

Does Board Diversity Leadership affect corporate decisions and risk control? Evidence from Kenyan Commercial Banks

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Abstract

The aim of this paper is to provide preliminary analysis of the relationship between corporate decisions, risk taking behavior and gender diversity. Using a panel of 28 Kenyan banks over the period 2000-2009, the study examined effect of corporate leadership in banks (number of female directors, proportion of female directors on boardrooms and gender presence in boards) and its value to board effectiveness, strategic control and monitoring of management. After controlling for relevant sources of endogeneity, the value of women in bank boardrooms could not be clearly justified. Particularly, the results show a negative association between profitability and female directors on the board and that diverse board in Kenyan banks probably lack decision control or are less effective. The study also shows that in the context of an emerging country, there is increased gender diversity in boards with women holding 9% of bank board seats in 2009. Larger boards and larger firms in addition to a long history of existence determine women appointment to the board. The study also finds evidence of a high risk appetite for a women director that does not pay off. In addition, the results support a positive association between gender diversity and financing costs. Overall, the results indicate tokenism is a key practice in the Kenyan banking sector.

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1. Introduction

This study seeks to examine and explore the value of gender differences in corporate leadership in Kenyan banking industry. Particularly, the study looks at the effect of board diversity on corporate decisions and functioning of bank board. Key issues to explore include how management style changes when female leadership is exogenously increased; is there any association between board strategic control, board effectiveness and women directors on the board? Does corporate board diversity affect corporate monitoring of management actions and accounting performance? The paper also investigates if measures of board inputs vary with gender diversity? To further explore gender differences in corporate leadership, we also examine women representation and board mix effect on corporate leverage as an indicator of corporate risk taking behavior.

A growing literature in economics and management points to fundamental differences in the leadership styles of male and female executives. Traditional stereotypes associate corporate leadership with masculinity (Koenig et al., 2011) and with masculine traits, such as power, confidence, aggression, and objectivity (Offermann and Beil, 1992). There is evidence in the management literature of successful female leaders adopting a distinctive and transformational style (Rosener, 1990; Bass and Avolio, 2006; Dezs  and Ross 2008). However, to better understand gender differences among corporate leaders, researchers have devoted effort in trying to assess the economic rationale for women inclusion in boards.

The role of women in board positions is getting increased attention (Nielsen and Huse, 2010). Some countries (e.g., Norway and Spain) have even introduced formal laws requiring female representation on corporate boards (Matsa and Miller, 2011). This is in recognition of the role and contribution of women in boards. Indeed examples abound of a purposeful search for female directors in boards merely for their contribution such as General Motors, PepsiCo and El Paso Corporations in the US (Hillman et al., 2007). However, research evidence is mixed as to whether there is a case for the presence of women on corporate boards of directors.

Notwithstanding, women have been found to contribute to governance, reducing CEO dominance due to their "power sharing" style as well as contributing to significant effects on board inputs. Woman directors, especially outsider directors, contribute an independent view to the board and demonstrate how one woman director's intervention can change the strategic direction of a company (Burgess and Tharenou, 2002). This is despite the corporate literature showing that women are better represented at low than at high management levels, and their representation on boards of organizations is at or below 15% (Catalyst, 2007). The divergence of findings on the impact of diverse corporate board leadership calls for more studies on the real effects of women directors on board decision-making and effectiveness.

Corporate governance and leadership issues are of particular interest to the banking sector, considering the likely conflicts arising from many stakeholders and the necessity to balance responsible risk management. This study provides new evidence from an emerging African economy that is relevant to the debate on the role of women in bank-boards by investigating the hypothesis that gender diversity in the boardroom affects governance and decision making. The study proposes that the effect of board diversity (measured by presence of women in boards) can be captured by differences in behavior when women and minority directors are present in the board. Hence, by assessing the effect of women involvement in decision making at the higher level of bank leadership, it can be established if gender diversity matters in influencing corporate direction.

Researchers in accounting, economics and management agree (Gulamhussen and Santa, 2011) that diverse boards are critical in exercising strategic control, tougher monitoring and financial decision making in firms. In management, boards monitor from agency perspective and often diversity of skills are needed for effective management of companies. It is argued that diversity is better for decision making particularly from a resource dependency perspective (Hillman et al., 2007).

