DEVIANCE FROM IDEAL: WHEN HOMOGENEOUS BOARDS MAKE MISTAKES

We conceptually assert that homogeneous board members tend to make mistakes that harm their firms; and empirically argued that there is an association between diverse boards and financial performance. We argue that poor firm performance is a consequence of directors’ deviance from the societal expectations. We conclude that gender and tenure diverse boards make less mistakes, therefore, are more likely carry their firms into better financial positioning.

Introduction

Board of directors is a very critical element of corporate governance system. Corporate directors are expected to be vigilant on managerial action, therefore placing them as watchdogs for shareholders. However, boards also have an important role in terms of advising executives. Taken together all of their responsibilities, boards are important organizations for the society; because when those responsibilities are not fulfilled, poor organizational outcomes occur (Finkelstein, Cannella and Hambrick, 2009). This study, therefore, is an attempt to improve our understanding of deviant actions, such as mistakes, on the part of boards of directors.

In the heart of this research lie the mistakes that are carried out by the directors of whichever company. Here, we associate mistakes with any kind of act or omission that is conducted by directors, either intentionally or unintentionally, resulting in any form of harm for the firm. This rationale has strong theoretical basis under the umbrella concept of deviance in Sociology (Durkheim, 1966; Merton, 1936, 1968). Several scholars studying organizational deviance in the management literature have built their research on Durkheim’s and Merton’s works (Raelin, 1984; Robinson & Bennett, 1995; Warren, 2003).

While board of directors, from the upper echelons perspective, is equally responsible for the success of the firm along with the top management team by not only providing advice and counsel, but also by directly initiating into strategy decision making (Carpenter, Geletkanycz, & Sanders, 2004); the board, at the same time and from the agency theory view, can be taken responsible for the failure of the firm for not conducting its control function on executives effectively, such that CEOs do not get hired and fired without boards of directors playing a central role in order to discipline top management (Zald, 1969; Mizruchi, 1983).

Taking the conclusion of the organizational demography literature as a motive power that demographically similar individuals develop comparable attitudes and a shared language as a result of common experiences and similar choices (Michel and Hambrick, 1992; Westphal and Zajac, 1995); many researchers study whether changes in board’s structure can influence corporate performance. This study, in the same stream, empirically examines director heterogeneity in terms of dissimilarities of particular demographic attributes and their effects in a sample of firms.
The paper is divided into two major parts. In the first, we provide the basic theoretical underpinnings of board behavior. Here, we discuss board’s role from strategic leadership, diversity and organizational deviance perspectives and build our hypotheses from this theoretical framework. In the second part, we discuss the methodology used and then report our analysis and its results. In the end, we conclude our arguments by discussing the results, highlighting some of its limitations and its implications for further research.

**Theoretical Framework**

**Upper Echelons Perspective**

Upper echelon theory states that demographic characteristics of an organization’s top management team (TMT) determine the TMT’s cognitive structure and thereby influence organizational outcomes (Hambrick and Mason, 1984). It is the top managers that are generally the most influential organizational actors determining a firm’s strategic direction (Hambrick and Mason, 1984). Yet, many authors argue that it is possible to extend upper-echelons theory to the board of directors and to study the relationships between various board member characteristics and organizational outcomes (Carpenter, Geletkanycz, & Sanders, 2004; Daily, Certo, & Dalton, 1999; Goodstein, Gautam, & Boeker, 1994; Hillman, Cannella Jr, & Harris, 2002; Hillman, Shropshire, & Cannella, 2007). Since upper echelons theory (Hambrick and Mason, 1984) studies strategic leadership, which generally focuses on executives and top management teams; boards of directors should have a place in this stream. Specifically, directors do affect strategy through their involvement in committees, recommendations to top management and oversight of executive decisions. Directors also indirectly affect strategy by reducing interorganizational dependencies and by conveying information about other firms’ strategies. Further, through the advice and counsel role (Hillman and Dalziel, 2003), directors can indirectly affect strategy by providing advice and social support to the CEO (Westphal, 1999) and through managing the context in which strategic decisions are made (McNulty & Pettigrew, 1999).

