

**Effect of Board Diversity on Financial Performance of Listed Deposit Money Banks in  
Nigeria**

**BY**

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## DECLARATION

I hereby declare that this research work titled “Effect of Board Diversity on Financial Performance of Listed Deposit Money Banks in Nigeria” is solely conducted by me under the supervision of Prof. S.A. Abdallah and Prof. B. Sabo . To the best of my knowledge and belief, this work has never been presented previously for the award of any academic degree or any certificate of its kind. However, all borrowed materials and literatures used from other sources are duly acknowledged. I take the responsibility of all errors contained therein.

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**CERTIFICATION**

This is to certify that this Dissertation titled “Effect of Board Diversity on Financial Performance of Listed Deposit Money Banks in Nigeria” by MOHAMMED, Ramlat Oche meets the requirements and regulations governing the award of the Degree of Masters of Science (M.Sc) in Business Administration of Ahmadu Bello University, Zaria and is therefore approved for its contribution to knowledge and literary presentation.

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## **DEDICATION**

I humbly dedicate this work to my ever precious daughter Fatimah Suleiman, my husband Salami Suleiman and my Natal family “The Abdumumin’s”.

## ACKNOWLEDGEMENTS

All praise due to ALLAH, the Lord of the Worlds, my Protector, my Guardian, the One Who Says Be and it Becomes. All Adoration belongs to Him for making it possible for me to get to this stage of my academic career. Peace and Blessings of Allah be on our Beloved Prophet Muhammad (SAW), His companions, his household and all those who follow Him till the day of recompense

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## **ABSTRACT**

This study empirically examines the effect of board diversity on the financial performance of listed DMBs in Nigeria. Gender, foreign diversity and ethnic minorities were used as proxies for board diversity and a market based measure, Tobin's Q was used to measure performance. Board size was also used as control variable. Data for the study was extracted from the Nigerian Stock Exchange Fact book and sampled banks' annual reports for the period 2009-2013. The sample size is thirteen banks chosen based on some selected criteria. The study employed multiple regression technique using Ordinary Least Square in testing the hypotheses of the study. The findings revealed that gender has a positive significant effect on financial performance. Similarly, a positive association was documented between foreigners, and ethnicity on financial performance, although these associations were not significant. However, board size was negative and insignificant. The study recommends that the Security and Exchange Commission (SEC) should ensure that boards of listed DMBs have at least one female director as listing requirement. Also emphasis should be placed on knowledge, skills, and competence when nominating a board member and not race to enhance performance

## **CHAPTER ONE INTRODUCTION**

### **1.1 Background to the study**

The collapse of well known companies such as Enron and others in developed nations led many industrialists and legal practitioners; including investors to a belief that governance crisis was eminent in America. In response to these well known events, the United States passed the Sarbanes-Oxley Act while major stock exchange markets modified their listing criteria for effectiveness and improving board monitoring (Byoun, Chang and Kim, 2011). Issues related to boards of directors have attracted the interest of researchers from various disciplines for the past decade. This represents a shift in paradigm from top management teams (TMT) to corporate boards, coupled with the high emphasis put on the role of boards by regulators and investors in directing and controlling firms.

Recently some countries in Europe have legislated higher representation of women on boards, while others have included the concept in laws in response to the normative case calls for diversity. Those in support of gender diversity such as McKinsey and Catalyst have proved that the concept has economic importance to firms. Catalyst proved that Fortune 500 firms with more females on corporate boards tend to make more profit. Also, McKinsey also proved that companies with a higher number of women at board level display a higher degree of organisation, above average operating margins and higher valuations. (Credit Suisse, 2012). Although diversity is looked upon to be a goal in itself by some academia, it is also pertinent to understand its economic importance to firms.

Diversity is needed in the boardrooms today in order to reflect both the diversity of stakeholders in a firm and the diversity of its customer's base. The concept of diversity

cannot be measured by composition alone but should also be measured by organizational growth and by how it enables an organization move forward (Susan as cited in Inspire, 2012). It is a quality that drives broader thinking due to the fact that board members are given leadership roles which in turn enable them achieve success in the board in the way of increased financial performance (Susan as cited in Inspire, 2012). Despite all this, the problem now faced is not how to convince leaders and board members to treat diversity as a serious issue but how to successfully achieve a rich balance of gender, nationality, ethnicity, experience, and educational background.

In Nigeria, the Central Bank of Nigeria (CBN Bulletin, 2014) asserted that most corporate organizations in Nigeria are yet to imbibe good corporate culture. A survey carried out by the Security and Exchange Commission (SEC) showed that averagely, about 40% of registered companies, banks inclusive, had a recognized code of corporate governance issued in 2003. Non-compliance to fundamental basic governance principles led largely to the systemic problems such as gross insider abuses, huge non-performing insider related credits, false reporting, and non-compliance with regulatory requirements. Some other forms of corporate governance abuses recorded, particularly in the banking sector prior to the code of corporate governance released in 2003, include weak internal control, non-compliance with laid down rules, non-participatory shareholders, sharp practices in borrowing, and inability to plan and be proactive to dynamism in the business world. (CBN Bulletin, 2014).

To close the gap and become competitive in the business world, the CBN in collaboration with the Bankers' Committee developed Code of Corporate governance which came into effect on March 1, 2006 (and amended in 2009). The code was compiled to ensure best

practices and improve on self regulation with specific focus on important areas including equity ownership, organizational structure, and quality of board membership.

Corporate governance structure incorporates all stakeholders including employees, managers, customers, and board of directors. It has received much interest in recent times due to its importance to the well-being of economic firms. Diversity in corporate boards is assumed to help avoid sharp practices such as earnings smoothing. It could also lead to an improvement in board effectiveness, which eventually leads to great performance, as a result of a more variety of perspective and a more rigorous decision making process.

Anderson, Reeb, Upadhyay and Zhao (2009) argued that multinational corporations had proved that diversity among board members helps in the innovation of new products and strategies. Most Scandinavian countries have implemented a compulsory 40% inclusion of women on corporate boards while countries in Europe have also taken the issue of diversity seriously. Bjorklund (2010) defined board diversity as the mix of board and committee membership including the relative number of women, younger members and ethnic background. It could also be defined as the variation among board members in regards to expertise, managerial background, personalities, learning styles, education, age and values (Coffey & Wang as cited in Mohammad, Abdullah, Mokhtar & Kamil, 2009). Thus, board diversity is the variation in the characteristics in terms of gender, ethnicity, and the number of foreigners that make up a board. Anderson *et. al.* (2009) decomposed board diversity into social diversity and occupational diversity. Components in the social segment include age, gender; ethnicity and nationality while occupational segment of diversity includes tenure,

educational background, and work experience. This study will focus on gender, foreign and ethnic diversity.

A Board member may be an Executive Director or a non Executive Director. While Executive Directors are responsible for the day- to- day running of the organization, Non- Executive Directors ensure that top managers do not deviate from organizational goals, and are therefore accountable to shareholders. This means that Non- Executive directors mainly provide advisory and monitoring role. Monks & Minow as cited in Carter, D'Souza, Simkins & simpsons (2010) posited that the main functions of board members are monitoring and controlling managers, providing information and counsel to managers, monitoring compliance with applicable laws, and lastly, regulating and linking the corporation to the external environment.

## **1.2 Statement of the Problem**

The role of board diversity in ensuring increased financial performance has been a subject of controversy with serious implications for shareholders. Previous studies on the effect between board diversity and financial performance do not provide conclusive evidence. Some studies provide evidence of firms with a diverse board improve financial performance (Carter et. al. 2002, Smith, Smith and Verner, 2005, Rovers 2010), while others hold that diversity in corporate boards have a negative effect on the financial performance of firms (Wachudi and Mboya 2009, Darmadi 2011, and Locke and Wellage (2012).The mixed results could be as a result of the different regulatory and governance structure, economic, climate and culture,as well as the size of capital markets of the domain of the various studies. It could also be

attributed to the economic environment, types of companies, the measures of diversity and proxy for financial performance used.

Though, given the importance of ethnicity in Nigeria where ethnicity is a primary factor in allocating resources, positions and contract, there are few empirical studies, to the best of our knowledge, that attempt to investigate the effect of ethnic diversity in corporate board and how it influences financial performance of Deposit Money Banks in Nigeria. The general principles outlined in Nigeria's Code of Corporate of Governance include board size, organizational structure, and independence of directors. Undoubtedly, there is no clear emphasis laid on the need for instituting workforce diversity in corporate boards.

What conclusion can be drawn about the relationship between board diversity and performance? This has to be investigated in order to determine its importance in an organization. There have been agitations calling for diversity in corporate boards. Is it that board diversity is just a public policy issue? Does it have any economic implications for firms? Or should it be just a factor to be considered.

Corporate governance researches in Nigeria such as Sanda, Mikaila and Garba (2004), Shitu (2010), Chandrasekharan (2010), laid emphasis on board size, board composition, directors' ownership. But evidences relating board diversity to performance in Nigeria are scanty. Garba and Abubakar (2014) investigated this relationship using listed insurance firms. The findings of Garba and Abubakar (2014) may not be applicable to the Nigeria deposit money banks. How does this relate to DMBs? This has to be investigated.

### **1.3 Research Questions**

The following research questions are raised in this study.

- i. Does gender diversity of directors on the board affect performance of DMBs in Nigeria?
- ii. Does foreign diversity of directors on the board affect performance of DMBs in Nigeria?
- iii. Does ethnic diversity of directors on the board affect performance of DMBs in Nigeria?

### **1.4 Objectives of the Study**

The main objective of this study is to examine the effect of board diversity on the financial performance of DMBs in Nigeria. Other specific objectives are to determine:

- i. To determine the effect of gender diversity on performance of DMBs in Nigeria
- ii. To determine the effect of foreigners as board members on performance of DMBs in Nigeria.
- iii. To determine the effect of ethnic diversity on the board on performance of DMBs in Nigeria.

### **1.5 Research Hypotheses**

The following hypotheses are formulated.

Ho<sub>1</sub>: Gender diversity does not have any significant effect on the performance of Deposit Money Banks (DMBs) in Nigeria.

H<sub>02</sub>: Foreign diversity does not have any significant effect on the performance of DMBs in Nigeria.

H<sub>03</sub>: Ethnic diversity does not have any significant effect on the performance of DMBs in Nigeria.

