Gender diversity in the boardroom: Does it affect strategic change and firm performance in Kenya?

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Introduction

- In recent years corporate governance has focused on gender diversity as an integral part of internal governance mechanisms
- Research has focused on the role of gender diversity in corporate decision making and the bottom line
- Although some studies have been done in western countries, little is known about the effect of gender diversity on corporate outcomes in Africa.

- The study is particularly important given the current effort by many countries and organizations, to enforce policies and regulations that seek to advance the inclusion of women within corporate management
- This study uses a Kenyan data set to achieve three objectives:

i. to examine the effect of gender diversity on strategic change,

ii. to investigate whether gender diversity affects firm performance

iii. to determine the moderating role of firm performance on the relationship between gender diversity and strategic change.

The role of the board

- Monitoring role (Jensen and Meckling, 1976),
- The provision of links to external resources (Pfeffer and Salancik, 1978),
- The strategic role (Hendry and Kiel, 2004)

Women Representation

- Attempts have been made to increase women on corporate boards in order to tap into the strengths of diversity.
- Norwegian government policy has resulted in 40% representation of women on the corporate boards
- Spanish government passed the Effective Gender Equality Act (EGEA), requiring firms with more than 250 employees to implement equity
- The Kenyan constitution, enacted in 2010, requires a one-third gender rule in the composition of boards

Theory and Hypotheses Development

- Gender diversity in the board and its effect on corporate outcomes is anchored in agency, resource dependency and legitimacy theories
- Agency theory suggests that a more diverse board may better monitor and control the actions of the management
- Diverse boards facilitate access to critical resources
- Legitimacy theory postulates that diverse boards enhances the acceptance by different stakeholders

Gender diversity and strategic change

- Strategic change is the modification to the set of resources, routines or procedures and processes that organizations uses to compete (Boeker, 1997)
- It is change over time of the firms' pattern of resource allocation in key strategic areas
- Strategic change is necessary to counteract the unfavorable contingencies and take advantage of the opportunities existing in the environment
- Boards are expected to provide direction on the strategic change of the firm.

- Drawing from RDT, board diversity is critical because it provides a pool of knowledge, skills, experience, perspectives, and broad expertise necessary in execution of strategy
- Women bring unique perspectives, experiences and work styles to the board, thus enhance board deliberations
- They tend to promote new ideas, improve communication, and instill a participatory style
- Women directors are less likely to experience problems in attending meetings

