CHARACTERISTICS OF CEOS AND CORPORATE BOARDS WITH WOMEN INSIDE DIRECTORS

Deborah Dahlen Zelechowski*, Diana Bilimoria*

Abstract

Women corporate inside (executive) directors constitute an elite minority of leaders of large corporations. This study examines the characteristics of CEOs and boards of Fortune 1000 firms that had women who held the dual leadership positions of corporate director and executive officer in 1998 in order to determine whether firms with women insiders had substantially different characteristics than firms without. We find that compared with firms without women inside directors, firms with women inside directors were characterized by CEOs with longer board tenure, more family ties, and fewer director interlocks, and by boards that were larger, with more insiders, and that utilize a management Chair of the board. Corporate governance implications are drawn for the presence of women at the top of the executive hierarchy.

Keywords: women directors, corporate governance, inside (executive) directors, agency theory, stewardship theory

*Robert Morris College, 401 South State Street, Chicago, IL 60605, 312 935-6644, ddahlenz@aol.com
**Department of Organizational Behavior, Weatherhead School of Management,
Case Western Reserve University, Cleveland, OH 44106-7235, 216 368-2115, 216 368-4785 (fax), dxb12@po.cwru.edu

Prior to the Sarbanes-Oxley Act of 2002, women inside (executive) directors constituted an extremely small but relatively stable minority within the ranks of top corporate leaders: in 1999, there were 46 women executive directors in all of the Fortune 1000 companies, comprising .004% of all directors or less than one half of one percent of total Fortune 1000 directors**.** Over the 10-year period 1987 to 1996, there was no increase in women serving as inside directors in Fortune 500 companies; in fact the number decreased somewhat from 11 inside women directors in 1987 to eight women in 1996 (Daily, Certo, & Dalton, 1999). The first time Catalyst's popular annual census report of women corporate directors made a distinction between board member's corporate affiliations was in 1996; in the years subsequent to this recognition, the percentage of women inside directors compared to all inside directors of Fortune 500 firms increased from 0.9% to 2% (however this added up to a mere 23 women in the 500 largest industrials in 1999).

More recently, the Sarbanes-Oxley (SOX) Act of 2002 has addressed financial reporting and auditing standards for publicly traded companies, primarily with the intent of improving the transparency and accuracy of financial accounting. Implementation of SOX has resulted in dramatic, across the board decreases in the number of inside directors of publicly traded companies (Dalton & Dalton, 2006). The miniscule but relatively stable representation of the pre-SOX corporate leadership group of women inside directors drives our curiosity about the unique nature of the CEOs with whose approval these women were appointed as officers and directors of the firm, and of the boards on which these women sat. Our interest is in determining whether a unique set of CEO and board characteristics explained the presence of women corporate insiders, pre-SOX, in certain but not other firms. In particular, we are concerned with examining how the CEOs and boards of firms with women inside directors consistently differed from a random set of CEOs of companies that did not have these women leaders.

Previous studies of women corporate inside directors have focused on their numeric representation (e.g., Daily, Certo, & Dalton, 1999) and their personal characteristics (e.g., Singh & Vinnicombe, 2004; Zelechowski and Bilimoria, 2001). The present study extends these earlier contributions by moving the focus of inquiry to the contextual factors surrounding women inside directors: the characteristics of the CEOs under whom these women are appointed as officers of the firm, and the structure of the boardroom environments in which these women directors operate. We use a pre-SOX time period in which to base the present analysis because in those years there were far fewer governmental and regulatory pressures to appoint predominantly outside directors on corporate boards; investigation of this time period yields information pertinent to women directors that would be difficult, if not impossible, to obtain post-SOX. The data used in this article were gathered as part of a larger study (Zelechowski, 2001), more qualitative aspects of which were published in Zelechowski & Bilimoria (2004; also see Zelechowski & Bilimoria, 2001).

Why Study CEOs and Boards with Women Inside Directors?

It is important to study the characteristics of CEOs who have female inside directors on their boards because previous researchers have found that CEOs play a critical role in the selection process of all directors. It is thought that directors are not added without the approval of the CEO (Herman, 1981). In fact, in 1998, 75 percent (30 out of 40) of the women inside directors in Fortune 1000 firms were added to their boards after their current CEOs were hired or promoted to the CEO position.