In this fashion, there is considerable evidence in the literature that board of directors affect firm’s strategy. For example, Judge and Zeithaml (1992) examined the antecedents and effects of board involvement from both the institutional and strategic choice perspectives. Baysinger and Hoskisson (1990) reported outside dominated boards would be associated with greater diversification. Mizruchi and Stearns documented how financial representation on boards is associated with corporate borrowing (Mizruchi & Stearns, 1994; Stearns & Mizruchi, 1993). Haunschild reported association between board interlocks and acquisition activities (Haunschild, 1993, 1994). Certo (2003) noted that in initial public offerings, board characteristics influence legitimacy and thus market performance with Merton’s idea that prestige begets prestige (Merton, 1973). Westphal and Fredrickson (2001) concluded that outside directors influence strategy through the selection of a new CEO. Although, there are numerous other studies highlighting the role of board in firm’s strategy process, we just chose to briefly name a few. What is important here is that, upper echelons perspective does treat directors as strategic decision makers and that, by their strategic leadership; directors are influential in the survivability of the companies.

**Diversity within Corporate Boards**

This paper relies on the idea that organizational demographic factors such as organizational tenure and the age of organizational actors are considerably influential in shaping the philosophy, attitudes and behavior of the decision makers in organizations (Blau, 1977). Demography theory suggests that demographic attributes influence social dynamics which in turn influence various organizational outcomes such as organizational performance (Pfeffer, 1983).
Diversity is seen as a source of strategic advantage in organizations (Arfken, Bellar and Helms, 2004). The expectations of organizations favoring diversity may include an increase in their market share and productivity, enhance creativity, be more effective, and recruit new customers and employees in the existing or emerging markets. Here, the underlying assumption is that team members bring their own backgrounds to their tasks. Their views are influenced by their professional backgrounds and cultural backgrounds. Therefore, a diverse group will have a wider and more elaborate perspective, which will drive more thorough analyses or considerations and end up with better chances of success. Boards have traditionally been viewed as a homogenous group of elites, who have similar socioeconomic backgrounds, hold degrees from the same ivy-league schools, have similar educational and professional training, and, as a result, have very similar views about appropriate business practices (Domhoff, 1970; Useem, 1984). Board structure and composition are arguably the most fundamental of board dimensions in numerous studies on corporate boards (Zahra and Pearce, 1989). Yet, more importantly, both the determinants and the consequences of board structure and composition are strongly rooted in strategic leadership, since these structure and composition result in various social, psychological and economic outcomes (Finkelstein, Cannella and Hambrick, 2009). As discussed earlier, although there is a comforting belief in a positive relation between diversity within corporate directors and firm’s accomplishments, there is no agreement among scholars that diversity results in better performance.

**Organizational Deviance**

We conceptually build upon routine nonconformity argument (Vaughan, 1999) as an explanatory tool to address deviance relevant to corporate boards. This line of inquiry helps to understand how things go wrong in socially organized settings. Routine nonconformity encompasses sociological concepts to explain why normative standards or expectations are violated (internal rules; legal mandates; social expectations); and why categories of the public are harmed, which are firmly tied with board’s role in preventing any harm to the firm.

We are aware that not every deviant action is regarded as an anomaly. In this view, anomalies are regarded as a normalization of deviant actions and may become norms or even standards over time in a routine basis. Consequently, we believe that some firms systematically produce deviance with unanticipated negative outcomes. In parallel to routine nonconformity argument, we consider that this process is routine\(^1\), because it is repetitious and therefore predictable; it is nonconforming, because it differentiates deviant behavior from conforming behavior.

