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Impact of Boards Gender Diversity on Firms Profitability: Evidence from Banking Sector of Pakistan

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ABSTRACT : Gender diversity within senior management teams has become an increasingly topical issue. Good corporate decision-making requires diversity of thoughts, which comes from diverse people who have different backgrounds, experiences, and perspectives. Women hold just a small number of corporate board seats. The importance of gender diversification in the context of Pakistan is at its initial stage. Therefore this paper attempts to find out the relationship between the Board's gender diversity and the firm's performance particularly in the banking sector of Pakistan. Firm's performance is measured by Return on Assets (ROA). Our sample size comprises of 6 banks and panel studies are conducted for the period from 2008 till 2012. Analysis is done through descriptive statistics, Correlation and Regression Analysis. Findings of the research show that number of women on board has a significant impact on firm's performance while percentage of women on board and presence of female CEO has no significant impact on firm's performance.

Keywords - Corporate Governance, Gender Diversity, Women on Board Number, Women on Board percentage, Female CEO, Firm's performance.

1. INTRODUCTION

Corporate Governance is a term which has got its own versatility and is defined by many researchers in a different way. The firms where the principals of corporate governance are adhered to be relatively more gainful, more valued, and pay out more profits to their shareholders (Brown & Caylor, 2004).Corporate governance deals with a long list of sub variables. Few important and widely discussed are legal protection of investors and ownership concentration (Shleifer & Vishny, 1997), corporate finance (Williamson, 1988), effectiveness of board of directors (Lipton & Lorsch, 1992), effects of changes in board composition (Baysinger & Butler, 1985), corporate social responsibility (Moir, 2001), Stock holders and stake holders (RE & Reed, 1983).

The Corporate Governance in Pakistan is overall a neglected sphere. The mechanisms involved in this are not perceived as playing the major role in influential for organizations. One important sub domain of these mechanisms is Board of directors, which ultimately are responsible to shareholders for the governance of the organization. A lot of sub mechanisms dealing with different complex issues are involved in this which are controlled and set by Board of directors of a firm. The board of directors is responsible for keeping a watch on the firms and management activities and secures the interest and apprehensions of all the shareholders regarding their interest in the firm's profitability. They are responsible for acquiring the best management professionals from diverse human capital pool to keep up with the pace of the corporate competitive environment.

There are number of boards' diversity mechanisms and constructs i.e. Board size, Board composition, Board education level, Boards gender diversity, Non-executives directors, Executives directors. Which ultimately contribute towards the firm performance and success. A lot of research has already been done on various constructs and the combinations of constructs related to board of directors which have are of paramount importance in achieving goals and objectives of the firm. It includes setting the company's strategic aims and effective implementation of the line of action to achieve them, to keep a strict watch on management and their practices which they carry out to run the show, and their reporting and auditing mechanisms.

One of the thought-provoking areas which have gained popularity among the researchers in recent times is gender diversity in firms, at different levels in management as well as board of directors. Recent research clearly shows that Pakistan is among few countries where a very small number of women are chosen for and working on the top managerial and executive positions (Campbell & Mínguez-Vera, 2008). A study carried out also showed that if we increase the number of women directors on board in Norwegian firms, the innovation in those firms can substantially be increased (Calabro, Torchi & Husewomen, 2011). The researchers all over the world have tried to establish a relationship between the ratio of women on board and firm's performance. The firm's financial performance is gauged by different parameters like return on assets i.e. ROA and return on equity i.e. ROE.

Board's gender diversity in the corporate sector of Pakistan has become a widely discussed topic in recent times. Increasing number of women on corporate boards has raised many questions regarding firm's financial and non-financial performance. Keeping in view the above scenario, the researcher plans to study the impact of Boards gender diversity on firm's profitability in the banking sector of Pakistan.

