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THE IMPACT OF BOARD GENDER DIVERSITY ON THE FINANCIAL PERFORMANCE OF LISTED MANUFACTURING COMPANIES IN NIGERIA

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Abstract

The impact of board gender diversity on the financial performance of listed manufacturing companies in Nigeria was investigated in this study. The manufacturing sector in Nigeria consists of 74 companies from where 34 companies were purposively selected. For the study, secondary data was extracted from the published financial statement of the selected companies while primary data was collected with the use of questionnaire from the 170 respondents drawn from the selected 34 companies. The result confirms that there is a significant positive linear relationship between board gender diversity and financial performance of listed manufacturing companies in Nigeria. The study thus recommends that manufacturing companies in Nigeria should increase the ration of women to men in their board of directors. Female directors are likely to possess support/ staff managerial skills such as human resources, legal, public relations, communications, as opposed to line functions of operations, marketing, compared to men.

Keywords: Board Gender Diversity, Financial Performance, Manufacturing Companies, Return on Equity, Corporate Governance

INTRODUCTION

Every organizations need to continually recognize the critical role played by its board of directors in enhancing best corporate governance thus resulting in organizational performance. However, by reviewing the various global corporate governance scandals and failures in the recent past coupled with the recent global financial crisis, it is evident that much pressure has been placed on boards of companies to live up to their roles. Most of the corporate scandals are largely caused by the directors. The popular cases of Enron and WorldCom in US, Parmalat in Italy and Cadbury in Nigeria among others signify that the role of board of directors and their characteristics go a long way in determining the financial performance of companies. Nigerian manufacturing sector is not left out as many manufacturing companies in Nigeria have been liquidated as a result of negative impact of the board.

The existing manufacturing companies in the nations still contribute very little to the nation's GDP due to their poor financial performances. The persistence of the board and subsequent collapses of the firms has drawn attentions of various researchers in investigating the impact of board of directors on firm's performance. However, despite the volume of the empirical work, there is no consensus on the impact of board characteristics on firm performance (Babatunde & Olaniran, 2009). Numerous researchers on corporate governance in their research efforts have recommended enhancing the quality of boards, their roles and operationalization, performance evaluation, encouraging the involvement of non-executive directors especially the independent directors in the board composition, promoting board gender diversity, reducing board size, involving the directors in stock ownership as well as reducing board dependence.

Hermalin and Weisbach (1988); Bhagat and Black (2002) found that there were increased agency costs for firms that were controlled by internal directors. Brown and Caylor (2004) also found higher returns on assets, returns on equity and higher profit margins for firms whose boards constituted more of the female directors. Berle and Mean (1932) outpointed an association between director ownership and firm performance. Contrastingly, some researchers have empirically found out that the above propositions have little or no impact on firm financial performance.

For instance Babatunde and Olaniran (2009) posit that board gender diversity is detrimental to the firm, Yermarck (1996) found a negative relation between gender diversity and financial performance. Fama and Jensen (1983) suggest that board gender diversity may harm firm performance while Peng (2004) found that increasing the percentage of female directors had no impact on either ROE or sales growth. Boyd (1994) found firm profitability significantly predicted board gender diversity while Mishra and Nielsen (2000) found that gender diversity was a better predictor of performance when there were fewer independent directors, a finding that is supported by Zajac and Westphal's (1996). Marimuthu (2009) failed to draw conclusive findings on effect of gender diversity on performance.

In spite of corporate governance as a concept receiving much emphasis in developed markets (Lin, 2001; Carter, Colin and Lorsch, 2004; Staikouras *et al.,* 2007) and research McConnell et al., (2001), board gender diversity of manufacturing firms has not been addressed or has been entirely neglected by practitioners and researchers (Caprio and Levine, 2002; Ntim, 2009). Also, gender diversity and its relationship with financial performance have been inadequately devolved into. Macey and O'Hara (2001) note that even in the developed markets, the issue of board gender diversity has seldom featured the manufacturing sector and its financial performance has only been emphasized recently in literature thus, not being very comprehensive or inclusive.

