

A Diversity-Review on Multi-Mandate Directors in German Corporate Boards

An empirical study on German DAX-Companies

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Abstract

The agenda of the international Corporate Governance Research changed in time. Beside the traditional theoretical research approaches, like the Agency-Theory and Board Role-Models, the Diversity-Discussion becomes more and more important. Nowadays, scientific work on board diversity for Europe concentrates, pushed by the public interests, to increase diversity on corporate boards, on nationality and gender (Ruigrok et al., 2005, 2007; Singh et al., 2001; Singh and Vinnicombe, 2004).

Especially the board dynamics seem to be massively influenced by a higher rate of gender and/or national diversity (Ruigrok et al., 2007). This paper exposes the board structure and board dynamics with a special focus on multi-mandate directors, gender and national diversity. The empirical data of this paper consists of all 160 listed companies of the German leading stock indices DAX30, MDAX TecDAX and SDAX in December 2009. The sample of board composition consists of 1670 supervisory board observations and 705 board of director observations.

Introduction

Although the work of (supervisory) boards is the best known and observed corporate governance mechanism worldwide (Adams, 2005; Thomsen, 2008), there is a common shared consensus that the diversity on Corporate boards has an important role to play in Corporate Governance. Corporate Governance research has recently been criticised because of the dominating role of agency theory and the missing perspective of board roles (Daily et al. 2003; Ruigrok et al. 2007). Therefore, especially the nationality and gender diversity on corporate boards is an interesting field of research.

Traditionally, board jobs consist of a wide range of tasks including assessing the companies' performance, checking the accounts and hiring or firing the top management (Bennedsen, Perez-Gonzalez, & Wolfenzon, 2006; Huson, Malatesta, & Parrino, 2004). Modern Corporate Governance practices, however, have evolved more demanding duties for

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the board. These include expectations that board members will develop entrepreneurial leadership skills, create strategy proposals, set appropriate values and standards for the company, meet with major shareholders and be capable of critical self-evaluation (Adams & Ferreira, 2007; McNulty, Roberts, & Stiles, 2005; Westphal & Khanna, 2003).

But with the wider acceptance of the diversity discussion, the boards' work and board dynamics could also be analysed through diversity-specific characteristics. Traditional focused on task-related attributes, like educational and functional background of the directors (Golden & Zajac 2001; Ruigrok et al. 2007). Nowadays, because of the greater pressure to increase diversity and possible innovative dimensions in board composition (Daily & Dalton 2003), gender and nationality appear to become two important dimensions of board diversity, especially in Europe (Ruigrok et al. 1999, 2005, 2007).

The introduction of nationality and/or gender diversity comes along with massive implications for board dynamics and boards' work. The traditional classification of diversity attributes, that influence these implications, are task-related and relations-oriented (Jackson, 2002). While age, gender and nationality diversity are relation-oriented dimension, the functional or educational background are task-related. Reviews of the diversity research conclude that these relation-oriented attributes (dimensions) effect the communication within the board, the decision-speed or the understanding capabilities negatively (Williams and O'Reilly 1998; Ruigrok et al. 2007). Beside these characteristics, these directors are not a just male/female and domestic/foreign members of the board, but have also a number of other interesting characteristics that are important for their role within the corporate board. To improve the boards work it is necessary to explore the correlation between the boards' diversity and the directors' independence (Carter et al. 2003; Ruigrok et al. 2007). For example, the directors' membership in an "old boys' network" has important influences on their own work. So the starting point for this paper was to analyse if and how the diversity dimensions gender and nationality have an influence on the multi-mandate structure for German corporate boards.

This paper is structured as following: After this brief introduction the theoretical perspective in the German two-tier-context is outlined. The used empirical approach and the data of the study are presented in the third section, before the main results are discussed. The paper will end with a conclusion and critical outlook on further research questions.

Theoretical Perspective

Regarding to the resource- based theories, the effectiveness of a firm depends on its ability to manage resources but more importantly to secure critical resources from the environment on which the organization is reliant on. In order to assure the survival of a firm, the corporate board and its members are classified as boundary spanners securing important resources in terms of knowledge, networks, contacts, etc. Resource-dependence theory suggests that board member networks and contacts are crucial for the ability to perform the role as boundary spanners. So the board has an additional role to connect the firm to its external environment in order to secure the critical resources. Recently there have been several studies, adapting the resource-based-views, which explored the effects of interlocking directorates on firm strategy and performance in the US, (Pennings, 1980; Mizruchi, 1996; Ferris et al., 2003) but also in international contexts (Phan et al., 2003; Balsmeier et al., 2009).