Fledgling businesswomen don't enjoy the same opportunities as men do in Pakistan's corporate sector, which can lead them to show their entrepreneurial potential (Roomi & Parrott, 2008). Previous research has revealed the fact that between 2008 and 2010 among all the companies listed on KSE 100 index in Pakistan, only 25% of the firms have at least one woman in the boardroom and women CEO percentage was found to be 3.33% (Yasser, 2012). Gender diversity has not specifically been studied in the banking sector of Pakistan. This fact makes it a visible gap in the body of knowledge.

Different strategies and policies are formulated by the governing body of the firm. The aim is profitability and increasing financial performance by implementation and refinement of these mechanisms. Findings of this research may be communicated to State bank of Pakistan in general and banking sector in particular for implementation in their respective domains so that the financial performance can be enhanced through manipulating the number of female directors (executive or non- executive) on board.

This fact is known and proved over the period of time by numerous researches carried out across the globe and about different cultures that there are various aptitudes in females. If these competencies are utilized properly, they can play a major role in reshaping the capabilities of workforce, leading to better organizational performance. The subject of gender diversity has gained much popularity in recent times. Numerous efforts have been made to link the firm's performance to those females who are working on higher positions in a firm. Recent researches in turkey clearly revealed the fact that firm with female CEOs have higher profitability (Izgi & Akas, 2012). This fact if generally applicable to the females all over the world but definitely with conditions like corporate background, education level etc. In underdeveloped countries, like Pakistan, due to cultural obligations and boundaries, women are not encouraged to be part of workforce to the extent that they can make a difference. What are the reasons behind it? Why their capabilities are underestimated and what are the barriers which hinder their selection at the top level are the questions which are yet to be answered by further research in this domain.

This study is carried out from the primary as well as secondary data sources which are available on World Wide Web and that too for only few local and foreign banks operating in Pakistan. More sophisticated and qualitative method can be employed to study the impact of gender diversity on firms performance in other sectors or/and corporate setup of Pakistan. The objectives of the study are:

a) To study the impact that gender diversity on board can have on firm's profitability in banking sector of Pakistan.

b) To study the level of gender diversity in boardrooms of Pakistan's banking sector.

c) To examine if there is any relationship between boards gender diversity and banks profitability levels.

d) To make a contribution towards gender diversity research in Pakistan's corporate sector in general and banking sector in particular.

The introduction of the paper should explain the nature of the problem, previous work, purpose, and the contribution of the paper. The contents of each section may be provided to understand easily about the paper.

2. LITRATURE REVIEW

Organizations all around the world are struggling for success, and therefore, the recruiting process of employees has become an important area for successful business strategies and their implementation. Companies know the power that talented employees can bring in their organizations (Sultani, 2012).

Firm's performance is highly influenced by the structure of board of directors. It must ensure the alignment of the interests of all stake holders and effective decision making within a corporate governance framework. (Becht, Bolton & Röell, 2002, Hermalin & Weisbach, 2003).

Herring (2009) concludes that to achieve better business results, diversity on board is very important as it promises higher overall corporate earnings and income. He further suggests that gender diversity brings high returns, high customer base and increased profits. This is because of the fact that diverse groups are more prone to conflicts of ideas, which takes them ahead of the simple solutions that homogenous groups usually think of, leading to higher creativity and firm's performance. In the light of above argument, Hoogendoorn, Oosterbeek and Praag (2011) also says that groups or teams which are made up of men and women both show better performance in terms of revenues, earnings per share and profits.

An emphasis on the top executive's gender in the firms has been laid down for the last 8 to 10 years. The representation of women on board is an emerging trend in US and in some European countries but women reaching top positions is still very low in rest of the world. (Smith, Verner & Smith, 2006).

The gender structure of the board affects the quality of monitoring role and the financial performance of the firm. Campbell and Vera (2008) suggest that economic gains are the result of greater gender diversity.

Tacheva and Huse (2006) say that women directors affect the board dynamics and its effectiveness. They suggest that two of the board tasks: financial control and service task are negatively affected by the number of women directors on board. The power of women board members on team effectiveness differ by the nature of the task performed.

