

DOES GENDER INTERACT WITH FINANCIAL REPORTING QUALITY?

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Abstract

The underrepresentation of women in leadership positions is common evidence of gender inequality. Consequently, the European Commission brought a directive to balance the underrepresentation of women on boards in EU countries. Often, females are presumed to be less favourable for top management positions in successful companies and are faced with different obstacles during their careers. However, they possess many different characteristics, which makes them excellent leaders and may create positive differences in financial reporting quality (FRQ). Croatia still lags behind other EU countries in terms of the share of women within corporate boards; therefore, in this paper, we aim to investigate whether the FRQ differs based on the boardroom's gender structure. The research is conducted on a sample of listed Croatian companies using univariate and multivariate statistical methods. Two sub-samples were formed in order to capture the effects of the Gender Equality Act (GEA) application. Our results show that women are still underrepresented as board members despite the regulations that introduced a list of activities for gender equality. The gender structure of corporate boardrooms is significantly associated with FRQ, and issuing positive audit opinions is related to tilted-structured management boards, where up to 40% of the board members are women. The contribution of our research is twofold: to investigate the trends and level of gender inequality in leadership positions of Croatian listed companies, and to identify whether the gender structure of top management plays a significant role in a company's FRQ.

Implications for Central European audience: The results of this study provide significant insight into the underrepresentation of women on corporate boards within EU countries. Our findings and recommendations may be of special interest, particularly for Central European countries that share the experience of transition from planned to market economy with Croatia and are characterised by similar institutional, political, economic and financial systems. The topic is crucial in contemporary business, especially following and adapting to the directives brought by the European Commission, pinpointing the issue as a current and future challenge.

Keywords: Financial reporting quality; gender stereotyping; leadership styles

JEL Classification: M40, M50

Introduction

As many more women are entering the labour market, making a more significant share than men in almost all levels of education and being aware nowadays of defined gender quotas for corporate boards proposed by the European Commission, it is definitely time to appoint a substantial share of women on corporate boards of listed companies in the EU member states. Despite many excellent characteristics of women's leadership styles, such as showing more empathy and emotions towards other stakeholders, having greater intuition in business, being less risk averse, being more socialised or motivating collaborators more, women are still facing a certain level of gender stereotyping and gender obstacles today when they are climbing the hierarchical ladders. Today, 15 years after the full implementation of quotas for corporate boards in EU countries, there is still evident underrepresentation of women in executive committees within major corporations (Halrynjo & Teigen, 2024). Moreover, they are concentrated in lower positions, especially those considered to be female areas, having less authority than men (Akpınar-Sposito, 2013). However, some oppose the previous way of thinking, as they are concerned about the risk of appointing women who may be less prepared for top managerial positions than their male counterparts just to meet the quota criteria (Casaca et al., 2022). Women in managerial positions are assumed to be more conservative and ethical than men, so it is expected that they "adopt conservative accounting practices to limit managerial opportunism, to reduce information asymmetry, to reduce litigation risks and to reduce the probability and magnitude of corporate collapses" (Alves, 2023, p. 1).

Croatia, as an EU member since 2013, is still lagging behind other EU countries in terms of the share of women within corporate boards. Thus, it is important to ask ourselves: Is it a usual thought that men on corporate boards are better performers and this role is more suitable for them? Does the quality of financial reporting differ based on gender?

1 Gender Stereotyping

Stereotyping of particular social groups of people refers to the creation of expected beliefs because of their characteristics, such as gender, colour, race, nationality, education, marital status or otherwise (Tabassum & Nayak, 2021). In this context, considering gender, in today's business, women are partially perceived as still living in a traditional or patriarchal world despite their involvement in education, career progression, individual and collective efforts and contemporary business trends. Today, the employment rate of women in the EU is 70.2% in contrast to men, which is 80.4% (Eurostat Statistics Explained, n.d.); women make up more than 40% of the total workforce for 2023 (World Bank Group, n.d.) and make up a more significant share than men in nearly all levels of education for 2020, namely 91% in contrast to 88% for males regarding primary education, equal share for both genders, 66%, for secondary education and 41% of females in comparison to 36% of males for tertiary education (Statista, 2019). In addition to the previous results, rich evidence shows that women today are leading companies, are involved in complex and strategic business decision-making, establishing new businesses, simultaneously balancing different projects and doing many other business activities, achieving outstanding business results and being highly positioned and finally, in many different situations being the primary income providers.

