Does Board Gender Diversity Influence Firm's Performance?

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ABSTRACT
Diversity of the board is very important as it increases board independence. It has been argued that gender diversity fosters improved decision-making through access to a wider range of experiences and perspectives. This access can lead to enhanced firm performance This paper examines the relationship between female representation on corporate boards and the overall firm's performance. The paper specifically reviews and critics literature on the way gender diversity affects board functions in an attempt to find out whether they have an effect on firm's performance. Review of various studies reveal that the issue of board gender diversity and firm's performance is far from being completed. The paper found out that female representation on boards do affect firm's performance positively and at the same time has no effect at all. It concluded that for women to make any meaningful impact their representation on the board must be above a certain critical mass. In most cases, they fall under the minority thus no much impact on firm performance.

Keywords
Gender Diversity, Firms Performance, Corporate Boards, Female representation.

1. INTRODUCTION
Across the globe, the concept of board diversity has caught the attention of many people including policy makers, shareholders, investors and even researchers [15]. Board gender diversity is a corporate governance concept that basically refers to the inclusion or presence of female director on the boards. According to Choudhury [10], there is reported growing interest in increasing the number of women on boards as it can be beneficial to the firms. However, despite the numerous calls and efforts to increase women's presence on corporate boards, men still dominate the corporate world [22].

The goal of every company is to pursue financial success and therefore, attempts on how this success can be achieved including diversifying the board of directors is very important.

Several studies have tried to investigate the relationship between gender diversity and firm financial performance in developed countries, with very few in developing countries [15], with their results remaining unclear thus no conclusive evidence on the relationship between increased female representation on boards and firm's performance [22]. This therefore creates uncertainty for investors and policy makers across the globe.

Different existing literature has defined and measured board diversity in a variety of ways. For instance, Ararat et al [3]. define diversity as the distribution of differences among the directors with respect to attributes which may account for differences in attitudes and opinions. Wachudi and Mboya [15] on the other hand describe board diversity as the percentage of women or minorities (i.e., African Americans, Asians, and Hispanics) on the board of directors.

However, this paper, adopts the definition of board gender diversity as referring to the inclusion of female directors in the boards [15]. It should be noted that for a gender diverse board to make an impact, there has to be a critical mass, and its only when this critical mass is surpassed that impact is felt. For instance, according to Ararat et al. [3] some European governments have legislated greater representation of women on boards, and some others have included diversity criteria in soft laws in response to the normative calls for diversity. Additionally, Adams and Ferreira [1] note that some countries like Norway and Spain have introduced formal laws requiring at least 40% female representation on corporate boards as a way of recognizing and appreciating their role and contribution.

In Kenya according to the Kenyan constitution, Article 27(8) there is the 2/3 gender rule that states that all elective positions should have 1/3 women representation. This therefore means that when this is adopted in the firms and women surpass the 1/3 allocation, then there is a likelihood that they will have an influence on the firm's performance.

2. STATEMENT OF THE PROBLEM
Gender diversity fosters improved decision-making through access to a wider range of experiences and perspectives leading to enhanced firm performance. Women across the globe in leadership positions have been found to contribute greatly to the governance of the company through power sharing which reduces CEO dominance [15]. It is argued that when CEO dominance is reduced, then board functions are carried out smoothly leading to improved firm's performance. According to Adams and Ferreira [1], women and ethnic minority directors who serve on influential board committees are more likely to substantially impact actions of the board and management as female directors are known to apply distinctive and transformational styles of leadership which are beneficial to the company.

However, it should be noted that for a gender diverse board to make an impact, there has to be a critical mass, and its only when this critical mass is surpassed that impact is felt. Most of the time this critical mass is lacking as women representation remains low on most of the boards.

Owing to this, this paper seeks to add knowledge by reviewing several studies on gender diversity and firm's performance with the aim of establishing whether indeed there is s relationship or not. The focus will mainly be studies that looked at how board gender diversity as a component of board composition affects board functions and its impact on firm performance.

3. THEORETICAL REVIEW
The board of directors are charged with the main role of controlling and monitoring the various activities of the board

[19]. More often than not, the directors monitor and control the managers thus end up solving the agency problems that could exist between the shareholders and the managers. They make corporate policy decisions which in the end influence firm performance.