2. Review of literature and background

The Kenyan financial sector is one of the broadest and most developed in sub-Saharan Africa (SSA) with 49 financial institutions; including 43 commercial banks, 1 mortgage finance company and five deposit taking microfinance institutions (CBK 2011). These banks, along with the Kenya Post Office Savings Bank, make up Kenya's formal banking sector and serve 22.6 percent of Kenya's adult population, according to FinAccess household survey results published in early 2009 (Beck et al., 2010). Non-bank financial institutions, including microfinance institutions (MFIs), savings and credit cooperatives, and mobile phone service providers serve another 17.9 percent of the population, bringing the total served by formal financial services to 40.5 percent. Another 26.8 percent of Kenyans rely on the informal financial sector, including NGOs, self-help groups, and individual unlicensed money lenders, while 32.7 percent of the population does not use any form of financial services.

In a report by the Central bank of Kenya on *Developments in the Kenyan banking sector for quarter ended march 31, 2012* the bank reported a growth in non performing loans (NPLs) in 4 out of 11 sectors. In addition, the gross NPLs increased by 1.3 percent from 53.0 billion in December 2011 to Kshs. 53.7 billion in March 2012. The report noted that high lending rates contributed to the increase in NPLs although banks had tried to enhance appraisal standards to mitigate credit risk. The report also indicated the main sources of income were interest on loans and advances accounting for 62 percent of revenue while fees and commissions made up 38 percent.

2.1 Corporate governance in banks: What is so special about it?

Financial institutions undertake many financial services that are indispensable for a modern economy. More specifically, the intermediation role played by banks raises issues on information asymmetry necessitating a risk management role by banks. It therefore comes as no surprise that banks are heavily regulated and their boards need to work extra hard to provide much needed protection of consumer interest as well stakeholders in general. For banks for example, perverse incentives or moral hazard as a result of safety nets generate conflicting interests among stakeholders, hence augmenting agency problem and raising corporate governance concerns.

A group of research studies allege that a more diverse board (measured in terms of female representation on boards) is associated with value increment (Hillman et al., 2005). This paper seeks to find out if enhanced corporate governance through female representation on boards benefits Kenya banks. In particular claimants such as depositors and creditors lack ability to efficiently monitor prudent running and decision making of banks and this can lead managers to become increasingly risk-covers. That is, risk loving managers may hold less capital and breach capital ratio requirements (PLinon, 2011). Although the control of capital levels within banking institutions by central bank takes care of this likely risk-appetite by managers, other operations within the bank such as a mismatch of asset-liability can render a bank vulnerable to bank-runs and or panics due to a liquidity problem.

However, women addition to bank boards can play a pivotal role based on the fact corporations actors make decisions based on their cognitive bases. Indeed research suggests people of different genders possess different norms, attitudes, beliefs and perspectives based on these differences and such differences facilitate creativity within groups (Hillman et al., 2005). Diversity for boards means the likelihood to question the status quo resulting to chances of making fewer bad decisions. However it has been noted diversity may also lead to decreased communication, less effective decision making, increased conflict and parochialism.

Commentators argue that diverse boards are more likely to end up recruiting someone who can navigate well between cultures (Hillman et al., 2005). In order to increase independence and diversity in bank boards, the Kenya Central Bank came up with new legislation on qualification for independent directors requiring half of the non-executive board seats to be held by independent directors (Business daily, Wednesday September 26, 2012; Pan et al., 2012). The new rules and definition of an independent director was set to bring increased diversity by limiting cronyism (old boys' network). Corporate governance experts argue a mode of operation

where majority of directors have the same orientation denies company boardrooms diversity that is critical for fresh ideas, debate and improved governance standards.