## **1.6 Scope of the study**

This study aims at examining the effect of board diversity on financial performance. It is restricted to listed Deposit Money Banks only. The population is all twenty-one banks listed on the Nigerian Stock Exchange as at Dec, 2013. The study sample is thirteen banks out of the total population. The sample size was arrived at using some criteria and the study covers the period 2009 to 2013. The period 2009 to 2013 is considered appropriate for this study as it is after the bank bailout in 2009, public confidence in the Nigerian banking sector was restored and DMBs stock prices stabilized (Mohammed, 2012). The study focuses on social diversity (specifically gender, foreign and ethnic). Also the dependent variable is a market measure (specifically Tobins Q)

## **1.7 Significance of the study**

There exist several literature based on corporate governance in Nigeria, but most focus on other attributes such as board size, composition and characteristics. This study seeks to investigate boards' diversity in terms of gender, ethnicity and nationality. Prior researches within these areas in developing economies like Nigeria are scanty. This study will be beneficial to researchers, academics, regulatory authorities and shareholders owning stocks in DMBs in Nigeria. This study will contribute to researches in the area of board diversity for

the reason that it focuses on a developing economy that has different economic, legal, and cultural environment from those of western economies, where most previous studies have been conducted. This study will assist regulatory authorities in making concrete policies which in turn will enhance the financial performance of firms. In relation to researchers, the study will contribute to existing literatures on diversity of corporate boards.

### **1.8 Limitations of the Study**

Caution must be applied in utilizing the result of this study due to the following limitations

- i. The Study made use of only one measure of financial performance (TobinsQ). Other measures from the various types of financial performance would have given us a clearer insight.
- ii. Board diversity is one aspect of internal governance mechanism. Other internal governance mechanism such as board characteristics, audit committee, ownership structure and board composition are not included to determine the financial performance of DMBs in Nigeria.
- iii. The study also focused on the social or demographic aspect of diversity. However, the above mentioned factors do not hinder the applicability of this study as the study also followed the methodology of other researches.

## **CHAPTER TWO LITERATURE REVIEW**

### **2.1 INTRODUCTION**

This chapter reviews literature on board diversity and financial performance. It begins with the concept of board diversity, followed by the concept of financial performance. Prior studies on board diversity and financial performance come next and the chapter ends with theoretical framework.

### **2.2 Concept of Board Diversity**

Board diversity became a well known concept when firms such as Enron in 2001, Parmalat in 2003 collapsed as a result of poor corporate governance. Enron corporation revealed in 2001 that it failed to report large amount of debt it owed and that the company's profit had been overstated for several years (ICAN, 2009). Parmalat collapsed in 2003 with a \$20 billion pound hole in its account in what remains Europe's biggest bankruptcy. Board diversity is among one of the various internal corporate governance mechanisms that private as well as public sectors can employ to achieve sanity among board members. Boards are principally made up of executive and non-executive directors. (Sealy, Doldor & Vinnicombe, 2009).

Attempts have been made by previous researchers and authorities to define the term "Board Diversity". Cox as cited in Marimuthu, (2008) defined it as the variation of social and cultural identities among people existing together in a defined employment or market setting. Social and cultural identity refers to the personal affiliation with groups that research has shown to have significant influence on people's major life experiences. These affiliations

include gender, race, national origin, religion, age cohort, and work specialization and ethnicity (Cox as cited in Marimuthu, 2008).

Board diversity could refer to the mix of board and committee membership including a relative number of women, younger members and ethnic background (Bjorklund, 2010). Ararat, Cetin and Aksu (2010), refer to board diversity as the distribution of differences among directors with respect to attributes which could lead to differences in attitudes and thinking.

Coffey and Wang as cited in Mohammad *et. al.*(2009) defined board diversity as variation among board members in regards to expertise, managerial background, personalities, learning styles, education, age and values while Van der Walt and Ingley (2003) believed that board diversity refers to the variety in the composition of the board of directors.

Governments of various countries are promoting diversity in boards, mostly through legislation, regulation or persuasion. In Norway, the government introduced a compulsory gender quota law in 2004 insisting that all listed companies and state owned enterprises must ensure that females make up 40% of the board. Spain also adopted gender quota legislation in the year 2007, to become effective in 2015, insisting that all corporations with 250 and above employees should have a minimum of 40% representation of women in their board. France also imposed a 20% inclusion of women in corporate boards and a 40% quota that is to be implemented within six years from January 2011. Other countries that have enacted similar quota system on gender board diversity include Belgium, Iceland, Italy, and Finland.

Board members are mandated to ensure that the interest of management and shareholders are aligned, irrespective of whether they are institutional shareholders of private firms or the state if it were to be a publicly owned organization (Kang, Cheng, and Gray as cited in *Sealy et. al 2009*). Typically, board members are said to perform the following functions: monitoring and controlling managers, providing information and counsel to managers, monitoring compliance with applicable laws, and linking the organizations to the external environment that is, resource dependence. (Monks & Millow as cited in carter, 2010).

Board is made to determine firm aims and objectives and ensure that the right strategies are implemented.(Lincoln& Adedoyin 2012). A more diverse board is said to improve a firm's corporate image and financial performance. Board diversity helps in reducing nepotism, promote fairness and endeavour to ensure that all stakeholders interest are well represented in order to enhance the interest of different stakeholders in corporate decision making (Lincoln *et. al.*, 2012).

Some scholars however, have identified problems associated with a diverse board. Pertinent amongst these problems is that a diverse board could promote difficulty in coordination, less decision making ability which slows the firm's ability to compete aggressively (Lincoln *et. al* 2012). Others posit that diversity in race, ethnicity, and gender can lead to conflict between board members thus, resulting in reduced communication, performance and inhibit group cohesiveness.

Diversity in boards has been categorized into two segments. The first segment is called demographic diversity (Zainal, Zulkifli and Saleh, 2013.) Variables included in the demographic segment include age, gender, nationality, and ethnicity. Blau (as cited in Ararat, 2010) opines that demographic diversity is the great number of various statuses along which a said population is distributed. The second segment of board diversity is called cognitive diversity (Zainal et. al 2013). Variables in this segment include amongst others educational qualification, experience, tenure, and professional background. Martins and Miliken (1996) suggest that these cognitive attributes can create unique differences on the mental makeup towards organizational issues and problems as well as communication styles.

### **2.3 Concept of Financial Performance**

Financial performance shows the level of performance of a business over a specified period of time expressed in terms of total profit and loss. Carton (2004) defines performance as a measure of change as regards the financial state of a given firm, or the financial prospect that emanates from management decisions and the implementation of those decisions by members of the organization.

According to Investopedia Financial Dictionary(n.d), the term financial performance connotes a quantified measure of how effectively a corporation can use assets from the major mode of business and generate revenues. The term is also used to refer to a general measure of a firm's total financial stability over a given period of time, and can be employed to compare similar firms operating in the same industry or to compare between industries or sectors to evaluate how healthy or buoyant a sector is over another. Measuring the financial performance of a business allows decision makers to give an opinion of a firm's result of

business strategies as well as its activities in measurable monetary terms. While each category of measurement addresses performance from a special perspective, not all organization can be measured in all categories. Non-financial performance on the other hand, is any quantitative measure of either an individual's or an entity's performance that is not expressed in monetary units. This includes any ratio-based performance measure, in that a non financial performance measure that is ratio-based omits any monetary metric in either the numerator or denominator of that ratio. Examples of non-financial performance include employee satisfaction, quality, market share, number of new product and customer satisfaction.

### **2.3.1 Types of Performance Measures**

According to Carton (2004), the types of performance measures include accounting measures, operating measures, market based measures, survival measures and economic value measures.

**2.3.1.1 Accounting Measures:** Accounting measures include those that rely heavily on financial information reported in income statement, a firm's balance sheet, and statement of cash flows. Accounting measures can further be classified into five distinct parts. Amongst them is profitability measures (examples include earnings before tax, operating income), growth measures (e. g absolute or percentage change in total asset, operating asset, and sales). Leverage measures, liquidity measures, cash flow measures (measures found in these three include values and ratio that represent the organization's ability to meet its financial obligation in a timely manner and provide a cash return to capital providers ) and efficiency measures (included here are values and ratios that represent how well a firm makes efficient

use of its resources. One critical flaw of this performance measure is that it reports only past events and not investment in yet to come opportunities (Carton, 2004).

**2.3.1.2 Operating Measures:** Operational measures include variables that represent how well the firm is doing in relation to non- financial issues. Measuring performance on non- financial angle has received much attention in recent times as firms now adopt the balance scorecard approach which was developed by Kaplan and Norton in 1992 for the integration of strategy and performance measurement. Variables found here include market share, changes in intangible assets such as patents or human resources, customer satisfaction, and stakeholder performance.

**2.3.1.3 Market Based Measures:** Market based measures include ratios or rate of change that include or merge market value of the firm. These variables include returns to shareholders, market value added, holding period returns, Jensen's alpha and Tobin's Q. The calculation of these variables need a market valuation for the firm and is mostly available only for publicly listed firms.

**2.3.1.4 Survival Measures:** A Survival measure of performance simply tells if the organization was able to remain in business over the time frame of interest. Barnard (1938) and Drucker (1954) as cited in Carton (2004) posited that survival is the main measure of long term performance. However, this performance measure is rarely used in researches.

**2.3.1.5 Economic Value Measures:** Economic measures of performance are adjusted accounting measures that take into cognizance the cost of capital and some of the influences of external financial reporting rules and system. These measures have not been used in most management related and empirical researches because the values are not usually reported and most firms do not calculate them internally. Examples of economic value added measures include residual income, economic value added, and cash flow on investment.

## **2.4 Review of Empirical Literature**

Various studies were carried out on board diversity and financial performance.

### **2.4.1 Board diversity and Financial Performance**

Miller and Triana (2009) explored the mediators that explain how board diversity relates to firm performance in USA. The study sample is fortune 500 for the period 2002- 2005. The final sample used to investigate innovation as a mediator between board diversity and firm performance was 432 firms. While a total sample of 326 firms were used to investigate reputation as a mediator between board diversity and firm performance. The study relied on signaling theory and the behavioural theory of the firm to underpin its work. Board diversity was measured using both Proportionate and Blau's index. Research and development was used to proxy innovation, fortune's most admired companies survey was used as the indices for measuring firm reputation, firm performance was operationalised using return on investment and return on sales. The study controlled for firm age, liquidity, firm size, product diversification, international diversification and industry. Ordinary Least Square (OLS) regression was employed as the technique of data analysis. The result documented a positive significant relationship between board gender diversity (Blau and Proportionate) and

innovation. Also, a positive insignificant relationship was recorded between board gender diversity and reputation (using both Blau's index and Proportionate). When innovation was used as a mediator between board gender diversity and firm performance, no significant relationship was revealed. Similarly, using reputation to mediate between gender diversity and firm performance, no significant positive relationship was documented between both variables. R & D is mostly used as a surrogate for innovation in studies using cross industry studies and not a single industry studies. This is a limitation to this study.

