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EFFECT OF BOARD GENDER DIVERSITY ON ORGANIZATION PERFORMANCE.A CRITICAL LITERATURE REVIEW

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ABSTRACT

Purpose: Board gender diversity, in essence, is a purposeful initiative to demonstrate an absence of discrimination. Gender diversity and the inclusion of more women in boards of directors and top executive management positions have the potential to add value to organizations. Gender diversity can result in more social sensitivity when solving problems and increased diversity in thought and result in better company performance. When board members include more gender diversity, a firm may increase its chances of effectiveness due to better understanding their stakeholder's needs, leading to better risk management and general business practice. Decisionmaking is potentially enhanced through adding new ideas and perspectives to board and executive management meetings. The general objective of the study was to establish the effect of board gender diversity on organization performance

Methodology: The paper used a desk study review methodology where relevant empirical literature was reviewed to identify main themes and to extract knowledge gaps.

Findings: The study found out the gender board diversity affects performance. Moreover gender diversity and the inclusion of more women in boards of directors and top executive management positions have the potential to add value to organizations since there is more social sensitivity when solving problems and increased diversity in thought that result in better company performance

Recommendations: The study recommends that when selecting boards members, shareholders should consider having a board that is composed of members from different professions which is expected to provide a diverse view of issues. Moreover, boards should have good representation of female directors to effectively lead and enable the firms to implement its strategies **Keywords:** *Effect, board gender diversity, performance*

INTRODUCTION 1.1 Background of the Study

Board make-up or composition can be in regard to the size of the board, the mix in between executive and also non-executive independent supervisors, as well as various other desirable qualities, including gender diversity, education and learning attainment of board members, nationalities, age of board members, and technical experience. Low, Roberts and Whiting (2015) contends that board gender diversity, in essence, is a purposeful initiative to demonstrate an absence of discrimination, yet it is actually uncertain whether it impacts business financial performance in any kind of method.

In recent decades, interest from investors and governments in strengthening board gender diversity has intensified, particularly in the wake of major corporate failures. Essentially, the core of corporate governance is a board of directors that fulfils its duties of supervising the management, safeguarding the interests of shareholders, and ensuring legal compliance (Salim, 2016). Ultimately, the aim of these duties is to enhance organizational efficiency. Unsurprisingly, therefore, major efforts have been devoted to studying board characteristics and their influence on business performance, with gender representing a key consideration (Garcia, 2015). On the spectrum of diversity, gender has received extensive attention, given the lack of women at the top levels of corporate management and the belief that they are important to ensure the effectiveness of firms. These gender issues have resulted in initiatives appearing increasingly often in corporate social responsibility (CSR) programs and have been cited in sustainability reports as contributing to an organization's social impact.

It is worth noting that the GRI (Global Reporting Initiative) Standards, which offer the most widely used reference for preparing sustainability reports, include as part of their social dimension gender diversity and equal opportunities in relation to the governance bodies of organizations (Grosser, 2019). Consequently, the European Commission drafted a proposal for a directive of the European Parliament and of the Council on improving the gender balance by setting a minimum objective of a 40% presence of the under-represented sex among the nonexecutive directors of companies listed on stock exchanges (Attrivia, 2019). Despite these efforts, the gender gap persists at the most senior level of European organizations, with an average of 26.7% female board members among the major listed companies in the European Union

Internationally, numerous studies show evidence of a positive relation between gender diversity on boards of directors and financial performance of firms. Joy et al. (2007) found that companies with higher numbers of women on their boards significantly outperformed other companies, with a 42% higher return on sales and a 53% higher return on equity. Also, Curtis, Schmid & Struber (2012) studied data from more than 2000 global companies and found that female representation on boards was associated with better performance and share prices, including lower volatility in earnings and share prices. Similar findings were reported by Carter, Simkins & Simpson (2003), Smith, Smith & Verner (2006), Francouer, Labelle & Sinclair-Desgange (2008), Krishnan & Parsons (2008), Reguera-Alvardo, de Fuentes & Laffarga (2015) and Willows & van der Linde (2016).

In Spain, the setting of the current study, this percentage was 23.66% in 2018 (Attrivia, 2019). Although this figure was close to the European average, it is still some distance from the percentage

stipulated by the aforementioned legislation, even though Spain was the second country in the world to establish mandatory gender quotas (Reguera, 2017). The active participation by political forces in this matter was also noteworthy. Those efforts resulted in the good governance code of listed Companies (Ley, 2019). Legislation was also passed so that by 2015 there would be minimum representation of 40% of both genders on the boards of directors of companies required to present annual accounts. The aim was to foster gender diversity in the work.