Therefore, the critical underpinning of our assumption in this argument is that certain institutional and organizational cultural beliefs can create an environment, which limits decision-makers’ foresights and promotes failures by affecting the interpretation of relevant information. This happens where information are either neglected or misinterpreted by decision-makers. For this reason, we chose mistake\(^2\), which is a form of deviance, as an explanatory tool to investigate the role of boards in underperforming companies. Sociologically, mistakes are defined as acts of omission or commission by individuals or groups of individuals acting in their organizational roles, which violate formal design goals and normative standards and expectations that produce unexpected adverse outcomes with a contained social cost (Vaughan, 1999). It is, thus, reasonable to assume that where there is mistake some directors as decision makers of companies neglected a number of critical information or made hasty decisions, which resulted in outcomes that were not beneficial for the firm. The board is the recipient of the public and shareholder trust and, in addition to portraying confidence to investors; it is taken for granted to

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1 Figure 1 illustrates how poor firm performance developed as a deviance. Note that it is systematically produced in a routine basis throughout the observation period in our sample.

2 Vaughan (1999) conceptualizes three types of routine nonconformities that can systematically occur in organizations. These are namely mistake, misconduct and disaster. In this study, we limit our focus only to mistake as a deviant behavior form.
suppose that responsible wise decisions are made and that the law is being followed. However, some
directors may lower the expected value of their firms from inaccurate perceptions or flawed decision\(^3\) 
with a heavy social cost. For this reason, our framework is based on the research that suggests 
organizational actors are vulnerable to a range of cognitive biases. The notion that decision makers are 
susceptible to cognitive biases that lead to flawed or sub-optimal decision making continuously attracted 
scholars’ attention (See Barker & Duhaime, 1997; Barnes, 1984; Lovallo & Kahneman, 2003; Starbuck & 

If mistakes are omissions or commissions of firm directors, who violate formal design goals and 
normative standards and expectations of a given board with poor financial results; then there must be 
logical explanations for such a nonconforming behavior. We propose that mistakes are captured by 
demographics of board directors. The idea that demographical similarities lead to for mistakes and 
therefore results poor performance has been studied frequently in the literature. For example, Harvey 
(1988) and Janis (1972) concluded that group similarities drive to in-group agreeability, which may lead 
to flawed decisions due to the absence of critical thinking. Levinthal and March (1993) argued that 
despite the virtues of learning, organizations can experience learning myopia. Scholars have also 
suggested that beliefs about action-outcome relationships can change as a result of group experience, 
where the group membership tenure becomes similar (Louis & Sutton, 1991). These scholars further 
argued that failed projects were not attributable to rational choices gone awry, but rather to flawed 
managerial decisions based on collective cognitive bias.

Cohesiveness and shared identity are generally considered to be beneficial to group operations 
(Fambrough and Comerford, 2006). The functional importance of cohesiveness for effective group 
operations has been argued in the group dynamics literature (Cartwright & Zander, 1968: Gladstein, 1984; 
Levine & Moreland, 1990; Stogdill, 1959; Zander, 1982) that homogenous groups facilitate cohesiveness. 
However, as Janis (1972) argued, groupthink is a mode of thinking that people engage in when they are 
deeply involved in a cohesive group, when the members striving for unanimity override their motivation 
to realistically appraise alternative courses of action. “A group is more than a collection of persons, more 
than the sum of its parts. It has being and essence” (Gibb, 1978: 50). Turquet (1974) purports that a state 
of oneness between the individual and the group is achieved when members seek to join in a powerful 
union with an omnipotent force. Yet, members with longer tenures are regarded as established and deep-
rooted elements of that group, whereas newcomers with low tenures are alienated at first. Therefore, 
recently initiated members would bow down to the dominant coalition unless they accept to be 
stigmatized. Change may be resisted because of inertia, threats to the power base of the old dominant 
coalition, values and beliefs, conformity to norms, and inability to perceive alternatives (Tichy, 1983). 
Because "members who have more power usually have more say in the final decision" (Zander, 1982: 
18), the possibility of oppression through consensus becomes clear. With so many forces working to 
achieve homogeneity, coupled with the rewarding of conformity with power and influence, logic suggests 
that heterogeneous opinions will seldom prevail and will only occasionally be permitted to enlarge the 
scope and depth of discussion. As Guinier (1994) suggests, "The tyranny of the majority is just as much a 
problem of silencing minority viewpoints as it is of excluding minority representatives or preferences" (p. 
20). Therefore; we argue that group homogeneity inside the board hinders the development of different 
perspectives that may be required. We see this impediment of the development of beneficial and creative 
decision making process as the mistakes made by the directors of the board.

