

RESEARCH ARTICLE



Why Is Gender Diversity Important for Corporate Boards?

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Abstract: The diversity of backgrounds, perspectives, abilities, and resources on boards improves a company's performance. In recent times, board gender diversity has attracted the attention of policymakers, regulators, and academics. This study explored the influence of board gender diversity on corporate performance. The sample of the study consists of 15 consumer goods companies on the Nigerian Exchange Group from 2012 to 2021. The study uses fixed effects regression to estimate the model. The evidence indicates that gender diversity "proxied" by female directors on the boards has a positive outcome and significantly affects corporate performance. Hence, consumer goods companies may perform better as a whole if they have more female directors on their boards. The findings are consistent with prior studies and with resource dependency theory. The study suggests that companies with zero female directors should hire them while those with a single female director should consider adding more since corporate performance will be improved as a result.

Keywords: gender diversity, female directors, corporate performance, Nigeria

1. Introduction

Among the objectives of profit-oriented corporate entities is to earn profit and maximize shareholders' wealth. This can be assessed and measured through its corporate performance. Good corporate performance is considered a vital component of organizational objectives. This also indicates that the strategies set by the top management team are working. A corporation's financial performance is a major determinant of its success in a capitalist economy. It is also a key area where numerous firms' stakeholders focus on making an informed decision on their scarce resources [1, 2].

One of the strategies that could drive good financial performance is having a diverse board of directors. Empirical studies in the past have documented strong evidence regarding the benefit of board gender diversity [2–5]. Companies as well as their stakeholders greatly benefit from diverse boards in various areas such as investment efficiency [2].

Recently, legislators, regulators, academics, and other stakeholders have become more interested in board gender diversity. In fact, Adamu and Abubakar [6] have indicated that some economies have set aside a percentage for women directors. For example, Austria, Belgium, and Malaysia require 30% of females in the boardroom, while in France, between 20% and 40% [7] is required. Similarly, in 2020, women legislators in Nigeria reached a consensus to pursue 35% appointment in public

service appointments. Furthermore, corporate regulators in Nigeria, including the Financial Reporting Council of Nigeria, 2018 (FRCN [8]), SEC Code of Corporate Governance (SEC CG) (2011), among others have maintained that boardroom diversity is a requirement for corporate bodies. Nevertheless, the SEC CG did not stipulate a quota for female directors in the boardrooms [6]. The efforts made by the women legislators and pressure by nongovernmental organizations have necessitated the call for investigating gender diversity's effect in Nigeria [9].

Previous studies on the relationship between the financial performance of a company and its female directors have produced controversial findings. The results could be summarized as being either positive. For example, Chijoke-Mgbame et al. [10], Low et al. [11], and Alhaji Sani et al. [9] reported a positive association between the female director and financial performance. However, Adams and Ferreira [12] as well as Adusei et al. [13] showed that female director is inversely related to company financial performance. Moreover, past studies were centered, for instance, on nonfinancial listed companies [3, 9], the banking industry [5, 13], the technology sector in the United States [14], the lodging industry [15], and manufacturing firms [1]. However, little attention was given to consumer goods companies in Nigeria—a sector that accounts for the largest number of companies on the Nigerian Exchange Group (NGX). For example, Adamu et al. [16] investigated how a board's characteristics influence corporate social responsibility (CSR) in consumer goods firms. Unfortunately, little is known about the effect of gender on financial performance in this sector. Therefore, the purpose of this study is to determine the current impact of gender diversity on consumer goods companies' corporate performance.

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The remaining part of the study is dedicated to the literature review, which consists of an empirical review and theoretical framework in Section 2. Section 3 contains methodology, Section 4 discusses research findings, and the conclusion is shown in Section 5.

2. Theoretical Framework

Prior studies have attempted to explore theories that may explain the influence of gender on performance, and one of them is agency theory. The agency theory in this regard explores how diversity tends to relate to board independence in the context of monitoring [3]. Furthermore, the subscribers of this theory argued that having a diverse board enhances the independence of the board members since different genders as well as cultural heritage, for instance, may trigger board activism. Along this line, Alhaji Sani et al. [9] maintained that females on board contribute immensely to corporate decision-making and greater monitoring. According to Wang [17], diversity in the corporate board could address the agency conflict and result in higher board performance.