Contrary to the resource-based theory the Principal-Agent-Theory can be called, which concentrates on the monitoring and control role focus that emerges from the separation of ownership and control. In this approach managerial behaviour and the quality of

managerial decisions is monitored by the board of directors. They are seen as an internal governance mechanism (Fama and Jensen, 1980).

However, due to the increasing uncertainty of the environments of a firm, the need of the securing new important resources becomes more and more important. For example, the increasing internationalization of business, leads to a higher demand for directors who possess the essential knowledge and contacts of foreign markets in order to merge the firm into these various contexts of the countries in which the organization operates.

Further, the importance of female representation on corporate boards is rising because of the increasing involvement of women in business and society (Burke, 1997a; Burke and Mattis, 2000).

2.1 Research on nationality and gender diversity

The focus on most previous nationality and gender diversity research lies on barriers for women being appointed as corporate directors (Burke, 1997a; Singh and Vinnicombe, 2004). It is argued that women face a “glass ceiling” when it comes to hold top corporate officer positions. Another research-focus investigates firm resistance when foreign inside and outside directors are nominated (Ruigrok et al., 2005) or focuses on a better understanding of how female and foreign directors contribute to board behaviour and performance (Singh et al., 2001; Adams et al. 2008).

The influence that female and foreign directors exert on board processes and dynamics is one promising direction of research. Pearce and Zahra (1991) found that corporate boards with a higher female representation had more debates and disagreements and were allied with higher perceived and objective corporate performance. Adams et al. (2008) also suggested that diverse boards are tougher monitors.

A second promising research field is to examine the additional characteristics female and foreign directors bring to their boards and in addition the interaction between these characteristics and directors’ gender and nationality. Hillman et al. (2002) for example found that female and African-American directors tended to come from non-business backgrounds, hold advanced degrees and join multiple boards at a faster rate than white male directors.

2.2 The German Two-Tier System

The makeup of this institutionalized Corporate Governance system differs from nation to nation and is embedded in the national context. Germany, Austria and Switzerland have traditionally mandated two-tier board systems. This means that public companies have a supervisory board - the “Aufsichtsrat” and a management board - the “Vorstand”. Their roles resemble those of non-executive and executive directors in the UK or USA. But there is one difference: An overlap between the two boards is legally prohibited and so they work independently of one another. Nonetheless, the supervisory board is responsible for almost the same functions as boards in the Anglo-American world (Prowse, 1995). It reviews the performance of its corporation, it monitors the performance of managers and replaces them if necessary, and it ratifies major decisions such as M&A-activities. One uniquely German feature is that employees have the legal right to elect up to the half of the board members in large public companies - though the shareholders maintain a voting majority. This leads to large supervisory boards with an average size of 15 members (Andres, Azofra, & Lopez, 2006). In addition to the employee representation on the supervisory board, most of the decisions concerning labour issues must be discussed in work councils. The “Vorstand” on the other hand is the collective decision-making body assigned by the “Aufsichtsrat” (see figure 1). A CEO normally heads it.

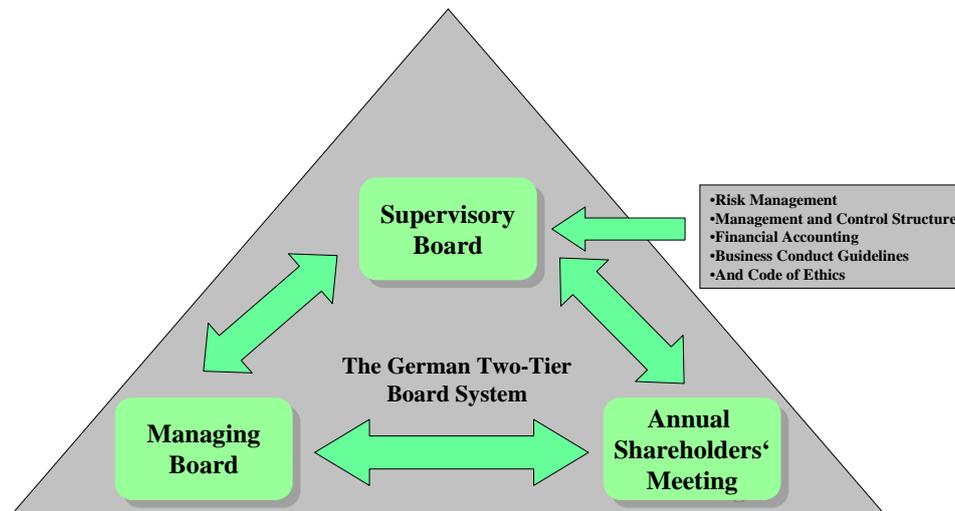


Figure 1: The German Two-Tier-System

Because of the non-homogenous composition of the German supervisory boards in reference to management-experts and non-management employees or labour union members the board structure could be characterized by a noticeable difference between e.g. the job backgrounds, business administration know-how and work experience of the board members beside the diversity perspective (Eulerich & Schulz 2010). This fact makes it much more complicated, to control, monitor and consult the other board members during their major decision processes. Especially the representatives of the employee's side within the board decide rather with a low-risk perspective than the shareholder's side.

