

BOARD DIVERSITY, THE LOGIC OF DIFFERENCE & THE LOGIC OF EQUIVALENCE: A CRITICAL STUDY OF THE EMERGENCE OF CORPORATE DEMOCRACY

LA DIVERSIDAD DEL CONSEJO, LA LÓGICA DE LA DIFERENCIA Y LA LÓGICA DE LA EQUIVALENCIA: UN ESTUDIO CRÍTICO DE LA APARICIÓN DE LA DEMOCRACIA CORPORATIVA.

KEN MCPHAIL, University of Glasgow

ABSTRACT

Within the corporate governance literature the notion of diversity has emerged as an important regulatory mechanism (See for example the Tyson Report 2003). This interest has emerged in part due to various national legislative reforms introducing mandatory quotas for female directors. As the debate surrounding these reforms emerges and begins to take form, it is important that the prevailing paradigm of democracy is not taken for granted but is subject to critical scrutiny. Drawing on Ernesto Laclau's *On Populist Reason* in particular, the paper attempts to problematize notions of difference and representational democracy that lie at the heart of the reforms. The aim of the paper is to stimulate further debate on the democratizing potential of the recent political interventions in the composition of the boards of directors.

KEY WORDS: Board Diversity, Logic of Difference, Logic of Equivalence, Corporate Democracy.

JEL: M10, M48

RESUMEN

Dentro de la literatura de gobierno corporativo la noción de diversidad ha surgido como un mecanismo de regulación importante (Ver por ejemplo el Informe Tyson 2003). Este interés ha surgido en parte debido a varias reformas legislativas que han introducido cuotas femeninas obligatorias en la dirección. Ya que el debate sobre estas reformas empieza a tomar forma, es importante que el paradigma de democracia prevaleciente no se tome por sentado sino que sea un tema de análisis crítico. Basándonos en el trabajo de Ernesto Laclaus *On Populist Reason*, este artículo intenta examinar las nociones de diferencia y democracia en la representación que subyacen en el centro de las reformas. El último objetivo de este artículo es estimular el debate sobre el potencial de democratización de las recientes regulaciones políticas sobre la composición de la dirección de los consejos.

PALABRAS CLAVE: Diversidad del Consejo, Diferencia y equivalencia de género, democracia corporativa.

1 INTRODUCTION

The board of directors has traditionally comprised of a group of homogeneous individuals from similar socio-economic backgrounds. Westphal and Milton (2000: 366) for example, contend that they, “have similar educational and professional training and as a result have very similar views about business practices”. They have been criticized for being ineffective and condemned as, “an impotent, ceremonial and legal fiction” (Drucker 1974). This was most famously the case in Monk’s advertisement in the Wall Street Journal which labeled the directors of Sears, Roebuck & Company, “non-performing assets” (Monks & Minow, 2001). They have also been criticized for their “clubby and elitist culture,” (McGregor 2000: 136) and for being “citadels of patriarchal values” (McGregor 2000: 129).

It is perhaps unsurprising, therefore, that the issue of board diversity is emerging as an important aspect of corporate governance within current regulatory prescriptions (Simmers, 1998). In the UK for example, The Tyson Report (2003) has suggested that greater diversity in the board of directors will contribute towards enhanced organizational performance. Although diversity is often construed in terms of different professional affiliations, experience and expertise (Milliken & Martins, 1996), this emerging discourse is also related to changing socio-cultural attitudes towards age, ethnicity and biological gender. Indeed Carter et al (2003) conclude that the gender and cultural makeup of the board of directors is one of the most pressing current issues in relation to the governance of large corporations.

There would seem to be at least four reasons why board diversity has emerged as a pressing concern. Specifically this growing interest is broadly related to: recent failures in corporate governance; pressure from advocacy groups and institutional investors; new equal opportunities legislation and finally, the potential impact of diversity on corporate performance.

Firstly, there has been increased scrutiny of the composition of the board of directors in the wake of the recent spate of corporate scandals (Collier 2008; Solomon 2007; Van den Berghe & Levrau 2004; Erhardt et al et al 2003). A number of commentators have suggested, for example, that the failings of Enron’s board, was somehow related to its lack of diversity (Erhardt et al 2003). The focus of this literature is whether reforming the composition of boards might be an effective way to re-establish trust in corporations.