However, from the tokenism perspective, that is the critical mass theory, female directors tend to be a better director when they reach a certain threshold [18]. Tokenism, according to Kanter [19], is an attempt to provide a representation of a small group in the society or those considered a minority. However, with regard to a corporate board, it is the practice of bringing in a minority, for example, females as directors. Researchers such as Conyon and He [20] are against this practice since it does not provide the opportunity to hire a director based on merit. Thus, this practice undermines corporate performance.

Apart from these theories, resource dependency theory is also used in diversity-related studies [9, 21]. The proponent of the resource dependency theory argued that there exists a direct and strong association between diversity and corporate performance [22]. Carter et al. [23] argued that a diverse board of directors is less likely to act as a “managerial rubber stamp” and more likely to act as a “watchdog for shareholders.” Such a board also promotes impartial observation and the settlement of disputes between managers and shareholders. The diversity of backgrounds, perspectives, abilities, and resources on boards improves the performance of a company. A diverse board has the potential to discipline management through its influence on dividend payout policy if it is active in resolving shareholder-manager conflicts and effective in monitoring them [22].

2.1. Literature review

Solakoglu and Demir [24] offered several arguments for why diversity should improve a company’s performance, particularly the board’s gender diversity. First, a diverse board of directors is supposed to enhance the performance of the company by offering a better comprehension of the market and, thus, the requirements for product or service market segmentation. Second, a more diverse board could encourage greater innovation and creativity, which would improve business performance. Third, more diversity on the board could improve the company’s reputation, which could eventually boost output. These arguments are in agreement with prior evidence on the role of female directors on the board in addressing corporate issues [25, 26].

From these, one could argue that women are expected to be more active and provide additional skills in the boardroom. This notion originated from the resource dependency theory which states that companies tend to rely on directors in providing the link to what companies are lacking. This will then improve their operational capabilities and consequently improve or raise

financial performance. This framework provides the basis for the influence of gender diversity on firm performance.

In their study, Solakoglu and Demir [24] demonstrated a significant relationship between gender diversity and firm performance for financial sector firms that target local markets and are either family-owned or block-owned. Additionally, a nonlinear positive relationship between performance and demographic diversity was discovered by Ararat et al. [27] who examined the impact of diversity on a firm’s performance in emerging markets.

On the other hand, there is conflicting empirical evidence regarding female directors and a firm’s performance in the literature that has been published to date. Olufemi [28] was unable to discover any connection between the female board membership and performance in Nigerian banks from 2015 to 2019. The study argued that a number of female board members and bank performance do not correlate as much. Temile et al. [29] reported that a negative but insignificant correlation exists between female memberships and CEOs and the financial performance of Nigerian companies. Using a multiple regression analysis of data from 2009 to 2016, Mohammad et al. [30] examined whether the number of women serving on the boards of directors and in medium-level executive management positions at Jordanian banks affected the banks’ bottom lines. The findings indicated that the percentage of women on banks’ boards and their financial performance did not statistically significantly correlate. Additionally, Wang [17] conducted a study that aimed to provide a more comprehensive and accurate assessment of the impact of gender diversity on a firm’s performance and corporate governance performance, with reference to the Taiwanese experience. Evidence from Taiwan indicates that improved financial and governance performance is not positively impacted by greater gender diversity on boards.

Fidasoski et al. [31] investigated the impact of diversity on boards from a sample of 35 firms from five different countries in Southeast Europe for the period between 2008 and 2012. According to the study, businesses that employ a higher percentage of women are typically overvalued in the marketplace. Campbell and Mínguez-Vera [32] from the Spanish market revealed that performance, as measured by Tobin’s Q, is positively and significantly correlated with the number of female directors on the board. The findings corroborate Ali et al. [33] who analyzed the impact of board gender diversity on performance using a sample of 1855 companies listed on the Australian Securities Exchange in 2006. The study revealed that gender diversity and performance are positive and significant. Also, Li and Chen [34] examined the connections between a firm’s performance and the gender diversity of the board. The study used panel data from A-share-listed nonfinancial firms in the Chinese market from 2007 to 2012. The result showed that the performance of the company was positively impacted by gender diversity on the board. Their evidence is consistent with Liu et al. [35] who compared how the accounting performance of firms is influenced by female independent directors and female executive directors. The study reported a benefit to corporate performance from having more female directors. Regarding female executive directors, it was reported that the impact is greater; hence, the study concluded that monitoring the role of female independent directors is less important for Chinese companies than providing advice by insider female directors.

