta et al. (2007) suggest, the characteristics of governance structures, including the board of directors is probably one of the most important drivers of corporate reputation. Therefore, among the diverse range of board characteristics our focus is on analyzing the signaling value of one of them, the gender diversity.

**b.** See Connelly et al. (2011) for a review.

In this context, directors signal the unobservable quality of the board to stakeholders (potential investors or customers) via the observable quality of the board, that is, by the gender diversity on the boards of directors. The unobservable quality refers to a number of abilities, which a socially responsible firm is supposed to have such as adherence to social values or a better understanding of the needs of a diverse product and labor market. The feedback of this process is that the signaler achieves higher levels of corporate reputation and consequently the benefits from this, like for example a better financial performance as the literature indicates.

tions that stakeholders have about the company. In this sense, it has been suggested that the presence of women on boards brings an important body of knowledge, skills and ultimately business benefits that can positively affect the perceptions of stakeholders about the corporate reputation and results of a firm[c] . Several studies conducted by McKinsey and Company (2010) demonstrate, from a purely economic approach, that incorporating women in boards is beneficial, making the firm more competitive, increasing the percentage of sales, the return on investments and profitability.

**Figure I:** Signaling Timeline (T= Time)

| T = 0 | T = 1 | T = 2 | T = 3 |
|---|---|---|---|
| **SIGNALER** (person, product, or firm) underlying quality | **SIGNAL** is sent to receiver | **RECEIVER** observes and interpret signal as underlying quality | **FEEDBACK** is sent to signaler |
| **BOARD OF DIRECTORS** | **DIVERSITY OF BOARD** | **STAKEHOLDERS** | **CORPORATE REPUTATION** |

Source: adapted from Connelly et al (2011).

This process is developed over a time period (Conelly et al., 2011) as seen in Figure I, where there is a signaling timeline adapted to the context of the research.

To summarize, signaling theory suggests that companies which adopt governance practices that are perceived as desirable, are more likely to be favorably viewed by the stakeholders. Therefore, we may assume that firms with boards with desirable attributes, such as gender diversity, are viewed more positively from a corporate reputation point of view.

**The corporate reputation and female presence at board level**

As explained in the previous section, board attributes represent valid signals for communicating relevant information related to corporate reputation. In this context, the gender diversity of boards is also expected to act as a signal that can influence percep-

**c.** Gender diversity on boards of directors may provide signals that firms are socially aware and can provide the company the ability to better understand the markets, which can influence the achievement of better results. Numerous studies contrast the positive relationship results/gender diversity using measures such as profitability (Adler 2001; Erhardt et al. 2003; Catalyst 2004; Francoeur et al. 2008; Lückerath-Rovers, 2011; Martín-Ugedo and Minguez –Vera 2014; ), the value of the company measured by Tobin's Q (Carter et al. 2003; Campbell and Minguez -Vera 2007; Adams and Ferreira 2009; Terjesen et al. 2016), or market value ( Carleton et al. 1998; Levi et al. 2008), etc. A broad overview of the literature on the effects of the presence of women on boards on performance can be seen in the Commission Staff Working Document (European Commission 2012b) about Europe’s 2020 Initiative to improve gender balance in the boards of listed companies.

The empirical analysis has addressed the presence, contribution or competencies of women directors / CEOs of large companies (Singh and Vinnicombe, 2004; Huse, 2007; Hoel, 2008). Others studies have focused on the role and identity of women in the performance of such positions, the symbolic treatment received by their counterparts and prejudices (Forbes and Milliken, 1999). There has also been a focus on the description of the demographic characteristics and attitudes of women managers. Recently, researchers have been investigating the relation between women and new contextual variables like company environment, organizational factors and board attributes or related to the dynamics and internal processes of the management teams (leadership, rules and regulations, culture and habits in decision-making) (Kontoniemi, 2011).

Consequently, in the context of signaling theory, the presence of women on boards of firms can act as a signal to their stakeholders in different ways. First, board gender diversity may contribute to a better reputation for a firm because of the perception that female directors enhance board decision-making. Most academics agree that diversity has a positive influence on decision-making processes (Brammer et al., 2009; Bear et al., 2010; Nielsen and Huse, 2010; Elstad and Ladegard, 2012). There is the perception that female directors are likely to bring greater diversity in values and attitudes that can benefit the decision-making by generating a more varied debate, a greater number of alternatives and better quality of ideas. In this sense, some empirical studies highlight that women directors are more likely than male ones to have non–business backgrounds and hold more advanced degrees (Hillman et al., 2002; Val Singh et al., 2008). Women directors with different backgrounds offer valuable perspectives that may bring different approaches to conventional ones and increase the consideration of a wider range of potential solutions (Milliken and Martins, 1996). Women tend to be more interpersonally oriented than men. They have grown up in a social context that expects them to care for the needs of others, to be more compassionate and co-operative, and focused on developing interpersonal relationships (Nielsen and Huse, 2010).