In India there are growing figures of progressive firms that value diversity in the workforce. According to Preeti, Poonam, & Ekanshi, (2014), India's organization with various workforce encourage increase in productivity, intellectual and knowledge exchange, effective communication, diverse experience within the firms and learning rate. The diversity was taken as social responsibility, economic payback, resource imperative, legal requirement, market strategy, business communication and capacity-building strategy to the organization.

In Africa, diversity case is majorly cultural, social or racism. South Africa is an example where workforce is divided across the racial lines over a long time. Democratic and non-racist constitution was effected in 1996 (Horwitz, 2002). This constitution enabled the society as well as organizations to practice equal rights between white and black race in South Africa. Through legislation was implemented in that during affirmative action almost all the organization adopted diversity management design. Black manager in South Africa increased in number as result of equal right and affirmative action. Organization in South Africa has dynamically evolved from racial and cultural profile to managing diversity which has assisted in increasing performance of South African Companies (Horwitz, 2002). However, as legislation and adoption of workplace diversity management practices continue to take root in South Africa, the impact of these diversity management programs on organization performance are not documented.

The financial aim of any business is to enhance value and make profit. Firm performance is a multidimensional construct that includes four components (Kim et al. 2014): customer-focused performance, consisting of client complete satisfaction, and services or product performance; financial and market performance, including earnings, earnings, market placement, cash-to-cash cycle time, and also earnings per share; personnel performance, consisting of worker contentment; and also organizational performance, consisting of time to market, level of innovation, and also manufacturing as well as supply chain versatility. Constant with the theoretical foundations in the capacities and also resource-based point of views, it is said that organizational capacities are rentgenerating assets, and also they make it possible for firms to make above-normal returns. For instance, performance monitoring capability influences different measures of firm performance by permitting business leaders to evaluate and take corrective activities on any type of prospective or actual slippages proactively and also in a timely way (Anthony & Govindarajan, 2015). Previous researches in advertising and marketing and also method argue that client monitoring capacity (Fornell, Mithas, and Morgenson 2013) and also procedure monitoring capability (Cotteleer and Bendoly 2016) affect a number of dimensions of company performance.

1.2 Statement of the Problem

Board gender diversity is one of the factors to consider by the human resource since there have been various studies which contradict each other on whether it contributes to performance. For

instance, Neema (2016), Rukumba (2016), Carpenter (2012) and Rizwan et al (2016) found significant relationship while Cannella et al (2008) negative relationship between the two variables.

Several other studies have investigated the relation between board gender diversity and firm performance, particularly in the United States. The results are mixed casting doubt on the presence of unique theoretical prediction. For instance, Carter et al. (2003) consider a sample of Fortune 1000 firms in 1997 and document a positive relation between board gender diversity and firm performance as proxied by the Tobin's q. Adams and Ferreira (2009) show that female directors significantly affect the board inputs when examining a sample of 1,939 firms over the 1996-2003 period. Conversely, Carter et al. (2010) find no effect of board diversity on firm performance for S&P 500 firms over the 1998-2002 period and 326 Fortune firms in 2003. The relation between board diversity and firm performance has also been studied on European listed firms. Using a sample of Danish listed firms, Rose (2007) finds insignificant relation between board gender diversity and firm value. Campbell and Minguez-Vera (2008), however, find that the presence of women on boards is associated with higher firm value when studying Spanish listed firms. On the contrary, Ahern and Dittmar (2012) show a negative impact on firm performance following the approval of the law on women's quotas in Norway.