LITERATURE REVIEW

Theoretical Review: Stakeholder Theory

By extension, the stakeholder theory borrows from the agency theory (Freeman *et al*., 2004). The theory articulates the role of board of directors as custodians of the shareholders' interests. Despite the narrow emphasis on shareholders as suggested by the agency theory (Freeman et al., 2004), the stakeholder theory introduces a change by theorizing that the board of directors is expected to be responsible for the interests of the several and diverse stakeholder groups. The groups will include all interest groups associated to the firm's social, political, environmental, and ethical realms (Freeman, 1984; Donaldson and Preston, 1995; Freeman *et al.* 2004). The stakeholder theory as noted introduces a new role for the board of directors. As such, the theory highlights that firms and the society are interdependent and thus, the firm will function to serve a wider social intent than its responsibilities to shareholders/ owners or principals (Donaldson and Preston, 1995). Further, Kiel and Nicolson (2003) agrees with Freeman (1984), one of the initial proponents of stakeholder theory, when they outline stakeholder as any party (individual or organized) who could influence of is influenced by the operations, strategies, and realization of the firm's objectives.

Noticeably, taking into account the shareholders as a sole entity or considering the various stakeholders has been a debate (Kiel and Nicolson, 2003). However, Freeman (1984) in his description of the theory maintained that the theory embedded large number of entities entailing nearly all kinds of stakeholders. Contrastingly, Clarkson (1994) had provided a narrower conception, deriving that voluntary stakeholders bore particular responsibilities and risks as pertaining their investment in the organization (either form through capital, human resources, financial resources, or anything of value). Meanwhile, Clarkson (1994) also indicated that involuntary stakeholders were at more at risk emanating from the organizations operations and performance. Clarkson (1994) categorically outlines, “Without some level of risk, then, there existed no stake.” The concept of risk facilitates stakeholders to attain a legitimate claim on the organization’s decision-making approaches, notwithstanding their ability, capacity, or power to influence the organization. In p. 85 Donaldson and Preston (1995) indicate that the various stakeholders involve parties (individual or organized) with legitimate interest in the procedural and/or substantive elements of the organization’s activities. For instance, Wheeler and Sillanpaa (1997) categorize the stakeholders as involving business partners, civil society, customers, employees, investors, local communities, and the natural environment in addition to future generations. Additionally, Mitchell, Agle and Wood (2011) brought in the aspect of stakeholders as those parties (individual or organized) that possess either of the following: (i) ability to influence the organization (ii) the validity of association with the organization (iii) the urgency/ earnestness of their entitlement on the organization. As such, this typology enables agents (BOD or managers) to proactively and effectively respond to their various stakeholders and their interests.

Connectively, the stakeholder theory identifies that various parties (individual or organized) have diverse stakes with the organization and thus, influence or are influenced by the organization’s decision-making. For instance, Freeman *et al.* (2004) expresses that the aspects of value and wealth creation and trade were intimately linked with the aspect of creating value for the shareholders. At the same moment, Freeman *et al.* (2004) indicate that business for an organization concerns establishing arrangements and deals so that customers, employees, communities, suppliers, managers and BODs and shareholders are better off progressively and over the long-term. They further describe that organization’s agents (boards and managers) must attempt to develop as much value for stakeholders as possible by addressing prevailing conflicts amidst them, hence, the stakeholders do not quit the arrangement or deal.

Apparently, while as, the shareholders seek to derive value based on financial returns to investment, Carver and Oliver (2002) note that other stakeholders will seek to derive value anchored upon satisfaction/ contentment/ utility from pioneering a certain breakthrough, supporting a certain type of corporate behavior, or, where the organization’s owner is the operator (manager), working in a certain manner. Meaningfully, managers and Boards will not only take into account shareholders’ interests, but also, develop and uphold all stakeholder relationships and linkages, since stakeholders will hold non-equity stakes. Suggestively, the prerequisite for reassessing performance assessment anchored upon traditional measures of shareholder value and wealth as observed by Carver and Oliver (2002) should integrate other measures relating to the various stakeholder parties, which possess non-equity stakes.