Secondly, however, advocacy groups and institutional investors are also placing pressure on corporations (Carter et al, 2003). The Interfaith Center on Corporate Responsibility (ICCR) for example has initiated a number of shareholder resolutions on the issue of greater diversity within the boards of major corporations (Carter et al, 2003). Teachers Insurance and Annuity Association - College Retirement Equities Fund (TIAA-CREF),

one of the largest financial services firms in America, also advocates greater gender, age and race diversity at the board level (Carter et al, 2003).

Thirdly, within Europe at least, pressure is coming in the form of new legislation on equality of opportunities and diversity in the workplace (the Employment Directive (2000); Race Directive (2000) and the Directive on Equal Opportunities for Men and Women (2006)). These directives draw on a liberal tradition of human rights. The Equality Act (2006) for example brings together the Disability Rights Commission and the Equal Opportunities Commission into a new Commission for Equality and Human rights (Thomas 2008).

In some instances, these legislative shifts have seen the introduction of mandatory quotas. In Spain for example, new equality legislation stipulates that by 2015 at least 40% of all board of directors of public companies must be women¹. While the nature of the sanctions that will be applied to companies who fail to meet these targets is imprecise, there is an expectation that preference will be given in the award of government contracts to companies that meet the new legislative requirements. While these changes are justified in terms of a potentially positive impact on corporate performance, their underlying motivation is as much related to social justice issues as they are to profitability. Brammer, Millington & Pavelin (2007; see also Carver 2002) for example suggest that positive quotas in management boards may be motivated by a desire to make recompense for historical injustices. Greater board room diversity is therefore justified in terms of both the social consequences and the economic consequences of a more equal representation at powerful decision making levels. Within the EU, these developments find their roots in the Universal Declaration of Human Rights and can be seen as an extension of attempts to secure greater diversity in political representation through, for example, more balanced gender lists. In recognition of the power and significance of corporations in society the same principles are now being applied to large corporations. The introduction of quotas at the board level in part represents an attempt to secure attitudinal and structural change and rests on notions of human rights and representational democracy.

It is perhaps therefore, not surprising that more CEO's are now beginning to comment on the importance of board room diversity within their annual reports and the empirical literature also suggests that boards are becoming more diverse (Van Der Walt & Ingley 2003; Brancato & Patterson 1999; Burke, 1995; Daily et al 1999).

However, the growing interest in difference and diversity is not just confined to board rooms. The discourse of multiculturalism is very much part of the current political discourse and policy agenda in the West. Avtar Brah (2000) for example, comments, 'Difference, Diversity, pluralism, Hybridity... these are some of the most debated and contested terms of our time.'

(1) Currently around 6.6% of boardroom positions in Spain are occupied by women (Lewis & Rake, 2008).

Yet within the governance literature much of the discussion of diversity and difference appears not to engage either with the broader political agendas motivating recent legislative reforms or the broader discourse that problematizes the notion of difference and questions the pluralistic assumptions behind the mandated quotas. Rather, the discussion remains entrenched within long established agency theory models (Fama & Jensen 1983).

While the literature on board diversity contains a number of helpful insights, there has as yet been few contributions which attempt to engage with the theoretical and political nature of the idea of diversity or the significance of the broader political discourse that is beginning to connect multiculturalism, corporate governance and representational democracy (Although see Adams & McPhail 2004). This paper contributes to the burgeoning literature on managerial diversity in two ways. Firstly, in contrast to the established agency perspectives, the paper notes the emergence of a small body of work that links stakeholder perspectives, corporate governance, diversity and representational democracy and in doing so seems to implicitly support the underlying political ideology that is behind some of the recent legislative reforms. The paper notes and supports the emergence of this alternative space for reflecting on board diversity. Secondly, the paper contributes to this emerging literature by presenting some critical reflections on the ideological commitment to representational forms of democracy in particular. This critique draws heavily on the work of Ernesto Laclau's and in particular his 2005 work: *On Populist Reason*. The paper brings Laclau's critical analysis of the political economy of difference to the discussion of corporate diversity with the aim of further opening up the emerging alternative literature on the democratizing potential of the recent political interventions in the composition of the boards of directors. The premise of the paper is that as this debate emerges and begins to take form, it is important that the prevailing paradigm of democracy is not taken for granted but also subject to critical scrutiny (Brown 2009). As such, the paper represents a response to Roberts et al's (2005) call for a broader range of theoretical perspectives to be developed into the study of boardroom diversity.