Nielsen and Huse (2010) investigates that how much women directors give their input to board decision-making and how much they are involved strategically. Their survey from 120 Norwegian firms concludes that the professional experiences of the women directors along with their values different from each other influences the board strategic involvement through contribution in decision-making.

There exists a positive relationship between gender diversity in board room and corporate profitability but a negative relationship for gender diversity in executive suite. A company is successful than other companies on all three measures of profitability: return on assets, return on equity and return on sales; if it has one or more female directors on board whereas the same company with one or more female executive show lower average profitability (Lehobo, 2011).

According to Calabro, Torchia and Huse (2011), the level of firm innovation is enhanced by going from one or two women (a few tokens) to at least three women (consistent minority). Moreover, their findings show that the relationship between the number of women directors and the level of firm innovation is affected by board strategic tasks. Another study shows that if women represent at least 30 % of the board then they can affect firm governance and performance (Kans&Stengård, 2012). Another study indicates that the critical mass of 30 percent women means having about three women on the board. (Joecks, Pull & Vetter, 2012).

Good percentage of women on board may bring benefits to the whole sector including creative and innovative skills, increased proportion on board leading to better future prospects and better working environment by accommodating more females at top slots (Cox & Black, 1991; Robinson & Dechant, 1997).

Smith et al (2006) analyzes that the fraction of women on top positions affects the firm's performance in a positive way, even after scheming for numerous Characteristics. They further suggest that this affect depends on the qualification of women on top positions.

Darmadi (2010) finds that presence of female on top positions is not related with improved level of firm performance. Moreover he also reveals that family controlled business in Indonesia have higher share of female members on management boards. In contrast to the above argument Prihatiningtias (2012) suggests that performance of the firms are positively as well as negatively influenced by gender diversity.ROA and Tobin's Q are used to measure the performance of the firm.

Firms with female CEOs have higher profitability (Izgi et al, 2012). Research conducted by using sample of six leading banks clearly indicates that even the presence of one woman on board has shown positive impact on the banks profitability level (Cartyer, Simkins & Simpson, 2003). The presence and proportion of female director positively influences the financial performance but the board size has neutral effect. However supervisory and lawmaking efforts should be made in order to achieve reasonable gender stability on board. (Oba & Fodio, 2013).

Mirza, Mehmood, Andleeb and Rizwan (2012) has conducted their study in Pakistan and they find that females working on top of the firm brings the firm performance towards decline and also give negative sign to the investors because of the belief of the society that women are disturbing, destructive, avoiding in taking risks, less confident and not well educated.

Another research indicates that females acting as CEO's of the firm leads the firm towards lower performance because of the cultural conditions, less emotional stability and patience issues (Erhardt & Werbel, 2003).

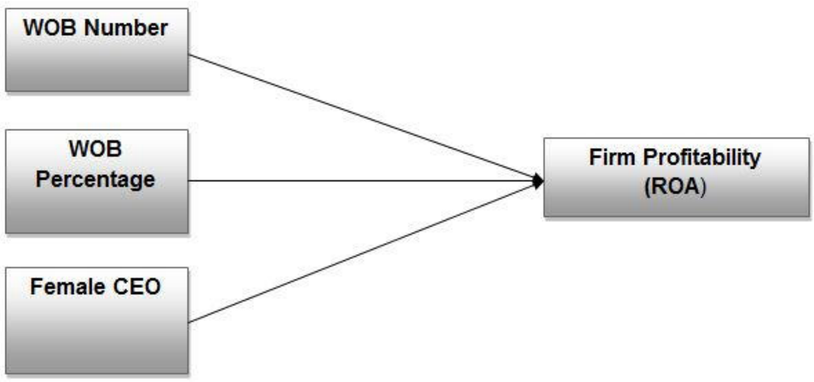
On the contrary Lincoln and Adedoyin (2012) say that unique characteristics are present in women which are required to positively affect the strategic direction of a corporation. A company with at least one female director on the board helps in presenting a more positive picture means that there is improvement in monitoring process, enhanced creativity and diversified ideas.

