

STRATEGIC RESPONSES TO DISCLOSURE REGULATIONS FOR WOMEN ON BOARDS¹

Abstract

Many environmental and social regulations emphasize disclosures as a means to hold organizations accountable for their progress. Organizations may want to comply with the regulations or not. To mitigate the negative impacts of non-compliance, organizations use strategic tactics in their disclosures. We investigate how organizations disclose social issues and whether their behavior is associated with change. We address this question by examining disclosures that respond to a mandatory “comply-or-explain” regulation for women’s representation on boards in which organizations must disclose their practices or provide explanations for not doing so. Results show that disclosures from organizations that do not comply substantively are more obfuscating in their language. These organizations with harder-to-read disclosures do not significantly improve women’s representation on their boards in the ensuing years. This paper seeks to contribute to the literature on decoupling and diversity by suggesting that external pressures solely based on transparency are insufficient to improve the status quo.

Summary

Organizations face increasing external pressure for transparency and accountability on social issues. For example, while regulators in some countries have enacted hard regulations such as quotas for women on boards, others have chosen to pursue the “soft” approach of requiring disclosure and transparency (Bertrand, Black, Jensen, & Lleras-Muney, 2018; Mateos de Cabo, Terjesen, Escot, & Gimeno, 2019; Terjesen, Aguilera, & Lorenz, 2015). The theory behind an information disclosure approach is that it will nudge organizations to make progress while still providing them with sufficient flexibility for how and when they do so (Aragòn-Correa, Marcus, & Vogel, 2020; Doshi, Dowell, & Toffel, 2013; Short & Toffel, 2010). By requiring organizations to report on outcomes related to workplace inequality and their plans to reduce disparities (Duchini, Simion, & Turrell, 2020), disclosure regulations are meant both to create external transparency that should increase pressures to make progress (Castilla, 2015; Dobbin, Schrage, & Kalev, 2015) and to provide stakeholders with a means to monitor progress (Aragòn-Correa et al., 2020; Short & Toffel, 2010).

Yet, organizations have developed symbolic strategies to preserve their legitimacy by providing appearances of transparency without substantial change (Bromley & Powell, 2012; Fabrizio & Kim, 2019; Marquis, Toffel, & Zhou, 2016). Past research has identified the organizational conditions under which firms use symbolic strategies and has provided evidence that firms successfully deflect monitoring (Fabrizio & Kim, 2019; Marquis et al., 2016). However, context-specific limitations have prevented researchers from theorizing the effect of these symbolic strategies on the outcomes, which external third parties and regulators expect to improve through transparency and accountability.

¹ The reference list is omitted in this document to respect the space limitations. Full reference list is available in the manuscript.

This paper examines how strategic responses to mandatory disclosure regulation impact future outcomes and the adoption of formal practices. Two features of our setting allow us to investigate this question theoretically. First, because regulation is mandatory for firms, we observe the whole set of strategic responses to mandatory disclosure regulations. Past research has documented various strategic responses and has focused on the determinants of each of these responses on their own (Carlos & Lewis, 2018; Fabrizio & Kim, 2019; Marquis et al., 2016). Second, we set our analyses in a different context: mandatory disclosure regulation on governance practices to identify and nominate women on boards. While our results remain applicable to other disclosure regimes, this context allows us to identify the social outcomes associated with the disclosure easily. Most research has predominantly investigated disclosures on environmental issues, where outcomes may be harder to quantify or observe. For these reasons, previous research could not establish a direct link between symbolic strategies and future outcomes.

To study this question, we collected and coded 2298 diversity disclosures written by firms listed on the Toronto Stock Exchange required by the Ontario Securities Commission to follow a “comply-or-explain” regulation concerning the identification and nomination of women on boards from 2015 to 2018. Firms have been required to offer information in Management Information Circular (the equivalent of the 10K in the US) about whether they have a written policy for selecting women directors and senior executives and whether they have adopted numerical targets. Alternatively, they may explain the reasons for not adopting these formal practices. In addition to this disclosure, they were also required to report their current performance: the number and percentage of women on boards.

We narrow our attention to the effects of two strategic responses to mandatory disclosure regulation: strategic obfuscation and selective disclosure. These two symbolic responses have been identified in the literature on voluntary disclosures (Fabrizio & Kim, 2019; Marquis et al., 2016). Both strategies consist of raising the information search cost and, thus, the firm’s monitoring cost. We find that organizations that substantively comply with the institutional pressures to increase representation of women on their boards—they have more women on their boards and/or set targets for women on the board—are associated with disclosures that are more readable (less obfuscating) than organizations with low representation or no target. We also find that organizations that are under more scrutiny (because they are large or federally regulated) have more readable disclosures than organizations that are not. Further, organizations with more obfuscating disclosures made less progress in subsequent years than their peers in the representation of women on their boards, controlling for industry, size, and prior performance on these issues.

We hypothesize and find evidence that these two strategic responses will have different effects on outcomes and practices. Firms having a high level of strategic obfuscation will make less progress than their peers in improving representation. Understanding the effect of strategic responses to disclosure regulation provides new insights on how organizational symbolism may perpetuate the decoupling between means and ends (Bromley & Powell, 2012; Marquis et al., 2016). In addition to the previous literature, the variation in strategic responses helps us identify more clearly the mechanisms we theorize. Our research also responds to Aragón-Correa et al. (2020)’s call for jointly analyzing strategic responses.