Second, it is believed that boards of directors composed on a parity basis pay more attention to the welfare of workers and, in general, show increased commitment to corporate social responsibility. So gender diversity could influence the reputation of the firm through the improvement of its Corporate Social Responsibility providing the signal that a firm agrees with regulations, embraces diversity and has appropriate working conditions without gender discrimination, and, is therefore, socially responsible. Diversity on boards can shape how the firm is perceived and signal the firm's dedication to creating social value (Dowling, 2006). Daily and Dalton (2003) suggest that women are placed at strategic levels to communicate that the firm is committed to the advancement of women at all levels. Hillman et al. (2002) demonstrated empirically that women on the boards have a profile that could be considered as "influential in the community." Usually, the female presence on a board may help firms in managing their relationships with key stakeholders, owing to the fact women possess expertise and have power to influence community group leaders such as politicians and university representatives.

The third way that having females on the board could improve corporate reputation is through other key reputation-building activities that enhance the firm's image and reputation like philanthropic activities or environmental awareness. For instance, the literature has discussed the importance of the contribution of charity to company reputation (Brammer and Millington, 2005; Miller and Triana, 2009). Several studies (Wang and Coffey, 1992; Stanwick and Stanwick, 1998; Williams, 2003; Soares et al., 2011) contrasted empirically a positive relationship between the presence of women on boards and firms' overall level of charitable giving.

Also, companies with joint boards of directors have a greater responsiveness to consumer demands. It is estimated that women are responsible for most household consumption, so women better understand the needs of their customers. Women board members often influence the way in which products are tailored to the needs of women (Daily et al., 1999; Brammer et al., 2009). Thus firms that meet the expectations of customers will have their corporate reputation valued more positively. Some studies have also shown the influence that the presence of women on boards has on improving the reputation of the firm in different sectors. Brammer et al. (2009) find that there is a positive influence of the presence of women directors on corporate reputation in industries related to consumer services, and a negative influence on service-sector manufacturers. For all these reasons, we hypothesize that gender diversity on boards improves corporate reputation. Since different measures of the presence of women on boards are used in the literature; we will reformulate this hypothesis including some of these measures in the next section.

Hypothesis 0: Gender diversity on boards improves the corporate reputations of firms.

**Table I.** MERCO Score, ranking of firms in the sample and number of women in the boards

| Ranking | Firm (sector) | 2012 score | Number of women | Ranking | Firm (sector) | 2012 score | Number of women |
|---|---|---|---|---|---|---|---|
| 1 | Inditex (3) | 10000 | 1 | 51 | Ferrovial (2) | 5535 | 1 |
| 2 | Mercadona (3) | 9969 | 6 | 57 | Enagas (1) | 5391 | 2 |
| 3 | Repsol (1) | 8999 | 2 | 60 | CLH (4) | 5338 | 1 |
| 4 | Santander (5) | 8936 | 2 | 61 | Mango (3) | 5337 | 0 |
| 5 | Telefónica (6) | 8444 | 1 | 62 | Metro de Madrid (4) | 5321 | 3 |
| 6 | Iberdrola (1) | 8418 | 3 | 64 | Banco Sabadell (5) | 5275 | 2 |
| 10 | Mapfre (5) | 7525 | 1 | 65 | Prosegur (4) | 5175 | 3 |
| 11 | BBVA (5) | 7381 | 1 | 68 | Grupo Agbar (1) | 5115 | 0 |
| 16 | Acciona (2) | 6855 | 3 | 69 | La Fageda (3) | 5114 | 1 |
| 17 | Mutua Madrileña (5) | 6750 | 1 | 70 | Bankinter (5) | 5092 | 1 |
| 18 | Endesa (1) | 6738 | 0 | 71 | Iberia (4) | 5056 | 0 |
| 22 | Gas Natural (1) | 6474 | 0 | 74 | Cepsa (1) | 4979 | 0 |
| 25 | Renfe (4) | 6156 | 3 | 77 | Ebro Foods (3) | 4901 | 1 |
| 26 | Red Eléctrica (1) | 6131 | 3 | 79 | Banco Popular (5) | 4769 | 1 |
| 27 | Indra (6) | 6126 | 3 | 81 | Grupo Villar Mir (2) | 4662 | 1 |
| 29 | Abengoa (2) | 6070 | 3 | 82 | Línea Directa (5) | 4651 | 1 |
| 30 | NH hoteles (4) | 6032 | 2 | 87 | Banesto (5) | 4483 | 2 |
| 32 | Abertis (4) | 5971 | 1 | 88 | Grifols (3) | 4466 | 1 |
| 35 | Sol Meliá (4) | 5914 | 2 | 89 | Euskaltel (6) | 4060 | 1 |
| 36 | Adif (4) | 5899 | 4 | 90 | Vueling (4) | 3960 | 1 |
| 37 | Sanitas (5) | 5844 | 2 | 91 | Vida Caixa Grupo (5) | 3320 | 0 |
| 39 | Gamesa (2) | 5744 | 1 | 93 | Zeltia (3) | 3031 | 1 |
| 42 | FCC (2) | 5688 | 4 | 97 | Vocento (4) | 3011 | 2 |
| 45 | Corp. Mondragón (2) | 5649 | 2 | 100 | Prisa (4) | 3000 | 1 |
| 48 | ACS (2) | 5582 | 1 | | | | |