Haniffa and Hudaib (2006) find that females on top positions in management bends toward taking more risks which leads to better financial performance.

According to Yaseer (2012) there is no considerable link between board gender diversity on firm performance in Pakistan.

Role of women in bank boardrooms is also assessed by researchers in many studies. Gulam hussen and Santos (2010) concludes a positive effect of women on board on the return on equity, the return on assets and the operating income ratio. They also find a negative impact on loan loss reserves, loan loss provisions and impaired loans ratio.

3. THEORETICAL FRAMEWORK



Keeping in view the literature review, after operationalization of gender diversity, we came up with three independent variables. The first variable is number of women on board is taken as dummy variable. Its value is 1 if even one woman is present on the board of the bank and 0 if there are no women on board. The second variable is percentage of women on board with reference to the board size of the respective bank. Third variable is Female CEO which is again a dummy variable. Its value is 1 if CEO of the bank is a female and 0 otherwise.

3.1. Hypothesis Development

From American cultural perspective, corporate governance system shows huge support for women on top management positions and the reason is their diversified culture with their biased behavior towards gender diversity issues (Ekuland et al., Marinova, 2010).

The Pakistan's corporate environment, till date is less diversified and the research has indicated very less support for women on top executive positions. They are considered to be followers in overall perspective of life. Their prime duties mostly related to household management. They are not allowed to do late sitting in office and always work under restrictions. In short, their mind set is more family oriented and less business oriented. This brings them to opt for comfortable jobs with flex timings. In corporate environment, banking sector is the preference for most of the women due to many inherited advantages. Due to steady involvement of women with their jobs in this sector, it has been observed over the past many years that more women have made it to top positions.

Gender diversification on boards is important issue to be addressed in Pakistan's corporate environment where diversified corporate culture is still an issue under discussion. At this point we formulate our first hypothesis as:

H1: Higher the number of women on board leads to higher profitability of the bank.

We formulate our second hypothesis as follows:

H2: There is positive relationship between percentage of women on board and banks profitability.

One aspect which is elaborated in research is that Empirical evidence shows a negative trend with female CEO and firms profitability levels. This fact leads us to conclude our third hypothesis as follows:

H3: There is negative relationship between female CEO on board and firm's profitability.

4. Methodology

4.1. Overview

The research methods chosen for this study is contingent upon the nature and behaviour of the variables and therefore being contemplated mostly through qualitative methods.

4.2. Population and Study Sample

The present research consisted of six leading banks of Pakistan i.e. Allied Bank, Al-Falah Bank, State bank of Pakistan, Silk Bank, MCB, First Women Bank. Banking sectors of Pakistan is the population and this sector was chosen because women prefer to join banks for a consistent period of time as compared to other sectors. Our sample size comprises of 6 banks and panel studies were conducted for the period from 2008 till 2012.

4.3. Data Collection

The data for the independent and dependent variable is mostly collected from secondary sources including banks web sites, website of Karachi stock exchange, web site of state bank of Pakistan, business recorder website to find out market value of the company, figures of return on assets, list of board of directors and annual reports of the companies for **05** years.

4.4. Dependent Variable

The dependent variable in this research is Return on assets which represents the financial performance of the firm. It can be calculated by dividing net income and average total assets or by multiplying net profit margin and asset turnover ratio.

4.5. Independent Variable

The first independent variable used in this research is the number of women on the board irrespective of the board size. It will be treated as a dummy variable i.e. if there is even one women present on the board the value of one will be taken and if there is no female present, then the value will be 0. The second variable is the percentage of the women with respect to board size and the third variable is female CEO presence i.e. weather the bank CEO is a female or not. Again it is a dummy variable and will be given 1 if female is the CEO of the bank and 0 otherwise.

