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GENDER DIVERSITY IN THE BOARDROOM AND FIRM PERFORMANCE: EVIDENCE FROM PAKISTAN

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This study examined the relationship between gender diversity in the board room and its effect on firm performance, based on evidence from the Pakistan. We use Secondary data from KSE Pakistan stock exchange. Our sample size was 53 firms that listed companies in the KSE form 2013 to 2015. Twenty Five percent (25%) of the sample firms have at least one woman in the boardroom and 0% of the CEOs are female. In order to investigate the rapport of gender diversity in board on firm performance, we use OLS as performance measurement technique. In order to measure firm performance we take two accounting base measure that are ROA and ROE (dependent variables).Gender diversity shows the percentage of women in the board of director that is our independent variable; we also take some control variables such as firm size, board size and firm age. Our results indicate that there is no significant relationship between board gender diversity on firm performance in Pakistan. This implies that the business case for board gender diversity is not supported for this particular sample.

Keywords: Corporate Governance; Firm Performance; Gender Diversity.

INTRODUCTION

Firm's performance is one of the hot topics in every era. Strong performance is the indication of the firm's stability and growth in the long run. For many reasons Corporate Governance is considered as the main determinant of the Firm performance. After a lot of bank cruptices and scandals researches now think whether the financial outcome would be different if women are allowed to take the major responsibilities.(Adam and Funk, 2011).Haung and Kisgen (2013), levi et al., (2014) find women's are more cautioned in making the financial decision will ultimately enhances the firm Performance. For years, male-dominated management approaches are used in the business world, the efficiency of the results obtained in recent years has been questioned. Similar decisions taken despite the efforts given make it possible to achieve similar results. This situation differentiates ways of thinking and decision processes of top managers and board of director with similar features. Innovative thinking confronts us the diversity concept which gained importance in recent years.

Diversity refers to gender diversity in an organization and seen as a gateway to the innovation. Environments that individuals can express themselves freely play a key role in the formation of innovative ideas. Because "Innovation is rooted in the contributions of flexible and open-minded individuals"

Nowadays, gender diversity is fast becoming an emerging issue in the corporate world(Julizaerma and Sorib 2012). According to Dutta and Bose (2006), the definition of gender diversity in the boardroom refers to the presence of women as the board of directors which is an important aspect of board diversity. Gender diversity could bring board functioning that eventually could influence firm performance (Carter, 2003). (Woodman, Sawyer and Griffin, 1993; Yukl,2002; Reuvers et al 2008).

Gender diversity in the boardroom and in the top executive and management positions has been the focus of public debate, academic research, government consideration and corporate strategy for more than a decade now (Joana, Janneke and Chantal 2010). Among the first to formulate and support the business case argument for women in top management where the researcher from Catalyst (2004), who showed that more diverse companies achieve better financial results. Since then, interest in the business case for recruiting, developing and advancing women have been growing several researchers and organizations are active in this field (Joana, Janneke and Chantal 2010). Despite debate actions programs and media attention, however, in EU women represent only 11% of board ofdirectors and supervisory board (Desvaux, Devillard and Meaney 2008). According to the monitor, the average European board consists of 15.1 members, of which 1.5 are women (European PWN 2008).An issue may arise for the reasons that lead to the lack of women's involvement in the board of directors, one of the reasons is due to the cultural and social attitudes towards what job is suitable for women and man, women might be stereotyped in some industry. The ability of women to manage the organization is questioned due to the perception of their characteristics that are believed to be emotional, meticulous and fussy even the glass ceiling factor is said to be one of the concerns of women underrepresentation at decision making level (Julizaerma,Zulkarnain 2012). Furthermore, some argued that women stay away from the stress and work-life imbalance associated with occupying the executive office suite (Matsa and Miller, 2011).The aim of this article is to contribute limited Pakistani evidence on gender diversity and firm performance as until now most empirical research has focused on the companies situated in the developed countries, after that it will contribute to the scientific debate by applying a methodology that allow for correct analysis of the relationship between board gender diversity and firm performance.