At the same time, despite many efforts and the inclusion of equal opportunity regulations in the workplace, gender stereotyping still exists. Stereotyping specific groups of people limits

them in career progression and keeps them away from specific positions or areas of business. These limitations are known as glass ceilings, glass elevators, glass walls or even glass cliffs. The glass ceiling is a metaphor introduced more than 40 years ago. It refers to the invisible artificial barrier faced by specific groups of qualified people, such as women, who attempt to attain senior positions (Akpınar-Sposito, 2013), resulting in their lower representativeness in higher positions (Da Rocha Grangeiro et al., 2022). In different situations, women are limited from advancing to higher positions, not because they do not possess qualifications, knowledge or experience, but because of their gender. Another invisible barrier, a horizontal one, known as glass walls, limits women from advancing, providing them with the opportunities to grow only within specific areas, usually traditionally feminised sectors, such as health, education, communication, personnel or social sectors, in contrast to production, infrastructure, construction, industry or finance sectors (Akpınar-Sposito, 2013; Nasser, 2017.). A glass elevator is an additional concept based on gender inequality. It represents the quick hierarchical advancement of men working in female-oriented professions (Taylor, 2010; Turkmen & Eskin Bacaksiz, 2021). Gender-specific behaviour is a negative aspect of business and may “demotivate and demoralise women in the workplace” (Tabassum and Nayak, 2021, p. 193). The last but not the least important barrier is the glass cliff. This phenomenon assumes that women are expected to progress through their career ladder to top positions when companies face poor performance or crisis situations (Ciappei et al., 2023).

2 Women’s Leadership Style

Leadership as a term and later as a business concept was introduced a long time ago and, in the meantime, has produced numerous definitions. Silva (2016) studied and explained the origin and phenomenon of leadership in detail. He started from great Chinese thinkers millennia ago, who explained that a leader serves people. He continued studying this term from centuries ago, when leaders were described as wise and intelligent people with power over others. Nowadays, leadership can be defined as “the process of interactive influence that occurs when, in a given concept, some people accept someone as their leader to achieve common goals” (Silva, 2016, p. 4).

Today, leadership is critical in creating organisational success and can be recognised through effectiveness, quality work, health outcomes and subordinate perception of their leaders (Larsson & Vinberg, 2010). Bolden (2014) related successful leaders and leadership with increased performance on individual, group or organisational levels. Individual effects of successful leadership can be noticed as enhanced knowledge, self-awareness or communication, while group effects, among others, are recognised as decreased absenteeism or turnover. Finally, the effects of effective leadership are recognised within organisational levels, such as improved profit, turnover and share value, as well as softer measures, such as customer satisfaction or innovations.

However, it is a complex phenomenon and different in nature, with different leadership styles distinguished according to different cultural surroundings, different industry contexts or even gender, focusing on power, control, work independence, completion of tasks or influencing behaviour of others. Although today, women are recognised as excellent leaders, women’s leadership roles are still not leading the way. Women sometimes fear substantial pressure

more than men due to their dual roles, such as being effective parents and, at the same time, successful employees, leaders and managers (Fritz and van Knippenberg, 2017). Consequently, many studies have been conducted that focus on gender leadership styles. Some present no difference in leadership styles, but there are also those that stress certain differences, distinguishing feminine and masculine styles (Snaebjornsson et al., 2015).

Researchers who proclaim differences among genders regarding leadership styles argue that the authoritative leadership style is more present in men in leading positions in organisations than women. Leaders supporting this style are oriented towards business results, power, dominance, competitiveness and control (Özdevecioğlu et al., 2008). In contrast, women leaders are more characterised by the transformational leadership style. It is known as a style in which leaders motivate and inspire their co-workers (Budiasih et al., 2020), enhance employees' morale and work with teams of employees. Although some researchers relate transformational leadership styles to both men and women, the majority still relate it to stereotyping feminine behaviour. It is characterised by empathy, intuition, emotions and socialisation; they are not risk-averse leaders and receive more favourable ratings from their subordinates than men (Stempel et al., 2015; Özmutaf et al., 2015; Sharif, 2019; Tabassum & Nayak, 2021; Larsson et al., 2022). Some of those attributes in business, according to research, are perceived more negatively in comparison to the masculine leadership style (Larsson et al., 2022).

Research theory supports women as communal-oriented and men as agentic-oriented leaders (Eagly & Karau, 2002; Fritz & van Knippenberg, 2017). Communal orientation supports previously mentioned feminine leadership stereotypes, such as group harmony, care for others, kindness, empathy and sympathy with strong relationships. In contrast, the agentic leadership style is oriented towards independence and assertiveness in work, goal and task orientation, control, competition, independence and dominance in the work surroundings.

3 Women on Corporate Boards

Corporate boards are made of people who face different characteristics, and this kind of heterogeneity provides a synergic effect in greater effectiveness and decision-making, although sometimes it can provide opposite effects (Tipurić et al., 2011). One of the different characteristics of board members is their gender. Despite the many efforts over the last few decades, such as equal employment opportunity and gender equality policies, women are still underrepresented on corporate boards. Therefore, although women on boards are still underrepresented, the number of their positions on boards has recently significantly increased, resulting from public pressure (Garcia-Blandon et al., 2022). In 2012, when men represented 91.1% of executive board members, 85% of non-executive board members and 96.8% of boardroom chairs of listed companies, the European Commission adopted a proposal for legislation, a directive that proposed increasing the presence of the under-represented sex on corporate boards throughout the European Union (EU). The minimum objective of this directive was 40% by 2020 for women for non-executive members of the boards in publicly listed companies employing more than 250 employees (European Commission, 2012). Currently, at the end of 2022, there were 32.2% of women as board members within the EU-27 countries, while the same share in 2020 was registered as 29.5% (European Institute for Gender Equality, Gender Statistics Database, n.d.). Kompa and Witkowska (2018, p. 81) said, "according to the estimated linear trend from October 2010 to

April 2015, when the share of women on corporate boards was increasing by one per cent every half a year, proposed that there would be 31.5% of women in boards of EU companies by October 2020 and that the suggested quota of 40% would be reached by April 2025”.