4.6. Model Specification

The regression model employed to test the number of women on board, the percentage of the women on board to the board size and female CEO is as follows.

$$\mathbf{ROA_{it} = \beta_0 + \beta_1 WOBN_{it} + \beta_2 WOBP_{it} + \beta_3 CEOP_{it} + e_{it}}$$

Where:-

ROA = Return on Assets

β_0 = Intercept Coefficient

WOBN = Women on Board Number

WOBP = Women on Board Percentage

FCEO = Female CEO

e_{it} = Gaussian white noise

4.7. Analysis and Interpretation

Data analysis will be done by using “Statistical Package for Social Sciences (SPSS-16). It is a very systematic and user friendly software that can handle huge data and shows correct results. The following tests will be applied, to test the hypothesis.

4.7.1 Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
ROA	30	.19	14.80	3.1040	3.74056
WOBN	30	.00	1.00	.3333	.47946
WOBP	30	.00	33.30	7.0500	12.39908
CEOP	30	.00	1.00	.1667	.37905
Valid N (listwise)	30				

The descriptive statistics here show the minimum and maximum values for the sample taken, the mean value for the independent and dependent variables and the standard deviation for each variable. The women on board number and CEO female presence i.e. WOBN and CEOP respectively range between 1 and 0 because these are the dummy variables. The value of women on board percentage with respect to board size ranges between 0.00% and 33.3% and the value for ROA of the sample banks ranges between 0.19 % and 14.80%. The average number of women on the sample banks board was found to be 0.33 which is even less than 1. The average percentage of women on board with respect to board size was found to be 7.29%. The presence of female CEO was found to be 0.16 which is again less than 1 and the average value of ROA was found to be 3.10 %.

4.7.2 Correlation Table

		ROA	WOBN	WOBP	CEOP
ROA	**Pearson Correlation**	1	.447*	-.049	-.275
	Sig. (2-tailed)		.013	.798	.141
WOBN	**Pearson Correlation**	.447*	1	.818**	.632**
	Sig. (2-tailed)	.013		.000	.000
WOBP	**Pearson Correlation**	-.049	.818**	1	.963**
	Sig. (2-tailed)	.798	.000		.000
CEOP	**Pearson Correlation**	-.275	.632**	.963**	1
	Sig. (2-tailed)	.141	.000	.000	

**. Correlation is significant at the 0.01 level (2-tailed).

*. Correlation is significant at the 0.05 level (2-tailed).

This table indicates the relationship between ROA and the independent variables. It is obvious from the results that only women on board number i.e. WOBN is significant and positively correlated with the ROA of the bank which means if we increase the number of women on banks board, the financial performance of the bank i.e. ROA will improve. On the other hand the independent variables i.e. WOBP and CEOP has negative correlation with the performance of the firm i.e. ROA and the relationship is not significant.

4.7.3 Regression Analysis

The model Summary is as Follows

R	R Square	Adjusted R Square	Std. Error of the Es
.847[a]	.718	.697	2.05871

This model summary shows that 69.7 % change in the dependent variable is caused by 02 independent variables i.e. women on board number (wobn) and Female CEO Presence (ceop).

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	1.942	.460		4.219	.000
	WOBN	8.072	1.029	1.035	7.842	.000
	CEOP	-9.172	1.302	-.929	-7.044	.000

a. Dependent Variable: ROA

The results from this table show that WOBN has significant impact on the banks ROA. Unitary change in women's board number will bring change in ROA by 8.0 units. On the other hand presence of female CEO has significant impact on the banks.It shows that the ROA of the bank is negatively affected by the presence of female CEO. If we increase one female CEO on the board, that will decrease the ROA by 9.2 units approximately.

4.7.4 Excluded Variables[b]

Model						Collinearity Statistics
		Beta In	t	Sig.	Partial Correlation	Tolerance
1	WOBP	.[a]	.	.	.	.000

a. Predictors in the Model: (Constant), CEOP, WOBN

b. Dependent Variable: ROA

Due to high collinearity between independent variables i.e WOBN (Women on board number and WOBP(Women on board percentage) one independent variable independent variable i.e. women on board percentage is rejected by the SPSS 16. Keeping this fact in view, further one to one regression was carried out to see the impact of independent variable on dependent variable separately.