A diverse and highly independent board is important in controlling and monitoring management from opportunistic behavior (Rose, 2007). A board with a high degree of diversity may serve as a positive signal to stakeholders thus making the bank attract well qualified personnel as well as improving bank reputation and image. Theoretical developments across disciplines support the view that boards perform multiple functions such as monitoring, advising on strategic issues, supervisory and counseling as well as providing resources in terms of links and valuable contacts. If all these functions are to be well balanced, boards must pay serious attention to the question of diversity and board characteristics. Researchers recommend that one of the ways to assess this hypothesis is to investigate how well board actions are captured by accounting information (Gulamhussen and Santa, 2011).

Inclusion of female directors on boards is said to increase a firm's rationality with regard to risk-taking behavior and response to out of the norm decisions (Jia and Zhang, 2012). This is consistent with the view that women by nature are more cautious in taking risks and demonstrate a positive effect of gender on corporate governance. Good corporate governance in a bank for example is associated with compliance with code of good ethics (Pan et al., 2012). An example of good ethical behavior is the limit on insider loans; that is, loans granted to directors, managers, employees and bank associates. Banks with more independent and diverse boards are linked with low levels of insider (loans) and low risk exposure. Hence this study includes insider dealings as a proxy for engagement of a bank in a risky behavior.

2.2 Corporate Leadership literature

The term corporate governance refers to the system by which companies are directed and controlled (Campbell and Minguez-Vera, 2008). The components of corporate governance include management interest, the board of directors, principal shareholders, minority interests

and other stakeholders. In many countries, the system of governance of business organizations seems to be male dominated. A primary function of a board of directors is to hire executives who run the firm's day to day operations as well as provide oversight on company management and set corporate strategy.

Corporate governance characteristics include; board size, independence of board members, and structure of the board. The consideration of women inclusion on boards is said to be gender diversity (Adams and Ferreira, 2008). The highest proportion of women on boards is found in Norway, where by law listed companies should have as high as 40% of women directors. The question of women on boards has increasingly featured in many debates, including academics. However, arguments abound as to the value of women directors in company boards. Do they bring any leadership quality perspective in business or is the pressure for their appointment warranted? Is the status quo where women face a glass ceiling denying boards important contribution from these members of the society? These are pertinent questions that the current study seeks to address.

Appointment of women in the boards is influencing debates across countries probably because evidence suggests that women hold few executive positions in many countries- many firms have only one female for a good gesture (Adams and Ferreira, 2008; Jia and Zhang, 2012). It is also argued that inclusion of women in boards will enable tapping of a wider talent pool and increase much needed diversity (Gulamhussen and santa 2011). An investigation of US non-financial firm boards by Adam and Ferreira (2008) found that women behave differently than men in the boardroom and do affect board effectiveness.

However, the extent to which this applies to certain industries is not clear particularly in banking. The accounting and management discipline hold the view that boards are critical to strategic and financial decision making in firms. From an accounting perspective boards are paid

to play a monitoring role in addition to risk management control. In management, boards monitoring helps reduce the agency problem but also bring in resources in terms of management advice, counseling and industry connection. Across the disciplines a female board position is relevant because of diversity of skills required to manage companies. Gender and ethnicity/culture can influence the competence to monitor and advice and ultimately influence shareholder value.

The benefit of gender diversity stem mainly from the ability to tap into dissimilar networks and connections out of the group thinking on problems and solutions and the availability of participants regularly in meetings (Adams and Ferreira, 2008; Gulamhussen and santa ,2011). However, the costs of gender could arise from conflict emerging from divergent perspective, lack of cooperation and noise in communication.

The empirical evidence of the value of gender is mixed and weak (Rose, 2007).The findings are also more uncertain when it comes to banking sector because of the need for close monitoring by depositors. Specifically, to question whether gender diversity in boards influences performance and risk taking is important since banks play a critical intermediation role in any economy and although governance systems are regulated in banking, their legislation is difficult and hence the need for more guidance from academic research. Provision of financial stability is sought through regulation so as to safeguard against systematic risk. Indeed protection of consumer's interests as rationale for financial regulation is founded on the need to address information asymmetry problems that come because of ownership separation from management. This reinforces the need for sound governance systems particular with respect to supervision and monitoring.