Sector: (1) Energy, (2) Construction and Industry, (3) Commerce, (4) Services, (5) Finance and Real Estate, and (6) Technology and Communications.
Source: Own elaboration

## 3. Methodology

### 3.1. Data and Sample

This research paper explores the empirical linkages of board diversity and corporate reputation. We chose the MERCO ranking 2012 to measure corporate reputation. The MERCO index ranks the 100 most reputed firms operating in Spain. The MERCO index is similar to the Fortune Index, which is the measure most commonly used in academic research to evaluate corporate reputation (Fombrun and Shanley 1990; Roberts and Dowling 1997; Srivastava et al. 1997; Vergin and Qoronfleh 1998; Basdeo et al. 2006; Bear et al. 2010).

The sample used to analyze corporate reputation in Spain covers all the firms which meet the following requirements: (1) The company must be included within the 100 companies with the best reputation in MERCO Index 2012. (2) The company must be headquartered in Spain. (3) The 2010 firm Annual Reports must be accessible and contain information about gender diversity on boards. And (4) about visibility of the firm, the company must be recorded in the Factiva Database. It results in a non-balanced sample of 49 firms (36 of them stock-listed) that operate in various sectors: energy (8 firms), construction and industry (8 firms), commerce (7 firms), services (12 firms), finance and real estate (11 firms), and technology and communications (3 firms), which are shown in Table I.

**Dependent Variable**

The 2012 MERCO score is the dependent variable of all the tested models. The MERCO 2012 provides a score on a 0-10,000 scale for the top 100 reputed firms in Spain5. The goal of the MERCO methodology is to obtain an assessment of the reputation of the organizations from the standpoint of different stakeholders. The survey evaluates companies on six dimensions (economic performance, product/service quality, ethics and corporate social responsibility, international and global presence, and innovation) each one is disaggregated into three items shown in Table II.

**Table II** .Items of the *MERCO* Index

| | |
|---|---|
| **1. Quality of product service**<br>- Product value<br>- Brand Value<br>- Customer service | **4 Ethics and Corporate Social Performance**<br>- Business ethics<br>- Commitment to the community<br>- Social and environmental responsibility |
| **2. Financial and Economic Performance**<br>- Book profit<br>- Profitability<br>- Quality of economic information | **5 Global Dimension and International Presence**<br>- International expansion<br>- Strategic alliances<br>- Online relationship with stakeholders |
| **3. Corporate Culture and Workplace Quality**<br>- Suitability of corporate culture to business project<br>- Workplace quality<br>- Valuation and reward | **6 Innovation**<br>- R & D investment<br>- Renewal of product and services portfolio<br>- New channels of distribution |

Source: adapted from Merco (2012)

To obtain the score a survey is conducted in two stages. In the first stage, MERCO asks for the perceptions of the major Spanish managers and provisionally proposes the 100 most reputable firms. In 2012, the survey was sent to top managers of 2,850 firms with revenue higher than fifty million euros. In a second stage, each of these selected firms is evaluated by several groups of raters (financial analyst, NGO (Non-Governmental Organization) managers, members of unions and consumer associations, journalists, etc.). Then these ratings are verified by MERCO analysts and finally the definitive ranking is drawn up[d].

**Independent Variables**

The independent variables which aim to measure gender diversity are extracted from the 2010 annual reports of the respective firms[e] ; they are purposely lagged under the assumption that board members must be in their roles long enough to affect the corporate reputation.

As mentioned above, different measures of the presence of women on boards are used in the literature, with mixed results. Under the main hypothesis, the three variables that determine gender diversity on boards of directors are defined and incorporated in the models individually. They are:

(1) *Presence or lack of women on the board.* The presence or lack of women on the board as a dummy variable has been used by Carter et al. (2003), who find positive relationships between the presence of a female director and firm size, board size and firm value, and Brammer et al. (2009) who also find a reputational effect associated with the female presence.