From 2012 till 2022, the share of women as board members in the EU countries increased from 15.4% to 32.2%. In the same period, the most significant increase in the share of women as board members within the EU-27 countries was registered for Italy, where the share increased from 10.8% in 2012 to 42.6% in 2022, and for Belgium, the increase was registered from 12.9% to 29.3%. The lowest increases were registered for Estonia and Cyprus, more precisely for Estonia from 7.8% to 10.3% and for Cyprus from 7.7% to 10.2%. Finally, in the same period, there was a marked decrease in the share of women on corporate boards in some countries, such as in Latvia, from 28.2% in 2012 to 19% in 2022 (European Institute for Gender Equality, Gender Statistics Database, n.d.).

For the same period (2012 to 2022), it is important to mention Croatia as an EU-27 member country and as the case study for this research. Croatia registered an increase of women on corporate boards, which settled it in the middle of the EU-27 list, making 13 countries with a greater 10-year period increase and 13 countries with a lower 10-year period increase or even decrease.

Many different studies find advantages of increasing gender diversity in boards. An increase in gender diversity within corporate boards leads to different views, different personal and managerial skills and abilities and different approaches to problem-solving and decision-making. Kompa and Witkowska (2018, p. 80) summarised many of those studies, highlighting the most important benefits for companies with a more significant share of women on boards, such as: “results improved faster, companies are more profitable, stability of the company is evident, price of companies rises more rapidly, firm’s corporate social responsibility ratings increase and finally, employees are more satisfied and more productive”. Additionally, companies with a higher share of women on boards show strong organisational and financial performance, providing a higher return on sales (42%), higher return on invested capital (66%) and higher return on equity (53%) (European Commission, 2012). Also, a positive relationship between women’s share in top management and performance, such as the liquidity index, was evident in Italian public hospitals (Naciti et al., 2022). A Spanish study made within 125 non-financial listed companies found a positive relationship between board gender diversity and positive economic results (Reguera-Alvarado et al., 2017). However, another research series finds a negative or no relationship between gender diversity on corporate boards and organisational performance. As cited in Kompa and Witkowska (2018), the reason why there is no uniformity in those studies can be explained by the fact that this kind of research depends on “region, industry or company size” (Whittaker, 2014, p. 5), the general situation of the company (Triana et al., 2014) and applied methodology (Ali et al., 2011). Besides the lack of uniformity in the research, there is empirical verification that organisations with female CEOs and CEOs with international education improve gender diversity within their boards (Garcia-Blandon et al., 2022).

Although there are mixed findings supporting the influence of women within the boards and organisations’ financial results, as well as supporting the precise share of women within top management, some of those diverse results can be explained by different cultures (Egerová

& Nosková, 2019). Egerová and Nosková (2019) examined what share of women in top management positively influences financial performance (measured using ROA and ROE) in small and medium-sized companies in the manufacturing industry in the Czech Republic. They confirmed that the share of women on the corporate boards positively influences financial results. However, those results indicate that gender diversity both below and above the critical mass will lead to poorer results. According to their research, critical mass is considered to be a share of women from 31% to 40% in top management teams. These results confirm previous findings and support critical mass theory and the value of tilted groups of heterogeneous employees, up to 40% of females (Kanter, 1977). Similar research conducted within Croatian banks from 2002 to 2014 confirmed those findings (Pavic Kramaric & Miletic, 2017). Results confirm the necessity for gender diversity in top managerial positions, finding again tilted groups (up to 40% of women) as having a positive influence on financial performance, measured by ROA. These results are approaching the European Commission directive, suggesting reaching a quota of 40% of women for non-executive members of the boards in publicly listed companies employing more than 250 employees. Also, the authors found out that “management boards with up to 20% of women outperform male ones completely” in terms of net income margin (Pavic Kramaric & Miletic, 2017, p. 33). The benefits of including women on the boards due to their different viewpoints, different approaches to decision-making or paying more attention to details were also confirmed by De Masi et al. (2020). They supported the heterogenous structure of groups consisting of 33% or more females as being positive and statistically significant to monitoring tasks.

4 Women on Boards and Financial Reporting Quality

Considering different gender leadership styles and understanding women within managerial positions as being more empathetic and socially responsible than men, as for their interpersonal and communication skills, it is important to pose a question about the quality of their work in relation to the different types of reporting quality. Women on boards “show a stronger inclination towards addressing stakeholder needs, promoting information and engaging in corporate social responsibilities initiatives” (Makri et al., 2023, p. 4), improve communication and information transparency for organisational stakeholders (Ciappei et al., 2023) and improve disclosure of quality (Abad Díaz et al., 2017).