In order to achieve this aim, the paper is structured as follows. Section one provides an introduction to the discussion of diversity within the management and organizational literature. It provides a brief overview of the predominant perspective that has historically determined the boundaries of discussion that it has been possible to have in relation to board diversity. This overview provides the context for introducing the emerging stakeholder perspective in the following section. Within recent work on stakeholder perspectives the issue of representational democracy is emerging as a key idea within corporate governance and this development provides the link into the third section. Section three draws on Ernesto Laclau's work, *On Populist Reason*, in order to provide a critical discussion of the assumptions underpinning the emerging representational model of corporate governance and the prospect of substantive social change. The final section provides some concluding remarks.

2 ESTABLISHED PERSPECTIVES ON BOARD DIVERSITY & ORGANISATIONAL PERFORMANCE

The predominant theoretical perspective that has traditionally shaped how we think about the function of the board within corporations draws heavily on an agency theory view of the firm, often supplemented with a complementary resource perspective. In both instances the background assumption is that the primary objective of the board is to maximise shareholder value. Within this predominant perspective, diversity is construed in terms of the extent to which the occupational status of an individual might render them more or less independent; the occupational capital and personal attributes. Difference is viewed instrumentally and is seen to have a value in use.

Agency Theory

Agency theory has provided the primary theoretical lens for studying the relationship between the composition of the board and the value of the firm² (Fama & Jensen 1983). From this perspective, the primary function of the board is seen to be the resolution of conflicts of interest between shareholders and the management of the corporation (Brennan & Solomon 2008). The key focus is on the interests and rights of the shareholders³ (Brennan & Solomon 2008). According to Zahra and Pearce (1983, see also Carter et al 2003; Baysinger & Butler 1985) historically, this has been one of the most common theoretical perspectives used in the analysis of boards of directors. The key assumption of this model is that shareholders interests are best served by an independent board of directors⁴.

The Resource Perspective

Nicholas van der Walt and Coral Ingley (2003) however contend that, in addition to the predominant *agency theory perspective* with its focus on the monitoring function of the board, a second, *resource perspective*, views board diversity in terms of the resources that the organization requires to function most effectively. Robinson and Dechant (1997) suggest that broad diversity can help in the areas of innovation (Watson *et al.*, 1993) and cultural sensitivity. Maznevski (1994) suggested that diversity can make for better communication within the group which in turn leads to better decision making. Other

(2) There is some suggestion that the option of selling through securities markets, the exit option, renders agency problems less significant as they are made out to be (Baysinger & Butler 1985).

(3) There are plenty of critiques within the literature on the assumptions of the Agency Theory model. This literature highlights the range of behavioral and non financial characteristics that impact on the performance of the board, including things like the psychological sense of achievement in doing a job well done and the need for recognition and respect (Argyris 1964; Herzberg 1966; McClelland 1961) and also the sense of identity as an organizational member (Etzioni 1975).

(4) Much of the discussion around corporate governance starts from the assumption that the performance of the board of directors does have an impact (Baysinger & Butler 1985). Parts of the literature would at least seem to suggest that the board is an important factor in the performance of the firm (Williamson, 1964, 1981). However the corporation is disciplined by a number of different mechanisms including the markets, both for good managers and capital and off course the law (Williamson, 1983; Baysinger & Butler 1985; Faith et al. 1984; Fama 1980; Fischel 1982; Jensen and Meckling 1976; Manne 1965; Scott 1983; Williamson, 1981; Wolfson 1980). So the board is theoretically at least viewed as part of a suit of disciplinary mechanisms.

research however suggests that homogeneous groups perform better than heterogeneous groups (Hambrick *et al.* 1996) due to the adverse impact that diversity can have on the groups' ability to reach a consensus (Knight *et al.* 1999). While many of these perspectives adopt a fairly standard view of the board in terms of their function, others suggest that it serves a number of different monitoring, executive and instrumental purposes (Baysinger & Butler 1985).

Shareholder Wealth Maximisation

Yet regardless of whether a monitoring or a resources perspective is adopted, the common measure of the success of the board within this prevailing shareholder ideology is the impact on shareholder value (see Erhardt *et al.* 2003). A study by Carter *et al.* (2003) for example investigates the relationship between diversity in personal attributes like age, gender and ethnicity and firm value (see also Erhardt *et al.* 2003). They reported a positive correlation between firm value and the proportion of women or minority groups represented on the board. They also note that diversity increases with both firm and board size. Brennan and Solomon (2008) conclude that research on board diversity has been dominated by an underlying assumption of corporate profitability and shareholder value. Indeed policy and governance codes in both the UK and the US are based on the prerogative of enhancing and promoting shareholder value (Brennan & Solomon 2008).