Studying French listed firms, Belghiti-Mahut and Lafont (2010) offer a first analysis of the relation between the presence of female directors and firm performance. They find that board diversity improves firm performance. It is however worth noting that this study does not control for the endogeneity problem that could arise from the fact that firms with high performance are more likely to appoint female directors. In a related study, Solakoglu (2013) uses quantile regression analysis to examine the association between gender diversity and firm performance in Turkey. The author shows that gender diversity has a different effect on firm performance over the different points of the conditional distribution. In addition, the sign and significance of the impact of gender diversity on firm performance seems to depend on the industry in which the firm operates. Djoutsa Wamba et al. (2014) focus on the differences in terms of social and financial performance (i.e., client coverage rate and return on equity respectively) across microfinance institutions in Cameroon with respect to their legal status and corporate governance mechanisms. They typically find that the presence of female directors in the boardroom has a significant and negative impact on the performance measures of cooperatives and mutual insurance companies as well as on the financial performance of private firms and for-profit non-governmental organizations (NGO). Based on semi-structured interviews, these authors explain this negative effect of female directors by their higher risk aversion level relatively to their male colleagues. In particular, following these authors, the higher risk aversion is consistent with the findings of the Credit Suisse Research Institute report (2012) that companies with women on corporate boards are more likely to have lower debt levels than those without women on corporate boards. This paper seeks to address this gap in the literature by presenting research that aims to identify the effect of board gender diversity on organization performance.

1.3 Objectives of the Study

The general objective of the study was to establish effect of board gender diversity on organization performance. A critical literature review

1.4 Justification and Significance of the Study

This study is justified in several ways. First, firms will utilize the knowledge gained from the research. This would guide the firms in understanding gender diversity and its implication on the performance of the entities. It will also assist in formulation of human resource policies in organizations. Moreover it would provide knowledge to the scholars since it provides important literature in development and discovery of new ideas, concept and theorems. It would assist other scholar in doing research in this area of studies. While recommendations will give information on further areas of research. The study is accessible to public which would be used by anybody in undertaking research, training, education, policy making and other tasks.

LITERATURE REVIEW 2.1 Theoretical review

Two theories were found to be relevant in establishing the effect of board gender diversity on organization performance. The theories that were found to best inform the research constructs are the social identity theory (Tajfel, 1981) and agency theory (Jensen and Meckling, 1976).

2.2.1 Social Identity Theory

Social Identity theory is a social psychological theory that is utilized in organizations to obtain high employee performance. Social Identity theory gives more understanding of diversity in terms of understanding the role of group divisions in organization. Tajfel (1981) argued that social identity theory gives a deeper knowledge of effect of group behaviors, attitudes and interactions within organization. According to Tajfel (ibid), social identity theory provides the framework on the management of a group and that each individual belongs to specific group within institution. Social identity theory asserts that human being comes from a specific society and with time they attain some social characteristic that makes it easy to categorize in the society according to the identity and perception. Meaning the predominant character of individual on how one conducts themselves is mirror image of the background society.

These social categories can be based on religion, sex, culture, nationality, occupation, race, class and other variables. Social categorization affects intergroup communication, behaviour, relations and socialization (Hogg & 11 Abrams, 1988). These individual characteristics emanating from the world in to a person affect how people relate in the workplace. Since it is viewed to have significant effect on behaviors, communication and attitude towards certain events or individuals within the workplace. Communication patterns, behaviors and attitudes in people within work place are determined through the culture and history in the social groups one is found in. According to Hogg & Abrams (1988), the theory distinguishes between belonging to group and individual or shared characteristic of how to behave and who one is.

Group behaviour is associated with psychological processes which includes discrimination, group norm and cohesion within a group. Hence social identity theory plays a major role in dynamicity in group relationship. The theory asserts that group thinking is associated with the group line one

associates. This influence the thoughts when a person is inside the group where they tend to think along the opinion of the group membership lines. It noticed that the dominant group has more influential power to change the less dominant group in the society according to their own version of thought within the society. That is “it imposes the dominant value system and ideology which is carefully constructed to benefit it, and to legitimate and perpetuate the status quo” (Hogg & Abrams, 1988, p.27). As result of this effect, discrimination might be seen to come from the dominant group which affects the outcome in the work place. Nkomo & Cox (1996) also noted that intergroup aspect like communication, cooperation, stereotypes and loyalty within group arises based on the effect of social identity theory. This theorem is fit to the study providing the blue print of discussion and understanding the concept behind the workplace diversity. Social identity theory hence explains the group thing in gender groups, ethnical groupings and education based grouping. This hinders decision making and cohesiveness affecting the organization performance. The theory does not have a strong anchor on performance of the organization but explains its effect to the gender diversification process.