LITERATURE REVIEW

Within a corporate governance framework, the composition of corporate board is crucial to aligning the interest of management and shareholders, to providing information for monitoring and counseling, and to ensuring effective decision-making (Becht, Bolton and Roell, 2002; Hermalin and Weisbach, 2003). A major argument in support of management diversity is that a more diverse board of directors may take decisions while considering a wider range of alternatives (Joana, Plantenga and Chantal 2010) Carter, Simskins and Simpson (2003) suggest that greater diversity may increase the independence of the board as women have more tendencies to ask questions that would not be asked by male directors.

Several studies have been conducted to provide insight on gender diversity in boards of directors and its relation to company performance. However, it can be said that the results obtained are varied. Carter, Simskins and Simpson (2007), (Gul et al., 2011) found that gender diversity has positive effects on financial performance primarily through audit function and firm financial performance. Erhardt, Werbel and Shrader (2003) discovered that the board of directors,diversity was positively associated with both ROA and ROI."(Kristie, 2011) also provide the empirical evidence for increasing the no of women directors in the Borad room will lead to the increased financial performance. Furthermore, research by catalyst (2008) showed that on average, Fortune 500 companies with more women directors had significantly performed higher measures of financial performance than those with the least with 53 percent higher return on equity, 42 percent higher return on sales, 66 percent higher return on invested capital.

Adams and Ferreira (2009) found a significant positive relation between gender diversity and return on asset, which is consistent with the univariate-test result that higher gender diversity in top management is positively associated with higher levels of firm performance. A major argument in support of management diversity is that a more diverse board of directors may take decisions while considering a wider range of alternatives. Carter, D'Souza, Simkins and Simpson (2008), Huse et al. 2009Summarizing several of the positive theoretical underpinnings for diversity Smith, Smith and Verner (2006) elaborate the arguments and provide intuitive examples. Firstly, women directors may better understand particular market conditions than men, which may bring more creativity and quality to board decision-making. Secondly, a more gender diverse board may generate a better public image of the firm and, through this, improve firm performance. Thirdly, it is possible that the external talent pool for board members increases once women have been appointed to particular executive positions.

Female Directors in boardroom can be helpful in offsetting the weak corporate governance (Gul et al., 2011) research shows that the number of female top managers may influence positively the career development of women in lower positions, thus boosting firm productivity directly as well as indirectly -i.e. by enlarging the internal pool of candidates for top positions. Frink et al. (2003) established an inverted U-shaped curvilinear relationship between gender diversity and organization performance for several of the sectors studied. Their result suggests that there is an optimum regarding gender composition. In a recent panel study of top 1,500 US public companies Dezso and Ross (2008) found that having a female CEO had no positive effect on firm performance, while female participation below the CEO level was positively associated with firm performance for companies pursuing an innovation intensive strategy. In Addition, recent research in the UK has shown that having at least one female board director reduce risk of bankruptcy (Wilson and Altanlar 2009).

Finally, a large body of field and laboratory work suggests that there may be gender based differences in managerial behavioral tendencies. Based on surveys and interviews with female leaders, Rosener (1995) finds that women exhibit an interactive leadership style that emphasizes inclusion. Specifically, women are said to encourage participation by soliciting input from others, share power and information by keeping open communication channels with their subordinates, and bolster their subordinates' sense of self-worth. Using similar methods, other authors find women to be less hierarchical and more cooperative and collaborative than men (Helgesen, 1990; Book, 2000).

DEMOGRAPHIC DIVERSITY

Existing literature on diversity typically follows two general distinctions: 1) the observable (demographic) and; 2) the non-observable (cognitive). Examples of observable diversity are generally gender, age, race and ethnicity and examples of

non-observable diversity are knowledge, education, values, perception, affection and personality characteristics Maznevski(1994), Milliken and Martins (1996), Kilduff, et al., (2000), Petersen (2002), and (Gul et al., 2011). However, most research on diversity and its effects on performance focus on observable or demographic diversity.

This study considers demographic diversity as it directly reflects the increasing numbers of women directors in board representation, Hispanic, Black and Asian Americans entering into the management labor market Conyon and Mallin (1997). There is research that suggests that diversity is increasing especially by gender levi et al., (2014). Bilimoria (2000) reports that even though the number of female board members is increasing slightly, few companies actively recruit females and there is still sex bias, stereotyping and tokenism on boards where women serve.