Three additional women had the same length of tenure as the CEO, leaving only seven women who had more board seniority than their CEOs. Interestingly, five of these seven women had family ties with the CEO or another board member or management. These statistics suggest that current CEOs in 1998 participated in the decisions to add women inside directors on to their boards at least 75% of the time.

It is also important to analyze the characteristics of boards with women inside directors as compared to those without, since this comparison informs us about the institutional environments at the top of organizations that are most facilitative of the advancement and leadership of executive women.

Literature Review and Hypotheses

CEOs and boards are charged with maximizing the return to stockholders. Board diversity (including the inclusion of women inside directors) has come to be considered a “business necessity” within the context of good corporate governance (The Conference Board, 1999:8). A survey, *Voting by Institutional Investors on Corporate Governance Issues,* indicated that 39% of respondents said that the lack of women and/or minority members on a board may affect their voting decisions, and 4% of respondents noted that their guidelines require them to withhold their votes in such cases (The Investor Responsibility Research Center, 1993). Additionally, non-owner stakeholders (e.g., the corporate media) also significantly influence opinions held about corporate effectiveness and reputation. For example, in determining the top 25 public companies for executive women, Working Woman magazine narrowed the pool first to those publicly held companies that have at least two women on the board of directors; only after this cut-off are other criteria used to determine if a company makes it to the list (cf. Cleaver, 1998), pointing to the importance assigned by stakeholders to boardroom gender diversity. Employing this view of board diversity, Bilimoria (2000) summarizes the impact of women corporate directors in four key stakeholder arenas: impact on overall corporate financial performance and reputation, strategic input on product/market issues and corporate direction, effective boardroom behaviors, and contributions to women executives and employees.

Thus, in order to capture the advantages of boardroom diversity, it is to be expected that the most effective boards would be those that include the presence of women directors. But to what extent does this view extend to women *inside* directors (those who are dually executive officers and directors of the firm) and are there any CEO and board characteristics that may facilitate their specific presence? To answer this latter empirical question, we examine the following contextual (CEO and board) factors distinguishing firms that have women inside directors from firms that do not have women inside directors.

CEO’s Tenure on the Board

Research on the relationship between expert power and board tenure has generally found a direct relationship (Finkelstein, 1992).

Therefore increased CEO tenure is thought to provide an enhanced familiarity with the firm’s resources and methods of operation. However, while longer term CEOs will provide more informed direction, as well as possess higher status, they may also have more opportunity to entrench themselves, control the director selection process, and influence the board’s monitoring apparatus. In more efficiently structured boards where CEOs are subject to effective monitoring and evaluation, there is likely to be greater CEO turnover than boards where monitoring and evaluation of top executives is ineffective. The effects of this turnover will be CEOs who have relatively shorter tenure when boards are effectively performing their monitoring and evaluation roles. Thus, shorter CEO tenure may indicate an effectively operating board, and we would thus expect the CEOs of firms with women inside directors to have relatively shorter tenure as follows:

Hypothesis 1. CEOs of firms with women inside directors will have shorter board tenure than CEOs of firms without women inside directors.

CEO's Family Relationships

CEOs holding family relationships with other directors have additional avenues of influence in the board's decision making processes, but may thereby reduce overall board independence (Westphal and Zajac, 1996). The Securities and Exchange Commission, cognizant of the impacts of director ties, has promoted the need for independent directors by requiring disclosure of financial, family or other special relationships of all directors. Similarly, the Council of Institutional Investors has called for selection of directors who do not have special ties to the CEO (Westphal, 1998). Thus effectively structured boards include CEOs with fewer family relationships, and we would expect to find that CEOs of firms with women inside directors to have relatively fewer such ties. Hence:

Hypothesis 2. CEOs of firms with women inside directors will have fewer family ties with other directors than CEOs of firms without women inside directors.