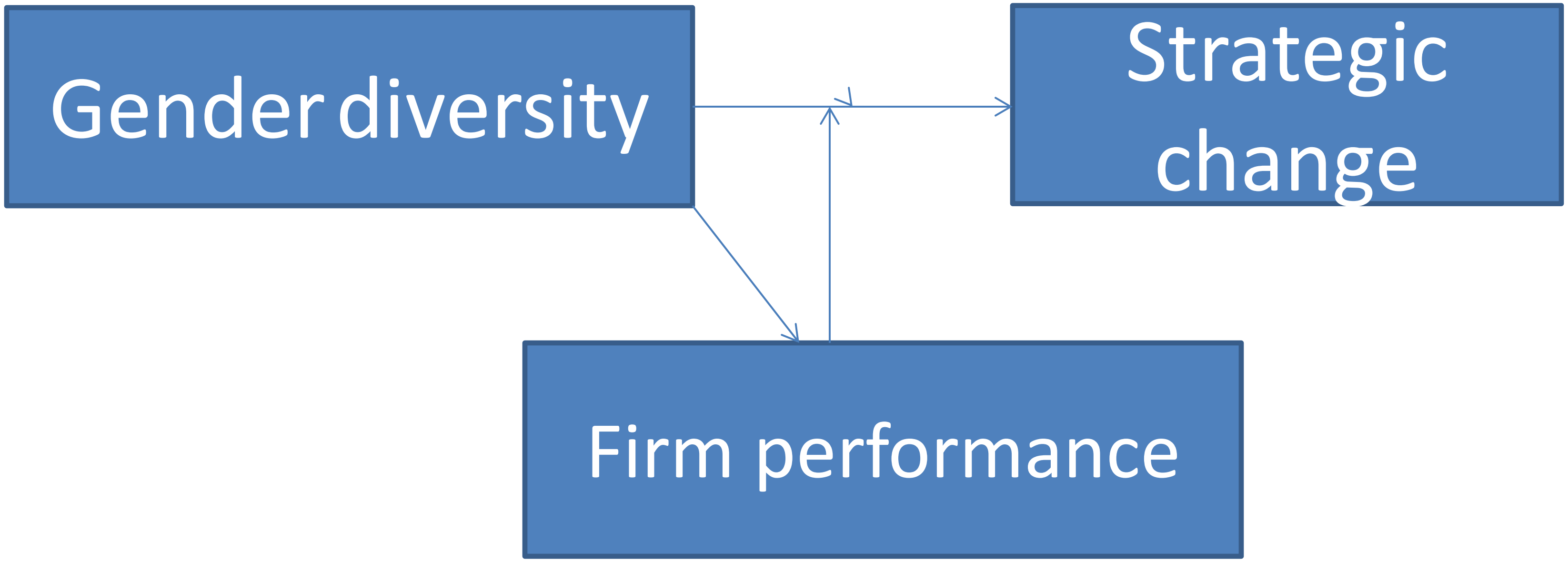
- Women prepare well for meetings, they are more involved in deliberations, and have a higher level of commitment than men (Huse & Soldberg, 2006)
- Conversely, gender diversity may result in more disagreements and may ultimately fuel conflict
- Women are more risk averse than men, and that their inclusion on the board could diminish its strategic orientation

H1:*Gender diversity has a positive and significant effect on firms' strategic change*

Gender diversity and firm performance

- Diversity results in a larger knowledge base and greater innovation (Bantel, 1993; Watson *et al.,* 1993), and therefore leads to better performance
- An alternative perspective suggests that diversity can potentially interfere with group performance
- H2: *Gender diversity has a positive and significant effect on firm performance*

The Model



Methods

- The study used a longitudinal approach covering 10 years (2002-2012) from all firms listed on the NSE
- A total of 44 firms was used giving 440 firm-year observations were used
- Data for the study was derived from a number of secondary sources
- We used both descriptive and inferential statistics to test our hypotheses

Measurement of variables

- ***Gender diversity:***

i. Percentage of women on the board

ii. Dummy 1 for women on the board, 0 none

- **Strategic Change:** Composite measure of Strategic Resource Allocation Profile (SRAP)
- ***Firm Performance:*** Return on Assets

Proportion of women in Boards

Number of women in each board	Percentage
0	41.25
1	34.30
2	15.65
3	7.27
4	1.40
5	0.13
Total	100

Descriptive statistics

Variables	Mean	Std. dev	Min.	Max.
Strategic change	1.00	0	.32	1.47
Gender (%)	0.11	0.89	0.00	5.00
Gender (Dummy)	0.17	0.89	0.00	1.00
Firm performance	.87	2.61	-7.28	25.37
Board size	8.51	2.71	3.00	17.00
Non-executive directors (%)	0.78	0.12	0.39	0.91
CEO Duality (dummy)	0.07	0.12	0.00	1.00
Board tenure	5.23	5.22	0.00	44.00
Firm size (log of assets)	6.43	0.79	4.58	8.37
Firm Age (years)	55.75	25.46	5.00	158.00
Industry	.41	.17	0	1