2.2.1 Agency Theory

Agency Theory Agency theory seeks to harmonize the interest of management and those of shareholders (Jensen and Meckling, 1976). The theory posits that the board has a monitoring role which aligns the objectives of the management with those of the owners of the business hence ensuring that management acts according to the interest of the shareholders. The theory further posits that when the board is well composed, it will be in a better position to deal with agency problem between management and shareholders and hence ensure that the firm performs effectively (Fama & Jensen, 1983). Moreover, the board ensures conformance of management to the interests of other stakeholders such as creditors, employees and customers. It does this by ensuring that there are other processes such as internal audit and management reports that ensure transparency and accountability of management in carrying out its functions. The purpose of the board is to avoid corporate governance and performance problems that can emanate from management not carrying out its functions with prudence and responsibility (Hendry, 2005). The board hence acts as a control measure to prevent management excesses and ensure management conducts their activities responsibly and competently and it does not use its discretion inappropriately. This theory stems from neoclassical economics that, since management as agent and shareholders as principal seek to maximize their utility, management is therefore likely to act in a way to jeopardize the interest of shareholders. However, this theory faces criticism as it is based on the selfish individual motivation for being self centered. This is being contested in current organizational setting of mutual benefit (Perrow, 1986). This theory was applied in the study as a board with diversity is expected to perform its functions better and hence lead to improvement of financial performance and vice versa. The theory posits that a board with many independent members would be in a better position to have objective oversight. It was hence expected that organization with a high proportion of independent members in their boards would perform better.

2.2 Empirical Review

Merve (2016) conducted a study with two primary goals. First to determine the board characteristics of listed companies in Turkey and second to investigate the effect of board gender diversity on the performance of these companies. This study used an instrumental variables

regression analysis to investigate the relationship between board gender diversity and firm performance using the data from 2008-2012 of the entities listed on the Borsa Istanbul. The results indicate that the boards of these companies in Turkey are male-dominated. Moreover, this study shows that the inclusion of female directors is positively related to the financial performance of firms, as measured by the return on assets, the return on equity and the return on sales. The study showed that limited empirical studies had been conducted on the relationship between board gender diversity and firm performance in emerging economies. However there was still no consensus regarding the link between board gender diversity and firm financial performance based upon the mixed and sometimes contradictory results in those prior research.

In United Kingdom (UK), Chen, Leung and Evans (2015) investigated how board gender diversity influences innovation and firm performance. The study was conducted retail firms in Cardiff. They relied on secondary data and established that firms with boards that were more gender diverse performed better innovatively than those firms that had less diverse boards. Innovation performance was measured by the number of new products introduced into the supply chain. This pointed to the possibility that female members of the board increased monitoring on management thus increasing incentives for managers to innovate. However, the study did not find any relationship between board gender diversity and financial performance which was measured using ROA.

Low, Roberts and Whiting (2015) assessed the influence of board gender diversity on firm performance. This study utilized data from a sample of Asian firms specifically in Malaysia, Hong Kong, Singapore and South Korea. The study utilized ROE as the measure of performance and did a comparative analysis of the four nations. The study utilized panel data of 2011-2014. The study established that the proportion of female members in the board was positively related with improved firm performance. The conclusion from the study was that increasing the number of women in the board of directors is expected to improve firm performance. However, the study noted that this positive effect was diminished in those countries with high participation of women in the economy.

In a study of Danish and Dutch firms, Marinova, Plantenga and Remery (2010) assessed gender diversity and its effect on firm Performance. The study utilized empirical data from 186 firms of which 102 were from Netherlands while 84 were from Denmark. Around 40 percent of these firms had at least one woman in the board. However, within all the firms that participated in the study, women made only 5.4 percent of the board members. The study applied two-stage leastsquares regression method where Tobin's Q was applied as the measure of performance. The findings indicated that board gender diversity did not have any significant effect on firm performance. This hence did not support the business case for increasing female members in the board.

Ekadah and Mboya (2012) assessed the effect of board gender diversity on the performance of commercial banks. This study had the purpose of analyzing the effect of gender diversity of boards on performance of commercial banks in Congo. The study focused on a period of 12 years (1998-2009). The study utilized the step wise regression model. Results from the study indicated that most of the boards of commercial banks in Congo were male dominated with very few women

participating in these boards. Further, findings indicated that the ratio of women directors to total board size was 1:8. However, the study established that gender board diversity did not have a significant effect on performance of commercial banks in Congo

Letting, Aosa and Machuki (2012) examined board diversity and its effect on performance of companies Listed in NSE . In the study, independent variables were board member's age, gender, study specialization, and educational qualifications. Performance of the companies was the dependent variable which was measured through Dividend yield, price earnings ratio, ROA and ROE. Analysis was through OLS regression method. The results indicated that there was no significant effect between board gender diversity and all the measures that were used for financial performance. This study focused on all the firms listed in the NSE without considering the peculiarities that exist between firms of different sectors.