CEO's Interlocking Directorships

An interlocking directorship occurs when a CEO concurrently sits on the board of another company. Previous studies of directors' external corporate linkages reveal that this characteristic is a powerful signal of their external experience, visibility, prestige, and centrality in the business and general community (e.g., Pfeffer & Salancik, 1978; Useem, 1980, 1984; Worthy & Neuschel, 1984; Lorsch, 1989). These directors are valued for their general business experience, their familiarity with broader business and industry factors, and their wide network of contacts. It is expected that CEOs with larger exposure to the general business community and greater experience in the governance of other firms through their interlocking directorships are desirable since their wide business knowledge and experience bases can inform effective corporate decisions. Interlocking directorships bring a desirable external focus to the functioning of a board, preventing insular thinking and excessive inner group cohesion. Thus, we would expect that CEOs of effectively structured boards would concurrently hold directorships of other firms, as follows:

Hypothesis 3: CEOs of firms with women inside directors will have more interlocking directorships than CEOs of firms without women inside directors.

CEO/Chair Dual Role

Director independence is affected by CEOs who have disproportionate influence. A CEO who also holds the role of board Chair is considered to possess even greater power. Therefore, the ability of outsiders to challenge a CEO who is also the board chair in board meetings is reduced (Westphal, 1998). Effectively structured boards should split the roles of CEO and Chairman of the Board because a separation of the roles increases the board's capacity to control decision-making (Beatty and Zajac, 1994) and to monitor and challenge the actions of the CEO. Thus, a board chair should have no ties to the management of the firm, because these ties may conflict with shareholders' interests. We would thus expect CEO/Chair separation in boards with women inside directors as follows:

Hypothesis 4: Boards with women inside directors are more likely to be characterized by separate CEO and Chair positions than boards without women inside directors.

Board Size

As board size increases, diversity of perspectives are enhanced but possibly at the expense of the board's ability to reach a consensus. For a board to be efficient, speedy, and responsive in its operations, smaller size has been thought to be more useful. Accordingly, average board size has declined from 16 to 25 board members in 1973 to 11 members in 1998 (Korn/Ferry International, 1998). Alexander, Fennel & Halpern (1993) found larger board size to be associated with stability and status quo: CEOs with larger boards were able to entrench themselves, leading to a generally stable strategic orientation. Based on these findings and our conjectures about the most effectively structured boards, we would expect that firms with women inside directors will be relatively smaller in size.

Hypothesis 5. Boards with women inside directors will be smaller than boards without women inside directors.

Insider Composition

Inside directors are thought to have an inherent conflict of interest; therefore boards should be composed with a strong majority of outside directors. Researchers have argued that boards that are structurally more independent from management are more likely to control decision making and assure the interests of the shareholders (Fama and Jenson, 1983). Previous research has indicated that outside directors are more likely to make objective decisions (Zahra and Pearce, 1989), while inside directors are generally thought to vote as a block and suffer retaliation if their voting conflicts with the CEO's preferences. Since inside directors are dependent on the CEO for their positions, they are less apt to challenge or question direction (Boeker, 1992). For these reasons, we would expect that more effectively structured boards will be characterized by a relative preponderance of outside members, as follows:

Hypothesis 6: Boards with women inside directors will have fewer insiders than boards without women inside directors.

Methods

Sample

Data on the representation and characteristics of inside directors were collected through a detailed review of the proxy statements of Fortune 1000 corporations. Specifically the data was gathered for fiscal year 1998; these data were generally issued in the spring and summer of 1999. For the purposes of comparisons between boards with and without women inside directors, we first identified all boards that had at least one woman inside director by reading the proxy statements of all 1000 firms in the Fortune list for 1998. 36 firms were found to have 45 women inside directors and 109 men inside directors.

These 36 boards constituted our first comparison group. One additional privately held corporation, which has a woman inside director, was not included in this study because relevant information about this company was not available.

Data for the second of our comparison groups, boards without women inside directors, were collected from the proxy statements of a random sample of Fortune 1000 firms. Our criterion for the precise number of these random firms was that the sample size must be a good representation of the whole population within a 95% confidence level. Using Fruend, Williams & Perles' (1988) formula, we started by determining that the necessary sample size for the list of 1000 firms by the 1998 total revenue is 49. However, this formula assumes that each firm's total revenue levels decrease consistently.