Similarly, Bennouri et al. [36] investigated the relationship between female directorship and accounting-based performance. The study used a sample of 394 French firms from 2001 to 2010. The study’s conclusions demonstrated that having female directors

greatly raises return on assets (ROA). Galbreath [37] found that the presence of women on boards is associated with better financial performance through CSR in a sample of Australia's biggest publicly traded companies. Consistent with previous studies, Mukarram et al. [38] discovered that for widely owned Indian high-tech companies, the impact of female board members on market performance is favorable. The findings implied that societal perceptions of the role of women are what determine the association between market performance and the presence of female directors on Indian boards. This result supported the findings of Temile et al. [29] that female directors and firm performance are positively related.

Additionally, female chairs may likely be leaders who are participatory and democratic as opposed to men, who are typically directive and task-oriented [39]. This makes it possible for female chairpersons to improve the standard of a board's decision-making, which in turn has a positive impact on performance [40, 41]. Carter et al. [23] examined the association between firm value and board diversity for US Fortune 1000 companies. The study discovered a strong positive correlation between firm value and the percentage of women on the board. In Europe, Smith et al. [42] find that the proportion of women in the top management teams has a positive effect on various measures of firm performance for Danish firms. The result is consistent with the findings of Lückerath-Rovers [43] documented for the Dutch companies.

Sarkar and Selarka [44] demonstrated that from 2005 to 2014, the performance of Indian-listed companies was positively and statistically significantly impacted by the presence of female directors. In a different study, Sanan [45] finds a positive correlation between the number of women in the boardroom and firm performance as indicated by Tobin's Q. Nevertheless, the results change when endogeneity is managed through the application of theoretically better generalized method of moments (GMM) estimation methods. Furthermore, Jindal and Jaiswall [46] demonstrated that board diversity—including gender—is positively correlated with firm performance using a variety of board diversity dimensions. Likewise, Perryman et al. [47] indicated that companies with higher gender diversity in their leadership take fewer risks and perform better using data from the United States between 1992 and 2012 and Tobin's Q as a measure of financial performance.

The study of Low et al. [11] employed a sample of Asian firms from four (4) countries, namely, Hong Kong, South Korea, Malaysia, and Singapore. The study indicated that the greater the number of female directors on the board, the higher the performance of the firms. Alhaji Sani et al. [9] showed that a positive link prevails between female directors and a firm's performance. The study suggested that more engagement of women on a board will consequently enhance the firm's performance. The result of Ogunsanwo [48] is also congruent with the existing literature on gender diversity and performance. According to research conducted by Şener and Karaye [49], a company's financial performance has been observed to benefit from having more females on its board of directors. Compared with men, women have higher attendance records at board meetings, which raises the confidence of a company's stakeholders. Agyemang-Mintah and Schadewitz [50] examined whether the presence of women on the boards of UK financial institutions affects the value of the company before and after the global financial crisis. The study used secondary data from DataStream that spanned a 12-year period and included information on 63 financial institutions. To test the robustness of the results, several additional statistical estimations were performed, such as fixed effects and random effects. The results of the empirical study

demonstrate a positive and statistically significant correlation between a firm's value and the representation of women on the corporate boards of UK financial institutions.