Research gaps

Methodological gap is the gap that is presented as a result in limitations in the methods and techniques used in the research (explains the situation as it is, avoids bias, positivism, etc.) Ekadah and Mboya (2012) assessed the effect of board gender diversity on the performance of commercial banks. Their study had the purpose of analyzing the effect of gender diversity of boards on performance of commercial banks in Congo. The study utilized the step wise regression model while Merve (2016) conducted a study to investigate the effect of board gender diversity on the performance. The study adopted an instrumental variables regression analysis to investigate the relationship between board gender diversity and firm performance. Both studies presented a methodological gap since study will adopt a desktop literature review method (desk study). Which involves an in-depth review of studies related to effect of board gender diversity on organization performance.

Geographical gap is a knowledge gap that considers, the untapped potential or missing/limited research literature, in the geographical area that has not yet been explored or is under-explored. For instance Marinova, Plantenga and Remery (2010) assessed gender diversity and its effect on firm Performance. The study utilized empirical data 20 from 186 firms of which 102 were from Netherlands while 84 were from Denmark. The findings indicated that board gender diversity did not have any significant effect on firm performance. The study presented a geographical gap as it was done in of Danish and Dutch firms in Netherlands while our current study will focus on effect of board gender diversity on organization performance.

METHODOLOGY

The study adopted a desktop literature review method (desk study). This involved an in-depth review of studies related to effect of effect of board gender diversity on organization performance. Three sorting stages were implemented on the subject under study in order to determine the viability of the subject for research. This is the first stage that comprised the initial identification of all articles that were based on effect of board gender diversity on organization performance from various data bases. The search was done generally by searching the articles in the Article title, abstract, keywords. A second search involved fully available publications on the subject of on effect of board gender diversity on organization performance. The third step involved the selection

of fully accessible publications. Reduction of the literature to only fully accessible publications yielded specificity and allowed the researcher to focus on the articles that related to effect of board gender diversity on organization performance which was split into top key words. After an in-depth search into the top key words effect, board gender diversity, performance), the researcher arrived at 6 articles that were suitable for analysis. The drawing and interpretation of research findings and sense which is not a quantitative impact evaluation, was important in this context, which implies that qualitative and thematic analysis was most suitable in this study **SUMMARY, CONCLUSION AND POLICY IMPLICATION FOR FURTHER STUDY**

4.1 Summary

The study found out that increased board gender diversity has a positive impact on a firm's financial performance. Over time, the role of gender diversity in the boardroom has become a significant aspect of corporate governance, as women differ from men in terms of ethical and social behavior. Gender diversity and the inclusion of more women in boards of directors and top executive management positions have the potential to add value to organizations. For instance, gender diversity can result in more social sensitivity when solving problems and increased diversity in thought and result in better company performance. When board members include more gender diversity, a firm may increase its chances of effectiveness due to better understanding their stakeholders' needs, leading to better risk management and general business practice. Decisionmaking would potentially be enhanced through adding new ideas and perspectives to board and executive management meetings. Moreover when there is gender diversity there is increased fresh perspectives and thought diversity to boards of directors

4.2 Conclusion

Based on the critical review. The study concluded that gender board diversity affects performance of firms. The existing gender respect in the organization it enabled effective working condition for the employees. It also found that gender role helped in efficiency of the firm. Hence gender diversity affected the efficiency in the organization. Moreover gender diversity and the inclusion of more women in boards of directors and top executive management positions have the potential to add value to organizations since there is more social sensitivity when solving problems and increased diversity in thought that result in better company performance

4.2 Recommendations

The recommendations made from these findings is that when selecting boards members, shareholders should consider having a board that is composed of members from different professions which is expected to provide a diverse view of issues. Moreover, boards should have good representation of female directors to effectively lead and enable the firms to implement its strategies. Moreover, organizations should ensure that the diversity of the nationalities of the board members is controlled to ensure harmony

Achieving gender equality at the most senior corporate level continues to present a challenge for institutions and society as a whole. Therefore, it is crucial to continue investigating the reasons that explain the importance of gender quality. Despite the abundance of studies on this topic, there are still numerous unanswered questions, the answers to which correspond to the clarification of the role of women in effective corporate governance.

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