4.7.5 Linear Regression FOR WOBN AND ROA

Model Summary

R	R Square	Adjusted R Square	Std. Error of the Estimate
.447[a]	.200	.171	3.40560

a. Predictors: (Constant), WOBN

The adjusted coefficient of determination value for this relationship indicates that 17.1% change in the dependent variable is caused by the number of women on banks board. Rest of the change in the financial performance is caused by the other variables which are not known at this point.

Coefficients

		Unstandardized Coefficients		Standardized Coefficients		
		B	**Std. Error**	**Beta**	**t**	**Sig.**
1	**(Constant)**	1.942	.762		2.550	.017
	WOBN	3.486	1.319	.447	2.643	.013

a. Dependent Variable: ROA

The results from this table show that WOBN has significant impact on the banks ROA. Unitary change in women's board number will bring change in ROA by 3.5 units.

4.7.6 Linear Regression FOR WOBP AND ROA

Model Summary

	R	R Square	Adjusted R Square	Std. Error of the Estimate
	.060[a]	.004	-.033	3.85197

a. Predictors: (Constant), WOBP

The adjusted coefficient of determination value for this relationship indicates that no contribution has been made by women on board percentage in altering the value of ROA.

Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	**t**	**Sig.**
1	(Constant)	3.301	.831		3.972	.000
	WOBP	-.018	.058	-.060	-.311	.758

a. Dependent Variable: ROA

The results from this table show that WOBP has no significant impact on the banks ROA because the p value came out to be 0.76 which is greater than 0.05 which shows that the ROA of the bank is adversely affected by the percentage of women on board.

4.7.7 Linear Regression FOR CEOP AND ROA

The adjusted coefficient of determination value for this relationship indicates that very slight contribution has been made by presence of female CEO in altering the value of ROA.

Model Summary

R	R Square	Adjusted R Square	Std. Error of the Estimate
.275[a]	.076	.043	3.65993

a. Predictors: (Constant), CEOP

Coefficients

		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	3.556	.732		4.859	.000
	CEOP	-2.714	1.793	-.275	-1.514	.141

a. Dependent Variable: ROA

The results from this table show that presence of female CEO has no significant impact on the banks ROA because the p value came out to be 0.141 which is greater than 0.05.It shows that the ROA of the bank is negatively affected by the presence of female CEO.

5. Limitations of the Study

Out of the total population of banks in Pakistan, because of the time shortage we have selected a sample of six banks namely Allied bank, Bank Al-Falah, State bank of Pakistan, First women Bank, Muslim Commercial bank and Silk Bank. For further research a larger sample can be drawn and more sophisticated and scientific methods can be employed to elaborate the findings. Moreover, the firm performance can be calculated by numerous parameters. In this research only one parameter was used i.e. ROA.

6. Conclusion and Recommendations

Our research results show that average number of women on board is 33.3% in a sample comprising of six banks. Moreover percentage of women on board (WOBP) is 7.29%. Only 16% women are CEO. Findings also show that WOBN is significant and positively correlated with the ROA of the bank meaning that by increasing the number of women on banks board, the financial performance of the bank i.e. ROA will improve. On the other hand the independent variables i.e. WOBP and CEOP has negative correlation with the performance of the firm i.e. ROA and the relationship is not significant. Thus our results prove that a company is successful than other companies on all three measures of profitability: return on assets, return on equity and return on sales; if it has one or more female directors on board whereas the same company with one or more female executive show lower average profitability (Lehobo, 2011).

Further research should be conducted by including more variables and by using large sample size. Addition of women on board promises the talented pool of members with varying skills, capabilities and competencies. Thus women should be employed on firm's board.

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