To determine if this indeed was the case with our data, all revenues were plotted on a spreadsheet. We determined that while there is little difference in revenues in the Fortune 501 – 1000 firms, there are indeed marked revenue differences in the top 25 firms and specifically in the top 10 firms of the Fortune 1000. To adjust our sample size to more adequately represent large firms, we followed the advice of a statistical expert to pull more data from the top firms in the list. Based on this expert's advice, we collected data from one additional firm in the top three firms and one firm in the fourth through the seventh firms. With these changes, the representative random sample size was determined to be 52 firms. To comprise the random sample of 52 firms, data was collected from every twentieth firm on the 1999 Fortune 1000 list.

In cases where information was impossible to get, generally because the firm was not public, information was collected from the next firm on the list. Based on this selection criteria, the comparison random sample included 0 women inside directors and 112 men inside directors.

In the sample of 36 firms with 45 women inside directors, we found only 5 women CEOs, whereas in the second comparison sample of 52 firms without women inside directors, all the CEOs were men.

Since we were interested in examining the CEOs and boards with and without women inside directors, we included only those firms from the list of 36 firms with women inside directors that had a woman non-CEO inside director. Since 3 of the 36 firms with women insiders had a woman CEO who was the only woman executive on that board, we dropped these 3 firms from the final analyses. The final comparison samples consisted of 33 CEOs and firms with women inside directors, and 52 randomly selected CEOs and boards of firms without women inside directors[1].

Data

The information collected included directors' gender and type, the CEO's gender, board tenure, family relationships, and company directorships, whether the CEO was also the Chair, and the total number of directors and inside directors on the board. Gender was measured as a binary variable, male or female. A binary classification was also used to classify a director's type as insider or outsider.

Following Pearce & Zahra's (1992) well-accepted definition, insiders were measured as current members of the top management team and employees of the company or its subsidiaries. The board tenure of a CEO was measured in years. The variable of a CEO's family relationships with other board members was measured as a binary variable (1 = no family ties and 2 = at least one family tie). The CEO's interlocks were measured as the total number of concurrent directorships of other corporations or financial institutions held by a CEO. CEO/Chair duality was measured as a binary variable (1 = CEO is not Chair, 2 = CEO is Chair). Board size and insider composition consisted of the total number of directors and the total number of inside directors on the board.

Results

The purpose of this study was to compare the CEOs and boards of firms with and without women inside directors. Descriptive statistics and correlations are reported in Table 1. The results indicate significant correlations between the CEO's board tenure and family relationships, and between number of insiders and all other variables.[See appendices, Table 1].

T-tests of the differences between the two sets of firms are reported in Table 2. The results indicate support for the notion that firms with women inside directors are distinctively different from firms without women inside directors, but not in the directions hypothesized. While not supporting the hypotheses based on the logics of effectively structured boards, the results reveal a remarkably consistent pattern as follows.

The first three hypotheses related to tests of various CEO characteristics variables. Hypothesis 1, that CEOs of firms with women inside directors have significantly shorter board tenure than CEOs of firms without women inside directors was not supported. Instead the results showed that CEOs of firms with women directors have significantly longer board tenure than CEOs of the comparison group. Hypothesis 2, that CEOs of firms with women inside directors have significantly fewer family relationships than CEOs of firms without women inside directors was not supported; the results showed a significantly higher number of family relationships held by CEOS of firms with women inside directors. Hypothesis 3, that CEOs of firms with women inside directors have significantly more corporate interlocks than CEOs of firms without was also not supported; instead CEOs of firms with women inside directors had marginally fewer interlocks ($p<.10$) than the comparison sample. In sum, tests of the CEO variables suggest that firms with women inside directors may have more entrenched CEOs – who exert strong internal management influence in corporate governance through their characteristics of longer board tenure, more family relationships, and fewer external interlocks – than do the random sample of firms without women inside directors. .[See appendices, Table 2].

The remaining three hypotheses related to tests of various board characteristics variables. The T-test of Hypothesis 4, that boards with women inside directors would more likely separate the roles of CEO and board Chair, was not supported; results yielded no significant differences between the two sets of firms.