Correlation results

Variables	1.	1.	1.	1.	1.	1.	1.	1.	1.	1.
1. Strategic change	1									
1. Firm performance	.21*	1								
1. Gender 1	-.24*	.39**	1							
1. Gender 2	-.37**	.17†	.63**	1						
1. Board size	-.10	.11	.34**	.46**	1					
1. Non-executive dir.	.16†	.21*	.25*	.18*	.31**	1				
1. CEO duality	-.27**	-.18†	.14	.12	-.27**	-.16†	1			
1. Board tenure	-.09	.10	-.19*	.22*	.26*	.24*	.28**	1		
1. Firm size	.23*	.22*	.18†	.19*	.26*	.31**	-.19*	.12	1	
1. Firm age	.11	.13	.15†	.17†	.21*	-.09	-.03	.19*	.31**	1
1. Industry	.18†	.20*	.31**	.09	.10	.23*	.11	.19*	.13	.07

Results

- Hypothesis 1 postulated that gender diversity on the board has a positive and significant effect on firms' strategic change. The results in Model 1 and Model 2 indicate that both proxies of gender diversity are negative, and significantly related to strategic change (β=-.241, p<.05; β=-.197, p<.01). Thus, the hypothesis is rejected.
- Hypothesis 2 tests whether gender diversity has a positive and significant effect on firm performance. The results in Models 3 and 4 supports the hypothesis.

- Hypothesis 3 proposed that firm performance moderates the relationship between gender diversity and strategic change, such that at higher levels of performance, gender diverse boards engage in more strategic change
- The results in Models 1 and 2 indicate that the coefficient of the interaction term is negative and significant. The hypothesis is not supported.

Regression results

Dependent Variable	**Strategic Change**		**Firm Performance**	
Independent Variables:	**Model 1**	**Model 2**	**Model 3**	**Model 4**
Gender 1 (%)	-.241* (.112)		.092** (.013)	
Gender 2 (Dummy)		-.197** (.051)		.134† (.074)
Firm performance	.179† (.103)	-.159* (.078)		
Gender 1*Firm performance	-.169** (.047)			
Gender 2 *Firm performance		-.124† (.068)		
Board size	-.025 (.091)	-.087** (.023)	-.173 (.113)	.126 (.097)
Non-executive directors	.187† (.103)	.119 (.079)	.207* (.106)	.184† (.099)
CEO duality	-.061** (.017)	.049 (.037)	-.082* (.037)	.109 (.088)
Board Tenure	-.146† (.083)	-.102* (.051)	.152 (.092)	.107† (.063)
Firm size	.047** (.007)	.052† (.028)	.126** (.042)	.117 (.073)
Firm age	.005 (.007)	.019† (.011)	.093 (.064)	.106* (.048)
Industry	.127** (.039)	.098 (.061)	.004 (.031)	-.049** (.014)
R Square	.437	.402	.349	.307
Adjusted R Square	.395	.381	.316	.287
F Statistic	5.281**	5.172**	4.638**	4.491**

Discussion and Conclusions

- The results indicate that gender diversity has a negative and significant relationship on strategic change
- Although the results seem surprising, the literature indicates that women generally take fewer risks than men, and are less likely to engage in future uncertain decisions (Levi *et al.,* 2013)
- Using acquisition bids by S&P 1500 companies during 1997-2009, Levi *et al.,* (2013) found that each additional female director is associated with 7.6% fewer bids.

- Gender diverse boards take longer to make decisions (Erhardt *et al.*, 2003) and that strategic change therefore occurs more slowly on such boards.
- It is also possible that as gender diversity increases, decision conflict increases
- The study also found that gender diversity has a positive and significant effect on firm performance
- Both proxies of gender diversity indicate a positive and significant relationship

- Indeed, studies have shown that women are more likely to hold CEOs accountable for poor performance and are better monitors
- They have less attendance problems and this helps in advising management
- The interaction results indicate that higher firm performance does not induces gender diverse boards to engage in more strategic change
- In a study by Fracoeur *et al.,* (2008), using a sample drawn from the 500 largest Canadian firms, it was found that women are more effective under problematic conditions.

- Generally, women are considered emotional when confronted with a difficult situation, while men reason during such moments
- Poor firm performance evokes an emotional reaction among women, so they are expected to react by making quick decisions to change organizational strategy
- Thus shows there is business case for women inclusion in corporate boards