Tacheva and Huse (2006) examined the mediating and moderating effect of board working style on the association between women on corporate boards as well as board task performance. The study used Agency Theory and Resource Dependence Theory to explain its work. The study surveyed a total of 249 CEOs in Norway for the period, 2003. A number of women directors, board trust in the CEO, board maintenance activities and board structure were used as independent and intervening variables. Company size, board size, outsider ratio, CEO turnover, and board ownership were also used as control variables in the study. Similarly, board service task performance, board financial control performance and board qualitative control task performance were each allocated items which were used to measure the dependent variables. Multiple linear regression was employed to test the hypotheses of the study. The result of the study registered that the proportion of women directors has a negative impact on the performance of both financial control and service task. Also, the interactive effect of women directors and the duration of board meetings had a non-significant effect on the performance of qualitative control. However, an extreme support was recorded for a positive moderating effect of board trust on the way between women directors and qualitative control. A positive relationship was also recorded between the moderating effect of board trust on the link between women directors and qualitative control

performance. The study concluded by agitating for an in- depth exploration of board working styles and board role performance to further enhance the current understanding regarding the effect of board of directors in general and female directors in particular on board effectiveness. Future research on this nature should look at the background of women directors and enumerate the characteristics of women directors that are valuable for the performance of the different board roles.

Ararat, Aksu, and Cetin (2010) investigated the impact of board diversity on performance in Turkey for the year 2006. The study sampled ISE-100 index listed firms excluding five real estate investment trust (15 financial and 80 non- financial firms). Performance was measured using return on equity and tobin's Q. board diversity was first measured separately and then a composite index was used. Diversity measures used in this study include nationality, gender, board member independence, and variety in age, educational level. The study controlled for board size while firm size and leverage were used as control variables in the performance regression. Board monitoring intensity was measured using two components: first, monitoring the conflicts of interest between stakeholders and second, monitoring the credibility of information disclosure. The proxies for the former BMI component include number of meetings held by the board during the year 2006, the number of board committees set up, and the non financial Total Disclosure (TD) score. The second component was proxied by the independent auditor's quality, quality of the accounting standards adopted, and the financial TD scores. Multiple regression using OLS was employed as the technique of data analysis. Ownership concentration was used to moderate the variables. Their findings revealed that board diversity has a significant impact on financial performance with board's monitoring acting as a mediating variable. Process variables were also found to influence firm performance. No evidence was however recorded between ownership concentrations acting

as a moderating variable. Hence, ownership concentration does not have any effect on the relationship between Board Monitoring Intensity and firm performance. Testing how independent directors affect performance, a negative effect was recorded between the two variables while a positive result was found between independent directorship and Board Monitoring Intensity. Although the research was a pioneering one in Turkey, in terms of using the Blau's index and using the composite measure, its limitation is that only one financial year was used in their analysis

#### **2.4.2 Gender Diversity and Financial Performance**

Carter, Simkins and Simpson (2002) established a positive relationship between board diversity (proxy by the presence of women) and firm value. Making use of a sample of 638 fortune 1000 firms in the US, the results of the study suggest that the higher the number of women on corporate board, the more the value of firm increases. The study also revealed that the proportion of women on board determines the fraction of minorities that will be present on a board. The limitation of this research is that it does not yield a clear cut conclusion on the inclusion of a larger number of women standing alone and firm value.

Smith, Smith and Verner (2005) examined the relationship between women in top executive jobs and firm performance in Denmark. The study made use of listed as well as non listed firms. Gross value added, profit on ordinary operations, ordinary result, and net result after tax was used as measures of performance. Women among the top CEO's in the firm was used to proxy gender diversity. Firm size, export orientation of the firm, minimum efficient scales (MESs) to the market (industry) size was used as control variables. Employing a sample of

2,500 largest Danish firms over the period 1993-2001, their findings revealed a positive association between gender diversity and firm performance but depending on the measure used to proxy performance. When gross value added was employed to proxy performance, its effect was more positive and significant compared to other measures of performance. The findings also revealed that the positive relationship recorded between the variables under study is mainly related to female CEOs with a university degree. Females without a university degree have very little or insignificant effect on firm value. This conclusion is unclear because the measures of performance have rarely been used in prior researches to proxy performance.

Carter *et. al.* (2007) examined the relationship between gender diversity of corporate board committees and financial performance of firms in the US. The study sample consist of all firms listed in fortune 500 over the period 1998-2002 which accounted for a total of approximately 2000 firm years (Observations). Tobin's Q, natural logarithm of total asset and ROA were used to proxy performance and a three stage square regression was employed to test the hypotheses. Their findings showed that gender board diversity influences financial performance through the audit function. Their findings however, provide no evidence through the executive compensation function or director nomination function of the board. The study did not investigate wholly the function of a board and board committees.

Dezso and Ross (2007) studied the effect of female participation in top management and how it affects shareholder value in US companies. Sample of the study is S and P's Exec comp data for the period 1992-2006. Female ratio and female CEO were used to measure female participation. Performance was measured using Tobin's Q, ROA, ROE and year on year sales

growth in percent. Firm size, firm age, book leverage (the ratio of debt to assets) and research and development activities (ratio of R and D expense to asset) were used as control variables. Employing regression analysis, their findings revealed that female participation below CEO level has a positive relationship with ROA, ROE and Tobin's Q. The positive effect below the CEO level is believed to be associated with firms pursuing an innovation intensive strategy. However, the association between a female being the CEO and firm performance was neither neutral nor negative. This finding is in agreement with the general belief that women are risk averse. The limitation of this study is that no exact sample size was given which makes the reader not to know how the work could be applied in other areas or region.

Francoeur, Labelle and Desgagne (2008) investigated whether the participation of women in corporate board and senior management enhanced financial performance of firms in Canada. The sample used is all the 230 publicly listed firms in the Toronto Stock Exchange which was ultimately splitted into three layers adopting catalyst method. The splitting enabled the research to compare firms at the bottom tier (firms with a low proportion of women) to firms at the top tier (firms with a high percentage of women on corporate boards). The study employed the three factor Fama/ French valuation model to control for risk. The study covered a 15 year period i.e. 1990-2004. The findings of the study revealed that for firms operating in complex environment and with a high percentage of women as board members, a positive and significant abnormal return will be achieved. This finding is consistent with stakeholder's theory. However, the idea of having more women on corporate boards and top management does not yield or produce significant excess returns. This finding explains agency theory which predicts that the inclusion of women on corporate boards do not generate excess returns but rather, a normal return. The finding of this study supports the agitation that is being discussed and implemented in some countries and corporations to

allow for the advancement of women in business and firms. The three Factor model however, can only be used in studies with a long time frame and large sample size. Although the time frame used in this study is lengthy, the sample size is not sufficient and cannot be employed using the three factor model.

Adams and Ferreira (2009) sought to explain how female directors on board have a significant impact on board inputs and eventually firm outcome. By using a final sample of complete director and firm- level data consisting of 86, 714 directorships in 8,253 firms years of data on 1,939 firms for the period 1996-2003. Gender diversity was used the measure of diversity while ROA and Tobin's Q were used as measures of performance. Using regression analysis to test their hypotheses of the study, findings showed that when ROA was used to measure performance, a positive association was recorded between both variables. However, when Tobin's q was used to measure performance, the result was not robust, for the coefficient on diversity was negative and significant. They therefore concluded that gender board diversity is effective only in firms with weak governance practices. They argued that for firms with strong governance, imposing gender quotas in boards could lead to a decrease in shareholder value. The study concludes that gender diversity on firm performance is negative. However, firms with strong governance mechanism can also perform well when a female is included in a given board. The study also lacks clear exogenous instrument.

Wachudi and Mboya (2009) investigated how gender diversity impact on the performance of commercial banks in Kenya for the period 1998-2009. The sample is 12 commercial banks operating in Kenya. ROA was used to measure performance and loan to total deposits ratio (LODP), age of the bank (BAGE), board of director's size (BOS) bank size (BS), loan to asset

ratio (LA), net interest to total asset ratio (NIMTA), and status of the bank (LSTATUS), were used as control variables. Employing regression in the way of stepwise regression, the study revealed that gender board diversity has no significant effect on the performance of banks in Kenya. The study only utilised twelve out of forty four banks.

Marimuthu and kolandaisamy (2009) explored the effect of gender diversity on corporate boards with regard to firm financial performance. The upper echelon theory by Hambrick and Mason (1984) was used to underpin the study. Top 100 Malaysian listed firms only from the non-financial sector were used for the study which covered the period 2000 to 2006. Gender diversity was measured using a ratio scale by taking the number of female directors to total board members. ROE and ROA were both used as dependent variables. Board size, firm size and firm age were used as control variables. Board size was measured by the number of directors sitting on the board; firm total asset was used to measure firm size while firm age was determined by the number of years the firm has been in existence. OLS regression using cross sectional data was employed as the technique of analysis. The result revealed that gender diversity is not correlated with performance throughout the years under study except in 2005, where a positive relationship was registered between gender diversity and ROE. The study suggested that heterogeneity in corporate boards would in the near future enhance the quality of corporate decisions as board members are mostly involved in activities such as restructuring, transparency, and issuing. They further argued that although the presence of female directors on board is not felt in the short run, in the long run, their importance will be felt. The study used various firms from different industries thereby violating the homogeneity characteristics of firms.

Marimuthu *et. al* (2009) in a related study evaluated the effect of demographic diversity on top management teams (TMTs) and its implication on financial performance. The sample of the study consisted of top 100 Malaysian listed firms mainly from the non- financial sector and covered a six year period 2000 to 2006. ROA and ROE were employed as surrogates for firm performance while TMT size, firm size and firm age were used as control variables. OLS regression based on cross sectional data was employed as the technique of data analysis. Based on the findings, gender did not have any impact on firm financial performance throughout the years under study except in year 2003 where a negative relationship was documented between the variables under study. The study concluded by asserting that although the result established in the study is skewed towards homogeneity in TMTs with regards to financial performance, shareholders should not be carried away because homogeneity they say, is a dangerous practice which could lead to major problems at strategic level, because homogeneous team members may concede when it comes to making decision as a result of groupthink.