However, numerous companies seek to maximize shareholder value while concurrently endeavoring to consider the interests of other stakeholders. Indeed, Sundaram and Inkpen (2004) express that the intention of shareholder value maximization matters since it is through value maximization for shareholders that decisions and operations that result in outcomes for all stakeholders emanate. In fact, the duo (2004) argued that availing a myriad of stakeholders and their core values is an unrealistic endeavor for organizations agents (management and BOD). Also, the stakeholder theorists maintain that maximizing shareholder value results in expropriation of value from non-shareholders to shareholders. Still, Freeman *et al.* (2004) emphasizes two aspects; (i) what is the intention of the company; (ii) what responsibility odes the board of directors have to stakeholders. They point out that these two aspects are associated and BOD should create relationships, inspire their stakeholders and develop communities, where everyone seeks to offer their best to enhance the value of the organization. Hence, the stakeholder theory is opined o better enhance the board of directors' effectiveness, thus fostering the shared intent of the company.

Empirical Review

Previously, research expresses that, women representation on boards was usually illustrated through outsider-directors and from non-corporate fields (Hillman, Cannella and Harris, 2002). Zelechowski and Bilimoria (2004) also not that female directors were likely to possess support/ staff managerial skills such as human resources, legal, public relations, communications, as opposed to line functions of operations, marketing, compared to men. Owing to the glass ceiling, women fail to effectively harness the opportunity for extensive experience in the corporate world, and therefore, they are more probable to be non-executive directors (Forsberg and Rosenberg, 2003).

Nonetheless, Mattis (2006) observes that as the size of the board steadily grows in the period of early millennium years, more women have had chances to be represented on the boards. Daily *et al.* (2007); Huse and Solberg (2006) agree with Mattis (2006) when they spotlight that having women in boardrooms makes good sense as 60% of all purchase, especially, in the US, were made by women. Recently, Smith, Smith and Verner (2006) observed that women on boards of directors elicited positive performance for the firms under review. Furthermore, they recognized that whilst majority of these women having non-corporate backgrounds, they were far more ostensible to possess are, unique, and valuable information as they have been excluded from conventional development paths of corporate directorship.

Unswervingly, Letendre (2004) brought forth the aspect of ‘value in diversity’ and suggest that having female representation would foster diverse viewpoints to the boardroom and would eventually elicit lively boardroom discussions. Earlier, Billimoria and Wheeler (2000) had illustrated thatan average female board member was younger than her male counterpart. Thus, they identified that the board benefits from infusion of noble concepts, approaches and views to boardroom deliberations. As noted by Fondas and Sassalos (2000) women are highly probable to question conventional wisdom and to speak up over an issue or managerial decisions they regard as wanting an open forum or more questioning. Letendre (2004) however, notes that even with gender diversity, there exists disagreements, which are occasionally valuable to the board as this results in better board dynamics and decision making.

Empirically, Carter, Simkins and Simpson (2003), Fields and Keys (2003), Bonn (2004); Farrell and Harsch (2005) probed into the influence of women directors on the firm performance. Significantly, Carter et al. (2003) observed a positive relationship between gender diversity and firm performance. Similarly, Bonn (2004) reported that a higher ratio of women in the board impacted positively on the performance of the firm. In their study, Fields and Keys (2003) related women representation in the board with effective performance board committees, which had earlier been observed by Billimoria and Piderit (1994). But, recently, Ding and Charoenwong (2004) and Farell and Harsch (2005) reported no significant association between women directors and shareholder returns. In their case, Farrell and Harsch (2004) observed that gender diversity occurred more as a rejoinder for internal and external pressures proponing women representation in boardrooms, but not as prerequisite for effective board operationalization.

In the up surged need to have women in the board, developed markets such as Norway have legislated on the subject matter and require every public listed company to ensure 40% women representation in their boards (Guardian Unlimited, 2006). Taking into account such reviews of scholarly accomplishments and the growing significance of women in the corporate world, it is then vital to advance the probe into gender diversity as impacting firm performance.

RESEARCH METHODOLOGY

The main objective of this study is to determine the impact of board gender diversity on the financial performance for the listed 34 manufacturing companies in Nigeria. The study covered a period of ten year from 2006 to 2015. The ten year period was chosen primarily to cover the pre and post 2008 financial crises and the economic recession that followed. There are only 74 listed manufacturing companies on the Nigeria stock exchange. Therefore, 34 companies were purposefully selected making a sample size of 45%.