Recent studies also highlight the influence of female directors on the financial performance of firms. Song et al. [15] using data from US lodging sector, to examine the effects of female directors on market performance, reported a positive and statistically significant association. Khidmat et al. [51] analyzed corporate performance in Chinese A-listed companies in relation to the diversity of the board. From 2007 to 2016, information was gathered from A-listed businesses that were listed on the Shenzhen 100 and the Shanghai SSE 180. To address the endogeneity issue, both a more dependable dynamic panel generalized moment estimation method and a fixed effects model were applied. After correcting for a variety of firms and board characteristics, the study found that gender diversity has a significant impact on the performance of A-listed Chinese firms for both the accounting and market measures. Female directors are favorably correlated with the ratios of sales to fixed assets and sales per employee [52]. In an African setting with weak institutions, Chijoke-Mgbame et al. [10] investigated the effect on financial performance of the proportion of women on corporate boards and audit committees. The findings, which were based on a panel of 77 companies, demonstrated that having more women on the board has a favorable and substantial impact on the financial performance of the company. According to the study, companies with two or more female directors experience a greater performance impact from gender diversity, suggesting that a higher proportion of women in leadership positions enhances a company's financial performance. Alhaji Sani et al. [9] investigated the effect of gender diversity on the board of the financial performance of Nigerian listed companies utilizing 400 firm-year observations as a sample from 2012 to 2016. The Thomson Reuters DataStream and the annual reports of the sampled companies provided the study's data. The paper used panel-corrected standard error in analyzing the data. According to the study, the presence of female directors and gender diversity had an impact on the financial performance of companies on the NGX. The results validated the claim that gender diversity improves a company's financial performance.

In support of the extant evidence and resource dependency theory, this study hypothesizes that:

H1: Board gender diversity is positively related to corporate performance.

3. Methodology

The sample of the study consists of 15 consumer goods companies in the NGX. The period of the study is 10 years, from 2012 to 2021, hence comprising 150 firm-year observations. Furthermore, the study extracted its data from the financial statements of the companies under review.

3.1. Model specification and measures of variables

Following Campbell and Mínguez-Vera [32], the study employed a panel data approach to estimate the model. The details of variables measurement and sources are shown in Table 1.

The model is presented below:

$$CPM = \beta_0 + \beta_1 BGD_{it} + \beta_2 FGE_{it} + \beta_3 FSZ_{it} + e_{it}$$

where CPM = corporate performance; BGD = female director on the board; FGE = firm age; FSZ = firm size.

Table 1
Measures of the variables

Variables	Measurement	Source
CPM	Net income after tax divided by total assets	Alhaji Sani et al. [9] and Campbell and Mínguez-Vera [32]
BGD	Number of female directors on the board	Alhaji Sani et al. [9] and Gul et al. [53]
FGE	Firm age that is the number of years since listing	Ullah et al. [2]
FSZ	Natural logarithms of total assets	Adamu et al. [54], Alhaji Sani et al. [9] and Campbell and Mínguez-Vera [32]

Note: CPM = corporate performance; BGD = female director on the board; FGE = firm age; FSZ = firm size.

4. Results and Its Discussion

4.1. Summary statistics

The results of summary statistics of the study are provided in Table 2. CPM has an average value of 0.08, while the smallest as well as the largest values are between -0.01 and 0.24, respectively. This indicates that there are companies in the sector that reported losses during the period while others have a steady positive performance. BGD has a mean value of 1.87 with the lowest and largest values of 0.00 and 4.0, respectively. The statistics showed that over the period, certain corporations had no single female director on their boards while others had up to 4. However, the study uses only two control variables FGE and FSZ. The average statistic of company’s age is 28 years with a maximum of 58 years since listed on the NGX. Regarding the size of the firm, the mean value is 7.83, with a maximum value of 8.59.

4.2. Correlation matrix

Table 3 presents the correlation matrix. The correlation was run to ascertain the relationship between the dependent independent and control variables used in the study with 150 firm-year observations.

The association between the dependent and independent variables is positive and insignificant. This is also the case with one of the control variables (FGE). However, the second control variable which is FSZ is positively associated with CPM and is statistically significant. Furthermore, the uppermost correlation between the variables is 2, hence less than the 0.80 threshold, and this will not have a serious multicollinearity threat [55]. The study also carried out further analysis of multicollinearity threat using variance inflation factor (VIF). The results showed that the highest VIF is 1.07 and the mean VIF is 1.05, which is below the upper limit of 10 [55]. The result is also reported in Table 3.