A study made within 500 companies on the Bombay Stock Exchange (India) in the period 2017–2018 confirmed that gender diversity represented by women on boards created a significant and positive relation to integrated reporting quality (Makri et al., 2023). A similar study, regarding the scope of the sample, was conducted within 531 companies on the Spanish Stock Exchange in the period 2004–2009. Referring to the previous research confirming that gender diversity boards increase the quality and quantity of organisations’ disclosure, the authors assumed that the presence of women on boards might lead to greater transparency and disclosure quality of companies. According to their research, the authors also assumed that gender diversity on behalf of women might produce better and more comprehensive discussions, greater information exchange among stakeholders and reduced information asymmetry (Abad Díaz et al., 2017). The findings confirmed assumptions, pinpointing that the presence of women on boards is related to lower levels of information asymmetry. The additional value of the research can be found in the fact that the same results also support new policies implemented within some European countries to increase the share of women on boards (Abad Díaz et al., 2017). Cicchiello et al. (2021), focusing on Asian and

African organisations, also supported the importance of greater inclusion of women on boards of directors because they are more socially oriented than men, they contribute at a higher level to stakeholders' needs, strengthen the development goals and practices as well as sustainability reporting. A relation between gender leadership and managerial styles, as well as ethical considerations and risk-taking behaviour of the accounting expertise of female audit committee chairs and quality reporting, is confirmed in contrast to same male positions (Din et al. 2021). Additionally, Golmohammadi Shuraki et al. (2021) provided empirical support for the theoretical views on the association between financial reporting quality and audit opinion on emerging capital markets. The authors also found a negative association between financial reporting quality and audit opinions. In the sample of firms listed on the Tehran Stock Exchange from 2015 to 2019, they found that higher financial reporting quality increases the auditor's tendency to issue unqualified audit opinions.

However, to the best of our knowledge, this is the first study that empirically examines the association between gender diversity in management boards and financial reporting quality.

5 Institutional Context for the Research

Financial reporting and information disclosure practices of countries with underdeveloped capital markets differ compared to capital market-oriented economies because they are influenced by a variety of economic, social and political factors, such as the legal system, stage of economic growth and development, enterprise ownership and activities of enterprises, and should be explored separately (Aljinović Barać & Bilić, 2021). Thus, institutional characteristics such as bodies, rules, regulations and policies that set the regulatory framework for the research are described in more detail.

The board system in Croatia is regulated by the Companies Act, which initially prescribed a two-tier board system (management board and supervisory board) as mandatory for all public companies (Official Gazette, 2023, Article 239). In order to harmonise the Act with EU directives and regulations, in 2007, a revision was made, which enables companies to choose between a one-tier board system (board of directors) and a two-tier board system (Official Gazette, 2023, Article 272a). According to Felić (2020), the two-tier board system is predominant in Croatian public companies as only 18 of 841, i.e., 2%, have a board of directors as the body of the association. The Companies Act also regulates the number of board members, the terms, conditions and periods for their appointments, as well as their duties. However, gender issues are regulated by the Gender Equality Act as a cover act and National Policy for the Promotion of Gender Equality and Action Plan for the Implementation of the Strategy of Women Entrepreneurship Development in the Republic of Croatia for the period 2014–2020.

The Gender Equality Act specifically aims at the protection and promotion of gender equality as a fundamental value of the Croatian constitutional order and defines and regulates methods of protection against discrimination based on sex while also creating equal opportunities for men and women (Official Gazette, 2017, Article 1).

The National Policy for the Promotion of Gender Equality is the basic strategic document adopted by the Republic of Croatia for the purpose of eliminating discrimination against women and establishing true gender equality by implementing a policy of equal opportunities.

It defines facts, goals and measures to be achieved in the different areas of women's human rights, institutional mechanisms for the promotion of women's positions, women in decision-making positions, etc. The first national policy was adopted in 1997, and three national policies were issued to cover the period ending 2015. However, due to political and governmental crises, there is a time gap between the gender equality policies from 2016 to 2020 (Bodiroga-Vukobrat & Martinović, 2017).

The Strategy of Women Entrepreneurship Development in the Republic of Croatia for the period 2014–2020 and the Action Plan for its implementation reveals the fact that “in 2010, only 12% of women were management board members, while a mere 3% were heads of management boards of the largest companies in the EU”, although they make up 60% of persons with higher education (Government of the Republic of Croatia, Ministry of Entrepreneurship and Crafts, p. 20).

6 Research Design and Methodology

Based on the theoretical and regulatory framework described above, this paper aims to (1) examine trends and levels of gender inequality in leadership positions of Croatian listed companies and (2) identify whether the gender structure of management bodies affects the financial reporting quality of Croatian listed companies. Adequate descriptive and inferential statistical techniques are applied using IBM SPSS Statistics 23 software.