Tests of Hypotheses 5 and 6, that firms with women inside directors would have smaller boards and fewer inside directors, were also not supported; instead firms with women inside directors had significantly larger boards and more insider directors.

Additional Test

As we were examining the details of the non-significant finding of the T-test of Hypothesis 4, we noticed an interesting pattern – frequently the Chairs of the boards with women inside directors seemed to emerge from within their firm's officer ranks (many were listed as employees of the firm, although they were not the CEO), whereas Chairs without women inside directors were complete outsiders.

Thus, we decided to check the differences between the two sets of firms on the basis of the Chair's role and coded a new variable (Chair's Role) as 1 = Non-officer Chair and 2 = Officer Chair. The result of the T-test of this additional variable are also reported in Table 2, and this indicates that Chairs of firms with women inside directors were significantly more likely to be part of the top managements of their firms, suggesting that in these firms CEOs and Chairs work in collaboration with each other as part of the management team. This finding continues the earlier pattern of likely strong internal management influence in board decision making in firms with women inside directors that was detected in the tests of the hypotheses.

Discussion

The current thinking about effective corporate governance, falling under the umbrella of agency theory, is that effectively structured boards are those that have the most independent decision-making. The structures that assist in independent decision-making are CEOs that have fewer "special" internal relationships (e.g., fewer family ties), CEOs with experience and connections in the external business community (e.g., more directorships of other firms), and CEOs who are not entrenched (e.g., shorter board tenure), as well as boards characterized by leadership by an independent Chair (e.g., non-officer chairs), flexibility and responsiveness (e.g., smaller board size), and effective monitoring (e.g., fewer inside directors).

However, our results indicate that a particular subset of firms in 1998, those with women inside directors, appeared to be structured somewhat differently from what agency theory would hypothesize. Their CEOs had longer board tenure, more family relationships and fewer interlocks, and their boards had fewer "true" separations of the CEO role and Chair roles, larger size and more inside directors than did firms without women inside directors. It appears from this study that firms with women inside directors, pre-SOX, may not have fully displayed the characteristics of independent governance; instead the characteristics of their CEOs and boards gave every indication that these firms were controlled by powerful (internal) management interests. This consistent pattern of results directs our attention to another theoretical perspective that has been employed in the literature to understand the corporate governance relationships among CEOs, boards, and shareholders: stewardship theory.

Stewardship theory is based on the assumption of alignment of interests between the principal (shareholders) and steward (CEO), which creates organizational trust and ultimately, corporate prosperity (Donaldson & Davis, 1989, 1991; Davis, Schoorman & Donaldson, 1997). Stewards are rationally motivated to achieve the organization's objectives, thereby satisfying both their own and principals' interests. Empowering governance structures and mechanisms, which give stewards high authority and discretion, facilitate pro-organizational behaviors of the steward. Thus, structures such as CEO-chaired boards empower CEOs to assume full responsibility for the fate of the organization and to proceed unimpeded in determining corporate direction and strategy to maximize corporate performance (Davis, Schoorman & Donaldson, 1997).

Agency theory and stewardship theory differ in a number of respects, including the nature of the goals and interests underlying corporate governance, the nature of the mechanisms to ensure corporate effectiveness, and the nature of corporate power.

In contrast with agency theory's assumptions of individual goals, divergent interests, external monitoring and controls, external rewards, the agent's social comparisons with other agents, and reliance on institutional (reward and coercive) sources of power, a stewardship perspective is grounded in assumptions of collective goals and cooperation, an environment of trust with aligned interests, and intrinsic motivation. An approach with these assumptions call for boards to have more social ties to foster trust and therefore greater input from directors and long term relationships to foster firm identification (Sundaramurthy & Lewis 2003).

Davis, Schoorman & Donaldson (1997) identified three psychological and two situational factors indicating stewardship. The psychological factors are the steward's intrinsic motivation, identification with the organization and its values, and influence through reliance on personal bases of power (expert and referent).

In the corporate governance context, these factors translate to a CEO's identification and relational connections with owners and other board members through demographic similarity as well as social and family ties with owners and other board members, and high personal experience-based characteristics and qualifications that signal his or her expert and referent power, such as longer tenure as the CEO and longer tenure on the board.

