Behavioural and signalling theory

There are two theories underpinning the study and these are: the ‘ Behavioural Theory’ and the ‘ Signaling Theory’ (Miller and Triana 2009). The behavioural theory as proposed by Cyert and March (cited in Miller and Triana, 2009) suggests that there is a direct correlation between the availability and use of information in a decision-making process and innovation in a group’s decision. In other words, the more the information available, the better the decision making process will be which leads to creativity.

Arthurs, Busenitz, Hoskisson and Johnson (2008) view signaling as a way of bringing to notice the innate worth or value of a firm and that any signal must be noticeable and hard to emulate or replicate. The Signaling Theory posits that “ firms use visible signals to gain reputation and status among the public” (Miller and Triana 2009: 756).

Methodology

In testing their hypotheses, Miller and Triana presented three sets of variables: independent variables, dependent variables and control variables. The independent variables which were board diversity, innovation and firm reputation were investigated using Blau’s index (1977) of heterogeneity, Research and development expenses as proxies and 2004 Fortune Corporate Reputation Survey accordingly. The dependent variable; Firm Performance was measured using and Return on investment and Return on sales and finally, Control variables which as key components were vital to the research and they were firm age, liquidity, size, product and international diversification.

The research explored the empirical link between these variables and four hundred and thirty two Fortune 500 firms which were selected in investigating innovation as mediating factor between board diversity and firm performance and also three hundred and twenty six Fortune 1000 firms which were selected to investigate reputation as mediating factor between board diversity and firm performance. The result from the test of the various hypotheses was then analysed using the Least Squares (OLS) Regression (pg 768).

The methods of research were disputable and therefore open to further research due to two noticeable reasons. First, the inconsistency and ambiguity in the selected year of assessment. The research explored the empirical linkage of board diversity, reputation, innovation, and performance (pg 765) but did not specify a year or period of assessment for which they gathered their data. Example, sample of firms selected were for year 2003, measurement of board diversity was for year 2002, measurement of innovation using research and development expenses were for year 2003, measurement of reputation were for 2003 and finally " firm performance is measured in 2005, lagged two years to allow time for mediating effects of reputation and innovation to occur" (pg 767). The effect of this inconsistency is that it would be difficult to know the accuracy of result arrived at. Rather it would have been a lot of easier if the various data gathered were being assessed for a period of time e. g. data between years 2002 and 2005 to ensure uniformity in the assessment.

Secondly the sample of Fortune 500 firms chosen were " because these firms represent leaders in their industry"........ had external reports listing the race of board members as a way of validating data" (pg 765) but no mention was made on a report of gender of board members.

Result

The answer to question bothering on the relationship between board diversity and firm performance using mediating variables reputation and innovation was striking as the authors were of the opinion that " increasing diversity on the board leads to more varied ideas, perspectives and networks" (Miller and Triana 2009: 764). In other words, in a multitude of opinions as a result of diversity, cogent and innovative ideas usually emanate. This view is supported by Hillman, Cannella and Harris (2001) where they reasoned that each director is unique and different and when all their skills and proficiencies are put together, various ideas spring forth which could enhance firm's performance. However, Adams and Ferreira (2008: 305) argue that " the more dissimilar directors are, the more they could disagree and the more conflict there could be on the board" which could eventually impede firm's performance.

The result for the question on how board diversity impact firm performance using mediating variables: innovation and reputation proved arguable as the authors posits " having a gender and racially diverse board signals that the firm is well positioned to meet the needs of a diverse market" (Miller and Triana 2009: 762) but from the test of their hypotheses, it was discovered that there was no correlation between gender diversity and reputation (pg 775). This could have been as a result of the method of research which could have led to a biased opinion.

Dalton and Dalton (2010) observed that there has been a lot of criticism and reservation due to the presence and achievement of women on Fortune 500 boards. This shows that generally the opinion that women can hold positions of top management is still not been accepted by multitudes. However, Krishnan and Park (2004) argued that the presence of women as leaders is usually appreciated in an environment that calls for a lot public relations and that they are able to break grounds in an otherwise impossible situation due the emotional side of their personality which results in them working with a lot of passion.

Conclusion

The research was interesting as it provided the first empirical analysis of the correlation between boardroom diversity and firm performance using innovation and reputation as mediators. However, the research involved the use of secondary data i. e. data collected by someone else and most likely be subject to sample limitations (Anonymous 2008). This could infer that data collected were collated originally for a different purpose and therefore be biased.

Also the research highlights that diversity using mediating factors innovation and reputation has benefits as Cox and Blake (1991: 45) reasoned that “ a well managed, diverse workforce (board) holds potential competitive advantages for organizations” but for it to be fruitful and effective, it comes with a price and firms have to be able to look at their structures and be guided in their cultural needs; either gender or racial and be able to discern between what is needful or unnecessary as Slater, Weigand and Zwirlein

(2008) argued that achieving productive diversity is not easy and that diversity if not managed properly usually leads to a high level of turnover.

Therefore, based on all the information gathered and analysis carried out, would it be ideal to say that board diversity positively impacts firm performance?