From an agency theoretic stand point, gender diversity is suggested to impact on various duties assigned by corporate board (Campbell and Minguez-vera, 2008; Francoeur et al., 2008). For

example, female directors on boards might put forward the interests of employees and other stakeholders and this can impact on the company performance through quality monitoring. Arguably this is a business case for female participants on boards besides fact that their presence is also a matter of ethical consideration (Campbell and Minguez-vera, 2008). Overall, given women and men differences in leadership style (Nguyen and Faff, 2007) women on boardrooms have a special role to play.

The effectiveness of boards as monitors depends on a number of factors among them size of the board (Nguyen and Faff, 2007) qualification and experience of board members (Campbell and miguez-vera,2008), possible improvements in multiple directorships ,level of ownership and gender diversity and compensation among others. Without proper checks, failures on board effectiveness can impact on firm performance. Corporate governance studies have shown board structure and characteristics do destroy firm value (Nguyen and faff, 2007) due to costs involved in decision making processes and coordination. A relevant research question is “does presence of women on a bank board enhance shareholders value by bringing addition and perspective to corporate decisions?”

The current attention on monitoring role on boards and increased female appointments on boardrooms after collapse of a number of companies raises the question whether the female corporate leadership has value to offer. Hence the objective of this article is to examine an aspect of corporate governance, namely women participation in bank board. Some strand of literature does take women participation in boards as a matter of ‘tokenism’ (Francoeur et al., 2008; Adams and Ferreira, 2008). That means there is no contribution seen from them, but their inclusion in boards is more of window dressing to the public. The question this article seeks to answer empirically is:

- Does inclusion of female board members matter to a bank performance and corporate decision making?

- What impact do women bring to boardrooms particularly with respect to risk-taking behavior in a service industry like the banking sector?
- What factors in the banking sector of an emerging country influence appointment of women on boards?

Women are said to contribute to good governance due to their power sharing style (Burgers and Tharenou 2002). As a result women in board influence strategic direction of companies. It is also argued that women as board create cultures of inclusion through diverse workforce (Burgers and Tharenou, 2002). An Australian report claimed that well-balanced boards with women reduce the likelihood of corporate failure. Most top performing companies in USA 500 fortune companies are said to have at least one female director (Burgers and Tharaneous, 2002).

Although there is increased attention for women on Boards, research has failed to establish a case for their presence. It is argued that large companies tend to have more female directors (Burgers and Tharenou, 2002). Boards are comprised of individuals with significantly leadership experience (Nelson and Huse 2010). Directors are highly accomplished professionals with good track records. As such they have established their leadership style and behavior which most likely they bring into boardroom decision making. The ratio of women on boards represent a central tendency of a team thus gender diversity leads to difference in behavior.

Gender-based differences include genetic and communal attributes (Nelson and Huse, 2010). In the work setting women tend to be more communal while men tend to display genetic characteristics. Thus women are associated with concern for welfare, being affection, helpful, gentle and such while men ascribe to ambitious, assertive and attention seeking. Research has also established that women leaders are more cooperative and collaborative compared to male leaders.

It is argued that men and women who occupy positions of leadership behave alternatives due to their gender difference (Nelson and Huse, 2010; Hillman et al., 2011). However, review of

literature indicates that gender related differences are only for some behavior and not all corporate decisions. One area in board decision where women are likely to exert influence is in the area of board control. This is because of their sensitive nature. Thus it can be expected banks with high percentage of women on board (WOB) may be more effective in performing strategic control tasks (Nelson and Huse, 2010). Such decisions include capital expenditure decisions, risk taking and corporate decisions that lead to debt acquisition. These decisions tend to expose organizations to risks due to heavy outflow of cash flow. This study therefore seeks to evaluate the extent to which the ratio of female on boards is related to board strategic and operational control.

It is suggested (Nelson and Huse, 2010) boards open control can be assessed by looking at how the board influences corporate financial decisions such as capital budgets, firm liquidity, sales budgets and investment decisions. For banks, liquidity decisions are guided by the central bank where specified reserve ratios are supposed to be held. Board researchers agree that Board working structure is positively related to firm performance given board strong influence on routine decisions making.