(2) *Number of women on the board.* According to previous research by Bear et al. (2010) and Larkin et al. (2012), the number of women on the board taken as an absolute value is also considered. Their results show that the number of women on boards is positively associated with Corporate Social Responsibility and with Corporate Reputation.

(3) *Percentage of women on the board.* The percentage of women on the board has been used in some studies such as those of Carter et al. (2003), which find a positive relation between their presence and firm value. Adams and Ferreira (2009) also provide evidence that gender-diverse boards is related to the stock performance, director compensation and board meetings. In addition, Bernardi et al. (2006), Bear et al. (2010) and Bravo et al. (2015) show a positive relation between reputation and percentage of women on the board.

So, we formulate the following three hypotheses as extensions of Hypothesis 0:

Hypothesis 1: The presence of at least one woman on a board enhances the corporate reputation score given by stakeholders.

Hypothesis 2: The greater the female presence, measured by the total number of women on a board, the greater the corporate reputation score given by stakeholders.

Hypothesis 3: The greater the female presence, measured by the percentage of women on the board, the greater the corporate reputation score given by stakeholders.

**Control variables**

Corporate reputation is influenced by variables besides gender diversity, so they must be added to the model as control variables. Considering the aforementioned conceptual framework and the results of prior empirical studies (Fombrun and Shanley, 1990; Brammer et al., 2009; Bear et al., 2010; Musteen et al., 2010), we consider as control variables the following: i) general features of the firm: firm size, firm sector, firm age and CEO duality; ii) firm's performance: return on assets (ROA), debt-to-asset ratio, and finally, iii) social impact of the firm: visibility in the media, and whether a firm has a philanthropic activity.

Firm size: There is broad empirical evidence that larger firms achieve better levels of corporate reputation (Fombrun and Shanley, 1990; Roberts and Dowling, 1997; Deephouse, 2000; Schultz et al., 2000) and that, in fact, size is an indicator of business success. A larger size may indicate that the company has better access to resources and

**d.** A description of the MERCO methodology can be found at http://merco.info/es/ranking-merco-empresas.
**e.** To determine gender diversity, we reviewed annual reports and the report on corporate governance for listed companies, which list the names and titles of the members of the board.

higher market share, which may improve its visibility and reputation. In this paper, size is measured by the natural logarithm of total assets.

Industrial sector: Corporate reputation varies systematically among industrial sectors, even controlling for all firm attributes. This is demonstrated in works by Brammer and Millington (2005), Brammer and Millington (2008), Brammer et al. (2009). The industry is measured by a dummy variable in six sectors following the classification of the Madrid stock exchange: energy, industry and construction, consumer goods, consumer services, financial services and real estate, and technology and telecommunications.

Age of the firm: There is ambiguous evidence about the influence of a firm's age on corporate reputation (Baldi, 1997; Schultz et al., 2000). Older firms are more deeply embedded in networks of economic and social relations. Companies that have been in business for long periods in the market have also been exposed to the supervision of the stakeholders and have managed to maintain their satisfaction; otherwise they would have disappeared. The variable is measured in years from the creation of the firm.
CEO Duality. This variable occurs when the CEO of the firm is also the chairperson of the board. CEO duality has been included in several papers studying its influence on corporate reputation, with mixed results (Musteen et al., 2010, Bear et al., 2010; Delgado et al., 2010). From a theoretical point of view, CEO duality could limit the quality of the management.

Economic and Financial performance: Previous research on corporate reputation empirically shows a positive relationship between corporate reputation and performance that is measured in multiple ways (Fombrun and Shanley, 1990; Roberts and Dowling, 2002; Sabate and De Quevedo, 2003; Rose and Thomsen, 2004; Deephouse and Carter, 2005). However, some studies find no causal relationship between reputation and financial performance, like Schultz et al. (2000) or Inglis et al. (2006). In general, it is thought that robust financial performance can be interpreted by the public as a sign of corporate efficiency, good management and adequate capacity to control the resources available, and therefore it is expected to provide the company a sufficient basis to maintain a good reputation, especially among investors, creditors and outside analysts (Fombrun and Shanley, 1990). We decided to include two control variables representing financial performance. We use an accounting measure of management efficiency of resources, ROA, and a measure of financial capacity of the firm, debt-to-asset ratio. These measures have been included in several studies, but results on their influence on reputation are inconclusive; some authors believe that a higher debt-to-asset ratio limits the use of resources in social responsibility actions, and therefore has a negative influence on reputation (Brammer and Millington, 2005; Brammer and Pavelin, 2006; Brammer and Millington, 2008; Brammer et al., 2009).