3.1 Board Gender Diversity

According to Carter et al [7] diversity of the board is very important as it increases board independence as people of different gender, ethnicity or even cultural background ask questions which otherwise would not have come from the traditional board, resulting in few chances of making bad decisions. On the other hand, if not well managed, a diverse board can lead to decreased communication, less effective decision making and increased conflict. Accordingly, a more diverse board is more productive and beneficial and contributes to improving shareholder value.

Darmadi [13] opines that a more diverse board that has female representation is more often than not associated with value increment in the sense that people of different genders possess different norms, attitudes, beliefs and perspectives which when brought together enhances creativity within the board.

Wachudi and Mboya [15] also notes that boards require high degrees of diversity for them to give positive signal to stakeholders. These degrees of diversity in terms of female representations and specialty is then likely to improve the firms wellbeing and reputation. Every other person desire to be associated with a company that is all inclusive and one that is seen to be concerned with the well-being of the society.

When it comes to risk taking and management, Adams and Ferreira [2] highlights that boards with female representation always have increased firm rationality when it comes to risk taking. Women naturally are known to be very cautious and careful when it comes to taking risks thus offers the company lots of wisdom when it comes to risk.

3.2 Board Gender Diversity and Firm Performance

The relationship between board gender diversity and firm performance has been unsettled as evidenced from the many previous studies. This is because, depending on given parameters, there exists a stronger relationship where some studies indicate that indeed female representation improves firm performance while other studies prove otherwise. However, there are various benefits that are associated with board gender diversity making it an area of key concern.

3.3 Agency Theory

Carter et al [7]. takes us through the relationship between board gender diversity and firm performance by explaining that the relationship is based on the agency theory. Agency theory as proposed by Fama and Jensen [16] posit that the role of the board is to control and monitor managers. This role is thus enhanced by board gender diversity that boosts the board's ability to monitor top management without any reservations. Carter et al [7] argue that when a board is more diverse with female representation, it increases board independence as women tend to be more inquisitive and thus will ask deep questions that would otherwise not be asked by their male counterparts. This questioning also helps in problem solving especially between managers and shareholders. This view is also enhanced by Choudhury [11], who posit that with a diverse board, there arises a variety of perspectives when evaluating different alternatives thus enhancing problem solving which is very important for firm performance.

Additionally, Pletzer et al [22] notes that a board that is gender diverse is seen as having increased cognitive resources which when used effectively more often than not contribute to thorough search for alternative solutions to company problems as new perspectives are brought on board and evaluated accordingly. Doing this therefore helps avoid premature decision making hence creative and innovative solutions to problems. Ultimately, through the diverse perspectives and critical analysis in the boardroom, there is improved firm performance. This is also enhanced by Carter et al [8] who highlights that a gender diverse board boasts of increased creativity and innovation. They argue that since the board has female representation the attitudes, beliefs and even cognitive functioning of both the male and the female are well distributed leading to greater problem solving, decision making and thus improved performance

It is also argued by Robinson and Dechant [27] that firms that have adopted a diverse board with female representation always tends to perform better in the market place than that which is male dominated. According to them, the market is diverse and having a diverse board makes it very easy for a company to penetrate thus performing much better. Diversity in the board promotes better understanding of the marketplace as it matches with that of the customers and employees [15]. In line with this, Darmadi [13] observes that customers, employees and other stakeholders desire and prefer a gender diverse board as it is a demonstration of the sensitivity of the management to the society preference and concerns. It is believed that when women are represented, then there is no doubt that all their concerns will be well addressed.

More so, it is believed that when women are represented on boards, they bring in useful female leadership qualities and skills that in most cases are beneficial to firm performance [16]. Women are given credit for being risk averse, thoughtful and less radical when it comes to decision making. These are very important qualities when it comes to improving the overall performance of the company. Eagly et al [14] adds on and say that female leaders are more transformational in the sense that they always motivate, encourage and support their colleagues making the work environment favorable for better performance. This is unlike with their male counterparts.

Adams and Ferreira [1] on their part note that due to their power sharing style, women contribute greatly to good governance. Their nature of working with everyone due to their great interpersonal skills makes them influence the strategic direction of most companies. Post and Byron, [24] add to this by saying that women are communal in nature and are thus concerned with the welfare of their colleagues, are affectionate, gentle, helpful making them work better with people thus improving firm performance.