In terms of gender based differences in corporate leadership (Nelson and Huse, 2010) it is not clear how women contribute to board effectiveness in respect to operational processes. Applying gender-based differences of leadership in the context of the board-level process, it is possible to explain how gender diversity affects board effectiveness. This argument seems plausible since individuals background can and do influence strategic choice. Given this understanding it can thus be hypothesized that a women's communal behavior in the workplace would tend to be more supportive and not confrontational. Thus Nelson and Huse (2012) suggests WOB would tend to accept and go along with CEO/top management proposition as opposed to questioning and increase debates exerting tight control on operational decisions as would be required in the banking industry. Reviews of prior research reveals that gender related differences in corporate leadership decisions are minimal (Nelson and Huse, 2010; Burgers and Tharenon, 2002).

3. Data and variable definition

3.1 Sample

The sample selection for the panel data analysis began with identification of the total population of the 44 commercial banks licensed under the Kenyan banking act. Financial data was obtained from Kenya bankers association while directors' information was collected from the central banks of Kenya. A number of banks had missing directors' information. Any bank that had no continuous financial data for the sample period between 2000 and 2009 was deleted from the sample. This reduced the banks for this study to a sample of 28 banks, comprising of 270 observations upon which the findings are based.

3.2 Measures of gender diversity

This study introduces three measures of gender diversity as number of women on the board, ratio of women on board and a dummy variable coded 1, if at least woman is represented on the board and 0, otherwise (Campbell and Minguez-Vera, 2008; Hillman et al., 2007; Adams and Ferriera, 2008). The dummy variable was included to test for resource dependency theory which suggests appointment of a particular type of director as a token or to represent a female in the bank. This differentiates banks with from those without any female director.

3.3 Independent, control and instrumental variables

The study included a number of independent variables in the analysis following Jia and Zhang (2012) and Gulamhussen and Santa (2011) and other studies that assess performance and risk – taking in banking. The ratio of debt to asset is measured to control for capital structure across banks while the ratio for equity to assets was used to represent risk preference and control for financial leverage or capital level of a bank. Banks could be risk loving where they chose to hold less capital against Basel accord II rules and turn part of the capital to loanable funds. Board size was measured by number of board members in the bank to control for scale of female representation while bank age was used to counter potential alternative explanation or inertia (Hillman et al., 2007). Banks that have been in existence for a long time may want to appoint a female director for sympathy purposes.

A group of bank specific variables were also included in the analysis such as; none performing loans (NPLs) to control for credit risk assumption by banks. Loan to asset ratio was estimated as a measure of liquidity. Insider loans were included to represent unethical behavior by bank management. A dummy variable was included to represent ownership type where it is hypothesized that female director appointment was depended on whether a bank is domestic or foreign owned. The relationship between female director and financial performance was also tested by including measures of profitability such return on asset (ROA), return on equity (ROE) and ratio of net interest income to total assets (NII/TA).

Additionally, the study considered a measure of income diversification, the Herfindahl Hirschmann index (HHI) to account for diversification between the two major types of income generating activities. The HHI index considers diversification as equal exposure to every source of income, and is itself a relative measure. Thus, this measure was used to estimate the extent to which female directors have influenced a concentration/or diversity strategy in the banks' income sources in the last 10 years. The study differentiates between two sources of income: NII (non-interest income) and NoNII (non-interest income). The Income diversification index is thus computed as follows:

$$\text{HHI (inc)} = [\text{NoNII/TOI}]^2 + [\text{NII/TOI}]^2$$

Where $\text{TOI} = \text{NII} + \text{NoNII}$ and TOI represents total operating income, NII captures net interest income and NoNII non-interest income. The HHI (inc) measures the shift into non-interest income or fee based income generating activities. As HHI rises the bank becomes more concentrated and focused on one source of income and thus less diversified. Diversification is a risk mitigation measure and is currently a big concern for the sector in Kenya.

There is the view that Kenyan banks over-emphasize this stream of income, but it is sensitive to changes in interest rates which is an exogenous factor for banks. To avoid declining or high volatility in reported profits banks need to refocus and engage in non-interest activities in order

to earn a more stable return. This is an important performance measure for boards as they are ultimately responsible for corporate financial reporting. Earnings stability is a big concern for any bank since it contributes to financial stability and bank reputation. A number of banking studies have addressed the idea that the shift to noninterest income is associated with higher risk and reduced risk-adjusted returns (Stiroh, 2004).