Dobbin and Jung (2009) explored the relationship between gender board diversity and stock performance in the US. The study employed pooled cross sectional time series to examine whether investor shareholding influences gender diversity and performance. The study relied on various theories ranging from the Theory of Tokenism to Social Theory and Human Capital theory to explain its work. The sampling frame is Fortune's list of America's 500 largest, Panel data on more than 400 large U.S. firms was the sample size of the study and it covered the period 1997-2006. Fixed firm effect was employed to capture unobserved characteristics while fixed year effect was used to account for observed characteristics. Gender diversity was measured as a simple count of women board members. ROA and Tobin's Q were used to measure performance. The result showed that institutional investors

do promote gender diversity on boards through shareholder proposals favoring diversity. However, an increase in board gender diversity does not increase profitability. The study failed to use a theory or theories to underpin its work.

Alvarez, Sanchez and Dominguez (2010) focused on the presence and effect of gender diversity on corporate performance in Spain. Their final sample consisted of 96 firms excluding all corporations from the financial and insurance sectors listed on the Madrid Stock Exchange covering the period 2004 to 2006. Several dependence models using linear panel data regressions were used as the analytical technique to test the formulated hypotheses. The models were however, estimated through fixed and random effects, by checking the validity of the models using Hausman test. Tobin's  $q$ , ROA, ROE, ROS, ROAN (net return on asset, ratio between net income and net asset), MUB (ratio of gross margin to net sales), and efficiency (obtained from estimating the parametric frontier function, by using sales as the output, and number of employees and depreciation of assets during the current year as the inputs) were used to measure corporate performance. FEMST (proportion of women with significant stock ownership), FEMDIR (proportion of women on the board of directors), FEMMNG (Proportion of top managers who are females) were used as surrogates of gender diversity. Firm size, board size, CEO duality, meeting, outside directors, IBEX 35 (dummy variable which takes the value of 1 if the firm is listed on the IBEX -35 index, or 0 if otherwise) leverage, debt costs, and sales growth were used as control variables. The findings revealed a non-significant or negative influence of female representation on corporate board performance. The study also found that the overall presence of a greater number of women in the main corporate decision making hierarchy leads to a non-significant effect on most variables used to measure corporate performance. To conclude, the study established a negative and sometimes non-significant relationship between the various measures of gender

diversity and corporate performance, market value and efficiency. Female presence is just an aspect of diversity; other variables of diversity should also be studied.

Rovers (2010) studied the financial performance of Dutch companies with and without women on their boards. The study made use of a total sample of 99 companies listed on the Amsterdam Euro Next Stock Exchange for the period 2005-2007. The study used Catalyst (2007) method, Mckinsey (2007) method, and relative diversity measure (by calculating the average proportion of female directors on corporate boards of the sample companies during the period while ROE, ROS, ROIC (Return on invested capital) were used as measure of performance by catalyst which was also adopted by this research. Mckinsey's financial performance measures which include ROE, EBIT (operating result), and stock price growth as well as total shareholder return (TSR) were also included as performance measures. Board size, firm size, and a dummy variable for financial companies were used as control variables. Regression analysis was employed to test the hypotheses. The result showed that boards that are gender balanced perform better than firms that are gender unbalanced. The result also revealed that the presence of one or more female directors on the board correlates positively and significantly to ROE. The result showed a higher ROE that is consistently and statistically significant for companies with female directors unlike companies without female directors. It was also revealed that in Netherlands, most female directors are non-executive directors who are mostly the only single women in the boardroom. The study concluded that having women on the board is a reasonable outcome of a more creative, modern, and transparent corporation where all strategic levels of the firm surely will attain high returns. The timeframe for the study was within the period of 2005-2007 though the Dutch corporate governance code was enacted in 2009. A more thorough research on post corporate governance need to be carried out after the enactment of the code in 2009.

In a related study, Carter *et. al.* (2010) investigated the business case for the inclusion of women on the board in US corporations for the period 1998-2002. The study relied heavily on Resource Dependence Theory, Agency Theory, Human Capital Theory and Social Psychological Theory to explain the work. The study sample was US standard and Poor's 500 index. The study utilized fixed effect regression to test their hypotheses while Tobin's Q and ROA were used as proxies for performance. The results of the fixed effect regression revealed a positive and significant relationship between women on corporate board and performance using ROA. When Tobin's Q was used to measure performance, no relationship was found between gender board diversity and performance, to be neither positive nor negative.

Also, Darmadi (2011) explored the relationship between gender diversity and financial performance in Indonesia for the period 2007. The study used a sample of 169 listed on the Indonesian Stock Exchange (IDX). Tobin's Q was used as a market based measure of performance while ROA was used as an accounting based measure of performance. The study controlled for firm size, board size, largest shareholder ownership and block holder ownership. Cross-sectional regression models were employed to determine whether women in boardroom influence financial performance. The findings revealed that representation of female top executives is negatively related to both accounting and market performance measures, highlighting that female executive are not associated with improved level of performance. The study also found that smaller firms which are mostly family dominated tend to have a higher percentage of women in their board implying that large firms are tough for women to occupy, therefore hindering them from occupying any managerial position. The weakness of this study lies in the fact that only one financial year (i.e. 2007)

Again, Broome, Conley, and Krawiec (2011) interviewed forty five corporate insiders (thirty eight directors, and seven executives, regulators and consultants) found that most of them agreed that gender tends to improve corporate performance while they tend refused to respond when asked about other variables like minorities. However, the result of the study was based on the opinion of directors and there is no hard evidence to link gender and firm performance.

Shukeri, Shin and Shaari (2012) examined the effect of board of director's characteristics on firm performance in Malaysia for the year 2011. Board of Director's characteristics were proxied by six surrogates namely managerial ownership, board size, board independence, CEO duality, gender diversity and ethnic diversity. Stratified random sampling technique was used to obtain a sample of public listed companies on the Bursa Malaysia which led to the use of ten different sectors. The study employed multiple regression ROE was utilized to proxy firm performance. Gender was measured as the percentage of female directors in a board. The result revealed that gender has a positive insignificant effect on performance. The study made use of one financial year which limits the findings of the study.

Vafaei, Mather, and Ahmed (2012) evaluated the association between board diversity and firm performance also examined the business case for the appointment of women on corporate boards. The study utilized a total of 500 firms listed on the Australian Securities Exchange (ASE). The study covered the period 2005 through 2010 and various panel data model were employed as the technique of data analysis. The result indicates that the proportion or inclusion of women on Board of Directors have a positive effect on firm performance.

Anonymous (2012) investigated the inclusion of female directors and firm performance in china. Agency Theory and Resource Dependence Theory were used to underpin the study. The sample of the study consisted of all listed firms in the Shanghai and Shenzhen Stock Exchange for the period 1999 to 2007. The study had a final sample of 8,081 firms' years' observation while financial and utility firms were excluded from the sample. Return on assets and return on sales were employed to measure firm performance. Three set of control variables namely board characteristics, ownership characteristics and firm characteristics each with its own component were used as control variables. Panel regression with fixed effect was employed as the technique of analysis in the study. Instrument variables (IVs) and estimate regression in the form of two Stage Least Squares (2SLS) were also employed to check for causality. The findings of the study revealed that when a comparison was made between firms without female directors with firms with female directors, firms with female directors averagely have a lower ROA. The result of the study also registered a lower ROA for firms with two or more female directors. A similar pattern was also revealed when ROA was replaced by ROS. The result further showed that the negative or neutral association recorded between gender board diversity and performance is strong when corporate governance is weak and weak when corporate governance is fair. In addition, the result documented that the higher the proportion of female directors on corporate boards, the higher the level of CEO turnover and more shareholder meetings, suggesting that female directors are more likely to be good monitors.

Moreover, Vetter, Pull and Joecks (2013) examined the link between gender diversity and firm performance in Germany. The study sample size was a total of 151 firms which was observed for five years i.e. 2000-2005. The study sought to examine whether the link between gender diversity and firm performance takes a U shape in Germany. The study relied

on the Critical Mass Theory to explain its work while ROE was used as a surrogate of financial performance. Data on ROE were obtained from Thomson financial DataStream. Market value, multiple directorship, board size, and co determination were uses as control variables. The study employed panel estimation as their technique of data analysis and the explanatory variables were also lagged. The findings of the study provided evidence for the critical mass of women in boards to be attained with a given percentage ranging from 20% to 40%. The study concluded that a more gender diverse composition will only improve shareholder value if diversity is sufficient enough (10 or more percent female representation) and for those boards with a critical level of 30% females and above (3 or more female directors), performance will skyrocket above the male dominated boards. If diversity is low (below 10% female representation), any attempt to increase it might lead to reduced firm performance. The study further suggested that if there are no restrictions on the supply side, female representation on corporate boards should be between 30% and above. This study was conducted in a country operating a two tier board structure with a codetermined supervisory board.

Again, Zainal, Zulkifli and Saleh (2013) carried out a longitudinal analysis of corporate board diversity in Malaysia. The study employed a total of top 300 Malaysian firms listed on the board of Bursa Malaysia covering the period 2005-2009. However, the final sample consisted of 180 firms. Data for the study were obtained from the annual reports of the firms under study. Mann-Whitney U test was employed as a technique to point out several features that differentiated between firms with female directors and firms without female directors. Board size, firm size, Malay directors, family directors, and profitability (ROA) were all used as firm characteristics. The findings of the study documented a minute change in the representation of female directors in Malaysia boards from 38.9% in 2005 to 43.3% in 2009.

The results obtained using Mann-Whitney U test to explore any difference in character between corporations with female directors and those without female directors on their board found a significant difference between the comparisons. The result showed that firms with more female directors have a tendency to have more directors on corporate boards, greater proportion of Malay directors and family directors on board and less profitability compared to firms without female directors.

Also, Rudholm and Daunfeldt (2013) carried out a micro level longitudinal study in Sweden to examine whether gender diversity in the boardroom improves financial performance. The study employed a data set of 20, 487 limited companies in Sweden. The study covered the period 1997-2005. The study employed random effects random-coefficients model with time specific and industry specific to check for unobserved firm heterogeneity. Return on Asset (ROA) was used to measure performance and a gender diversity index was created based on the share of board members from underrepresented gender. A totally gender diverse board got an index of 100, while a board containing only one gender gets an index of 0. Firm age, firm size, board size, and an indicator variable (if the firm is located in a metropolitan area) were used as independent variables. In all estimated models, the results documented that a more gender diverse board has a negative impact on firm performance. The result revealed that a 10% increase in the involvement of female as underrepresented gender, reduces financial performance by 0.13%. The random effect and random coefficient measures were all statistically significant. A negative association was also recorded between board size and financial performance as measured by ROA. A statistical relationship was recorded between firm size and performance, though the effect was small. The researchers posited that an increase in gender diversity on corporate boards will have a negative effect on ROA after two years, while gender diversity will not be related to firm performance in earlier years. The

study concluded that advocates calling for an increase in gender diversity should be sensitized that it reduces financial performance of firms as evidenced by the results of their study. The researchers further posited that the negative effect would be more detrimental if firms are forced to implement a more gender balanced corporate board.