Table 4 shows the findings regarding the relationship between the corporate performance of Nigerian consumer goods companies and the gender diversity of their boards. The model of the study is based on fixed effects estimation as it was favored by the outcome of the Hausman test having a chi-square of 385.76 and a probability of 0.000. Regarding the variable of the study that is a female director (BGD), the result indicated that the relationship between female directors on the board (BGD) and corporate performance is positive and statistically significant. The result indicated that the presence of female directors is directly related to the corporate performance of the companies used in the study. This result supported previous studies [9, 23, 31–36], that found strong evidence from various markets around the world that female directors on the board are positively and significantly related to performance.

Table 2
Summary of statistics

Variables	Obs	Mean	Std. dev.	Min	Max
CPM	150	0.08	0.07	-0.01	0.24
BGD	150	1.87	1.10	0.00	4.00
FGE	150	28.63	15.85	3.00	56.00
FSZ	150	7.83	0.69	2.28	8.59

Note: CPM = corporate performance; BGD = female director on the board; FGE = firm age; FSZ = firm size.

Table 3
Correlation matrix and VIF test

Variables	CPM	BGD	FGE	FSZ	VIF
CPM	1.00				–
BGD	0.05	1.00			1.07
FGE	0.15	0.20**	1.00		1.04
FSZ	0.19**	-0.16	-0.04	1.00	1.03

Note: CPM = corporate performance; BGD = female director on the board; FGE = firm age; FSZ = firm size. **5% level of significance.

Table 4
Regression results

Variables	Fixed effect (ROA)			Random effect (ROA)		
	Coef.	t	P>t	Coef.	Z	P>z
BGD	0.009	1.740	0.084	0.011	2.19	0.029
FGE	0.006	3.730	0.000	0.001	2.07	0.039
FSZ	0.001	0.140	0.888	0.004	0.44	0.658
_CONS	0.267	3.390	0.001	0.116	1.67	0.095
R-Sq: bet	0.017			–		
R-Sqr over	–			0.0254		
Hausman	chi2(3) = 385.76			–		
	Prob>chi2 = 0.000					
Pesaran’s test	-1.271			–		
	Pr = 1.7962					
Ramsey reset test	F = 1.80			–		
	Pr = 0.1506					

Note: CPM = corporate performance; BGD = female director on the board; FGE = firm age; FSZ = firm size.

The results from the regression also revealed that their relationship with corporate performance is positive. However, only firm age is found to be statistically significant, thus indicating that older corporations tend to perform better than younger ones.

5. Conclusion and Policy Recommendations

Board diversity is one of the important aspects of corporate governance in today's contemporary business world particularly as it relates to performance. Hence, this paper investigates the role of board gender diversity on the corporate performance of consumer goods companies in Nigeria. The finding of the study is in support of resource dependence that higher board gender diversity triggers corporate performance. The study suggests that companies with zero female directors should hire them while those with a single female director should consider adding more since the performance of the company is more likely to be improved. This study to the best of my knowledge is one of the studies that dwells on female directors and financial performance in the consumer goods companies.

From the findings of this study, it is important to note that female directors in the consumer sector are hired based on their expertise which will in turn lead to higher financial performance. This refutes the tokenism view that female directors improve performance only when they reach a considerable threshold.

Consequently, this study differs from prior studies in terms of study period. The study covers a long period and uses the recent available data for the research. However, the study did not take into cognizance the effect of COVID-19. Further, investigation in this area can examine how COVID-19 may influence this relationship.

This study focuses on a single sector of the NGX which is consumer goods companies and how female director affect its performance. Future studies may consider female expertise in the sector of the NGX. Furthermore, future studies may also consider other sectors of the exchange or examine the nonfinancial firms of the NGX.

Ethical Statement

This study does not contain any studies with human or animal subjects performed by any of the authors.

Conflicts of Interest

The authors declare that they have no conflicts of interest to this work.

Data Availability Statement

The data that support this work are available upon reasonable request to the corresponding author.

Author Contribution Statement

Fatima Gana Mustapha: Conceptualization, Formal analysis, Investigation. **Idris Adamu Adamu:** Software, Resources, Data curation, Writing – original draft, Writing – review & editing, Visualization, Funding acquisition. **Zaharaddin Abudllahi:** Methodology, Validation, Supervision, Project administration, Funding acquisition.

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