Media Visibility: This dimension has been found to influence corporate reputation (Fombrun and Shanley, 1990; Brammer and Millington, 2005; Brammer et al., 2009) and is thus considered a control variable. Firms that are frequently and non-negatively cited by the media might develop better reputations than other firms because they hold more central positions in a social network (Fombrun and Shanley, 1990). De Anca and Gabaldón (2013) found a significant media visibility for new executive directors, particularly when just one woman was nominated as an executive director in their sample. Our measure of media visibility does not take into account whether the information provided about the company is positive or negative but only considers the amount of news. The variable was obtained from the Factiva database, which provides data content of news from more than 8,000 sources. We gathered data from 2009 and 2010, and the variable is calculated as the natural logarithm of the published news for each sample company.

Philanthropy The interest of the company to promote and support philanthropy helps to establish and develop positive relationships with community stakeholders. Charitable contributions, the development of green products, equal employment opportunities, the creation of foundations, and the presence of women on boards are all signals that a company sends to its stakeholders about its social commitments (Fombrun and Shanley, 1990). Available evidence suggests that contribution to charitable and social causes improves corporate reputation. This social commitment could be measured through the sponsorship of foundations by the company (Fombrun and Shanley, 1990) or by considering expenditure on charitable contributions (Fombrun and Shanley, 1990; Williams and Barrett, 2000; Brammer and Millington, 2005). In this study, a dichotomous variable is used to determine the existence of at least one foundation sponsored by the firm.

### 1.1. Descriptive Statistics

Regarding the descriptive analysis, we can highlight the following results (Table III): the average reputation score of the sample is 5,802 points, with a maximum of 10,000 (the highest score) and a minimum of 3,000 (see Table I). CEO duality is shown in 69% of the firms of the sample. In addition, 80% of the firms support philanthropy through the promotion of foundations.

In relation to financial variables, the mean of ROA is 4.68% but the standard deviation is high 5.73% indicating a high dispersion of this variable. The sample average of the debt-to-asset ratio is high 69.73%, mainly due to the high value of the ratio in financial and construction firms.

In relation to gender variables, 86% of the sample firms have women on the board, and 47% of them have more than one. The average number of women on a board is less than 2, and the average size of the board is 13 members. The mean percentage of women on the board is 12.95%.

Apart from the expected significant correlations among the gender variables (women number and women percentage) and the correlation between firm size and media visibility, the rest of variables taken pair to pair do not present statistically significant correlations, so there should not be multicollinearity problems in the regressions performed in next section.

### 3.2 Model

To assess the impact on corporate reputation of gender diversity, the model of Fombrun and Shanley (1990) is followed. The model includes different types of signals that the relevant public may receive from companies, and which may influence their perception of a firm. The model hypothesises that the reputation of a firm, from the point of view of stakeholders, is based on signals about the presence of women on the board and other signals regarding economic

**Table III.** Descriptive Statistics

| Variable | Mean | SD | Min | Max | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 1-Merco Score | 5,802.8 | 1,623.1 | 3,000 | 10,000 | 1.00 | | | | | | | | | | | |
| 2–$\beta_1$-Duality | 0.69 | 0.47 | 0 | 1 | 0.30 | 1.00 | | | | | | | | | | |
| 3–$\beta_2$-Firm Size | 9.05 | 2.28 | 2.08 | 14.01 | 0.44 | 0.13 | 1.00 | | | | | | | | | |
| 4–$\beta_3$-ROA | 4.68 | 5.73 | -6.30 | 23.63 | 0.39 | -0.11 | -0.15 | 1.00 | | | | | | | | |
| 5–$\beta_4$-Debt-to-asset ratio | 69.73 | 17.16 | 34.6 | 95.46 | -0.13 | 0.16 | 0.39 | -0.30 | 1.00 | | | | | | | |
| 6–$\beta_5$-Visibility | 6.79 | 1.59 | 2.20 | 9.44 | 0.44 | -0.12 | 0.58* | 0.01 | 0.04 | 1.00 | | | | | | |
| 7–$\beta_6$-Women yes/no | 0.86 | 0.35 | 0 | 1 | 0.13 | 0.24 | -0.08 | 0.00 | 0.10 | 0.01 | 1.00 | | | | | |
| 8–$\beta_7$-Women''s number | 1.65 | 1.23 | 0 | 6 | 0.33 | 0.14 | 0.00 | -0.02 | -0.08 | 0.06 | 0.55* | 1.00 | | | | |
| 9–$\beta_8$-Board Size | 13.29 | 3.81 | 7 | 23 | 0.19 | 0.23 | 0.47 | -0.28 | 0.31 | 0.35 | 0.25 | 0.14 | 1.00 | | | |
| 10–$\beta_9$-Women (%) | 12.95 | 10.27 | 0 | 50 | 0.27 | 0.05 | -0.19 | 0.15 | -0.16 | -0.07 | 0.52 | 0.92* | -0.18 | 1.00 | | |
| 11–$\beta_{10}$-Philantropy | 0.80 | 0.61 | 0 | 1 | -0.01 | 0.14 | 0.06 | 0.07 | 0.12 | 0.01 | 0.06 | -0.23 | 0.03 | -0.20 | 1.00 | |
| 12–$\beta_{11}$-Firm Age | 54.53 | 41.79 | 5 | 176 | 0.17 | 0.05 | 0.41 | -0.12 | 0.27 | 0.23 | -0.08 | -0.16 | 0.22 | -0.24 | 0.13 | 1.00 |