In as much as there are several arguments on how board gender diversity increases firm performance, we also have instances where board gender diversity may actually decrease firm performance. For instance, Pletzer et al [22] notes that a board that is gender diverse risks suffering from social categorization whereby the board is divided in two groups of male and female leading to compromising of the firm processes and functions. It is argued that when there is no unity, it would be very hard for any decision to be made as communication and even cooperation among the board is impaired [20]. In such a case, there is a tendency of heightened conflicts as the board members will always want to identify with those in their groups. This in the end delays the decision-making process hindering board effectiveness thus low firm performance.

Additionally, Wachudi and Mboya [15] argue that gender diversity is also likely to negatively affect firm performance if the women on the board are appointed as "tokens" as opposed to being appointed based on their competence. This is in line with Rosabeth Moss Kanter's theory of tokenism in which Kanter stipulates that in the company, the life of female employees is influenced by the proportion in which they find themselves [19]. Accordingly, the theory gives the theoretical benchmark ratio for majority and minority as 85:15 where by 85% or more represents majority while 15% or less represents the minority which she calls tokens. The theory emphasizes that, women who are appointed as tokens may not impact the performance of the firm much but also may not necessarily affect the company negatively. In line with tokenism, Pletzer et al [22] points out that women leaders face challenges as they try to participate and maintain their position in the male dominated boardroom. Since they don't conform to typical gender roles in leadership they appear as 'tokens', who are only appointed to meet society expectation. Such challenges when not handled well may lead to marginalization and less consideration of women in decision making thus affecting board performance negatively.

4. EMPIRICAL REVIEW

Several studies have been conducted by different researchers in an attempt to find out the relationship that exists between board gender diversity and firm performance. Some of the researchers have come to the same conclusion that board gender diversity indeed has a positive effect on firm performance.

Ararat et al [3] in their attempt to investigate the impact of board diversity on the financial performance of the ISE-100 index firms traded in the Istanbul Stock Exchange (ISE) found that diverse boards are better monitors, mitigating agency conflict and enhancing firm performance. Additionally, Mirza et al [21] established that board gender diversity has a positive effect on performance of firms in Denmark. Their study focused on the large 2500 Danish firms during the period 1993-2001. However, their study used performance measures such as gross value added to net turnover, profit on ordinary operations to net turnover, ordinary result to net assets and net result after tax to net assets which may be considered weak.

Choudhury [12]. in analyzing gender diversity on boards, beyond quotas as concluded and said that increasing the number of women on boards can be beneficial to firms as women make positive contributions to the board decision-making process thus increasing the number of women on boards improves the quality of decisions made by the board.

Bernile et al [4] analyzed the effects of diversity in the board of directors on corporate policies and risk using a multi-dimensional measure and found out that greater board diversity leads to lower volatility and better performance.

Carter et al [8] in their study examined the relationship between board diversity and firm value for Fortune 1000 firms and found out that after controlling for size, industry, and other corporate governance measures, there is a significantly positive relationship between the fraction of women or minorities on the board and firm value.

Rhode and Amanda [26] on their part evaluated the case for racial, ethnic, and gender diversity on corporate boards and its impact on corporate financial performance, reputation, governance, and board decision making. They explored the strengths and limitations of various methodological approaches and survey findings, and concluded that though the relationship between diversity and financial performance has not been convincingly established there is some belief that when diversity is well managed, it can improve decision making and can enhance a corporation's public image by conveying commitments to equal opportunity and inclusion.

Adams and Ferreira [1] in their study about women in the boardroom and their impact on governance and performance, indicated that female directors have a significant impact on board inputs and eventual firm outcomes. From their sampled US firms, they concluded that female directors have better attendance records, and are more active in monitoring committees which enhance firm performance.

Carter et al [12]. examined the relationship between the gender and ethnic minority diversity of the board of directors and the financial performance of the firm by analyzing the diversity of important board committees to gain greater insight into the way diversity affects board functions and shareholder value. Using the three-stage least-squares estimation support they concluded that board diversity has a positive effect on financial performance as measured by Tobin's q through the audit function of the board

Others studies have found out that board gender diversity and firm performance have no relationship at all or the effect is negative in some instances.

To begin with Wachudi and Mboya [15] analyzed the effect of board gender diversity on performance of commercial banks in Kenya for the period 1998-2009 using the Stepwise regression and found that board diversity has no effect on performance of banks in Kenya. Additionally, Darmadi [13]. examined the associations between diversity of board members and financial performance of the firms listed on the Indonesia Stock Exchange (IDX) and found out that both accounting and market performance have significant negative associations with gender diversity.