The research sample is selected from the list of issuers on the Zagreb Stock Exchange (ZSE), which is publicly available on their webpage (www.zse.hr). According to the data available at the end of 2014 and 2019, shares of 144 and 108 issuers were listed on the ZSE, respectively. A total of 11 companies in 2014 and 13 companies in 2019 were excluded from the sample due to incomplete or missing data. Thus, the final sample consists of 133 companies in 2014 and 95 companies in 2019, representing, on average, 91% of the population; thus, the research can be considered relevant and the obtained results reliable. Regarding the corporate governance bodies, the two-tier board system is predominant in companies in the sample, as only two companies out of the 133 (1.5%) in 2014 and 3 out of the 95 (3.1%) in 2019 had a board of directors (one-tier board) as the only body of the association.

The time framework for the research is similar to that of Kurtovic (2020), defined to capture the improvements in gender equality resulting from the implementation of the Strategy of Women Entrepreneurship Development in the Republic of Croatia from 2014 to 2020 (Official Gazette, 2014) and the Gender Equality Act (GEA, Official Gazette, 2017). The year 2014 is chosen as the last year before applying this set of new regulations (GEA), which introduced significant changes in activities for gender equality in the broadest areas of private and public life. Moreover, as an EU Member State since 2013, Croatia has been dedicated to incorporating provisions of EU directives into national laws, promoting EU gender equality policies and implementing the EU gender equality acquis. The year 2019 is chosen to capture the effects of adopting the GEA and its incorporation into practice.

Gender diversity in management boards is approximated in accordance with Kanter's critical mass theory, which assumes that “the proportion of socially and culturally different people in groups is considered critical in shaping interaction dynamics” (Kanter, 1977, p. 965). According to the structure and shares of their members, groups can be distinguished as uniform, skewed, tilted and balanced (Kanter, 1977). This group categorisation can also be applied considering group heterogeneity based on the gender of their members. Uniform

groups show homogeneity with respect to specific social types, sharing the same characteristics, such as gender. The ratio of these group members is 100:0, considering all members to be either male or female. Proportions of greater social heterogeneity are visible within other types of groups. Skewed groups represent great dominance of one type of member over another, such as one gender over the other, presenting the ratio as 85:15. Dominance of one group over the minority can be up to 20% of one gender. Following, tilted groups propose a ratio of 65:35 (up to 40%), where dominants are just a majority. Finally, balanced groups remove the majority of one group of members, expressing a proportion of 50:50 and gender differences are not important.

The type of audit opinion, similar to Rakhman and Wijayana (2019), approximates financial reporting quality. The Accounting Act prescribes the statutory audit of financial statements to companies whose shares or debt securities are listed on an organised securities market (Official Gazette, 2023, Article 20). According to Article 58 of the Audit Act (Official Gazette, 2017), the audit firm shall present the results of the statutory audit in an audit report. The audit report should include an audit opinion, which may be either unqualified, qualified or adverse. The auditor should state clearly whether the annual financial statements give a true and fair view in accordance with the relevant financial reporting framework and, where appropriate, whether the annual financial statements comply with statutory requirements. If the audit firm is unable to express an audit opinion, the report shall contain a disclaimer of opinion. In that context, audit opinion approximates the concept of faithful representation, which is one of the fundamental qualitative characteristics of financial statements. If an auditor issues an unqualified opinion, it indicates that the financial statements represent an accurate and fair view and reflect high financial reporting quality. In contrast, a disclaimer of opinion represents poor quality of the financial statements.

7 Results and Discussion

7.1 Levels and trends of gender inequality in leadership positions

To answer the research question about trends of gender inequality in leadership positions of Croatian listed companies, the gender structure in management bodies of the companies in the sample is presented in Table 1.

Table 1 | Gender structure in management bodies of Croatian listed companies

Women member	Two-tier board				One-tier board		TOTAL
	Supervisory		Management		Board of directors		
Yes	88	67.18%	45	34.35%	1	50.00%	50.76%
No	43	32.82%	86	65.65%	1	50.00%	49.24%
2014 TOTAL	131	100.00%	131	100.00%	2	100.00%	100.00%
Yes	55	59.78%	30	32.61%	0	0.00%	45.45%
No	37	40.22%	62	67.39%	3	100.00%	54.55%
2019 TOTAL	92	100.00%	92	100.00%	3	100.00%	100.00%

Source: Authors' elaboration (2023)

The descriptive statistics show that, in total, there are no significant gender inequalities in leadership positions of Croatian listed companies either before or after the GEA implementation, as there is an almost equal share of management bodies that have women members and those that do not. An in-depth analysis shows that the two-tier board system is predominant in Croatia, as only two companies out of the 133 (1.5%) in 2014 and 3 out of the 95 (3.1%) in 2019 have a board of directors (one-tier board) as the only body of the association. As a rule, the liability of the management board members in a two-tier governance system corresponds to the liability of executive directors in a one-tier governance system. The liability of supervisory board members in a two-tier governance system corresponds to the liability of the board of directors' members in a one-tier governance system (Krehic & Partners, 2022). Comparing the periods before and after the GEA implementation, there is a negative trend in the share of women in management bodies of the companies, despite the regulations that introduced significant changes in activities for gender equality in the broadest areas of private and public life. However, within the two-tier board system, it is evident that women are more often members of a supervisory board (67% cases in 2014 and 60% cases in 2019) than members of a management board (34% cases in 2014 and 33% cases in 2019). Data also show that women are underrepresented in management board positions, as only one-third of management boards have women members.