Verwijmeren (2013) carried out a study on board diversity among European banks. The study examined how corporate governance and bank characteristics influence performance. Gender diversity was used to proxy board diversity while ROA and Tobin's Q were used to proxy performance. The sample includes all 65 listed European banks. The study covered the period 2004-2012. The findings revealed that the appointment of additional females could improve firm shareholder value of EU banks. The study however, did not take a stand as to whether gender diversity should serve as a complement or a substitute.

Garba and Abubakar (2014) also investigated the association between gender board diversity and financial performance in insurance companies in Nigeria. The study used Agency Theory and Stakeholder Theory to underpin its work. The study used a total of twelve insurance firms listed on the Nigerian Stock Exchange for the period 2004-2009. The twelve listed firms were selected using non-probability sampling technique. ROA, ROE and Tobin's Q were used as measures of financial performance. Feasible Generalized Least Squares (FGLS) and random effect estimators were employed to test the hypotheses of the study. The study also employed descriptive and inferential panel regression analyses and Stata version 12.1 was used for data analysis. The findings of the study showed a positive relationship between gender diversity and financial performance when ROA and ROE were used as dependent variables. However, when Tobin's q was used as a surrogate of performance, gender diversity revealed no

significant influence on financial performance. The study concluded that the inclusion of women on corporate board increases firm financial performance and recommended an increase in the participation of women on Nigerian corporate boards. Inadequacy of the sample size serves as a limitation to the study.

### **2.4.3 Ethnic Diversity and Financial Performance**

Roberson and Park (2006) investigated the effect of diversity reputation and leader racial diversity on firm financial performance in the US. Racial diversity was measured by any black, Hispanics, Asian, or Native American in corporate board. Firm size served as control variable while both accounting and market based measure were utilized to measure corporate performance. Utilizing a pooled cross – sectional time series regression over the period 1998 to 2003, the study revealed that firm performance declined with an increase in the representation of racial minorities in leadership up to a point, beyond which any increase in racial diversity leads to an increased performance. The study however, focused on firms with positive diversity reputation.

Carter, D'souza, Simkins and Simpson (2007) examined the association between ethnic minority diversity of corporate board and financial performance of firms in the US. The study relied on Agency Theory and Transaction Cost Economies to explain its work. Final data consist of 641 unique firms and 1,040 firm years were used. The study covered a period of five years 1998-2002. Ethnic minority was used to proxy board diversity while Tobin's Q was used to proxy performance. The findings of the three stage least squares estimation indicates that ethnic diversity impacts on financial performance through all the three functions of the board investigated i.e. Audit, executive compensation and director nomination.

Marimuthu (2008) attempted to investigate the degree to which ethnic diversity in top management influences financial performance in Malaysia. Data for the study were sourced using secondary source and covered a period of six years (2000- 2006). The sample size is top 100 non- financial companies listed on the main board over the period of the study. Non probability sampling technique was employed as the method of analysis. Ethnic diversity was measured by the percentage of Non- Malay directors on corporate boards while performance was measured by ROA. Measures such as board size and firm total asset were used as control variables. The study employed two statistical techniques i.e. correlation and regression analyses. The result of the study documented that increased ethnic diversity on corporate board would lead to an increase in firm's financial performance. The study further revealed that although board size and firm size positively increase shareholders' value, ethnic diversity proved to be an effective tool that should be imposed on corporate boards for increased financial performance. The study was a good attempt because it focused exclusively on ethnic diversity which is scarcely done, but is constrained by the fact that the study sample consisted of firms from the non- financial sector consisting of firms from different industries.

Similarly, Marimuthu *et. al.* (2009) studied the effect of demographic diversity on corporate boards and firm financial performance in Malaysia. The study utilized secondary data of non- financial listed companies over a six years period 2000 to 2006. Demographic diversity was measured by ethnic diversity while performance was proxy by ROA and ROE. OLS regressions using cross- sectional data was employed as the technique of data analysis. The study registered to an extent, a significant impact of ethnic diversity on financial performance. The study however violated the homogeneity of the sample.

Carter *et. al* (2010) examined how ethnic minority directors in the board and crucial board committee influence financial performance in US.ROA and Tobin's Q were used to measure performance while the total number of blacks and Hispanic directors were considered minorities. Natural log of firm total asset was used as a control variable while the total number of directors on corporate boards, percentage ownership of the board, average additional directorship, average age of the directors, CEO duality, number of independent directors and the total number of meetings attended by directors were used as governance control variable. The sample of the study includes all firms in S and P 500 index covering a five year period between 1998 and 2002. The study employed estimated fixed effect regression as the technique for data analysis. The result of the estimation of fixed effect regression equation established a positive and significant relationship between ethnicity diversity and performance as measured by ROA. However, using tobin's Q to measure financial performance, no relationship was established between ethnic diversity and firm value, which was neither positive nor negative. They argued that the implication of the finding suggests that the decision to appoint ethnic minorities into boards should be done based on criteria and not on the belief that financial performance will increase in the near future. This implies that the result of this work does not support the public policy initiative for quotas of ethnic minorities as they believe that, this does not increase shareholders' value.

Byoun,Chang, and Kim (2011) investigated board diversity and its impact on corporate payout decision in the USA. The study made an attempt to examine if corporate boards having directors from diverse backgrounds adopt different payout policies to those firms without non diverse boards. The study covered the period 1997-2008 and the sample is all 13,325 firm year observations that were obtained from risk metrics (former IRRC database) and compustat. Board diversity was measured taking the dummy variable (diverse-dum) 1 if

the board has at least one minority and 0 if no minority director is present on the board. A director in the study is considered as a minority if he or she is African- American, Asian or Hispanic. The second measure of board diversity is the proportion of minority directors on the board (Pct-diverse). The percentage of minority directors (excluding females) in corporate board was also used to measure board diversity. Probit and tobit regression, the two stage least square instrumental variable approach, (2SLS-IV) and the generalized method of moment (GMM) were used to address the issue of endogeneity concern. The findings of the study revealed that firms with diverse boards have a higher possibility of paying dividends and also pay huge amount of dividend most especially when firms generate large free cash flows and when firms are more likely to experience agency problem. The finding also showed that the inclusion of a new diverse director on corporate board is followed by a significant increase in dividend payout decision in subsequent years. The result also documented that that diverse members make a large portion of a board, or when the CEO or other board members are of the same background, the association between board diversity and dividend payout decision is little. The study concludes by asserting that what makes the clear difference is not the number of diverse directors on corporate board but rather diversity itself that is included in the boardroom.

Wellage and Locke (2011) investigated demographic diversity of board members in the Sri Lankan boardroom and their effect on the financial performance of firms. Board diversity was measured by ethnicity. After controlling for possible endogeneity, the study revealed that ethnic diversity increases firm performance. In addition, the study also revealed that Sri Lanka corporate boards are not wholly diversified as regards to ethnicity. The result also indicated that in Sri Lanka, instead of having a diversified board, the preference is to recruit based on skills and qualification.

Shukeri *et. al.*(2012) investigated the effect of board of directors on firm performance in Malaysia for the period 2011. One of the proxies for board characteristics was ethnic diversity which was measured as the percentage of non- majority race in a board. Performance was measured using ROE. Stratified random sampling technique was used to obtain a sample of public listed companies on the Bursa Malaysia which led to the selection of ten sectors. The study employed multiple regressions to test its hypotheses. The result documented a positive significant relationship between ethnic diversity and firm performance. The study made use of one financial year and this serves as a limitation to this study.

Rose, Madsen, and Funch (2013) studied the impact of citizenship on corporate performance based on a sample of the largest listed firms in the Nordic countries including Germany. The Nordic countries include Denmark, Sweden, Finland, Norway, and Germany. The study employed a total sample of 117 companies for the period 2010 and based its study using Resource Dependence Theory. Cross- sectional regression analysis using OLS was used to predict the hypotheses of the study. The study controlled for country effect using country dummy variable, industry effect using industry dummy, and firm size. ROA, ROE and ROCE were used to proxy corporate performance. The study revealed that ethnic diversity has a positive effect on financial performance. Hence, the study concluded that board members with similar background and common laws have a significant positive influence on corporate performance as measured by the dependent variables. Although the study provided a recent effort to study the relationship between board ethnic diversity and performance, it suffers from one major limitation which is the insufficiency of its timeframe and the inability to employ panel regression for its analysis.

Alade and Eriki (2013) investigated board ethnicity and its influence on firm performance among some selected quoted companies in Nigeria. The study rested on the Upper Echelon Theory and utilized a sample of 96 firms listed on the Nigerian Stock Exchange as at December, 2009. ROE was used to proxy corporate performance and the three major Nigerian ethnic groups proportion to total board size were used as the measure of board ethnicity. Firm size was utilized to serve as a control variable. To analyze the data, descriptive statistic, correlation and OLS multiple regression analysis were employed. The study registered a negative association between all three ethnic groups present in the board and performance. In dominant Igbo boards, a statistically insignificant relationship was recorded with financial performance. Allowing for interactions among the ethnic groups, the result recorded that Hausa and Yoruba interaction had the highest and statistically significant negative effect on firm performance. The study failed to employ panel data for its analysis.

#### **2.4.4 Foreign Directorship and Financial Performance**

Chhibber and Majundar (1996) studied the influence of foreign ownership on performance of listed firms operating in India. The study's sample is over 1,000 Indian firms (using firm level data) quoted on the Bombay Stock Exchange and data collected were cross-sectional based. ROA and ROS stood as the dependent variables while firms with less than 25% foreign shareholding, firms with between 25% and 40% (51% after 1991), and firms with more than 40% (51% after 1991) foreign shareholding stood as foreign ownership. The study employed size, age, diversification, and group were utilized as control variables. Using spline regression analysis, the findings revealed that the different categories of foreign ownership have varying impact on firm's performance. When foreigners have total control of property rights at 51%, firms display a high and great performance. The study however, failed to provide a clear time frame for its study.