From their study and examination of corporate board diversity in the Nordic countries of Denmark, Norway and Sweden, Randoy et al [25]. established that gender diversity in corporate boards do not have any effect on the performance of the firms

Additionally, Farrell and Hersch [17] used Poisson regression in analyzing the effects of gender additions to corporate boards and found out that the addition of a female to the board does not affect the Return on Asset as well as the returns to shareholders. Additionally, Shrader et al. [28] in their study and analysis found no relationship at all between the percentage of female directors on the board and profit margin, Return on Asset and Return on Equity of firms.

Zahra and Stanton [30] conducted a canonical correlation analysis and find no relationship between the percentage of females plus ethnic minorities on the board and ROA, profit margin, sales to equity, EPS, or dividends.

5. PROPOSED FRAMEWORK

The conceptual framework for board gender diversity and firms' performance is proposed as follows (figure 1). This framework visually represents the relationship between board gender diversity and firms performance.it incorporates key theoretical perspectives. Board gender diversity as the independent variable represents the proportion or presence of women on a firm's board. This has an influence on the firm's performance which is the dependent variable that is measured by firm's market performance, return on equity, return on assets and even the long term strategic success of the firm. The mediating variable of monitoring and oversight is as a result of the agency theory that suggested that female directors are likely to offer rigorous monitoring and oversight thus improving the firm's success mediating how boards composition affects firms' performance. With critical mass as a moderating variable, it's an acknowledgment that the impact of gender diversity may depend on whether a critical mass of female board members is achieved.

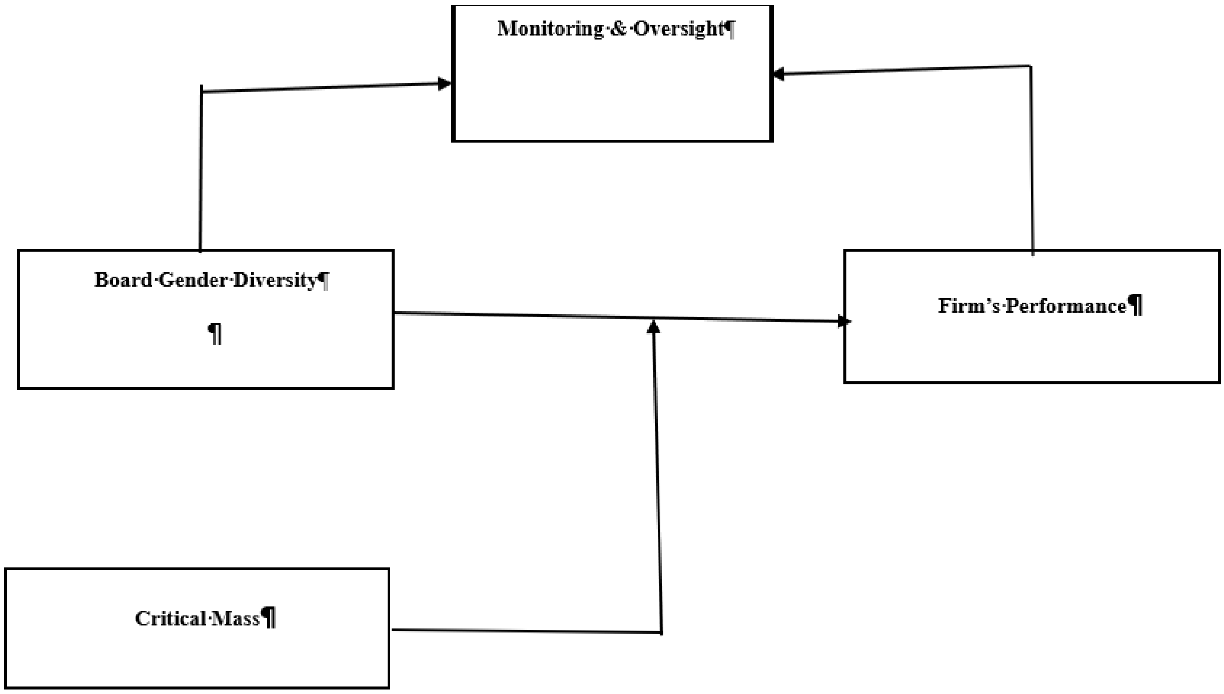

Fig 1: Boards Gender Diversity and Firms Performance Conceptual Framework

6. METHODOLOGY

In understanding the relationship between board gender diversity and firms performance, the study conducted a critical literature review of existing scholarly works that employed diverse methodologies, including meta-analysis, regression analysis, and case studies, contributing to the variability in findings.