Additionally, two situational factors are seen to facilitate stewardship behavior by organizational leadership: an involvement-oriented situation, and a collectivist, low power distance culture (Davis, Schoorman & Donaldson, 1997). Again, in a boardroom setting, these involvement and integration factors translate to contextual structures that empower stewards, as for example greater involvement by the firm's executives in its governance (more inside directors), greater involvement of important stakeholders in corporate governance (larger board size), and CEO chaired boards. The results obtained in the present study seem to provide preliminary evidence that the CEO characteristics and board structures found in pre-SOX firms with women inside directors may have approximated stewardship theory conditions.

Since women insiders serve the dual roles of executives and directors, firms employing stewardship relationships among CEOs, boards, and shareholders may have been more likely to have women inside directors, on two counts.

First, as insiders, they may have served to enhance the executive team's involvement in corporate governance and performance, providing support for the CEO's board leadership.

Second, as women, these directors may have served as bridges to key stakeholders (e.g., investors, the general public, women customers, women employees) whose diverse interests may have been important to address for long term corporate prosperity.

Previous researchers have found that few women are in the pipeline for CEO positions (Daily, Certo & Dalton, 1999; Singh & Vinnicombe, 2004; Zelechowski & Bilimoria, 2001). The present study suggests that an explanation for the lack of women leaders at the top of corporations may be the prevailing corporate governance environment. The rise of women executives to board director positions may be facilitated by the existence of specific kinds of CEOs and boards.

Thus, director selection processes and searches charged with increasing a board's gender diversity may do well to examine the CEO and board characteristics supporting the inclusion of women insiders. The 33 Fortune 1000 CEOs with women inside directors in our sample were distinctive. They appear to have taken a progressive stance on women's representation at the top of the corporate hierarchy as they were among the few CEOs who gave women executives this opportunity.

As mentioned earlier, in 75% of these cases, the women executives were added to their boards after the present CEO had been appointed. The CEOs that utilized women inside directors held a high degree of status and influence through family relationships, longer tenure, and a predominantly internal focus, as well as a higher level of management team support with a management Chair, larger board size, and more insider directors. With this power and status may have come an increased level of security to influence corporate governance, which may be why these CEOs appointed women inside directors. In contrast, examination of the CEO characteristics of firms without women inside directors in our random sample suggest that they may not have had such high personal power and influence or such high managerial support and control; rather they may have had an increased level of uncertainty normally associated with director independence and control. It may be that these factors contributed to the lack of women executives on the boards of their corporations. In the current post-SOX environment, future research should more directly investigate the dimensions of CEO power and their impact on corporate board composition, particularly the recruitment of women directors.

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Notes

1. Tests were also run without excluding the 3 firms that were originally dropped from the analyses because their only inside woman director was the CEO. Identical results to those reported in this study were obtained for all hypotheses.

Appendices

Table 1. Descriptive Statistics and Correlations

N=85

Variable	Mean	S.D.	2	3	4	5	6
1. CEO's Board Tenure	11.01	9.37	.569**	-.144	-.007	.149	.278*
2. CEO's Family Ties	1.18	0.38		-.147	-.086	.012	.284**
3. CEO's Interlocks	1.13	1.47			-.047	.011	-.215*
4. CEO/Chair Split	1.62	0.49				.082	-.038
5. Board Size	11.19	2.97					.355**
6. Number of Insiders	3.09	1.92					

* p < .05,** p < .01

Table 2. T-Tests of differences between firms with and without women inside directors (WID)

	Firms with WID	Firms without WID (Random Sample)	T
	n=33	n=52	
Hypothesized Tests			
1. CEO Board Tenure	14.09	9.06	2.36*
2. CEO Family Ties	1.30	1.10	2.27*
3. CEO Interlocks	0.82	1.33	-1.75+
4. CEO/Chair Split	1.70	1.58	1.13
5. Board Size	12.21	10.54	2.62**
6. Insider Composition	4.52	2.19	6.06**
Additional Test			
Chair Role	2.00	1.77	3.91**

+ p < .10,* p < .05,** p < .01