Conceptions of Diversity within the Established Theoretical Perspectives

Within this prevailing shareholder value focus, the notion of diversity is discussed in three senses: employee status; occupational attributes and personal attributes.

Employee status relates to the board members status as an employee of the firm. One strand of the debate on board composition relates to whether board members should come from inside or outside the organisation. Some authors suggest that none or only very few of the members of the board should be or have been employees of the corporation (Gupta *et al.* 2008; Loudon 1982; Stone 1975). These authors place a premium on the independence of the board. Some suggest that insiders can be more effective because of their knowledge of the firm. Others however suggest that insiders are not independent and that their appointment to the board is often used as a way of ensuring the flow of information from the board to others within the organization (Baysinger & Butler 1985). Finally, some suggest that there should be a mix of insiders and outsiders (Fama & Jensen, 1983).

Secondly, occupational or professional attributes refer to the perceived advantages of having lawyers, financiers and so on, as members of the board. From this perspective, these individuals are seen to represent helpful connections to external institutions like finance houses. These types of directors are seen to serve an instrumental function by linking the organization to other important institutions (Baysinger & Butler 1985; Burt

1980; Pfeffer, 1972, 1976; Thompson 1967)⁵. Some of the literature discusses both these concepts in terms of the kinds of capital that individual board members bring to the organisation. Nicholas van der Walt and Coral Ingley (2003) for example discuss board diversity from a social capital perspective.

Finally, the notion of diversity is also discussed in relation to personal attributes like age, biological gender, ethnicity⁶ (Erhardt et al et al 2003; Milliken & Martins, 1996) and even different cognitive styles (Simons & Pelled 1999). Recent developments within corporate governance policy focus on this latter type of diversity in personal attributes.

The majority of the mainstream literature on board diversity is therefore reflective of an entrenched shareholder ideology (Engelen 2002). The board is viewed as a site for the negotiation of just two sets of interests: shareholders and managers. It is assumed that the primary objective of the board is to maximise shareholder value and this orientation is justified in terms of shareholders' property rights. It is also important to note the extent to which this perspective constructs and sustains notions of difference. Beyond the different interests of shareholders and management, diversity is construed in relatively ideologically benign ways in terms of professional affiliation; independence and individual cognitive styles for example. There is little sense in which difference and diversity might be seen to represent a fundamental challenge to the prevailing corporate imperative to maximise profit.

In contrast to this established perspective, the following section introduces an emerging body of literature that begins to critique this paradoxically hegemonic view of difference and the narrow conceptualisation of rights upon which it is based (Engelen 2002).

2 EMERGING STAKEHOLDERS AND REPRESENTATIONAL DEMOCRACY PERSPECTIVES

This section introduces an alternative stakeholder perspective on board diversity that is emerging within the literature. Brennan and Solomon (2008: 890, see also Collier 2008) for example contend,

“more recently, as the consideration of corporate governance has started to broaden in it's coverage, there has been a change in emphasis away from the traditional shareholder-centric approach towards a more stakeholder-oriented approach to corporate governance.”

(5) This perspective is related to resource dependence theory (Pfeffer & Salancik 1978).

(6) Sikka (2008) focuses on the role of the importance of workers within systems of corporate governance and it is interesting that there is comparatively little mention of workers in the discussion of board diversity.

This broadening perspective, which draws heavily on Corporate Social Responsibility ideas (van der Walt & Ingley 2003), promotes greater inclusivity of stakeholder groups within the governance structures of corporations (Brennan & Solomon 2008).

Van der Walt and Ingley (2003) explain two alternative justifications for re-conceptualising the composition of boards in this way. Firstly, they suggest that in contrast to the shareholder value perspective, the discussion of diversity can be construed in terms of the obligations that organizations owe to their shareholders *and* stakeholders⁷ (See also Keasey et al., 1997) or secondly, in terms of broader democratic requirements that governance structures mirror a pluralistic and multicultural society. Collier (2008) similarly contends that “Stakeholder Theory can be seen either in terms of a multiple constituency model of organisational theory, or from a political science perspective in which accountability to stakeholders is a form of democratic representation (Simmons 2004).”⁸ Thus, in contrast to the resource perspective of difference discussed above, the emerging “representation” perspective, attempts to ensure that the board is reflective of a diverse set of interests (Burton’s 1991). Ray (2005: 93 see also Joo 2003) highlights some of the reasoning behind this viewpoint when he states,

“Effective reform in corporate governance means making corporate boards more representative and democratic.... There are many legal, ideological and political barriers to these forms but if representative governance and democracy are truly valued they should be applied to an institution that has huge impact on the lives of individuals and communities in the contemporary world.”