7. FINDINGS

The main findings from the current study based on a number of studies published in academic journals reveal a divergence of findings on relationship that exists between board gender diversity and firm performance.

The empirical review reveals a significant divergence in findings regarding the relationship between board gender diversity and firm performance. For instance, studies like those by Carter et al. [6,9] and Bernile et al. [4] indicate a positive correlation, suggesting that diverse boards enhance firm value, reduce risk, and improve decision-making

Additionally, Pletzer et al., [22] in their meta-analysis concluded that there is a consistently small or non-significant relationship between the percentage of female directors and corporate boards. Where the relationship exists, its impact on the overall firm performance is very minimal.

According to the Agency theory the role of the board is to control and monitor managers. It is evident from the studies that female representatives on the board act as very good monitors of managerial activities and are always very inquisitive [8] which when taken positively, can impact on the overall firm performance. The theory suggests that gender diversity enhances the board's monitoring capabilities, leading to better control of managerial activities and reduced agency problems [9]

It was also noted that diverse boards are perceived to possess increased cognitive resources, fostering creativity, innovation, and improved problem-solving [22] which are very crucial to a firm's performance.

Additionally, a board that is inclusive of female representatives is known to penetrate the market place really well because of the detailed understanding of the customers and their needs according to Wachudi and Mboya [15]. This in itself is a very efficient way of drawing customers to your firm thus ensuring growth. When the board is diverse, it is believed that it is able to represent the needs of the society thus is in a position to provide and meet those specific needs. More often than not, when the customer base is increased, the firm's performance is expected to go up.

More so, female leadership qualities such as risk aversion, transformational leadership, and communal nature, were cited as potential drivers of improved firm performance [14]

Conversely, research by Wachudi and Mboya [15], Darmadi [13], Randoy et al. [25], Farrell and Hersch [17], Shrader et al. [28], and Zahra and Stanton [30] demonstrated either no significant relationship or a negative impact of gender diversity on firm performance metrics like ROA, ROE, and overall financial outcomes.

For instance, diverse boards can lead to social categorization and in-group/out-group dynamics which can trigger conflicts, impaired communication, and delayed decision-making [20,22] that in the long run affect a firm's performance. When groupings especially based on gender form up in boards, it becomes hard for any decision to be made very fast delaying progress.

Additionally, monitoring which has been identified a strength for women on boards is only one aspect of a firm's performance, meaning for a firm to entirely improve in its performance, all aspects including impact on ROA and ROE must be taken into. This has been proven otherwise by studies that have indicated that presence of females on the board does not have an impact on a company's ROA and ROE [17].

The study also revealed that the "tokenism" phenomenon, where female directors are appointed merely to fulfill quotas rather than based on competence, limit their influence and hinder their ability to contribute meaningfully to the organization's growth [19,15]. It is also true that the mere fact of just having women on the board does not automatically make a difference. For an impact to be made in the firm, the board inclusivity must bypass a critical mass. This is well captured in Rosabeth Moss Kanter's theory of tokenism [19] According to this theory for the women to make an impact, they must be able to be in the proportion of influence. He gives the benchmark ratio of 85:15. This therefore means that if the percentage of women is 15% or less then they are appointed as 'tokens' and may not have any influence on the firm performance at all. Therefore, since women have the ability and other special characteristics that add value to the firm, they should be prioritized when it comes to leadership to enable them move to the proportion that can influence decision making and this is especially if they are qualified.

8. CONCLUSIONS &FUTURE WORKS

In conclusion therefore, determining whether the relationship between female representation on boards and firm performance is complex and contingent upon various factors. There is no universally applicable conclusion as factors like the context, industry, corporate governance practices, and the specific characteristics of the board itself play crucial roles.

It is also important to note that while the potential benefits of gender diversity are evident, realizing these benefits requires careful management and implementation. For instance, challenges related to social categorization and tokenism must be addressed to maximize the positive impact of diverse board. Additionally, appointment of women on boards must always be based on competence and the women selected must be allowed meaningful participation for an impact to be seen.

With the above, the study proposes further research to explore the moderating factors that influence the relationship between board gender diversity and firm performance.

Further investigation should also be done on whether other aspects of gender like the age and education, level of education of the female representatives on the board affect firms' performance.

Further work should also consider a comparative study on the influence of board gender diversity on firm performance on gender specific related industries like female dominated and male dominated needs to be done to ascertain the relationship.

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