To undertake a survey research on the impact of board gender diversity on the financial performance, a structured questionnaire that drew largely from the SEC code of corporate governance was administered to the Managing Director, Company Secretary, Marketing manager, Operations Manager and Production Manager of 34 listed manufacturing Companies. This approach was perceived necessary due to the inherent ambiguity observed in the previous research instruments (questionnaires) generally and low level of research efforts on this crucial topic. It also allowed the acquisition of relevant data on the topic through a series of logical questions independent of the opinions of the respondent institutions.

In addition to the survey data, time series data was collected from the audited financial statement of the listed manufacturing companies to measure the level of board gender diversity in those selected companies. Similarly, to evaluate the financial performance, return on equity was computed. ROE, a measure of financial performance is used to measure how a firm's profitability is relative to their capital which is the efficiency of management in utilizing the company's capital to generate earnings (Hanison & Hudalis, 2006). A company with high return on equity ratio is capable of generating a significant dividend for investors which is the ultimate aim of many investors (Mehrani, 1999).

Furthermore, data analysis was conducted using both descriptive and inferential statistics. In an attempt to determine the impact of board gender diversity on financial performance in the listed Nigerian manufacturing companies using the descriptive statistics, 5-Likert scale approach was used in the questionnaire. The higher the score, the greater the strength of the respondent's agreement with the level of board gender diversity in their respective companies. The descriptive statistics of the time series data was also presented using mean, median, maximum, minimum and standard deviation. Inferential statistics includes the correlation analysis and regression analysis which enables the study to relate the board gender diversity to the financial performance of the listed manufacturing companies. The Univariate regression model defining the linear relationship between the board independence and financial performance has been stated as follows:

$ROE = \beta_0 + \beta_1 BI_t$

Where:

ROE= Return on Equity in time t

BI= Board Independence in time t

β_0 = Represents the Constant

ε_t= is the error term assumed to be normally distributed with zero mean and constant variance.

β_1 = Represents the Coefficient of the Independent Variables

ANALYSIS AND DISCUSSION OF RESULTS

Descriptive Statistics of Board Gender Diversity

The study aimed to establish whether board that has more women representation is more versatile and performs better than others with fewer or non-women representation on their board. The results indicate that 46.50% and 37.70% of the respondents strongly agreed and agreed with the statement respectively, while 8.2% of the respondents disagreed with the statement. The study also sought to establish whether board gender diversity has direct impact on the financial performance of firms. The results show that 43.40% and 41.50% of the strongly agreed and agreed with the statement. On whether percentage of women on the board has nothing to do with the financial performance of firms, 44.70% and 35.80% of the respondents disagreed and strongly disagreed with the statement. The study further sought to establish if women should not be given equal opportunity to serve on the board of firms since they are expected to be at their various homes attending to domestic issues. The result indicates that 81.20% of the respondents disagreed with the statement while 13.8% of the respondents agreed with the statement. Finally, the study sought to establish whether most women do not have enough skills and competencies that qualify them eligible on the board of directorship. The findings revealed that 45.30% and 37.70% of the respondents disagreed and strongly disagreed with the statement.

The findings concurs with Fondas and Sassalos (2000) who argued that women are highly probable to question conventional wisdom and to speak up over an issue or managerial decisions they regard as wanting an open forum or more questioning while Letendre (2004) noted that even with gender diversity, there exists disagreements, which are occasionally valuable to the board as this results in better board dynamics and decision making.

Table 1: Descriptive Statistics of Board Gender Diversity

	Strongly disagree	Disagree	Neutral	Agree	Strongly Agree	Mean	Std Dev
The board that has more women representation is more versatile and performs better than others with fewer or non-women representation on their board	4.40%	3.80%	7.50%	46.50%	37.70%	4.09	1.00
Board gender diversity has direct impact on the financial performance of firms	6.30%	3.80%	5.00%	41.50%	43.40%	4.12	1.09

