



# Chapter 3

## Corporate Governance and Gender Diversity in Boardrooms

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### ABSTRACT

*Despite the significant interest in gender diversity in the boardroom from academics, government officials, and corporate strategists, and that women are qualified to positively influence a company's strategic direction and contribute to its growth, they are underrepresented in senior management and board positions. This chapter explored the relationship between corporate governance and gender diversity. It discussed board diversity in general and gender diversity on corporate boards in several countries, highlighting the benefits of gender diversity on corporate boards. It concludes that several measures can help increase the number of women on corporate boards, including mandatory quotas, political will and support, commitments by companies, codes of corporate governance, and government incentives such as tax breaks and recognition for companies promoting gender diversity, noting that a gender-diversified corporate boardroom is a balanced board essential for good and ethical business sense.*

### INTRODUCTION

A company may be conceptualised as a web of agreements between stakeholders, such as shareholders and managers. This is often the case when investors possess

DOI: 10.4018/978-1-6684-7885-1.ch003

financial resources but lack the expertise to oversee business operations (Shleifer & Vishny, 1997). To address this, parties enter contractual arrangements whereby shareholders provide funding in exchange for ownership rights and control over management decisions. The other party to the agreement is the Board of Directors, who act as agents of the company. According to Section 269(1) of the Nigerian Companies and Allied Matters Act [CAMA] (2020), an individual recognised as a company director is someone officially appointed to oversee and govern the operations of a company registered under the Act. According to Section 305 (1) of CAMA, a company director is held to a fiduciary duty towards the company and must act with the highest level of honesty and loyalty in any transaction or activity on its behalf. A director must refrain from engaging in activities that create a potential conflict of interest with the organisation concerning contractual agreements (Jensen & Meckling, 1972).

The origin of Corporate Governance can be traced back to the perspective of Berle and Means (1932), who asserted that managers tend to prioritise their interests instead of safeguarding the interests of shareholders. Corporate Governance is the term commonly used to refer to the methods utilised to maintain equilibrium between the competing agendas of managers and shareholders (Garay & Gonzalez, 2005). The concept also encompasses individuals' responsibility to employ a mechanism that mitigates the principal-agent problem (Yegon et al., 2014). Smith (1901) observed that separating ownership from the control of a corporation results in a lack of motivation for its managers to perform efficiently. The Agency theory is one of the theories of corporate governance concerned with elucidating the dynamics of principal-agent interactions in situations where their interests may conflict. Agency theory seeks to investigate the various conflicts that can arise from this relationship and the strategies that can be employed to align the interests of both parties. McColgan (2001) noted that the agency problem arises from the inability to establish a comprehensive contract that encompasses all actions undertaken by the agent on behalf of the principal, which impacts both parties. Ekundayo and James (2015) assert that Agency theory is founded on several fundamental presumptions, namely that agents may not consistently act in the best interests of their principals, the primary objective of corporations is to maximise wealth, and agents are residual risk-takers and lack company ownership.

Homayoun & Homayoun (2015) highlighted that various Corporate Governance methodologies have been proposed to address the agency problem. Nonetheless, addressing the agency problem gives rise to agency costs. To mitigate agency costs, it is recommended that the Company adopts efficient Corporate Governance mechanisms to minimise the divergence of interests between the management and shareholders (Sehrawat et al., 2019).

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