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\(^3\) See Janis's (1972), Messick & Bazerman’s (1996), Vaughan’s (1997) and Lovallo and Kahneman's (2003: 58) claims about 
"flawed decision making".
Hypotheses Development

Director Gender

Although most reports indicate that the number of female directors is increasing, their overall percentage remains very small (Kesner, 1988; Hillman, Shropshire and Cannella, 2007). Research suggests that organizational actors make decisions that are consistent with their cognitive bases (Hambrick and Mason, 1984) and that different gender possess different norms, attitudes, beliefs, and perspectives (Pelled, Eisenhardt, and Xin, 1999). For this reason, gender diversity has been found to facilitate creativity within groups (Nemeth, 1986). In parallel, we argue that, less gender diversity will increase the chance of making mistakes. Therefore, we hypothesized:

Hypothesis 1: The less the directors’ gender diversity, the more the likelihood of mistakes and therefore, the lower the firm financial performance.

Director Age

Age is an important demographic attribute because it influences a person’s background and personal experiences outside the employing organization (Wiersema and Bird, 1993). Age reflects directors’ general business experience, maturity, and background. With years, directors exercise and enhance their governance skills. These influence attitudes and beliefs and contribute to the creation of a shared language among members of an age cohort (Rhodes, 1983). By contrast, age diversity can result in major differences in beliefs and value systems (Wagner, Pfeffer and O’Reilly, 1984), which in return can affect the level of integration and cohesion within a group. As a result, directors who are dissimilar to other board members in age are more likely to disagree in shared strategic decisions. This will have a positive impact for decision situations, where collective cognitive bias would drive to worse consequences; whereas fresh ideas from diversely aged directors might add value to the board decision making process. Since age is a representation of accumulated experience in a director’s career, we hypothesized that:

Hypothesis 2: The less the directors’ age diversity, the more the likelihood of mistakes and therefore, the lower the firm financial performance.

Director Tenure

Research on organizational demography has suggested that the length of tenure in a group is relevant to organizational performance (Kosnik, 1990; Mallette and Fowler, 1992) and firms’ strategic actions, and strategic change (Golden and Zajac, 2001). As the length of time on a board grows, directors are exposed to a variety of situations that provide opportunities for enhanced familiarity with the corporation’s specific governance issues and problems (Kesner, 1988). A long tenure as a corporate director confers expert power through an increased familiarity with the firm’s resources and methods of operation (Zald, 1969; Alderfer, 1986). However, low-tenured directors, especially those who were appointed after the current CEO took office may feel beholden to or sympathetic toward the incumbent CEO (Finkelstein and Hambrick, 1989). However, tenure diversity may have negative consequences as well. The traditional perspective is typified by Katz (1982), who suggests that longer tenure is associated with greater rigidity, increased commitment to established practices and procedures, and increased insulation from new ideas. We suggest that both arguments can coexist and assume that director tenure is associated with the performance of the firm either positively or negatively, since the director is part of the elite circle that makes critical decisions. Since, both long and short tenure has merits inside the boardroom; we argue that a board with different tenures will balance their handicaps. Therefore, we hypothesized:
Hypothesis 3: The less the directors’ tenure diversity, the more the likelihood of mistakes and therefore, the lower the firm financial performance.