This perspective questions both the priority and conceptual integrity of property rights within the conventional shareholder orientation of corporate boards (Ray 2005; Engelen 2002) and, in contradistinction to this model, highlights the democratic right to representation in decisions that directly affect one’s life (Ray 2005). As well as asserting the democratic right to representation, this literature also critiques the conceptualization of property rights upon which the prevailing shareholder model is based. Engelen (2002: 399) for example, contends that specific property rights are the consequence of historical power struggles. He says, ‘Groups differ over time and from each other in their ability to use the state’s power to acknowledge their possessions, whether peacefully produced or brutally conquered as ‘rightful property.’” He also emphasizes the relational nature of ownership claims, stating that, ‘Ownership constitutes a relationship between the owner and other agents and demarcates *relational* rights, instead of *absolute* ones’ Engelen (2002: 399).

(7) Brancato and Patterson, (1999) allude to this issue when they refer to comments made by Karen J. Curtin, executive vice president of Bank America: “There is real debate between those who think we should be more diverse because it is the right thing to do and those who think we should be more diverse because it actually enhances shareholder value. Unless we get the second point across, and people believe it, we’re only going to have tokenism” (Quoted in Carter et al. :34)

(8) By contrast, Loft et al. (2006) suggest that the main legitimacy of the board is based in its expertise rather than its representative nature.

Over and above the issue of representation, other commentators focus on the deliberative forms of decision-making that may be promoted by a diverse board composition (Ray 2005, Engelen 2002). Jones et al. (2000) for example, talk about a model where there is “multi-voiced international discourse on issues of difference in organizations”. Some of the literature, therefore alludes to diversity in terms of representative democracy and deliberative discourse.

At the core of this emerging discourse is a contention that the composition of the board should be modelled along democratic political lines, with a broad diversity of elected representatives representing the interests of various constituencies (Ray 2005; Engelen 2002). However, see Jensen 1993 for an argument against this kind of model of the board. This form of regulatory mechanism is presented as an alternative both to self and state regulation, both of which, it is suggested, have been ineffective (Ray 2005). Ray (2005: 99) for example comments,

“In short, self regulation, governmental regulation, collaborative NGO-corporate problem-solving and enlightened self interest can all potentially mitigate the worst tendencies of narrow corporate self-interest, but all depend on optimistic assumptions. A more direct and a more effective approach may be more heterogeneous boards elected in a more democratic fashion.”

Solomon (2007) suggests that there is at least an allusion to this kind of representative notion in the Tyson Report (2003). She comments (Solomon 2007: 90, see also Brennan & Solomon 2008),

“The Tyson report stressed that widening board diversity would help companies improve their reputation by engendering trust among their shareholders. The diverse constituencies underpinning corporate activity would be likely to be more confident in a company whose board was more representative of broader groups with broader knowledge and understanding. For example, social and environmental lobby groups would have greater confidence in a company with a non-executive director whose background was in environmental regulation.’

Within the literature, the issue of board diversity has therefore been pursued along two contrary theoretical lines. Firstly, it has been explored from within the prevailing theoretical position as a mechanism for contributing to social progress via the maximization of shareholder value and secondly it has been approached through a more marginal discourse of corporate social responsibility that relates diversity to representational democracy. This later development represents a relatively interesting development in stakeholder theory. At its most radical level, the right to representation in relation to the activities of the corporation is based on the composition of society rather than any direct connection between the activities of the management team and for example, the employees, customers or local community. This particular development in

stakeholder theory is motivated by the more critical form of CSR scholarship that is committed to more democratic, just and sustainable forms of economic activity. However, it also resonates with a more pervasive trend in public representation more generally.