Data Collection, Sample and Methodology

For a sample of all 160 German publicly listed firms of the German leading stock indices (DAX30, MDAX TecDAX and SDAX) we analyse the characteristics of all board and supervisory board members. The sample of board composition consists of 1670 "supervisory board" observations and 705 "board of director" observations from the year 2009.

The objectives of this study were to describe and understand the supervisory board and board of director composition practice in Germany, especially from nationality and gender diversity perspective and a review of multi-mandate activities of the board members.

Our research approach to examine the board composition in the German two-tier-system was focussed on two different levels of analysis. The first level includes the board structure with regard to the nationality and gender diversity of the board members. The second level comprises the multi-mandate activities of these members.

The sample structure could also be separated by the company's size measured by the number of employees or by their sales volume in billion Euros etc.. But because of the undersized representation of gender or nationality diversity within the boards, we used no further separation.

Main Empirical Results

4.1. Main results of the section "Gender Diversity"

The boards in our sample of 160 listed DAX, MDAX, TecDAX and SDAX companies have 679 Board of Director mandates which are divided into 654 (96,32%) mandates hold by male directors and 25 (3,68%) hold by female directors. The situation is similar with regard to

the allocation of the Supervisory Board mandates (Total: 1639)- 90,84% (Total: 1487) of these members are males and 9;26% (Total: 152) females.

Male BoD Member	Female BoD Member	Male SB Member	Female SB Member
654	25	1487	152
679	679	1639	1639
96,32%	3,68%	90,84%	9,26%

Figure 2: Main results of the section “Gender Diversity”

4.2. Main results of the section “Nationality Diversity”

The next focus was the nationality diversity. The study demonstrates that 12,37% (Total: 84) of 679 Board of Director members come from abroad and 87,63% (Total: 595) are domestic. Focusing the Supervisory Board structure we can point out that 91,58% of these members (Total: 1501) are natives and 8,42% (Total: 138) coming from other countries.

Foreign BoD Member	Non-Foreign BoD Member	Foreign SB Member	Non-Foreign SB Member
84	595	138	1501
679	679	1639	1639
12,37%	87,63%	8,42%	91,58%

Figure 3: Main results of the section “Nationality Diversity”

4.3. Main results of the section “Nationality and Gender Diversity from a Multi-Mandate perspective”

Our findings regarding the interlock affiliation shows the following results: 87,64% (Total: 618) of the Board of Director members are holding more than one mandate on other boards, 2,65% (Total: 18) of them are females and 10,16% (Total: 69) from a foreign country. Looking at the Supervisory boards we can note that 95,53% (Total: 1581) of these members are active in further directorates. 138 of them are women (8,42%) and 131 from a foreign country (8,00%).

Conclusion

Not only because of a wider public discussion, companies in general and boards of directors and supervisory boards in particular will increasingly have to deal with diversity. Nationality and gender diversity as a crucial dimension and age, race, educational background etc as possible additional dimensions will effect the relation inside the board and between the board and external stakeholders. The relation-oriented types of diversity, that were focussed within this paper, do not only pose new challenges to companies and to boards, but also effect the network structures of boards and the board dynamics. The aim of this paper was to

improve the understanding of nationality and gender diversity on corporate boards in Germany, a country characterized by a strong two-tier-system with national network orientation.

Overall Multi-Mandate BoD	Overall Multi-Mandate SB	Female Multi-Mandate BoD	Female Multi-Mandate SB
618	1581	18	138
679	1639	679	1639
87,64%	95,53%	2,65%	8,42%
Overall Multi-Mandate BoD	Overall Multi-Mandate SB	Foreign Multi-Mandate BoD	Foreign Multi-Mandate SB
618	1581	69	131
679	1639	679	1639
87,64%	95,53%	10,16%	8,00%

Figure 4: Main results of the section “Nationality and Gender Diversity from a Multi-Mandate Perspective”

Our results provides evidence, that both, nationality and gender diversity, is not developed that much in Germany. Especially the “old boys’ network” approach with a multi-mandate structure of male, non-foreign board members, typically called the “Deutschland AG” in Germany, seems to be still normal. Although first political endeavours aim to realize a defined rate of nationality and/or gender diversity, female and foreign board members are still a reception.

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