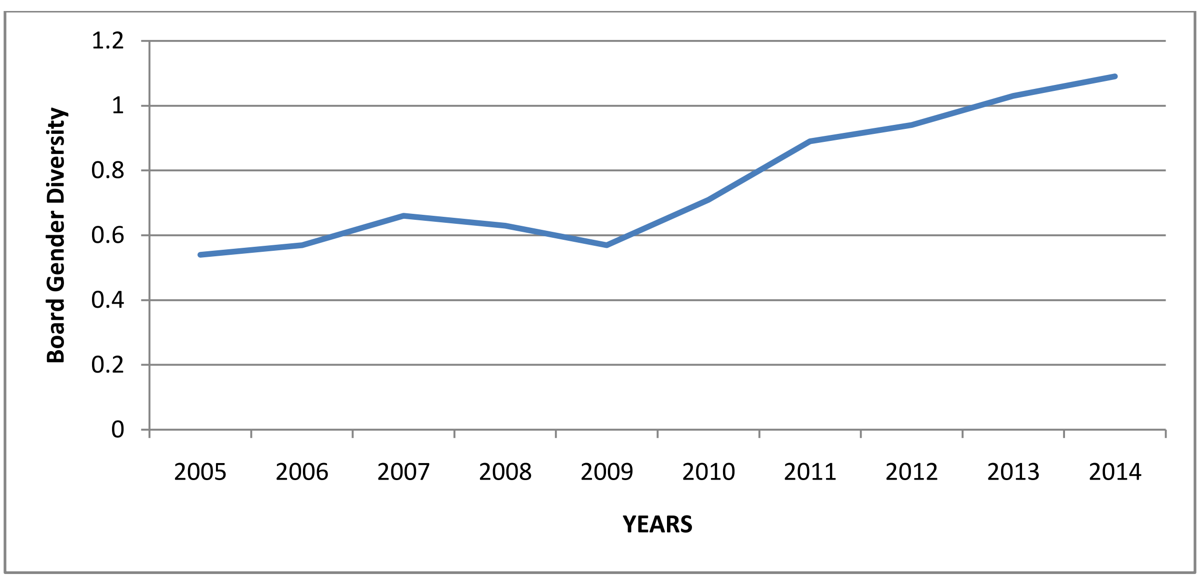
Table 1...

Percentage of women on the board has nothing to do with the financial performance of firms	35.80%	44.70%	4.40%	9.40%	5.70%	2.96	1.14
Women should not be given equal opportunity to serve on the board of firms since they are expected to be at their various homes attending to domestic issues	40.90%	40.30%	5.00%	8.80%	5.00%	2.03	1.13
Most women do not have enough skills and competencies that qualify them eligible on the board of directorship	45.30%	37.70%	6.90%	4.40%	5.70%	2.13	1.10

Trend Analysis for Board Gender Diversity

The trend analysis for gender diversity revealed that the board gender diversity has been increasing across the study period. There was a significant increase in the ratio of women to men on the board member of listed manufacturing companies between 2006 and 2007 as well as 2010 to 2014. The slight fall experienced in 2009 can be attributed to the global economic crises of 2008 which led to loss of equity in some companies. However, the rise in 2010 could be as a result of the pro-active measures taken by the regulators. The findings imply that the number of women in the board of manufacturing companies in Nigeria has been increasing.

Figure 1: Trend Analysis for Board gender Diversity



Correlation Results for Board Gender Diversity and ROE

The results of correlation revealed that there exist a significant relationship (r=0.208, p=0.000) between board gender diversity and financial performance of manufacturing companies in Nigeria. Smith, Smith and Verner (2006) also observed that women on boards of directors elicited positive performance for the firms under review. Similarly, Bonn (2004) reported that a higher ratio of women in the board impacted positively on the performance of the firm. On the other hand, Ding and Charoenwong (2004) and Farell and Harsch (2005) reported no significant association between women directors and shareholder returns.

Table 2: Correlation Results for Board Gender Diversity and ROE

		ROE	Board Gender Diversity
ROE	Pearson Correlation	1	.208**
	Sig. (2-tailed)		0
	N	350	350
Board Gender Diversity	Pearson Correlation	.208**	1
	Sig. (2-tailed)	0	
	N	350	350

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

Univariate Regression Results For Board Gender Diversity and ROE

The result of regression analysis revealed that board gender diversity accounted for 4.3% of the variation in the financial performance measured by return on equity of the manufacturing companies in Nigeria (R^2=0.043). This finding implies that board gender diversity account for a small variation in the financial performance of manufacturing companies.