The emerging stakeholder perspective on board diversity therefore represents a shift in conceptualization from difference construed in terms which present little prospect of the emergence of a fundamentally different kind of economic system, towards a notion of difference construed in terms of a pluralism of stakeholder interests and rights. The question remains however, whether this alternative conceptualization is any more likely to result in a substantively different or more just mode of economic activity. It is important that the prevailing paradigm of representative democracy that underpins these developments is also subject to critical scrutiny in order to determine whether it is an appropriate foundation for promoting corporate diversity (Brown 2009). The following section draws on the work of Ernesto Laclau in order to provide a critical reading of these emerging theoretical developments on board diversity. In particular, it will be contended that further critical reflection is required on these emerging forms of representational democracy if the democratizing of corporations is to lead to any substantive change.

3 CRITICAL PERSPECTIVES ON MANAGERIAL DIFFERENCE AND THE PROSPECT OF DEMOCRACY

Sections one and two have provided an introduction to the way diversity is currently being discussed within the corporate governance literature. While the predominant perspective focuses on agency theory and shareholder value, there is an emerging literature that connects board diversity to broader political notions of representative and deliberative democracy. This section critically explores the second emerging perspective. The aim of this critical reading however is not to delegitimize the discussion of democracy and corporate governance and to re-enforce a shareholder ideology, rather it is to open up the debate on the form of democracy we should use to envision new governance structures (Brown 2009; Pesqueux 2005).

Although new legislative requirements and aspects of the corporate governance literature are beginning to make the link between board diversity and democratic representation, there is little critical engagement with the assumptions that underpin this development. The socially constructed and contested nature of difference itself is also relatively under theorised⁹ (Green 2000; Brah 2000). The critical engagement that exists has tended to

⁽⁹⁾ Brah (2000) for example provides four different ways of conceptualizing difference:

- Difference as experience – as in the sense of the life that one experiences
- Difference as social relation – primarily at the level of social structures
- Difference as subjectivity – the issue here is how different subject positions are sustained.
- Difference as identity. This is related to modes of being and the way in which boundaries between groups are sustained.’

focus on stakeholder theory (See for example Sternberg 1997) rather than the underlying assumptions relating to difference and representative democracy.

This section therefore introduces a parallel discussion of difference and identity politics that is now well developed within the cultural studies and broader sociological literature. This discussion is reflective of a prevailing political discourse about the distinctiveness of specific groups and their attendant rights and needs in contrast to the liberal prioritization of general society wide interests (Chambers 2004). As the discussion above indicated, at the core of the emerging stakeholder debate about diversity the board of directors and governance is the idea that the corporation be made to work in the best interests of society. This then sets up the important distinction between two collectives, on the one hand the differential interests of women, men, the aged, disabled persons, shareholders and so on, and on the other, a second bigger and all encompassing collective called society that includes all these categories of interests and more. Implicit within the emerging discussion of diversity within the stakeholder literature there would seem, therefore, to be a fundamentally important question about the nature of both identity and interests (Chambers 2004). How best do we secure the interests of those different groups that form society? This is precisely the subject of Ernesto Laclau's analysis of the collective public will or to employ his term, 'populist demands'.

The remainder of this section draws specifically on Laclau's work on *the logic of difference* and *the logic of equivalence* to present a critical reading of the issue of board diversity from a critical cultural studies perspective. The objective of this reading is to locate the issue of board diversity within a broader critical debate about the effectiveness of representational models of democracy (Laclau 2007; Chambers 2004). The remainder of this section introduces Laclau's work and provides some brief comments on the issues of identity, representation and representatives with a view to critiquing the potential of emerging stakeholder and representational democracy perspectives to secure substantive social change.

Difference, Equivalence & Power

Laclau's post-Marxist perspective is primarily concerned with the role of 'the people' as a collective agent of change. His work *On Populist Reason*, for example, explores how it is possible for a collective will to emerge. Laclau explains,

“Since this emergence of a people is no longer the direct effect of any particular framework, the question of the constitution of a popular subjectivity becomes an integral part of the question of democracy” Laclau (2007: 167)

In developing his analysis Laclau initially draws the distinction between what he terms the *logic of difference* and *the logic of equivalence*. He explains:

“So we have two ways of constructing the social: either through the assertion of a particularity – in our case, a particularity of demands – whose only links to other particularities are of a differential nature (as we have seen: no positive terms, only differences); or through a partial surrender of particularity, stressing what all particularities have, equivalentially, in common. The second mode of construction of the social involves, as we know, the drawing of an antagonistic frontier; the first does not. I have called the first mode of constructing the social logic of difference, and the second, logic of equivalence.” (Laclau 2007: 78)