This finding can be assigned to the provisions of Section 5 of the Croatian Companies Act (Official Gazette, 2023). It prescribes that all the company's shareholders be members of the general assembly and that the supervisory board members be appointed. The main duty of the supervisory board is to elect management board members who manage the company's business, represent the company and supervise them. In that context, it can be concluded that women are elected to leadership positions by a larger voting body (general assembly) more often than in cases where a small group makes elections, i.e., supervisory board members. An alternative explanation for the fact that women are more often members of a supervisory board than members of a management board may be that women are not inclined to be management board members because of a wide range of daily responsibilities and jobs, which is more difficult to handle with other duties in everyday life. These results are similar to the findings of Vranješ Radovanović et al. (2016), who also pointed out predominant indicators of the position of women and men on the Croatian labour market. Firstly, women are underrepresented and reach management positions at a later point in life, leaving them earlier, which corresponds with their earlier exit from the labour market. Also, traditional gender roles dictate the division of jobs at the executive level, just as they produce horizontal gender segregation on the labour market.

However, these results should be interpreted with caution, as the analysis shows only the presence of women in management bodies. Levels of gender inequality in leadership positions of Croatian listed companies are investigated by in-depth analysis of the share of women in the total number of management body members. As we have already noticed that one-tier boards are negligible in Croatia, these observations are merged with supervisory board members in a two-tier governance system in our further analyses, which corresponds to their liabilities in a one-tier governance system. Results are presented in Table 2.

Obtained results reveal a different proportion of women and men in management bodies of Croatian listed companies. Although the analysis of the presence of women indicates that

women are more frequently included on supervisory boards or boards of directors than on management boards, the number of female members is higher later. In general, proportions do not significantly change during the time. In supervisory boards, most frequently, there is one woman for every four men, and in management boards, the ratio between men and women is most frequently equal.

Table 2 | Descriptive statistics of gender structure in management bodies of Croatian listed companies

	No GEA		GEA implemented	
	Supervisory	Management	Supervisory	Management
Mode	20%	50%	20%	50%
Average	30%	40%	32%	45%
Minimum	7%	14%	11%	10%
Maximum	80%	100%	78%	100%

Source: Authors' elaboration (2023)

These proportions do not change in either of the periods observed. The minimum values of 7% and 11% for supervisory boards and 14% and 10% for management boards refer to one woman on board, but they differ as percentages because of the total number of members. The maximum value of 100% of the share of women on management boards should be interpreted with caution as in-depth analysis shows that these are the cases of five companies with only one management board member.

Similar to previous relevant research (Pavic Kramaric & Miletic, 2017; Egerová & Nosková, 2019; De Masi et al., 2020), the gender diversity structure of corporate boards in the context of the critical mass theory is presented in Table 3.

Table 3 | Gender diversity structure in management bodies of Croatian listed companies

	No GEA			GEA implemented		
	Supervisory	Management	TOTAL	Supervisory	Management	TOTAL
Uniform	33%	69%	50%	42%	73%	58%
Skewed	29%	7%	18%	18%	9%	13%
Tilted	33%	16%	25%	35%	11%	23%
Balanced	5%	8%	7%	5%	8%	6%
TOTAL	100%	100%	100%	100%	100%	100%

Source: Authors' elaboration (2023)

The findings presented in the above table show that in half of the total cases, management boards are structured as male-uniform groups. In contrast to our expectations, this share is higher in the period after GEA implementation, indicating the failure of the EU gender equality acquis implementation in Croatian legislation. The increase of uniform management boards is evident in both supervisory and management boards in the two-tier systems and in one-tier board structures. A tilted group where men are the majority and

women share in boards between 20% and 40% is presented in approximately one-fourth of the companies examined. Interestingly, although the total share remains similar in both years observed, there is a switch between the proportions of men and women within management and supervisory boards, in the way that the share of women on the supervisory boards increased over time with a simultaneous decrease in the percentage in the share of women on the management boards. The highest relative total change (decrease) from 2014 to 2019 is evident in a skewed group, where the dominance of men over women can be up to 20%. However, this change is unfavourable because it affects the growth of members in the uniform group at the same time, mainly transforming skewed supervisory boards into male-uniform structured ones. Targeted, balanced groups where gender differences are not notable are still rare in management boards of listed companies in Croatia. Overall, statistical testing shows that the gender diversity structure in management bodies of Croatian listed companies has changed with the implementation of the Gender Equality Act in 2017, but these changes are not found to be significant (Pearson chi-square = 2.351; *sig.* = 0.503).

