Chapter 17
Gender Diversity and Independency:
Threat or Opportunity in Managing Innovative Property?

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ABSTRACT

This chapter focuses on the impact of corporate governance indicators on intangible investment (innovative property) and aims to understand the linkages among gender diversity, independency, and intangibles. The literature on corporate governance has mainly focused on the relation between corporate governance indicators and firm financial performance. However, the mediating factor of intangibles receives less attention from scholars. This study uses two data sources at the firm level in Turkey. The first one is the "firm's annual reports" and the second one is the "KAP (Public Disclosure Platform of Turkey) database." This research covers 215 firms and 9 years from 2005 to 2013; a panel data methodology is used. The research suggests that firms with a certain level of board independency and gender diversity give emphasis to the intangibles.

INTRODUCTION

In recent years, organizations have focused more on managing intangible assets as they have become important components of the value creation process. Among various sets of management strategies, two of them, namely diversity and independency, play crucial roles in transforming intangible assets into business value. The presence of gender diverse groups in the senior management layer provides a broader information base for decision making, while independency has a strong indication of efficiency in the decision-making process.

In this paper, the argument is built that, at the firm level, the effect of corporate governance indicators such as independency and gender diversity on intangible assets should be examined using separate attri-

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butes of those assets. Based on Corrado, et al. (2004; 2005; 2006; 2009), intangible assets are classified into three categories. *Innovative property*, with a strong emphasis on the creation of new ideas, includes rights, patents, films, licenses and research and development (R&D) activities. Computer software, computer programs, information systems, and customer databases are in the second category '*computerized information and databases*'. The third group, *economic competence*, emphasizes the economic impact of intangibles such as agreements, advances given and special costs. Due to its transformative potential in creating business value, this paper focuses solely on one category, innovative property. The paper suggests that independency and gender diversity will generate differentiated effects both on investments in intangible assets and its sub-category, innovative property. This study contributes to the existing literature in at least three ways. First, the link between corporate governance and intangible assets is established by using firm level and longitudinal data. Second, the literature on corporate governance has mainly focused on the association between corporate governance indicators and financial performance. But the importance of intangibles has received less attention. This study aims to fill this gap in the literature. The final contribution is that the alternative indicator for innovativeness is proposed by using sub-categories of intangibles in this study.

LITERATURE REVIEW AND THEORICAL BACKGROUND

There is no unique theory to explain corporate governance or no agreed theory to find an answer to the question, 'What is good governance?' Stakeholder theory, agency theory, resource dependency theory, and upper echelons theory have been employed to explain corporate governance, especially where relating to the structure of the board and top management. The structure and attributes of boards have been defined and discussed in regulations, reports, and codex in various countries. In order to better understand the association among the attributes of the boards and top management team members and intangible assets, the following sub-titles are examined. First, theoretical background deals with why independent and women should be represented on boards or in top management. The relationship among independency, gender, and intangible investment is discussed based on these theoretical explanations. Then recent studies and empirical findings are analyzed in order to reveal the connection among the board of directors, top management, and intangible assets. Second, an overview of institutional settings from various countries is elaborated to understand the historical evolution of regulations with respect to boards and top management.

Independency and Intangible Investment

Agency theory deals with the problem that occurs due to the conflict of interest between principals (the shareholders or owners of the firm) and agents (firm managers or executives). While principals expect to maximize their welfare through agent operations, agents behave in a way that relies on their own interests (Jensen & Meckling, 1976; Hendry & Kiel, 2004, Eisenhardt, 1989; Hirschey, 2003). Among various mechanisms, internal monitoring of the board of directors plays a key role in the management of conflict between shareholders and board members, and is used extensively to solve principal-agent problems (Hill & Jones, 1992; Donaldson & Davis, 1991; Depken II, Nguyen, & Sarkar, 2006; McKnight & Weir, 2009). To improve monitoring effectiveness, independent and non-executive members should have a seat on the board of directors (Donaldson & Davis, 1991). While the presence of independent