Laclau’s first point is therefore based on the recognition given to two kinds of groups. On the one hand Laclau identifies the specific interests of groups like for example women, individuals of ethnic origin and shareholders. In terms of our discussion above we might call these assemblages of interests different stakeholder groups. However, Laclau also identifies a bigger all encompassing group called variously, ‘the people’, ‘the public’ or the public interest. The idea that the board could function as a site for the negotiation of interests, as the emerging stakeholder perspective suggests, implies precisely that this governance function is part of a broader system of particularities, in Laclau’s terms, the particularity of demand. Laclau explains

“A society which postulates the welfare state as its ultimate horizon is one in which only the differential logic would be accepted as a legitimate way of constructing the social. In this society, conceived as a continuously expanding system, any social need should be met differentially.” (Laclau 2007: 78/79; see also Chambers 2004)

However, the same observation can be made in relation to board diversity. It would also seem that the majority of the discussion about diversity within the corporate governance literature seems to revolve around what Laclau terms a *logic of difference* and the negotiation of the rights of various interest groups. If ‘the social’ is construed in terms of a particularity of demands of a differential nature, of a collection of stakeholders whose needs can be met through society, then Laclau concludes that the system is hegemonic and there is little possibility of substantive social change (Chambers 2004).

If the system copes with, manages and negotiates particular democratic demands then, according to Laclau, it is hegemonic¹⁰ (Chambers 2004). By this Laclau means not only that a liberal pluralistic system is able to accommodate and domesticate different interests: the demands of women; the demands of the aged; transsexuals; Christians and so on quite successfully, but that in doing so it sets the boundaries of possibility of these various subject positions (Chambers 2004). Chambers (2004: 189) explains,

“There can be no truly radical or contestable political identity within the terms of pluralism, since identities can only appear in the political realm to the extent that they are equalized or

(10) Laclau employs the term hegemony in a Gramscian sense within his analysis.

normalized as participants in pluralist competition. In the same way that the capitalist economy neutralizes all use-values into exchange values, the pluralist market translates all political challenges or demands into competitive requests.”

According to Laclau, if no equivalential chain emerges between these interests, then there will be no populist demand or collective will and without a collective will there will be no substantive change. Laclau’s primary concern here is the way in which a series of diffuse claims becomes a populist demand. Or, to translate this question into the issue of board diversity, the extent to which stakeholder concerns could ever become a meaningful totality capable of securing substantive change. Laclau explains,

“the rejection of a power ... requires the identification of all links in the popular chain with an identity principle which crystallizes all differential claims around a common denominator... In such a way isolated democratic demands become populist demands. ... The first can be accommodated within an expanding hegemonic formation; the second presents a challenge to the hegemonic formation.” (Laclau 2007: 82)

The Logic of Equivalence and Identity

A second key aspect in Laclau’s analysis of the emergence of populist demands relates to the issue of identity. According to Laclau, a plurality of interests does not simply relate to particular demands, rather they are associated with subject positions (See Green 2000). He explains,

“This leads us to our second dimension. As we have seen, the movement from democratic to popular demands presupposes a plurality of subject positions: demands, isolated at the beginning, emerge at different points of the social fabric and the transition to a popular subjectivity consists in establishing an equivalential bond between them.” (Laclau 2007: 86)

Laclau goes on to explain:

“We saw that there is no totalization without exclusion, and that such an exclusion presupposes the split of all identity between its differential nature, which separates it from other identities, and its equivalential bond with all others vis-à-vis the excluded element.” (Laclau 2007: 78)

It is therefore important to point out that Laclau equates change not simply with the equivalence of interest, but with identity, with the emergence of a *supra-stakeholder* identity. He contends that populist demands are associated with a populist identity, an identity that becomes the *empty* signifier for a wider universality of interests. Thus Laclau contends that the collective will emerges as disparate social demands coalesce around some empty signifier, vague enough to accommodate them.

Representation and Representatives

The final issue to be considered in this section is Laclau's discussion of representatives and representation. This particular notion would seem to be a key aspect in relation to the broader stakeholder discussion of board diversity introduced in section two above. As Ray (2005: 93) contended, "Effective reform in corporate governance means making corporate boards more representative and democratic." Laclau's work would suggest a more cautious and critical analysis of the practice of representational democracy and the likelihood that it could operate as an effective mechanism of reform.