THEORETICAL BACKGROUND AND RECENT EMPIRICAL FINDINGS

Within a corporate governance framework, the composition of corporate boards is crucial to aligning the interest of all stakeholders, to providing information for monitoring and counseling, and to ensuring effective decision-making Hermalin and Weisbach (2003), Gul et al., 2011). Gender diversity, together with board size, age dispersion and the share of directors chosen by the employees, all relate to board decision-making processes (Bøhren and Strøm, (2007). Whether board diversity influences firm performance in a positive or negative way, however, is theoretically undetermined a priori. In more general terms, Becht et al. (2010 conclude that the formal literature on board design is “surprisingly thin”. At the same time according to our knowledge this is first study on gender diversity and its effects on firm performance in Pakistan.

A major argument in support of management diversity is that a more diverse board of directors may take decisions while considering a wider range of alternatives. Carter, Simkins and Simpson (2003)and Carter, D’Souza, Simkins and Simpson (2008)enumerate several positive propositions of the business case for board gender diversity, among which this is a central one. Within the “upper echelons” theory, diverse top management teams relate to more creative idea generating, and are thus linked to more innovative organizations Jackson, (1992).In well-governed firms, board gender diversity can be detrimental to firm value due to unnecessary over-monitoring (Adam and Ferreira, 2009)

Smith, Smith and Verner (2006)intricate that women directors may better understand particular market conditions than men, which may bring more creativity and quality to board decision-making. Smith et al. (2006) also argue that a more gender diverse board may generate a better public image of the firm and, through this, improve firm performance. In addition it is possible that the external talent pool for board members increases once women have been appointed to particular executive positions. Furthermore, their research shows that the number of female top managers may influence positively the career development of women in lower positions, thus boosting firm productivity directly as well as indirectly- i.e. by enlarging the internal pool of candidates for top positions.

However, while the “management friendliness hypothesis” may hold for boards in general, it may be less true of boards having women directors. Women directors may not be fully assimilated into traditionally male dominated boards of directors. There is, for example, evidence that female directors differ from their male counterparts in several ways. Female directors tend to have advanced degrees, and are more likely to come from non-business careers as compared to male directors Hillman, Canella and Harris, (2002). Bilimoria and Piderit (1994) found that male directors were favored for member-ship on three types of committees: compensation committee, executive committee, and finance committee. On the other hand, female board members were favored for another type of committee, namely public affairs committee. These results were observed after controlling for the effects of experience.

Zahra and Stanton (1998) examined the relationship between gender diversity and firm financial performance. They worked with 100 Fortune 500 firms and they used return on equity (ROE), profit, earnings per share, dividend per share and profit margin on sales as performance variables. Zahra and Stanton did not find a statistically significant relationship between gender diversity and firm financial performance. Carter, Simkins and Simpson (2003) examined the relationship between board gender- diversity and firm value for the Fortune 1000 firms. Using Tobin’s Q as a measure of firm value, they found statistically significant positive relationships between the percentage of women on the board of directors and firm value as well as presence of women on the board of directors and firm value.

The results from studies conducted on US seem to be predominantly positive, European significantly positive effect on firm performance, controlling for firm characteristics, as well as for the direction of causality. Furthermore their results revealed that the positive performance effects were mainly accounted for by female managers with university education, and were also related to female board members elected by the staff. Francoeur, Labelle and Sinclair-Desgagné (2008)used the sample of 500 Canadian firms during the year 2001 to 2004 (Four Years) and found that firms operating in complex environments generate positive and significant abnormal returns of 0.17% monthly when they have a high proportion of female directors. The gender diversity leads to more diverse knowledge bases and perspectives that are needed to develop and evaluate solutions to complex problems. Randøy, Thomsen and Oxelheim (2006) investigated the effect of board diversity on corporate performance, examining a sample of the largest companies from Denmark, Norway and Sweden, and found no significant gender diversity effect. Bøhren and Strøm (1997), studying a sample of Norwegian listed non-financial firms, seem to be the only researchers who found a significantly negative association between board gender diversity and firm performance. Kang, Ding and Charoenwong (2010) investigated the stock market reaction to female directors in an Asian context by using a sample of 45 Singaporean firms. They found that public listed firms experience positive abnormal returns when they announce the appointment of female members in the board. The stock market reaction is more positive when the female directors are appointed for independent board position evidence appears to be mixed. Rose (2008)used a sample of Danish firms listed on the Copenhagen Stock Exchange during 1998-2001, and found that female board representation had no impact on firm performance.