Masulis and Wang (2008) examined if foreign directors on corporations are valuable advisors or ineffective monitors in US corporations. The study covered the period 1998-2003 and the study sample was S & P 1500 firms with a total number of 7,533 firms. The study controlled for the following board characteristics; board size, board independence, CEO/ chairman duality and the percentage of busy independent directors. Foreign directorship was measured as any individual whose primary resident of employment is outside the US and its surroundings. A retired person whose previous place of employment was outside the shores of the US was also used to measure foreign directorship. Performance was measured using Tobin's Q. Firm level fixed effect regression was used to test the hypotheses. The result of the findings showed Tobin's q reducing in relation to an increase in the percentage of foreign directors. The evidence suggested that foreign directors averagely are less effective monitors and add to weak corporate governance, and that this negative effect in turn dominates the advantage achieved from the advice they give to firms. The study concluded that foreign directors are linked with lower firm value and weaker monitoring of management. The study does not consider a Canadian director as a foreign director and this serves as a limitation.

Choi (2010) examined the effect of foreign equity ownership and management on firm performance using a panel of Korean firms for the period 1993-2007. The sample consisted of 6, 973 firm year observation and includes all KRX –listed non financial firms. A primary measure of firm performance taking the form of industry adjusted Tobin's q was used to measure performance. Research and development intensity were used to measure intangible assets. Firm size, leverage, beta (estimated from the market model by using daily stock returns over one year ) and a year dummy variable were used as control variables. The main empirical hypothesis revealed a positive association between foreign equity ownership and corporate performance as measured by Tobin's Q. Furthermore, when single equation

estimation in the form of both OLS and Fama-Macbeth estimation was used to test their hypotheses, a positive and statistically significant relationship was also recorded. However, it does not take into consideration alternative channels of foreign capital through the genuine side such as productivity, employment, innovation or international strategy

Kumar and Singh (2012) studied the effectiveness of outside directors on a final sample of 157 non- financial Indian firms listed on the Bombay Stock Exchange for the period 2008. The study specifically examined whether grey directors (non executive non- independent) and independent directors monitoring activities influence financial performance. OLS regression was adopted to predict the hypotheses. Tobin's Q was selected as the dependent variable while the study controlled for firm age, firm size, leverage, previous year profitability, insider ownership, board size, and board leadership. The study showed that the negative result recorded between outside directors and performance of Indian companies is due to the presence of grey directors, whereas independent directors if left alone, have a positive but insignificant effect on performance. The study concludes by asserting that market values firms with a large percentage of foreign independent directors. The research studied many firms for many years but failed to employ fixed random and random effect estimation for its analysis.

Zainal, Zulkifli and Saleh (2013) examined the trend of nationality of corporate board and performance in Malaysia public listed firms. The study made use of top 180 Malaysian public listed firms covering a five year period 2005 to 2009. based on the secondary data derived from the firm's annual report under study. Mann- Whitney U test was employed to recognize various characteristics that differentiated between firms with foreign directors and those without foreign directors. Nationality was measured by the number of foreign directors on

board and the number of firms with one or more foreign directors while ROA was used to measure performance. Overall, the finding of the study did not substantiate any clear cut benefit to be derived when foreign directors are included on corporate boards. The result also revealed that firms with foreign directors on boards are mostly owned and controlled by foreign shareholders.

Garba *et. al.*.(2014) investigated the relationship between foreign directorship and financial performance of insurance companies in Nigeria. The study made use of twelve listed insurance companies using non- probability sampling method in the way of availability sampling method for a six year period 2004 to 2009. The study used ROA,ROE and Tobin's Q as proxies for firm performance and employed Feasible Generalised Least Squares (FGLS) as well as random effect estimators as the technique of data analysis. The findings of the study showed that foreign directors do have a positive influence on insurance companies' performance. The study further concluded that an increase in the number of foreign directors on the board of insurance companies in Nigeria will enhance financial performance as evidenced from the result obtained in their study.

## **2.5 Theoretical Framework**

Theories that explain board diversity and performance include Upper echelons theory, Stakeholder Theory, Agency Theory and Resource Dependence Theory.

**2.5.1 Upper echelons theory:** Posits that organizational choices are a manifestation of the characteristics of top management (Hambrick, 2007). This theory emphasizes the influence of management on corporate outcomes. That is the characteristics of management team will impact on firms operations and outcomes. Foreign nationals are expatriates, known to be

highly trained in their area of specialization therefore, are expected to impact corporate outcomes.

**2.5.2 Stakeholder Theory:** A stakeholder as conceptualized in this theory is anyone who can affect the achievement of the organization's objectives. Stakeholder theory argues that there are a whole variety of stakeholders involved in an organization and each deserves some returns for their involvement. An important aspect of stakeholder theory is that it tries to identify numerous different factions within a society to whom an organization may have some responsibility. The theory tries to explain that all stakeholders including women should be considered in the managerial decision making process for improved performance. A female director according to this theory should be included in corporate board if she has invested something that is of great importance in the firm and is subject to some risk as a result of the firm's activities. A female, who constitutes a member of the internal stakeholder should be made a board of director as long as she has contributed immensely to organization growth and this will in turn break the old boy circle and lead to improvement in performance so long as she has the required human capital and skills required for the task.

Francoeur, Labelle and Desgagne (2008) opined that the addition of female directors on corporate boards should be considered for the following reasons: female directors serving on boards are role models to other women, female directors signal commitment towards organizational changes, and firms with a gender balanced board tend to draw from a wide range of intellectual capital.

**2.5.3 Agency Theory:** Agency Theory as propounded by Jensen and Meckling (1978) posit that a firm is assumed to exist for the benefit of its owners who usually are interested in the

maximization of their wealth. The owners of the firm usually appoint a manager or agent who is assumed to be the decision maker in the organization and is believed to be after his own personal interest. Agency theory clearly shows that individuals are unlikely to ignore their own self desire when making decisions and thus the need of a foreign individual to act as a watchdog. They are both believed to be motivated by self interest. Agency theory provides a means of documenting a contract between the principal and the agent which leads to increased performance by the agent on behalf of the principal. But inadequate information possessed by both parties lead to information asymmetry which causes agency problem. With diversity in a corporate board, activities of the CEO could be monitored. When the said board is diverse with the inclusion of competent individuals from various backgrounds including foreign directors, daily routine of the CEO could be monitored effectively and any discrepancies will be noticed which improves the financial performance of firms.

**2.5.4 Resource Dependence Theory:** This theory was propounded by Pfeffer and Salancik (1978). The theory explains how corporate board acts as intermediary with the external environment. The theorists listed four benefits a firm stands to achieve when it has external linkages. Amongst them is that it provides intangible resources such as information and expertise, creates channels of communication with constituents of importance to the firm. Provision of commitment of support from important organizations or groups in the external environment and lastly, it creates legitimacy for the firm in the external environment.

Resource Dependence Theory provides the background for some of the most concrete arguments for the economic importance for board diversity. Diversity could improve the information provided by the board to managers due to unique information held by diverse directors. Differences in ethnicity might possibly produce unique information that will be made available to management for effective decision making. Diverse directors provide

gateway to important constituencies in the external environment. The creation of this great link is advantageous because over half the pool of unique human capital available to the firm is composed of ethnic minorities. As a result, diverse boards have linkage to a diverse pool of talents. When a board is ethnically diverse, the corporate image as well as the goodwill of the firm improves which increases performance. The ability of an ethnically diverse board to bring legitimacy for the firm with both internal and external constituencies is mostly important in sovereign states like Nigeria because of our original ethnic diversity recorded in our country which if properly harnessed will improve financial performance in corporate board.

This work adopts Resource Dependence Theory to underpin its work. The theory explains that when a said corporate board has all the necessary diverse elements needed to carry out its functions, performance will improve. When the right women, foreigners and ethnic groups use their connection, expertise and information obtained from outside as well as from the business world and enforces them in DMBs, performance will increase.

## **2.6 Summary**

This chapter dealt with literature review and theoretical framework of the study. it begins with conceptual considerations of the main variables under study. Relevant literatures on the relationship between board diversity and financial performance as the main focus of the study were also discussed. The chapter concluded with theoretical explanation of the association between board diversity and financial performance.

## **CHAPTER THREE**

### **METHODOLOGY**

#### **3.1 INTRODUCTION**

This chapter gives an insight on the methodology to be adopted by the study. It also discusses the research design, population of the study, sample size, sampling technique, and method of data analysis and concludes by justifying why the particular methodology was adopted.

#### **3.2 Research Design**

The study adopts ex post facto research design. This design is viewed to be more appropriate because the study focuses on an event that has already occurred thereby making the data readily available. Correlation shows the statistical relationship between two or more variables. It allows for testing of expected relationship between the variables and making predictions about their association. This study will measure three independent variables to one dependent variable as well as assessing the relationship between and among the variables under study.

#### **3.3 Population of the study**

The population of this study is all twenty- one DMBs listed on the Nigerian stock Exchange as at December, 2013 (Fact book, 2013).The study period ends at December, 2013 because of the panel nature of the data. That is, equal time period is required for all firms. As at the time of carrying out this study, attempt to extend the scope will make the data unbalanced because some firms data were unavailable. For the purpose of this study, census strategy will be adopted. That is, all listed firms as at December, 2013 will be considered for selection in the final sample.

### **3.4 Sample of the study**

The final sample of this study is thirteen banks that traded on the Nigerian Stock Exchange as at the end of December, 2013. However, for any bank to be considered, the following criteria must be met;

- The firm must have been listed on the Nigerian Stock Exchange prior to or as at 31<sup>st</sup> December, 2009
- The shares of the company must have been continuously traded within the period of the study

In arriving at the final sample, seven banks were not listed prior to 2009; three of the populations had inadequate information, one was not constantly traded, one while one had a change of name. The table in appendix three (3) shows the final sample of the study. This study uses data from the banking industry in contrast to the work of Alade et. al (2013) and Garba et.al. (2014).

### **3.5 Sources of Data**

For the purpose of this study, panel data was utilized obtained from secondary sources. The data was extracted from annual reports and accounts of firms and Fact book of NSE covering a period of five years (2009-2013).

### **3.6 Method of Data collected**

The data was sourced through documentation. Secondary data including annual reports and accounts of firms' under study was used because this source has been widely used in corporate governance researches.