Laclau explains that the representative must not only represent the will of those s(he) represents, but must also give that will credibility within a different context. They are obliged to present the interests of the group they represent as commensurate with the interests of society as a whole. However, this in turn reflects the identity of those represented. Drawing on the identification of this two-way process, Laclau asks, "What happens if we have weakly constituted identities whose constitution requires, precisely, representation in the first place?" In other words, what happens if the group emerges from the process of representation? So in the context of our subject, the argument that the composition of the board represents the underlying makeup of the workforce does precisely what Laclau suggests. It takes difference as a given that precedes representation instead of seeing the representation or representative as both symbolic and constitutive of the constituency. According to this perspective, identity does not precede but rather is an outcome of the process of representation. Laclau talks about the way in which representation functions in order to homogenize, as in the case of Barack Obama as the first black president. In this sense then the individual black director or female non executive serve to homogenize blacks or women as a whole. However, it's not just that representation presumes the pre-existence of difference, according to Laclau, the *will* of the represented may also be constituted through representation. He contends, "The main difficulty with classical theories of political representation is that most of them conceived the will of the people as something that was constituted before the representation" (Laclau 2007).

This quote from Chantal Mouffe (2000) captures the crux of Laclau's concern about the way in which the democratic ideal of the sovereignty of the people is being translated into new forms of practice through the liberal discourses of human and identity rights. She says,

"Instead of simply identifying the modern form of democracy with the empty place of power, I would also want to put emphasis on the distinction between two aspects: on one side, democracy as a form of rule that is the principle of sovereignty of the people; and on the other side, the symbolic framework within which this democratic rule is exercised. The novelty of modern democracy, what makes it properly 'modern', is that with the advent of the democratic revolution the old democratic principle that 'power should be exercised by the people' emerges again, but

this time within a symbolic framework informed by the liberal discourse, with its strong emphasis on the value of individual liberties and human rights.” (Mouffe, 2000: 2)

Laclau and Mouffe’s concerns seem directly relevant to the new symbolic forms of representational democracy being proposed in relation to board diversity and the election of board representatives.

4 CONCLUSION

While the boards of corporate entities have traditionally consisted of a group of homogeneous individuals with similar socio-economic backgrounds, the idea of diversity is emerging as an important contemporary topic within the corporate governance. Recent legislative reforms introducing mandatory quotas in relation to female directors has served to heighten interest in this area. While a business case is made for these changes, they also find their underlying motivation in the Universal Declaration of Human Rights and can be understood as an attempt to secure greater diversity in political representation. As the academic accounting community begins to engage with these significant developments, this paper cautions against the uncritical acceptance of the ideological commitment to representational forms of democracy on which these reforms along with other emerging contributions to the literature from a stakeholder perspective, would appear to be based.

By drawing on the work of Ernesto Laclau in particular, the paper attempts to problematize notions of difference and representational democracy with the intention of stimulating further debate on the democratizing potential of the recent political interventions in the composition of the boards of directors. As stated in the introduction, the paper is premised on the assumption that as this debate emerges and begins to take form, it is important that the prevailing paradigm of democracy is not taken for granted but also subject to critical scrutiny (Brown 2009).

The aim of this paper however is not to delegitimize any discussion of corporate democracy and re-enforce a shareholder ideology, rather it is to open up the debate on what form this democracy should take. As Laclau explains,

“Once the articulation between liberals and democracy is considered as merely contingent, two obvious conclusions do necessarily follow: (1) other contingent articulations are also possible, so that there are forms of democracy outside the liberal symbolic framework (the problem of democracy, seen in its true universality, becomes that of the plurality of frameworks which make the emergence of a ‘people’ possible.”) (2) since the emergence of a ‘people’ is no longer the direct effect of any particular framework, the question of the constitution of a popular subjectivity becomes an integral part of the question of democracy.” Laclau 2007: 167).

In this quote, Laclau brings us to the nub of the concern of this paper. The discourse surrounding board diversity has provided an opportunity for those interested in corporate social responsibility to talk about corporate governance, interest groups and representative democracy. However, as the Social in CSR becomes increasingly defined in terms of the disparate interests of stakeholder groups, a move reflective of the broader discourse on human rights (Thomas 2008), Laclau views such developments as indicative of a hegemony that not only sets the conditions of possibility for individual stakeholders but mitigates against the possibility of the emergence of a collective will that might lead to substantive social change.

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