SAMPLE AND DATA

Our sample is consisting of KSE-100 Index companies for three years 2012 to 2014. Companies were excluded in case of non-availability of data or missing data. According to the Pakistan Karachi Stock Exchange official brochure “The KSE-100 Index was introduced in November 1991 with base value of 1000 points. The KSE-100 Index comprises of 53 companies selected on the basis of sector representation and highest market capitalization, which captures over 90% of the total market capitalization of the companies listed on the Exchange. Out of the following companies are related to different Sectors like oil and gas, sugar mills, shoes companies, food, pharmaceuticals firm i.e. and excluded insurance companies and banks. This research paper includes variable ROA and ROE as a dependent variable for firm performance and percentage of women board of director as independent variable, firm size, firm age, Board of director as control variable.

A random sample size of 100 firms was taken in the start. But due to limited availability of data, final sample of 53 firms were taken, which were having complete data of three years period from 2012 to 2014. Data on required variables is collected through secondary sources. Data on Corporate Governance internal mechanism are collected through company information page, compliance with the code of corporate governance report, directors’ profiles and directors’ report to the shareholders. Data related to financial part of the study is collected from financial statement part of Annual Reports. Table 1 indicates the percentage of female directors toward proportionate to the male directors in the sample companies.

Table 1

Year	2012	2013	2014
Women percentage	3.7%	3.5 %	3.04%

METHODOLOGY

The study is adopting quantitative study in which secondary sources are used to collect the data. The aim of the study is to examine the association of gender diversity and firm performance. We have to select the companies listed on the stock exchange of Pakistan. Then, content analysis is performed based on the data obtained from the annual report of the companies for the year 2012 to 2014. Excluded information from financial institution banking and insurance companies because of different ownership and different accounting methodology in the financial statements. Simple random sampling is used in order to select the companies the population size is (554) listed companies in the stock exchange of Pakistan as at 2014, in which the sample size chosen is 53.

BOARD GENDER DIVERSITY

Board gender diversity is measured as a Percentage of women directors on the total members in board.

VARIABLES:

Firm Performance

In this research paper there are two dependent variable are taken ROA and ROE for firm performance. In order to meet the purpose of this study, we have to construct two OLS-regression for the variables tested.

$$Y = a + b1x1 + b2D1 + b3D2 + b4D3$$

ROA = a + b1 Women + b2 Firm size + b3Firmage +b4 Board size + e

ROE = a + b1 Women + b2 Firm size + b3Firmage +b4 Board size + e

Table 2: Measurement of variables

Variables	Types of variables	Measurement scale
ROA	Dependent variable	Net income/ total assets
ROE	Dependent variable	Net income/average share holder equity
Women	Independent variable	The Number of women directors/ number of directors sitting on the board
Board size	Control variable	Total number of board meetings held within the financial year.
Firm Size	Control variable	Natural logarithm of total assets of the firm
Firmage	Control variable	Number of years of incorporation of form in PAK

RESULTS AND FINDINGS

Overall distributions are quite different to previous studies. For instance the mean of women proportion in board is much lower than in the study by M.K Julizaerma and Zulkarnain Mohamadsorib (2012) where they obtained a mean of 10.62 percent using a sample of 280 companies in the year 2012 as compared to 7 percent in this study. The mean of total assets in this study is 45099.18 million that constitute the average size of firm in the sample. Furthermore these companies have an average of 34.30 years of operating the business in their respective industry.

Table 3: Descriptive statistics of variables used in this study

	N	Minimum	Maximum	Mean		Std. Deviation
	Statistic	Statistic	Statistic	Statistic	Std. Error	Statistic
FIRMSIZE	159	3.17	5.70	4.3501	.03849	.48540
ROA	159	-.05	12.64	.4331	.13719	1.72990
ROE	159	-.34	11.95	.3245	.08680	1.09453
FIRMAGE	159	2.00	67.00	34.3019	1.64723	20.77083
WOMEN	159	.00	.43	.0700	.00925	.11664
BOARDSIZE	159	2.00	15.00	8.6415	.15717	1.98183
Valid N (listwise)	159					

Correlation Analysis:

In this study we also tested correlation between each variables that explain in table 3 in which some of the variables are highly correlated with each other and some having weak correlation as well as negative correlation also found in some variables, percentage of women in the board of directors shows as negative correlation with ROE and positive correlation with ROA, firm size shows negative correlation with both of ROA and ROE, firm age shows negative correlation with ROE and positive with ROA.