Table 3: Model Summary for Board Gender Diversity and ROE

Model Summary	
R	.208a
R Square	0.043
Adjusted R Square	0.04
Std. Error of the Estimate	1.680572

a Predictors: (Constant), Gender Diversity

The ANOVA result indicates that board gender diversity was a good predictor of financial performance of manufacturing companies in Nigeria. This appears to be the reasons behind the recent increase in the number of women in the board of directors of most manufacturing companies in Nigeria.

Table 4: ANOVA for Board Gender Diversity and ROE

Model		Sum of Squares	df	Mean Square	F	Sig.
	Regression	44.381	1	44.381	15.714	.000[b]
1	Residual	985.689	349	2.824		
	Total	1030.070	350			

a. Dependent Variable: ROE

b. Predictors: (Constant), Gender Diversity

The study sought to test the null hypothesis: The board gender diversity does not have significant impact on the financial performance of listed manufacturing companies in Nigeria. The coefficient β = 0.711is also significantly different from 0 with a p-value= 0.000 which is less than 0.05. The result implies that a unit change in board gender diversity will result in 0.711units change in financial performance. This confirms that there is a significant positive linear relationship between board gender diversity and financial performance of listed manufacturing companies in Nigeria. Therefore, the null hypothesis was rejected at the significance level of 0.05 and study concluded that there is a relationship between board gender diversity and financial performance of listed manufacturing companies in Nigeria.

Table 5: Regression Coefficients For Board Gender Diversity and ROE

	B	Std. Error	Beta	t	Sig.
(Constant)	0.908	0.126		7.23	0
Gender Diversity	0.711	0.179	-0.208	3.964	0

a Dependent Variable: ROE

The findings of this study concurs with those of Zelechowski and Bilimoria (2004) also not that female directors were likely to possess support/ staff managerial skills such as human resources, legal, public relations, communications, as opposed to line functions of operations, marketing, compared to men. Owing to the glass ceiling, women fail to effectively harness the opportunity for extensive experience in the corporate world, and therefore, they are more probable to be non-executive directors (Forsberg and Rosenberg, 2003). Nonetheless, Mattis (2006) observed that as the size of the board steadily grows in the period of early millennium years, more women have had chances to be represented on the boards. Daily et al. (2007); Huse and Solberg (2006) agreed with Mattis (2006) when they spotlight that having women in boardrooms makes good sense as 60% of all purchase, especially, in the US, were made by women.

CONCLUSION AND RECOMMENDATIONS

The study sought to establish the impact of board gender diversity on the financial performance of listed manufacturing companies in Nigeria. The study used both descriptive and inferential analysis to test this relationship. The results of correlation revealed that there exist a significant relationship (r=0.208, p=0.000) between board gender diversity and financial performance of manufacturing companies in Nigeria.

The result of regression analysis revealed that board gender diversity accounted for 4.3% of the variation in the financial performance measured by return on equity of the manufacturing companies in Nigeria (R^2=0.043). This finding implies that board gender diversity account for a small variation in the financial performance of manufacturing companies. The ANOVA result indicates that board gender diversity was a good predictor of financial performance of manufacturing companies in Nigeria.

This confirms that there is a significant positive linear relationship between board gender diversity and financial performance of listed manufacturing companies in Nigeria. Therefore, the null hypothesis was rejected at the significance level of 0.05 and study concluded that there is a relationship between board gender diversity and financial performance of listed manufacturing companies in Nigeria. The study thus recommends that manufacturing companies in Nigeria should increase the ration of women to men in their board of directors. Female directors are likely to possess support/ staff managerial skills such as human resources, legal, public relations, communications, as opposed to line functions of operations, marketing, compared to men

SCOPE FOR FURTHER STUDY

This study focused on the listed manufacturing companies in Nigeria. It is believed that the peculiarity of each industry can influence the structure of the board. Therefore, similar study can be conducted on other sector especially the financial institutions such as banks and insurance companies. Similarly, future study can also include firm characteristics in order to determine where those characteristics interfere with the relationship between board gender diversity and financial performance.

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