Methodology

Data

The data used in this study is cross-sectional reflecting the year 2006. It came from various sources and covers a sample of 145 companies quoted in S&P500 Index. Rather than using a random sample, we chose companies according to their financial performance. By taking ROE as a performance indicator, we categorized companies into underperforming or overperforming. In building the sample, we took into consideration directors’ tenure and their firms’ financial performance. Thus, our sample consists of firms, which match the average director tenure with firm performance. This process is discussed in detail in the next paragraph.

We used the following sampling procedure: First, we examined the list of all in S&P500 company directors for the year 2006 (N=8,718). Among that list, 876 (~10%) were removed because tenure information was not available. Descriptive statistics analysis revealed 7 years as a median value for average director tenure in S&P500 firms. Here, we chose median over arithmetic mean, because it indicates the midpoint that splits firms in our sample into two equal halves. Thus, is not sensitive to extreme scores. The magnitude of the other values in the group of firms and their relative magnitude in comparison to the median are not taken into account. An extreme score could pull the mean in a direction and could make it less representative of the set of scores (Hempel, 2006). Further, we traced the ROE information of all companies going back to year t-7 years, 2006 being the base year. Here again, we removed 19 companies for inadequate data. This is most probably due to mergers or acquisitions among companies resulting in disappearance/appearance in the S&P500 list. We classified the remaining firms into two subsamples of above and below median performing companies, eliminating those that did not show up in each of the 7 years. This provided us with 145 firms in the final sample. These firms range in size from $564M to $345,977M in 2006 sales ($x = $17,626M; $\sigma = $35,162M). We then worked on the unit of analysis in this research, which is the board of directors of each firm.

We gathered information from the following data sources: all the information regarding company directors came from proxy statements. Company related industry information and financial performance indicator came from Compustat’s North American database.

Measures

Dependent variable. We chose an accounting-based measure, return on equity (ROE), as a financial performance gauge. Previous research highlight the importance of ROE among many other performance indicators as it comes from an objective source of information (Tian and Lau, 2001; Peng, 2004). Moreover, as suggested by Finkelstein and Hambrick (1989), when comparing it is more relevant to measure profitability or performance rates rather than profit size. Our dependent variable was therefore a dichotomous with 1 for overperforming firms and 0 for underperforming ones. Figure 1 illustrates the extent to which ROE is scattered among studied firms throughout the years in our sampling period. This graph shows the extent to which underperforming companies deviate from the average ROE of our sample or that of the S&P500.
Independent variables. We chose three independent variables. (a) Gender similarity is calculated from our gender variable, which is coded as 1 for female and 0 for male. We use a variant of the Blau index (1977), which is defined as:

$$1 - \sum_{j=1}^{n} \left( P_j \right)^2$$

where $P_j$ is the percentage of board members in each $i^{th}$ category and $n$ is the total number of board members. Values of the Blau index (1977) for gender diversity range from 0 to a maximum of 0.5, which occurs when the board has an equal number of men and women. Blau’s (1977) index is a widely used measure of heterogeneity when categorical variables are used. This measure is used commonly in diversity research to assess similarity among corporate directors’ genders (Allison, 1978; Finkelstein and Hambrick, 1996, Carpenter, 2002 Westphal and Zajac, 1995; Westphal, 1999).

(b) Age similarity and (c) Tenure similarity are measured with a coefficient of variation, which is defined as:

$$\frac{\sqrt{\frac{\sum_{j=1}^{n} (x_j - \bar{x})^2}{n \bar{x}}}}{\bar{x}}$$

In this formula, the numerator shows the standard deviation and the denominator shows the mean. The Coefficient of variation is a normalized measure of dispersion of a probability distribution. Age similarity was computed as the coefficient of variation in board members’ ages as reported in the most recent proxy statement. Tenure similarity was computed as the coefficient of variation of the number of years each director had been serving on a given company board. Note that the larger values of a coefficient of variation indicate a diverse or heterogeneous board’s given attribute. Previous research used this measure in assessing heterogeneity among ratio scale measures (Harrison and Klein, 2007). Coefficient of variation is used in research focusing on top management teams’ age and tenure diversity (Knight, et al., 1999; Pegels, Song and Yang, 2000).