Traditional banking theory for example argues that credit diversification reduces the probability of default (Tabak et al., 2011). In this case less diversified banks are seen as more vulnerable to economic downturns by exposing themselves to fewer sectors. This suggests that credit portfolio would yield benefits if it is diversified. Among other reasons, it is also argued that a concentration strategy (lack of diversification) is highly related to risk because of the general belief that diversification by firms reduces risk (Lin et al., 2012).

Macro economic factors were also included to control for business cycles. These included lending rates and economic growth measured by gross domestic product in percentage terms. Other measures used were financing charges to assess control for borrowing within a bank. Provision for loan losses divided to gross loan portfolio was included so as to assess the level of default risk. To control for changes in liquidity expansion in the economy that could affect bank profitability, we included interest rates ruling in each period of the study.

3.4 Analysis

The key test for this study was regression analysis for the panel data covering 10 years from 2000-2009 for 28 banks included in the sample. The analysis also included finding as to what drives the appointment of female directors. Additionally and more importantly, the analysis addresses the issue of if diverse boards are associated with corporate risk taking behavior. An analysis for endogeneity was also done on the variables. A variance impact factor analysis (VIF) and Durbin-Watson statistic were computed for the three regression equations specified in the analysis for autocorrelation tests. It was expected that some of the variables could influence the relationships or mask on each other. Indeed the findings indicated the debt equity ratio was related to most variable in the model and was removed in the analysis.

It has also been shown that the size of the firm could influence inclusion of women as directors (Adams and Ferriera, 2008; Jia and Zhang, 2012). To control size effect, the study included total assets as a measure of size as well as the Central Bank of Kenya (CBK) categorization of the banks into tiers. The study grouped the banks into only two tiers although the CBK banks uses three sizes; large, medium and small banks according to the level of assets held. For purposes of this study, the small and medium banks were merged into one category.

4. Empirical Results

4.1 Summary Statistics:

The summary descriptive statistics on selected variables are presented in Table 1. The results suggest that the average return (ROA) for sample banks is 2.1% whereas the capital ratio averages 16% for the 10 years under study. The lending rates were on average 15% (INTRATE) and on average the banks gave the shareholders a return of 13% (ROE).

Table 1: Descriptive Statistics on selected variables

Variable	N	Mean	SE Mean	StDev	Minimum
Tier	270	0.3259	0.0286	0.4696	0.000000000
NPL	270	904	116	1903	-1.28
TA	270	21912	2047	33643	826
GDP %	270	3.637	0.137	2.252	0.547
Financing Cost	270	533.6	41.2	676.4	7.38
IntRate	270	15.807	0.192	3.160	12.530
NII_TA	270	0.05737	0.00111	0.01829	0.000000000
Eq/TA	270	0.16585	0.00581	0.09544	-0.10000
ROA	270	0.02130	0.00222	0.03644	-0.24000
ROE	270	0.1307	0.0409	0.6716	-10.1800
HHI	270	0.58417	0.00454	0.07461	0.50001
De/TA	270	0.83415	0.00581	0.09544	0.41000
De/Equity	270	6.335	0.233	3.832	-10.780
LLss/GLP	270	0.11378	0.00791	0.13002	0.000000000
Insider Loans	270	784	138	2272	0.000000000
BAge	270	32.98	1.47	24.19	8.00
BS	270	7.522	0.159	2.605	3.000
PFD	270	0.06504	0.00582	0.09562	0.000000000
FD	270	0.5704	0.0551	0.9047	0.000000000
FDI	270	0.3889	0.0297	0.4884	0.000000000

On average the banks in the sample have been in existence for about 32 years. The mean value of

the total number of directors (BS) is 7.522 while on average, at least one member of the board of directors is a female (FD). This result seems to be similar to other findings reported in corporate governance and women representation studies (Campbell and Minguez-vera, 2008). As clearly indicated by the results, women in Kenyan bank boards seem to be “tokens” or appointed to give a good image on representation (see figure 1).