The above-mentioned results are still poor for Croatia, although certain efforts and changes are visible. Also, Croatia, after implementing the GEA, is lacking in contrast to the majority of the EU-27 countries (European Institute for Gender Equality, Gender Equality Index, n.d.). Not only is the share of women on Croatian corporate boards not reached according to the proposed GEA, but also the latest data considering the GEI (a measure of progress of gender equality in several areas of economic and social life) in 2023 show that the GEI for the EU is 70.2, while the same index for Croatia is reported as 60.7, pointing to only 5 EU countries with a worse result. According to this index, Croatia has not shown any progress lately compared to the EU average. Our findings may suggest that although the GEA is in force, Croatian legislation and improper internal and external systematic monitoring are not providing any kind of sanctions or penalties for those organisations that are not adapted to the GEA. Additionally, there is certain cultural heritage in Croatia, as well as in other countries in the area, forming certain stereotypes and prejudices towards women's career development and inclusion in top hierarchical positions (Miholić et al., 2022). Moreover, women may underestimate their self-worth in professional networking and are less engaged (Greguletz et al., 2019). They enter managerial positions later and leave them earlier than men (Martinović et al., 2021), avoiding opportunities that are more prone to risk, according to their leadership styles. Finally, glass barriers are still evident due to different cultural heritage, prejudice towards women's leadership styles and stereotyping (Martinović et al., 2021).

In addition to classification as a uniform, skewed, tilted and balanced management board, the sub-division based on dominant gender is presented in Table 4 (e.g., there are two uniform groups, one considering all members to be male (M) and another consisting only of female members (W), etc.).

This sub-classification confirms the significant underrepresentation of women in all management bodies in both periods examined, i.e., before and after the GEA implementation in Croatia. Hence, as predominantly women corporate boards are proven negligible in the structure, this sub-classification will not be used in further analyses.

Table 4 | Gender diversity sub-structure in management bodies of Croatian listed companies

	No GEA		GEA implemented	
	Supervisory	Management	Supervisory	Management
Uniform M	33%	66%	42%	67%
Skewed M	28%	7%	18%	9%
Tilted M	30%	16%	32%	9%
Balanced	5%	8%	5%	8%
Tilted W	3%	2%	4%	2%
Skewed W	1%	0%	0%	0%
Uniform W	0%	3%	0%	5%
TOTAL	100%	100%	100%	100%

Source: Authors' elaboration (2023)

7.2 Interrelation between gender diversity and financial reporting quality

To answer the research question of whether the gender structure of management bodies is related to the financial reporting quality of Croatian listed companies, the non-parametric chi-square test of independence is applied. Additionally, to capture the effects of the Gender Equality Act implementation in national legislation, the general linear model (GLM) univariate procedure that provides regression analysis and analysis of variance for one dependent variable by two factors is used.

The chi-square test is applied to detect relationships between audit opinion and gender structure of management bodies' variables, regardless of the existence of the GEA and type of corporate board. A cross-tabulation of the variables is presented in Table 5.

The Pearson chi-square value of 8.881 and p-value of 0.031 indicate a significant difference in the distribution of gender structure in management bodies and audit opinion of Croatian listed companies. In other words, the gender of corporate board members is significantly associated with financial reporting quality. Residual values show that lower quality of financial reporting approximated by the issuance of qualified audit opinion is associated with uniform corporate boards' structure, considering that all board members are male. Issuing unqualified audit opinions that indicate accurate and fair financial reports and reflect high financial reporting quality is related to tilted-structured boards where dominants are just a majority.

Table 5 | Cross-tabulation of gender structure in management bodies and audit opinion of Croatian listed companies

OPINION BOARD/	Unqualified	Qualified	Total
Uniform	163 (49%)	78 (64%)	241 (53%)
Skewed	57 (17%)	15 (12%)	72 (16%)
Tilted	88 (27%)	20 (17%)	108 (24%)
Balanced	22 (7%)	8 (7%)	30 (7%)
Total	330 (73%)	121 (27%)	451 (100%)

Source: Authors' elaboration (2023)

To provide more insights into the relationship between gender diversity and financial reporting quality, additional chi-square test procedures are run on sub-samples regarding the type of corporate board (management or supervisory) before or after the implementation of the GEA. Cross-tabulations and testing results are summarised in Table 6.

As can be seen from the results presented, there are no significant differences in the distribution of management boards, supervisory boards or audit opinions of Croatian listed companies before the implementation of the Gender Equality Act in national legislation. After the Act came into force, the distribution of gender structure in supervisory boards and audit opinion remains not significantly different. However, with a level of confidence of 90%, the findings indicate a significant correlation between gender structure in management boards and financial reporting quality when the GEA is implemented. Based on residual values, it can be concluded that uniform management boards consisting only of men are related to the issuance of qualified audit opinions, indicating low quality of financial reporting. On the other hand, tilted management boards with up to 40% female members are associated with high-quality financial reporting and unqualified audit opinions. Some previous research has also confirmed the influence and contribution of the increase of women, such as token groups. When considering titled groups (greater inclusion of women, up to 40%), women are more likely to change perspectives, encourage effective decision-making and fortify accounting conservatism (Alves, 2023), meaning preparing financial reports with caution and a high degree of verification.