Table 4

		ROA	WOMEN	FIRMAGE	FIRMSIZE	BOARDSIZE
Pearson Correlation	ROA	1.000	.045	.079	-.155	-.124
	WOMEN	.045	1.000	.067	-.255	-.179
	FIRMAGE	.079	.067	1.000	-.117	-.063
	FIRMSIZE	-.155	-.255	-.117	1.000	.051
	BOARDSIZE	-.124	-.179	-.063	.051	1.000

Regression equation:

The results of OLS-regression of board gender diversity and firm performance is presented in the table 4 and table 5 results shows that the positive relationship between women and ROA. That indicate if women increase in the board as director then ROE will be increase but there is negative relationship when we compare women performance with ROE.

Table 4 shows that, the R-squared for the regression is .034 that indicates equation is reliable. All the independent variables are significant at 1%, 5% and 10% level. The results clearly indicate that the firm performance is not significantly correlated with to the female status of board of director so we can say that it is insignificant relationship this is because there is very few women on the directors seat, there is very few firms where we find the presence of women directors but their presence is not enough to show significant relationship. In conclusion, based on our sample and analysis, our findings do not provide evidence that there is a relation between board gender diversity and firm performance. Our findings indicate Pakistan boardrooms having (more) women on board of directors do not result in a better firm performance. The results are in line with most findings in previous European studies Randoy et al. (2006), Rose (2007), Marinova et al. (2015). The culture of Pakistan is quite different from the European context so the presence of the female directors on the board and the selection criteria is different gender are also different from the European context.

Table 5

Model Summary[b]

					Change Statistics					
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	R Square Change	F Change	df1	df2	Sig. F Change	Durbin-Watson
1	.186[a]	.034	.009	1.08941	.034	1.373	4	154	.246	1.155E0

a. Predictors: (Constant), BOARDSIZE, FIRMSIZE, FIRMAGE, WOMEN
b. Dependent variable: ROE

Table 6 Model Summary[b]

					Change Statistics					
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	R Square Change	F Change	df1	df2	Sig. F Change	Durbin-Watson
1	.202[a]	.041	.016	1.71605	.041	1.640	4	154	.167	.761

a. Predictors: (Constant), BOARDSIZE, FIRMSIZE, FIRMAGE, WOMEN

b. Dependent Variable: ROA

		Standardized Coefficients		
Model		Beta	T	Sig.
1	(Constant)		2.322	.002
	WOMEN	-.017	-2.005	.084
	FIRMAGE	.055	.695	.048
	FIRMSIZE	-.147	-1.793	.075
	BOARDSIZE	-.116	-1.446	.150

CONCLUSIONS:

The role of female as board members and top corporate executive in a company, Board of Director in driving firm performance has become a very topical issue. Especially in the current time of economic catastrophe which is largely attributed to unsound risk management practices, there is debate if the global economic picture would have looked less grim, had there been more women on boards of directors in the distressed financial institutions. The proponents refer in this respect to the fact that women are more risk-averse and claim that more gender diverse corporate teams will help bring the global economy back on track. These arguments strongly relate to the business case for board gender diversity, which has been investigated empirically in this paper. As such the paper adds to the limited western evidences on the effect of board gender diversity on firm performance. Drawing on the development in organizational strategy and corporate governance over recent years, which approach women's representation in top corporate positions as a value-driver, in our study is that board gender diversitywill lead to positive firm performance effects.

Rather than providing final conclusion, this study should be considered a useful starting point for further research. Future studies may include more variables than our study. In addition, it seems useful to extend samples by including non-listed companies. Finally, future research should focus on more than 3 years panel data in order to fine the consistent effect of gender diversity on firm performance. Banking sector may provide a good base for further studies (Husnain and Akhtar, 2016). If gender-related performance effects can be traced over several years, the quality and implications of the analysis will improve considerably, as dynamic factors will also be captured in the relationship. The presence of female directors in the board ensure the right mixture of the board with the two genders one side but the profitability is another matter which leads to many certain and uncertain factors. The membership of female independent directors in the board ensures the professional standard as well the God talented skills of female genders like, disciple, etiquette and erudition.

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