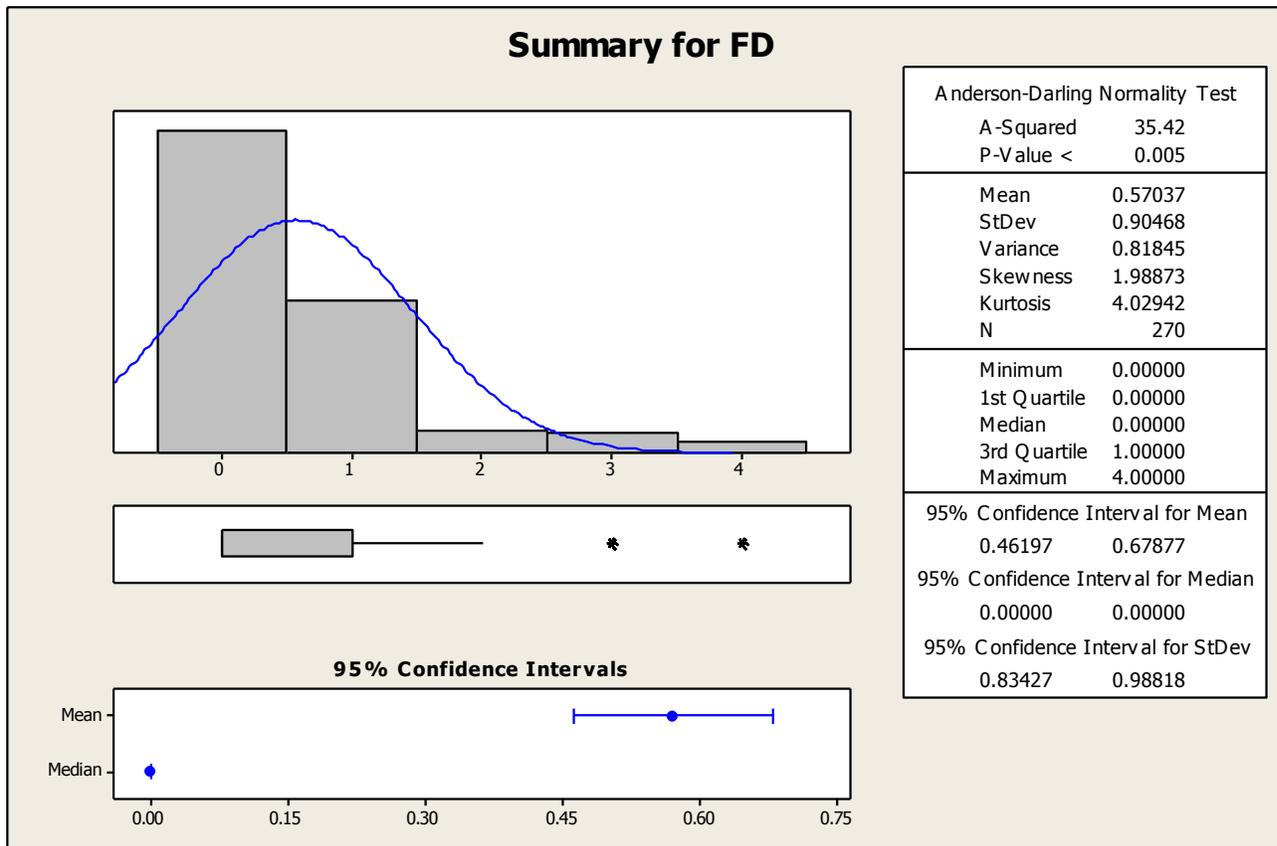


Figure 1: Women representation on bank boards

The percentage of female directors (PFD) in Kenyan banks (6.5%) is consistent with those reported for countries like Australia, Canada, Japan, and Europe that is estimated to be 8.7%, 10.6%, 0.4% and 8.0%, respectively (Adams and Ferreira, 2008; Gulamhussen and Santa, 2011). The bank board with highest number of board members is 16 while lowest has a minimum of 3 directors (see figure 2). The results also show that the highest number of female directors in a board is 3 women.