* Correlations statistically significant with p-value <0.01.

and financial performance, CEO duality, firm size, firm age, philanthropy and media visibility.

In order to test a parsimonious model which provides the greatest information, the selection algorithm proposed by Lindsey and Sheater (2010)[f] is used. This procedure selects the most meaningful combination of control variables and provides us with a base model (Model 1) on which the main variable (gender diversity) is added step by step, in order to analyze its contribution to the estimation of corporate reputation.

## 4. Results

The Shapiro-Wilk test confirms that most of the variables are not normally distributed, so we performed the ordinary least squares (OLS) regression using bootstrapping to estimate accurate standard errors and to obtain robust estimations. Following Poi (2004), the bootstrap procedure is performed over 1326 repetitions to ensure the accuracy of the significance tests. Additionally, according to classical measures of error, the sample size in relation to the population size leads to an estimation error of less than 1%.

$$\textit{Corporate Reputation}_i = \textit{Constant} + \beta_{1i}\,\textit{Duality} + \beta_{2i}\,\textit{Size} + \beta_{3i}\,\textit{ROA} + \beta_{4i}\,\textit{debt-to-asset} + \beta_{5i}\,\textit{visibility} + \varepsilon_i \qquad \textit{(Model 1)}$$

$$\textit{Corporate Reputation}_i = \textit{Constant} + \beta_{1i}\,\textit{Duality} + \beta_{2i}\,\textit{Size} + \beta_{3i}\,\textit{ROA} + \beta_{4i}\,\textit{debt-to-asset} + \beta_{5i}\,\textit{visibility} + \beta_{6i}\,\textit{women's presence} + \beta_{8i}\,\textit{board's size} + \varepsilon_i \qquad \textit{(Model 2)}$$

$$\textit{Corporate Reputation}_i = \textit{Constant} + \beta_{1i}\,\textit{Duality} + \beta_{2i}\,\textit{Size} + \beta_{3i}\,\textit{ROA} + \beta_{4i}\,\textit{debt-to-asset} + \beta_{5i}\,\textit{visibility} + \beta_{7i}\,\textit{women's number} + \beta_{8i}\,\textit{board's size} + \varepsilon_i \qquad \textit{(Model 3)}$$

$$\textit{Corporate Reputation}_i = \textit{Constant} + \beta_{1i}\,\textit{Duality} + \beta_{2i}\,\textit{Size} + \beta_{3i}\,\textit{ROA} + \beta_{4i}\,\textit{debt-to-asset} + \beta_{5i}\,\textit{visibility} + \beta_{9i}\,\textit{percentage of women} + \varepsilon_i \qquad \textit{(Model 4)}$$

Thus, Model 1 tests the effects of control variables on corporate reputation measured by the MERCO index; the covariates selected by the selection algorithm are CEO duality, firm size, ROA, debt-to-asset ratio and media visibility.

Models 2, 3 and 4 are based on Model 1, and each of them is designed by adding the three variables proposed to measure gender diversity to Model 1: the presence of women on the board, the number of women on the board, and the percentage of women on the board, respectively. For Models 2 and 3, an additional variable, the size of the board, is used because it could affect women's opportunity to access it.

According to the results (see Table IV), the control variables have a positive impact on corporate reputation except for the debt-to-asset ratio, which has an inverse relation, the more its value the less the corporate reputation. The most statistically significant control variables are duality and ROA, which hold their statistical significance in all the four models performed. Obviously, all the control variables are statistically significant, owing to the selection algorithm used to design the base model. Regarding the impact of women on corporate reputation, the presence or lack of women (Model 2) is not statistically significant; indeed, the global significance of this model over Model 1 is lower. However, the number of them (Model 3) and the percentage of women on the board (Model 4) are statistically significant, the sign of both parameters is positive, so these variables seem to increase corporate reputation,

**f.** The variables relating to philanthropy, the age of the company, the board size, were not statistically significant, so they were rejected for their inclusion in the model.

and the two models have a higher adjusted coefficient of determination so the inclusion of these variables improves the estimation.