### 3.7 Variables and their Measurement

The dependent and independent variables of the study were measured as follows;

**Table 3.7.1 Measurement of Variables**

<b>Variables</b>	<b>Operational Measure</b>
<b>Independent Variables</b>	
<b>Gender</b>	Gender diversity was measured as the total number of female directors on the board to total board members. This measure was adopted by carter <i>et. al</i> , (2010)
<b>Foreign Div.</b>	In line with Garba <i>et. al</i> (2014), foreign diversity was measured as the ratio of foreign directors on the board to the total number of board members.
<b>Ethnic Div.</b>	This was measured as a dummy variable taking the value of 1 if a board consists of both Northerners and Southerners and 0 if otherwise. This is in line with the work of Garba <i>et. al</i> (2014).
<b>Board Size</b>	This was proxied as log of total board size. This measure was adopted by carter <i>et. al</i> . (2003)
<b>Dependent Variable</b>	
<b>Tobin's Q</b>	Log of Market value of equity plus liability deflated by book value of asset. Where $MVE = \text{share price} \times \text{number of shares in issue}$ . (Adams <i>et. al</i> , 2009).

### 3.8 Technique for Data Analysis

In analyzing the data, this study made use of both descriptive and inferential panel regression analyses using stata 10.0. The descriptive analysis was utilized to summarize and describe the data set. Also, the panel regression was used so as to explain the effect of corporate board diversity on financial performance.

### 3.9 Model Specification

For the purpose of this study, a model was developed which took into cognizance both the dependent and independent variables as represented by their proxies. The model for this study goes thus:

$$Y_{it} = \alpha_0 + \beta_1 X_{1it} + \beta_2 X_{2it} + \mu_{it} \quad (\text{Gujarat2004}) \dots \dots \dots \quad (1)$$

Where Y=performance

$\alpha_0$  =intercept coefficient

$\beta_1$ =Vector of coefficient of board diversity

$X_1$  =vector of the measure of board diversity

$\beta_2$  =vector of the coefficient of control variable

$X_2$  =vector of control variable

$it$  =subscript i and t refers to each firm i at year t

$\mu_{it}$  =error term

In line with Carter et. al. (2010), Joecks et. al (2013) and Garba et. al (2014), this study expressed financial performance as a function of board diversity as given below.

Thus, the empirical model for this study is expressed as follows:

$$\text{Tobin's } Q_{it} = \alpha_0 + \beta_1 \text{ GENDISTY}_{it} + \beta_2 \text{ FOREDISTY}_{it} + \beta_3 \text{ ETHDIST}_{it} + \beta_4 \text{ LOGBS}_{it} + \mu_{it} \quad (2)$$

Where Tobin's Q = representing firm performance

$\alpha_0$  = the intercept

GENDISTY = gender diversity

FOREDISTY = Foreign diversity

ETHDISTY = Ethnic diversity

LOGBS = Log of total board size

$\beta_1$  to  $\beta_4$  = Regression coefficient

$_{it}$  = subscript i and t refers to each firm i at year

$\mu_{it}$  = error term

As regards our first hypothesis which states that composition of female directors does not have any significant effect on the performance of Deposit Money Banks (DMBs) in Nigeria, stata 10.0 version was utilized as the statistical package to test the hypothesis. Composition of female directors is measured as the number of female directors in a given corporate board to total board members (*carter et. al.* 2010). Our null hypothesis will be rejected on the basis that the P- value obtained is less than 5%. This implies that the coefficient will show the unit change in performance resulting from a unit change in sitting female directors on the board.

The second hypothesis which says composition of foreign directors does not have any significant effect on the performance of DMBs in Nigeria will be measured as the total

number of board members who are not of Nigeria origin to total board members. The tool that will be used to predict the relationship between foreign directorship and performance is Stata 10.0. The second hypothesis will be rejected if the P-value obtained is significant at less than 5%. This means that the coefficient will explain the unit change in performance as a result of a unit change in foreign directors on the board.

Finally, the last hypothesis composition of an ethnic diverse board does not have any significant effect on the performance of DMBs in Nigeria will be rejected if its P-value is significant at less than 5%. The coefficient indicates the unit change in performance resulting from a unit change in an ethnic diverse board. Ethnic diversity will take a dummy variable of 1 if any of the board member of our domain in this study consists of both a Southerner and a Northerner and 0 if otherwise. (Garba *et. al*, 2014).

### **3.10 Summary**

The research design to be adopted for this study has been reported. It was also reported that following prior researches, the design to be adopted for this study is the ex-post facto research design using data from secondary sources. It was also stated that listed DMBs is the population of this study. However, certain criteria must be met by the firm before making the final sample for analysis. Multiple regression technique using ordinary least square estimation is used to estimate the parameters. Finally, we also made mention that our hypotheses one to three will only be rejected where the coefficients are significant. That is, the P-Values are less than 5% level of significance.

## **CHAPTER FOUR**

### **DATA PRESENTATION AND ANALYSIS**

#### **4.1 INTRODUCTION**

This chapter contains the presentation, analysis and interpretation of data. It presents the descriptive statistics, estimation of the coefficients of the model and conclusions deduced from the hypotheses tested. Multiple regression is used to calculate the extent to which the regressors (gender, ethnicity, foreigners, and board size) explain the variation in DMBs. The chapter discussed findings and implication of the result.

#### **4.2 Descriptive Statistics**

The section describes the data used in this study. It is believed to give a better insight on the mean, standard deviation, minimum and maximum of the variables employed in this study.

##### **4.2.1 Board Diversity and Financial Performance**

The descriptive statistics in table 4.2.1 shows the mean, minimum, maximum, standard deviation and the number of observations.

**Table. 4.2.1: Descriptive Statistic**

<b>Number of Observation</b>	<b>Variable</b>	<b>Mean</b>	<b>Standard Deviation</b>	<b>Minimum</b>	<b>Maximum</b>
65	Gender	0.14107	.095232	0	.43
65	Foreign	.09553	.14226	0	.58
65	Ethnic	.98461	.12403	0	1
65	Boardsize	14.24615	2.65183	6	20
65	Tobin's Q	1.10361	.40418	.71972	3.30717

Source: *Author computation using Stata version 10.0*

The mean Tobin's q is 1.10361 which is above one and suggests that the market value of the firm is greater than the book value of the assets. However, the variation between the minimum and the maximum is too close to be considered significant with figures of 0.71 and 3.30 respectively.

As to gender diversity, the result revealed that there was an average of 14% female directors on the board of DMBs over the five year period of study. The result also showed a minimum of 0.00 and a maximum of 0.43. This implies that there were some corporate boards without female directors for the period under study while the aggregate number of female directors for the period under study never exceeded 43%

For foreign diversity, the descriptive result revealed that there was on average, 9% foreign director on the boards of banks, which is against the minimum of 0.00 and the maximum of 0.58. The minimum figure indicates that there were some banks that never had a foreigner as

a board member while the maximum figure indicates that the highest number of foreignboard members in a given DMB for the study period was 58%.

The descriptive result further documented that on average, corporate boards of DMBs had both Northerners and Southerners sitting as board members as against the minimum value of 0.00 and maximum value of 1.00. The minimum value suggests that there was a given period when DMBs were never composed of Northerners and Southerners. The maximum value also revealed that there existed a period when corporate boards of DMBs were ethnically diverse.

As regards the control variable i.e. board size, its mean figure is 14.00signifying that on average, the size of any given DMBs in Nigeria is 14. The minimum value is 6.00 and the maximum value is 20.00. The minimum value shows that the smallest board size of a given board for the period under study is 6 while the maximum value shows that the largest board size for the study period is 20. The maximum value of 20 shows that corporate boards of DMBs have not violated the rule of the CBN which says that the maximum board size should not exceed 20.

#### 4.2.2 Pearson Correlation Table of performance and Board Diversity

	Female	Foreign	Ethnicity	Board size	Tobin's q
Female	1				
Foreign	0.0029	1			
Ethnicity	-0.1176	-.0.3935***	1		
Board Size	0.3751***	-0.0496	0.0592	1	
Tobin's q	0.0826	0.1303	-0.0471	-0.2877**	1

\*\*Correlation is significant at 1% (2-tailed); \*Correlation is significant at 5% (2-tailed)

Source: Authors computation using Stata version 10.0

Table 4.2.2 presents correlation results between performance as measured by Tobin's q and board diversity. The table also indicates that female diversity is positive insignificantly correlated to Tobin's q. This suggests that the inclusion of females on corporate boards results in increased financial performance. This finding is in accordance with the findings of Rovers (2010), Carter et. al. (2010), Verwijmeren (2013) and contradicts the findings of Wachudi et. al. (2009) and Darmadi (2011).

As for foreign diversity, a positive relationship was documented between having a foreigner on the board and performance, although, not significant. This suggests that having a foreigner as a board member enhances performance. This finding is in conformity with the findings of Choi et.al. (2007) and contradicts the findings of Kumar et. al. (2012)

As regards the third regressor which is ethnic diversity, a negative relationship was revealed between both ethnic diversity and performance. Not only is the relationship negative, it is

also not significant. This reveals that when corporate boards consist of both Northerners and Southerners, performance of DMBs in Nigeria tends to reduce. This finding supports that of Alade et.al. (2013) and contradicts the findings of Rose et.al. (2013) and Wellage et. al. (2011).

Finally, for boardsize, the result shows a negative but significant relationship with performance. This provides evidence that larger boards are ineffective compared to smaller ones. This is consistent with the findings of Joo (2009) and Rahima (2011). The result however contradicts the study of Marimuthu (2008).

#### **4.3 Tests of Hypotheses**

The table below presents the ordinary Least Square Regression Estimates of the Relationship between Financial Performance and Board Diversity.

**Table 4.3.1 Regression Result Table**

	Coefficient	Standard Error	T.value	P. value	VIF	TV
Constant	0.5346	0.1903	2.81	0.007		
GENDSTY	0.3093	0.1401	2.21	0.031**	1.19	0.8376
FDVSTY	0.1190	0.0934	1.27	0.208	1.19	0.8431
ETHDVSTY	0.0235	0.1083	0.22	0.829	1.21	0.8253
LGBOARDSZ	-0.5130	0.1474	-3.48	0.001***	1.18	0.8492
R-Square	0.2013					
Aj R-Squared	0.1480					
F.Statistic	3.78			0.0083***		

\*significant at 0.1 (2-tailed) \*\*significant at 0.05 (2-tailed) \*\*\*significant at 0.01 (2-tailed)

Source: Authors computation using Stata version 10.0

Table 4.3.1 indicated that the cumulative R-square otherwise known as multiple coefficient of determination which gives the proportion of the changes in the dependent variable explained by the independent variable is 20.1%. That is, 20.1% of the variation in performance of DMBs in Nigeria is as a result of changes in gender, ethnicity and the number of foreigners in such corporate boards.