Control variables. We included seven control variables to our analysis. (a) Industry is an important variable to be controlled for board related research. As Zahra and Pearce (1989) pointed out, contextual factors, such as industry, do affect boards and performance relationship. After examining the NAICS codes of the companies in our sample, we coded industry type as a dichotomous variable, indicating 0 for a service company and 1 for a manufacturing one. (b) Firm Size: It is often assumed that larger firms have more extensive international activities, which, in turn, will be reflected in higher values on measured global strategic posture. In addition, firm size has been argued to affect the relationship between executive characteristics and organizational outcomes (Miller, 1991). Firm size represents the number of employees working for a given company. (c) Board Size is another variable we controlled for. Larger boards have been associated with better performing organizations (Pfeffer, 1972; 1973; Provan 1980, Siciliano, 1996), but there is no consensus on the board size for firm survival. Board size is operationalized as the number of directors sitting on the board of the company, including emeritus and advisory members (d) Number of Meetings is operationalized as the number of full board meetings held in
a given year as reported in most recent proxy filing; but excluding non-executive board meetings. (e) **CFO as Director** is a dichotomous variable indicating whether an individual is both a director and CFO of a given company at the same time. (f) **Leadership Duality** or CEO duality occurs when the same person holds both the CEO and board chairperson positions in a corporation (Rechner & Dalton, 1991). CEO duality (a CEO holding both the role of CEO and Chairman of the board) is believed to have opposing effects that boards must attempt to balance. On the one hand, duality can firmly entrench a CEO at the top of an organization, challenging a board's ability to effectively monitor and discipline (Mallette & Fowler, 1992). Duality, in this research, is a dichotomous variable indicating whether the CEO of a given company is also serving as the chairman of the board of directors of the same company at the same time. (g) **Founder as Director** is a dichotomous variable indicating whether the person that founded the company is a director on the board of that company (Daily & Dalton, 1992; Certo, Covin, Daily, & Dalton, 2001).

### Analyses and Results

Given our use of dichotomous variables for the dependent and independent variables and for a series of control variables, we relied on logistic regression analysis for testing hypotheses regarding director attributes’ dissimilarity effect on corporate performance. More specifically, we used likelihood ratio approach, which combines aspects of hierarchical multiple regression and discriminant function analysis (Daily & Dalton, 1994).

Table 1 shows descriptive statistics for underperforming, overperforming and aggregate of two sub-samples. Table 2 provides the correlation matrix for independent and control variables. Table 3 presents the results of the regression analysis.

The logit model was highly significant \( p<0.000 \). The results of the logistics regression analysis provided support for hypothesis number 1. More specifically, over-performance was more likely in firms with higher dissimilarity of directors gender \( p<0.05 \). We also found support for hypothesis number 3, such that over-performance was more likely in firms with higher tenure diversity among directors \( p<0.05 \). However, the findings of this study could not provide any evidence for hypothesis number 2; diversity in directors’ age is not statistically related to over-performance.

Among control variables, a strong association existed between over-performance and firm size \( p<0.05 \). We also found that over-performance was less likely with larger board size \( p<0.05 \). Finally, a lighter association was found between likelihood of over-performance and a smaller number of board meetings \( p<0.1 \).