These results support Hypotheses 2 and 3, but not Hypothesis 1. The adjusted R2, which indicates how well the model fits, is sufficiently large, and the individual coefficients of the variables are significant.

## 5. Discussion and Conclusions

This research has analyzed the influence of women on boards of directors on a firm's reputation using a sample of the most reputable Spanish firms and a set of measures of women's presence on board. The results show that stakeholders take into account a significant presence of women on boards when they evaluate the reputation of the firm.

Specifically, the results indicate that the presence or not of women does not explain corporate reputation but the percentage of women on the board does. This supports the idea that the presence of just one woman on a board does not lead to a higher level in the corporate reputation score of a firm. Certainly, there is a positive relationship between board gender diversity and firms' reputation, but only the firms where the numbers of women on the board are significant are more favorably viewed by the stakeholders, showing a better assessment of their corporate reputation.

These findings are in line with those of Bear et al. (2010) and Bravo et al. (2015) who found that the percentage of women on boards is positively associated with the corporate reputation score. The results also agree with those of Kramer et al. (2006), who point out that a critical mass of three or more women on the board can act as a signal of better corporate governance. We also found that there is a threshold in relation to corporate reputation. However, the findings do not coincide with those of Brammer, Millington and Pavelin (2009), in terms of the

**Table IV.** Results of Regression

| | *Model 1* | *Model 2* | *Model 3* | *Model 4* |
|---|---|---|---|---|
| **Constant** | 1499.198 | 1226.51 | 967.0006 | 712.5322 |
| **$\beta_1$-Duality** | 1259.383*** | 1157.134** | 1112.301** | 1169.558*** |
| **$\beta_2$-Firm Size** | 283.001** | 308.3695* | 293.9053* | 316.73** |
| **$\beta_3$-ROA** | 119.032*** | 117.319*** | 121.8228*** | 110.7063*** |
| **$\beta_4$-debt-to-asset ratio** | -21.029* | -22.8469** | -18.09618 | -19.21601 |
| **$\beta_5$-Visibility** | 261.841* | 240.2027** | 235.2699* | 250.1481* |
| **$\beta_6$-Women yes/no** | | 517.2958 | | |
| **$\beta_7$-Women's Number** | | | 348.1232* | |
| **$\beta_8$-Board Size** | | -3.5869 | -5.798539 | |
| **$\beta_9$-Women (%)** | | | | 41.36858* |
| **Wald $\chi^2$** | 47.25 *** | 47.54*** | 53.32*** | 58.25*** |
| **Adjusted $R^2$** | 0.5436 | 0.5342 | 0.5994 | 0.6060 |

Standarized regression coefficients are reported.
P-value robust to errors *p<0.05, **p<0.01, ***p<0.001
Source: own elaboration.

mere presence of women.

The way in which women can improve corporate reputation could be explained by how women influence corporate governance and corporate social responsibility. In the case of corporate governance, although a lone woman can make valuable contributions, she runs the risk of being excluded from the group or even from the decision-making process as male directors see her more as a woman than as a director. However, a group of women can influence the board decision-making-process more substantially. In this sense, the content of boardroom discussions is more likely to include the perspectives of multiple stakeholders: employees, customers, suppliers and the community at large, and that could be a clear signal which leads to improve corporate reputation. In addition, previous evidence shows that women directors are more sensitive to social and environmental issues than their male counterparts in promoting Corporate Social Responsibility activities in firms to which they belong. A greater number of women on the board can encourage other members to carry out Corporate Social Responsibility's initiatives (Williams, 2003), which will lead to improved corporate reputation (Bernardi et al. 2006; Bear et al. 2010).

With regard to control variables, our findings suggest that CEO duality, firm size, ROA, debt-to-asset ratio and media visibility are strongly related to corporate reputation. These results are consistent with arguments that CEO duality is positively related to corporate reputation, as shown in Musteenet al. (2010), but contradict the results of Delgado et al. (2010), which support the idea that duality reduces board monitoring effectiveness and should negatively affect corporate reputation. The positive relationship between duality and corporate reputation could be a consequence of the charisma of the CEO (Wade et al., 2008) that is often perceived by stakeholders as a sign of confidence in the firm and improves firm reputation.

The results are also consistent with the arguments that a larger firm has easier access to resources, which could have a positive impact on a firm's reputation, as concluded by Fombrun and Shanley (1990), Roberts and Dowling (1997) and Deephouse (2000). Regarding firm size, a larger firm size usually involves more media visibility. Our findings suggest that visibility contributes positively to stakeholders' perceptions of a firm, and consequently improves corporate reputation, as Fombrun and Shanley (1990), Brammer and Millington (2005) and Brammer et al. (2009) conclude.