Table 6 | Cross-tabulation of gender structure in management bodies and audit opinion of Croatian listed companies

Board structure	Audit opinion (no GEA)			Audit opinion (GEA implemented)		
	Unqualified	Qualified	Total	Unqualified	Qualified	Total
MANAGEMENT BOARD						
Uniform	60	30	90	49	18	67
	67%	33%	69%	73%	27%	73%
Skewed	6	3	9	8	0	8
	67%	33%	7%	100%	0%	9%
Tilted	17	4	21	10	0	10
	81%	19%	16%	100%	0%	11%
Balanced	9	2	11	4	3	7
	82%	18%	8%	57%	43%	7%
TOTAL	92	39	131	71	21	92
	70%	30%	100%	77%	23%	100%
$\chi^2 = 2.462$		$sig. = 0.482$		$\chi^2 = 7.539$		$sig. = 0.057$
SUPERVISORY BOARD						
Uniform	26	18	44	28	12	40
	59%	41%	33%	70%	30%	42%
Skewed	29	9	38	14	3	17
	76%	24%	29%	82%	18%	18%
Titled	35	9	44	26	7	33
	80%	20%	33%	79%	21%	35%
Balanced	4	3	7	5	0	5
	57%	43%	5%	100%	0%	5%
TOTAL	94	39	133	73	22	95
	71%	29%	100%	77%	23%	100%
$\chi^2 = 5.721$		$sig. = 0.126$		$\chi^2 = 2.919$		$sig. = 0.404$

Source: Authors' elaboration (2023)

Finally, to examine whether the implementation of the Gender Equality Act in national legislation and the structure of management boards affect the financial reporting quality, similar to the approach of Al-Dmour et al. (2018), a two-factor analysis of variance is used. The obtained results are presented in Table 7.

As can be seen from the results, the model is statistically significant (p-value 0.086), indicating its ability to account for variation in the financial reporting quality approximated by the audit opinion variable. The p-value of 0.901 indicates that there is no significant interaction effect between the gender structure of management bodies in listed companies and the implementation of gender equality regulations on financial reporting quality.

However, the main effect of the corporate board gender structure variable on audit opinion is significant (p-value 0.026) and the Tukey HSD post hoc test (p-value 0.035) indicates a statistically significant difference between uniform and titled structured management bodies.

Table 7 | Test of between-subjects effects

	Mean square	F	Sig.
Corrected model	0.349	1.797	0.086
Intercept	383.775	1974.766	0.000
Board structure	0.605	3.111	0.026
Gender Equality Act	0.303	1.557	0.213
Board * GEA	0.038	0.193	0.901
Error	0.194		
Dependent variable: Opinion			

Source: Authors' elaboration (2023)

Concluding Remarks

This paper dealt with the association between gender diversity on corporate boards and financial reporting quality, which is, to our best knowledge, still unexplored context of corporate governance. The underrepresentation of women in leadership positions is one of the most common types of evidence of gender inequality in business, although different efforts are undertaken and legal acts are adopted to overcome it.

The research captures the effects of GEA implementation in the Croatian legislative framework and finds that high financial reporting quality is related to tilted-structured management boards with up to 40% female members. However, the nature of available data limited the application of advanced statistical methods and models but did not diminish the contribution of the research because it brings valuable information about trends and levels of gender inequality in leadership positions of Croatian listed companies and their impact on the financial reporting quality in Croatia, as a case of a bank-oriented economy with an emerging capital market.

Thus, the recommendation for future research is to extend the number of variables and use different approximations for the ones applied in the present study. For example, earnings quality metrics, such as accruals quality, persistence, volatility, conservatism and various releases and restatements from external resources (Aljinović Barać, 2021) may be used as financial reporting proxies; alternatively, different gender characteristics such as level of education, the specificities of their leadership style, pay gap or working experience may be included in the model. Lastly, applying sophisticated time series analyses may add value to future research. Nevertheless, any derived conclusions have to be perceived within the context and interpreted with caution.

Despite the relatively well-developed policy and legislative instruments aiming for gender equality, numerous challenges and gaps in their implementation are still evident. Thus, it is the responsibility of the corporate management of the companies to strive for their full implementation in everyday business and to try to break glass obstacles. It is important to

motivate women, develop their self-confidence and provide them with opportunities to develop and progress, regardless of stereotyping and neglecting invisible barriers.

Finally, national legislative bodies should strengthen the supervision of GEA application and sanction its violations. They may also prescribe obligatory gender quotas for corporate board members, following and adapting to EU trends.

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