### Discussion and Conclusion

Board of directors’ characteristics, in particular structure and composition, and their relationship to firm performance is an increasing research concern (Johnson, Daily, and Ellstrand, 1996; Pettigrew, 1992; Zahra and Pearce, 1989). This study provides some empirical evidence for hypothesized relationships between dissimilarities within board and financial performance.
While diversity can increase creativity (Pelled et al., 1999), it can also increase group conflict (Jehn, 1995), and decrease commitment and communication (Tsui et al., 1992). Raatikainen (2002) emphasizes that diverse groups make better decisions. This would indicate that diversity on boards will lead to better performance by companies. But overall, so far the research results concerning the performance of diverse teams are widely divergent and inconclusive. The ultimate question that diverse boards perform better is still regarded as a challenging one for many (e.g. Palmer and Varner, 2007). The research on teams indicates that diverse teams have the potential of a better performance than would homogeneous teams. Our study shows mixed results. While gender and tenure diversity are associated with better financial performance, age diversity has no statistical effect.

Therefore, in general, our results at least partially confirm that diversity among board members could be associated with boards’ involvement in strategic decision making (Finkelstein, Cannella and Hambrick, 2009). This assertion is, along with Westphal and his colleagues’ work, showing that diverse directors tend to be less involved in board meetings, and for the same reason less involved in strategic decision making (Westphal and Bednar, 2005; Westphal and Milton, 2000; Westphal and Stern, 2006). However, our suggestion that diversity reduces the occurrence of mistakes is a challenging one. Directors can be viewed as decision experts, dealing with today’s business world’s complexities and uncertainties. For example, to be effective directors must be aware of board functioning (Mace, 1971), which requires an enormous cognitive effort (Rindova, 1999). This is made even more challenging in the aftermath of the Sarbanes-Oxley Act. The demand has increased for directors to become more active in strategic decision making (Galen, 1989; Power, 1987; Weidenbaum, 1985). Concerns over director liability, influence of institutional investors and the Sarbanes-Oxley Act requirements trigger this change (Finkelstein, Cannella and Hambrick, 2009). As a result, diversity brings different voices and perspectives and reduces diversity in directors is associated with better firm performance.

Researchers that have investigated the performance effects of board size include, but not limited to, Dalton, et al. (1999), Provan (1980), Pearce and Zahra (1992). As Yermack (1996) found an inverse association between board size and firm value, we also found a negative association between board size and performance. However, there is no general agreement among researchers as to whether larger or smaller boards perform better (Johnson et al., 1996; Dalton et al., 1999; Williams, Fadil and Armstrong, 2005). Larger boards are generally more diverse and less cohesive than smaller boards. Such diversity among board members encourages conflict and results in a better performance of the firm. Our results indicated this direction. However, we were aware that, at the same time, diverse boards may also result in the formulation of a wide variety of decision alternatives. A larger board possesses more specialized skills and opinions among its members than a smaller board, and is better equipped to obtain and process a great deal of information about the firm and its environment (Amason and Sapienza, 1997). Some argue that larger, more heterogeneous boards serve a “co-opting” function by linking the firm with its environment and buffering the firm from environmental disturbances (Clendenin, 1972; Alexander et al., 1993).

Our interpretations should be considered with caution, because there are relatively few studies exploring the direct association between boards and firm performance. This is, partly, because the process might be considerably more complex than typically assumed. Perhaps most important, board structure and composition do not have universal effects on firm performance. There are too many intervening dimensions (e.g., individuals, processes, contingencies), which reduce our ability to identify strong associations with board characteristics (Finkelstein, Cannella and Hambrick, 2009). Our argument here is based on the belief that the effects of boards of directors, as embedded supra-organizations framed under unique norms and values, are complex to comprehend, when considering their roles at the apex of a decision-making process.
Finally, it should not be a surprise that diversity inside board is beneficial for the firm. As time goes by corporate boards change. Looking at the composition of the social system around us is testimony of the heterogeneity of modern society. The prevalence of diversity as a buzz-word of proactive, forward-looking organizations (Nkomo & Cox, 1996) further makes the point that norms and isomorphism are important, and universalized theories shape our perceptual frame. "Theories-in-use are theories of the artificial; they help to create as well as describe the behavioral worlds to which they apply" (Argyris & Schön, 1974: 30). We believe that diversity studies in different parts of the organizational phenomena will continue to shed light on our understanding of the social world surrounds us.