Regarding the accounting measure of efficient management of resources, ROA, the results are in line with those of Fombrun and Shanley (1990), Deephouse (1997), Roberts and Dowling (2002) and Deephouse and Carter (2005) and which indicated a positive relation between ROA and corporate reputation. A robust financial performance could be a sign of efficient management for stakeholders and positively influence their assessment of corporate reputation.

Finally, in relation to debt-to-asset ratio, our findings agree with those of Brammer and Millington (2005), Brammer and Pavelin (2006), Brammer and Millington (2008) and Brammer et al. (2009), who found an inverse relation of this variable with corporate reputation. Stakeholders may consider a high level of debt as a limitation for the firm for investment in other activities such as social or environmental contributions, and thus assess corporate reputation negatively.

This paper makes the following contributions. First, this study helps to provide evidence that women on boards impact positively on corporate reputation. This relationship has not been analyzed in depth before, previous research has focused mainly on the role of women on boards as a mechanism of corporate governance or corporate social responsibility, but our results show that the presence of women acts as a signal, which is perceived positively by stakeholders. However, the main result is that the greater the weight of women on the total of board members, the higher is the corporate reputation.

Second, the study also contributes to the research on which factors promote corporate reputation. Previous research has measured the corporate reputation through indexes which are based on the perceptions of some stakeholders, those more directly related to the management and executive roles. The measure used in this paper is calculated taking into account a wider range of stakeholders, and in our opinion, it brings more consistency and reliability to the score.

Third, the paper contributes to the previous research on corporate reputation and board diversity by extending the analysis using firms from one country, theoretically the assessment of the reputation by the stakeholders should be more accurate and reliable than when firms from different countries are used.

The fact that even using different data and analyzing firms in countries with different socio-cultural environments have reached similar results reinforces the validity of the relationship between corporate reputation and gender diversity on boards of directors. This study also has a number of implications. From a theoretical point of view, this paper adds to the research on the role of boards as a signaling mechanism (Certo, 2003; Miller and Triana, 2009). Moreover, in this paper corporate reputation is introduced as the result or feedback of the signaling process.

Furthermore, this study has valuable implications for practitioners. The findings suggest that having a significant number of women on a board is critical to achieve and maintain a high level of corporate reputation. Stakeholders perceive gender diversity on boards as an important signal because of the advantages that women provide to a firm, which leads to better corporate reputation, and according to previous research, this leads to better financial performance.
So firms should pay special attention to their board composition in terms of gender diversity, ensuring that they have sufficient weight of women on the board and that this fact is known to the public in general, in order to send a clear and strong signal to all stakeholders. Indeed, companies should seriously consider gender diversity in their decisions about board composition, and leaders should be committed to gender-diversity progress. Barsh et al. (2013) propose four ways top firms can do this. First, top managers must be emotionally involved in promoting women's advancement; second, leaders must foster a culture of gender diversity; third, executives must establish a system for gender diversity as the norm; and fourth, companies should prioritize the inclusion of women on boards.

Thus, our results clearly encourage firms to promote gender equality on boards and this fact might end up moving to the whole society. A lot of effort has been made by European Union policy makers to promote gender equality with few results in the majority of the countries. According to the European Union (2011), the most effective strategies incorporate elements of corporate governance codes, leading to transparency, an active role of the government, a constructive role of the media and global policies in favor of gender equality. In Spain, the media are aware of the incorporation of women on boards, following up this issue in the news in some depth and considering the fact as a positive event. There is also an active role being played by the government and global policies to promote gender equality; however the results are not the expected. The major challenge in many countries is how to overcome resistance from the corporate sector (European Union 2011). So the fact that firms have an incentive, in terms of reputation, to increase women presence on the boards will help to achieve gender equality in decision-making, which is the goal promoted by the European Union.

There are some limitations in our research, which have their origin in the nature of the sample. The MERCO index, as other corporate reputation indices, is calculated only for the most reputable firms, and therefore our analysis addresses the influence of gender diversity on boards in the most reputable companies but not between reputable and non-reputable firms. Additionally, our findings may be not extended to firms with different characteristics, such as Small and Medium Enterprises. Moreover, the sample is not balanced in sectors and the number of firms in some of them is too reduced to perform an analysis at this level, previous research has found that in some sectors the role of women is more significant than in others. Finally, the size of the sample is relatively small, although large enough to get accurate results with the techniques used.

In conclusion, this paper contributes to a better understanding of how women's presence on boards of directors affects the assessment made by stakeholders of corporate reputation. However, further research could be oriented to measure the time taken for any change in the number of women on boards to affect corporate reputation.

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