Adjusted coefficient of determination revealed that 14.8% takes into consideration the number of firms in explaining the variation in performance. The F. statistic figure is 3.78 which shows the fitness of the model and is significant at 1% level of significance. The test for

multicollinearity which relies on tolerance value and variance inflation factor confirms absence of multicollinearity.

#### **4.3.1.1 Gender Diversity and Financial Performance**

Table 4.3.1 shows that gender is positive with a coefficient of 0.30 and significant at 5% level of significance. This shows that with the presence of women in corporate boards, the higher the returns. The implication is that more women should be appointed on corporate boards of DMBs in Nigeria. The result also revealed that for every inclusion of a female on corporate boards, performance will increase by 0.30. The first hypothesis which says that composition of female directors on the board does not have any significant effect on the performance of DMBs in Nigeria is therefore rejected. This finding is in accordance with the findings of Rovers (2010), Carter et. al. (2010), Verwijmeren (2013) and contradicts the findings of Wachudi et. al. (2009) and Darmadi (2011).

#### **4.3.1.2 Foreign Directors and Financial Performance**

Although not significant, the coefficient of 0.119 for foreign diversity is positive as expected. The power of this relationship is not strong enough to suggest that foreign diversity influences financial performance. Therefore the study fails to reject the second hypothesis which states that composition of foreign directors does not have any significant effect on the performance of DMBs in Nigeria. This result provides evidence in support of the findings of Choi et.al. (2007) and contradicts the findings of Kumar et. al. (2012)

#### **4.3.1.3 Ethnic Diversity and Financial Performance**

Similarly, a positive relationship was established between ethnic diversity and performance but this relationship is not significant to suggest that ethnic diversity influences financial performance. The study fails to reject the third hypothesis which states that composition of ethnic diversity does not have any significant effect on the performance of DMBs in Nigeria. This finding supports that of Alade et.al. (2013) and contradicts the findings of Shukeri et. al (2012) Rose et.al. (2013) and Wellage et. al. (2011).

#### **4.3.1.4 The Control Variable and Financial Performance**

Consistent with this study expectation, the coefficient for board size is negative and statistically significant at 1%. The result suggests that a large board size tends to reduce performance. This is in support of the findings of Joo(2009) and contradicts Marimuthu (2008) and Rahimah (2011) .

### **4.4 Discussion of Major Findings**

It is observed from the results revealed that most firms in the banking sector have a lot to achieve if they decide to nominate more board members who are females. This implies that gender diversity of DMBs in Nigeria follow Resource Dependence Theory. The fear that females are risk averse is not prevalent in DMBs in Nigeria.

Some previous researches suggest that increase in foreign directors significantly enhances financial performance and reduces groupthink. In support of the Resource Dependence

Theory, this study found a positive relationship between foreign directors on the board and financial performance, although not significant to influence performance.

Similarly, having people from diverse ethnic background will not in any way increase financial performance. The coefficient for ethnic diversity although positive is not strong enough (significant) to influence performance. The result revealed that DMBs in Nigeria have not implemented ethnic diversity in this regards as most of the sample under study are dominated by a particular ethnic group. This finding supports those of Alade et. al (2013) and Garba et. al. (2014).

#### **4.5 Policy Implications of the Study**

The findings from this study have several implications. These implications form the bases of contribution of this study to existing knowledge in relation to board diversity and financial performance. In line with the position of the Resource Dependence Theory, the provision of the Nigerian Code of Corporate Governance encourages the diversity in competence of board members in any given board. In line with this deduction, this position positively and significantly improves the financial performance of DMBs in Nigeria.

Resource Dependence theory suggests an increase in the number of foreign directors serving on the board to minimize scrupulous and opportunistic behaviour of managers. Evidence from this work feebly supports this theory. This implies that having foreign directors could positively influence performance but this increase in performance may not be tangible enough to support the call for foreign diversity

There have been agitations that any corporate board should at least have representatives from the South and the North. This study shows that having board members from both South and North does not strongly lead to an increment in performance. Therefore, emphasis neednot be placed on ethnic diversity but can occasionally be encouraged in DMBs in Nigeria.

#### **4.6 Summary**

This chapter dealt with the presentation and analysis of the data used for the study. It began with the descriptive statistics of the data followed by correlation between the dependent and independent variables were discussed. This was followed by test of hypothesis using regression. The chapterdiscusses the implications of ths study and finally ends with summary of the chapter.

## **CHAPTER FIVE**

### **SUMMARY, CONCLUSION AND RECOMMENDATIONS**

#### **5.1 Summary**

This study investigated the effect of board diversity on financial performance of DMBs in Nigeria. It was noted that previous researches on corporate governance in Nigeria centered on director ownership, board size, and board composition. Little or nothing is known on the effect of board diversity and performance. The study attempted to fill this gap.

This study concentrated on DMBs listed on or before 2009 to 2013. A multiple regression technique using OLS was developed for empirically explaining the changes in financial performance as a result of changes in the make-up of board members. The study utilizes Ordinary Least Square as recommended by Breusch and Pagan Lagrangian multiplier test for random effect in estimating the relationship and effect of the regressors –gender, foreign diversity, ethnic diversity and board size on financial performance.

As regards the influence of board diversity on financial performance, gender diversity has a positive and significant effect on financial performance. This suggests that while diversity of board improves the performance of DMBs, a higher percentage of women serving on the board strongly improves performance. Although foreign diversity and ethnic diversity are positively related to performance, they have insignificant contribution to financial performance. Lastly, in relation to board size, it has a negative and significant effect on performance of DMBs in Nigeria.

## **5.2 Conclusion**

Based on the findings of this research, the study concludes as follows:

Gender diversity has positive significant relationship with financial performance thereby improving financial performance of DMBs in Nigeria. This is in line with the work of Carter et. al (2002), Smith et. al (2005) and contradicts the findings of Wachudi et. al (2009), Alvarez et. al. (2010) and Darmadi (2011)

Foreign diversity of the board does not improve financial performance of DMBs in Nigeria. This finding is in accordance with the work of Masulis et. al (2008) Zainal et. al (2013) and contradicts the findings of Garba et. al (2014)

Ethnic diversity has insignificant positive relationship with financial performance of DMBs in Nigeria. We therefore conclude that ethnic diversity does not in any way influence the financial performance of DMBs in Nigeria. Our findings is in line with the findings of Alade et. al (2013) and contradict the findings of Rose et. al (2013).

Board size has a negative significant relationship with Financial Performance, and therefore does not influence financial performance of DMBs in Nigeria. Our result is consistent with the result of Joo (2009), Rahima (2011) and contradict the findings of Marimuthu (2008).

## **5.3 Recommendations**

In line with the findings of the research, the following recommendations are made

- The significant positive effect of gender diversity on the board on financial performance suggests that female directors on the board play a significant role in improving the financial performance of banks in Nigeria. Therefore, firms should

ensure that their boards are mostly composed of female directors. The CBN should also monitor and ensure that this is enforced by all effected DMBs.

- The positive though insignificant relationship between foreign diversity and financial performance suggests that including foreigners on corporate boards does not favour financial performance. Therefore, the agitation of foreign members on corporate board is not enough; rather mechanisms should be put in place to monitor the activities of board members.
- Similarly, the positive, though insignificant, relationship between ethnic diversity and financial performance suggests that having representatives from the major ethnic groups in Nigeria does not favour financial performance. Calls for the inclusion of Northerners and Southerners on boards is not enough, strategies should be implemented to monitor the activities of board members.
- This study suggests that regulatory authorities such as the CBN should enact laws for small board size to avoid duplication of duties. A minimum of eight board members and a maximum of ten board members are sufficient.

#### **5.4 Areas for Further Research**

Given the fact that the findings and generalization of this research is limited by some factors, this study suggests future researches in the following areas:

- Relationship between cognitive aspect of diversity should be studied. Variables such as experience, tenure, and educational qualification should be studied to reveal the relationship between board diversity and performance.

- A study on board diversity and financial performance should focus on Non-financial sector as the domain of study.

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**Appendix 1:Table 3.1 Population of the study**

<b>S/N</b>	<b>NAME OF BANK</b>
1	Access Bank Plc
2	Citibank Nigeria Ltd
3	Diamond Bank Plc
4	Ecobank Bank Plc
5	Enterprise Bank Ltd
6	Fidelity Bank Plc
7	First Bank of Nigeria Plc
8	First City Monument Bank Plc
9	Guaranty Trust Bank Plc
10	Keystone Bank Ltd
11	Mainstream Bank Ltd
12	Skye Bank Plc
13	Stanbic IBTC Bank Nigeria
14	Standard Chartered Bank Plc
15	Sterling bank Plc
17	United bank for Africa Plc
18	Unity Bank Plc
19	Wema Bank Plc
20	Zenith International Bank Plc
21	Nigerian Deposit Insurance Corporation

**Appendix 2: Table 3.2: Filtered Population of the study**

S/N	NAME OF BANK	FILTER/ CRITERIA
1	Access Bank Plc	
2	Citibank Nigeria Ltd	Not listed before 2009
3	Diamond Bank Plc	
4	Ecobank Nig Plc	
5	Enterprise Bank Ltd	Not listed prior to 2009.
6	Fidelity Bank Plc	
7	First Bank of Nigeria Plc	
8	First City Monument Bank Plc	
9	Guaranty Trust Bank Plc	
10	Keystone Bank Ltd	Not listed as at 2009
11	Mainstream Bank Ltd	Not listed before 2009
12	Skye Bank Plc	Inadequate information
13	Stanbic IBTC Bank Nigeria	
14	Standard Chartered Bank Plc	Not listed before 2009
15	Sterling Bank Plc	
16	Union Bank of Nigeria Plc	
17	United Bank for Africa Plc	
18	Unity Bank Plc	
19	Wema Bank Plc	Inadequate information
20	Zenith International Bank Plc	
21	Nigeria Export- Import Bank.	Not listed prior to 2009.

**Appendix 3: Table 3.3: Sample of the Study**

S/N	Name of Bank
1	Access Bank
2	Diamond Bank
3	Eco bank of Nigeria
4	First Bank of Nigeria
5	First City Monument Bank
6	Fidelity Bank
7	Guaranty Trust Bank
8	Stanbic IBTC
9	Sterling Bank
10	United Bank for Africa
11	Union Bank
12	Unity Bank
13	Zenith Bank

Source: Generated by author from table 3.2