In this research, by borrowing the concept of mistake from the organizational sociology literature, we argued that diverse boards should be more advantageous than homogenous boards making less mistakes and therefore driving their firms to better financial positions. While arguing this, our underlying assumption was boards’ strategic role. We tried to conceptually refute the view that boards’ essential role is monitoring not initiating. There, we argue that directors’ primary role in the strategy formation process is advising and evaluating, rather than initiating directly and that challenging management is regarded as a threat for strict norms (Westphal & Khanna, 2003); yet directors still need to be held liable, at least partially, for mistake-leaden consequences in firm’s performance.

The results of our analyses indicate that board diversity measures in gender and tenure are associated with better financial performance. Although, we could not find association between age similarity and performance, we also found that firm size is positively and board size is negatively associated with firm performance.
Table 1
Descriptive Statistics

<table>
<thead>
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<th>Variable</th>
<th>Underperforming Companies</th>
<th>Overperforming Companies</th>
<th>All Companies</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Mean</td>
<td>St. Dev.</td>
<td>N</td>
</tr>
<tr>
<td><strong>Gender Similarity</strong></td>
<td>.1720</td>
<td>.10689</td>
<td>69</td>
</tr>
<tr>
<td><strong>Age Similarity</strong></td>
<td>11.6001</td>
<td>2.49849</td>
<td>69</td>
</tr>
<tr>
<td><strong>Tenure Similarity</strong></td>
<td>8.6525</td>
<td>3.72193</td>
<td>69</td>
</tr>
<tr>
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<td>.5362</td>
<td>.50234</td>
<td>69</td>
</tr>
<tr>
<td><strong>Firm Size</strong></td>
<td>1.183</td>
<td>.5352</td>
<td>69</td>
</tr>
<tr>
<td><strong>Board Size</strong></td>
<td>18.3768</td>
<td>5.13380</td>
<td>69</td>
</tr>
<tr>
<td><strong>Number of Meetings</strong></td>
<td>9.0725</td>
<td>3.85135</td>
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<td><strong>CFO as Director</strong></td>
<td>1.0000</td>
<td>.00000</td>
<td>69</td>
</tr>
<tr>
<td><strong>Leadership Duality</strong></td>
<td>.5797</td>
<td>.49722</td>
<td>69</td>
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<tr>
<td><strong>Founder as Director</strong></td>
<td>.1884</td>
<td>.39390</td>
<td>69</td>
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Table 2
Correlation Matrix for Independent and Control Variables

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<th>All Firms</th>
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<td><strong>ROE</strong></td>
<td>Mean</td>
</tr>
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<td></td>
<td>0.2505</td>
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<table>
<thead>
<tr>
<th>Independent and Control Variables</th>
<th>Gender Similarity</th>
<th>Age Similarity</th>
<th>Tenure Similarity</th>
<th>Industry</th>
<th>Firm Size</th>
<th>Board Size</th>
<th>Number of Meetings</th>
<th>CFO as Director</th>
<th>Leadership Duality</th>
<th>Founder as Director</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Gender Similarity</strong></td>
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<td>0.2308</td>
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<td>0.37905</td>
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N=145; for all variables, p>0.05
Table 3  
Logistics Regression Results

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<th>Control Variables</th>
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<td>Financial Performance</td>
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<td>Tenure Similarity</td>
<td>.159*</td>
<td>Number of Meetings -.105**</td>
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|                      |               | CFO as Director -19.641 |
|                      |               | Leadership Duality .674 |
|                      |               | Founder as Director .067 |

* p < 0.05  
** p < 0.10

Figure 1  
Deviance from Ideal Performance - ROE Distribution of the Sampled Firms
References