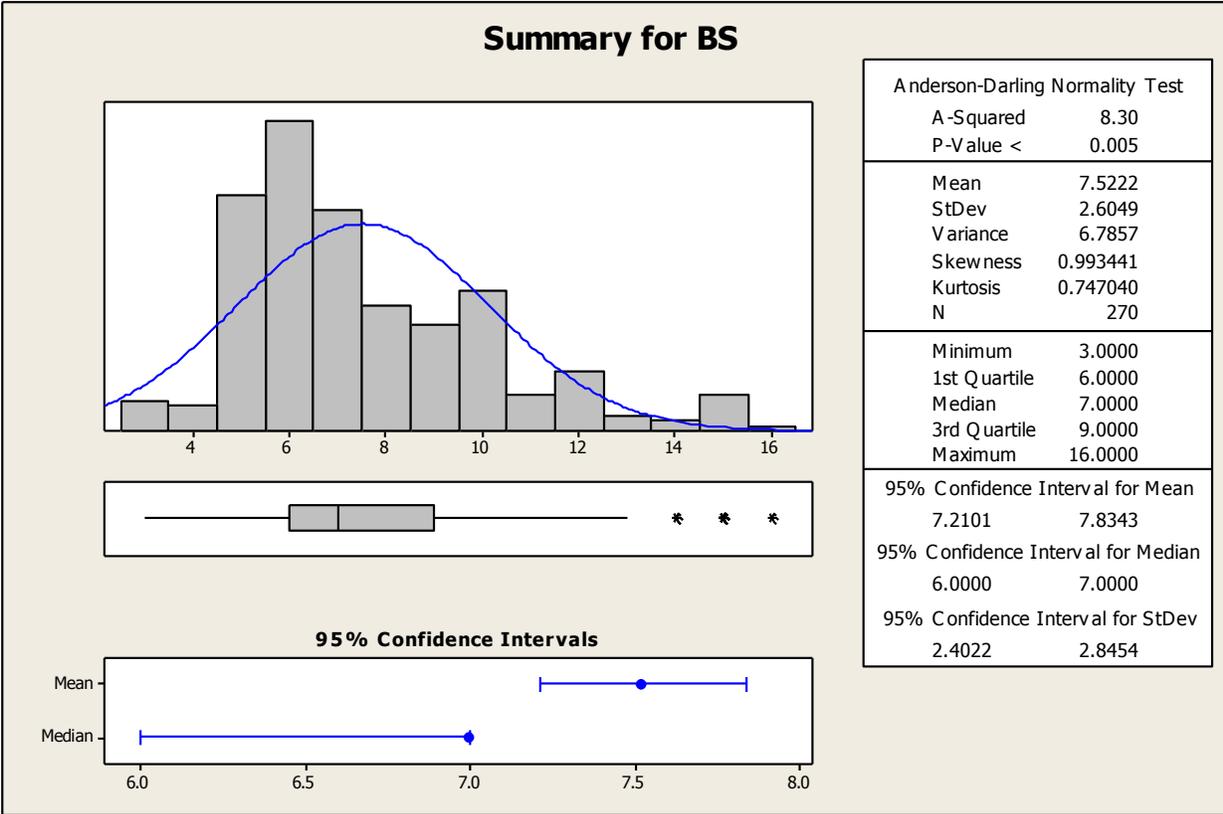


Figure 2: This figure presents Kenyan board size as held over a period of 10 years from 2000 to 2009.

In comparison with European countries which on average have about 8.1% of women on boards, the number of women (6.5%) on bank boards in Kenya seems to be low (Gulamhussen and Santa, 2011). However, an analysis of the boardroom trends in Kenyan banks shows that the sector has had a tremendous improvement in having increasing women on boards (see figure 3 for a trend analysis). On average the number of women in boardrooms has increased from 4% in 1998 to about 9% in 2009. Although this is lower than the USA (14.8%) for example, it matches very well with European countries and Canada which have women representation of about 10.6% and 8.4% respectively (Campbell and Santa, 2008; Adams and Ferreira, 2008).

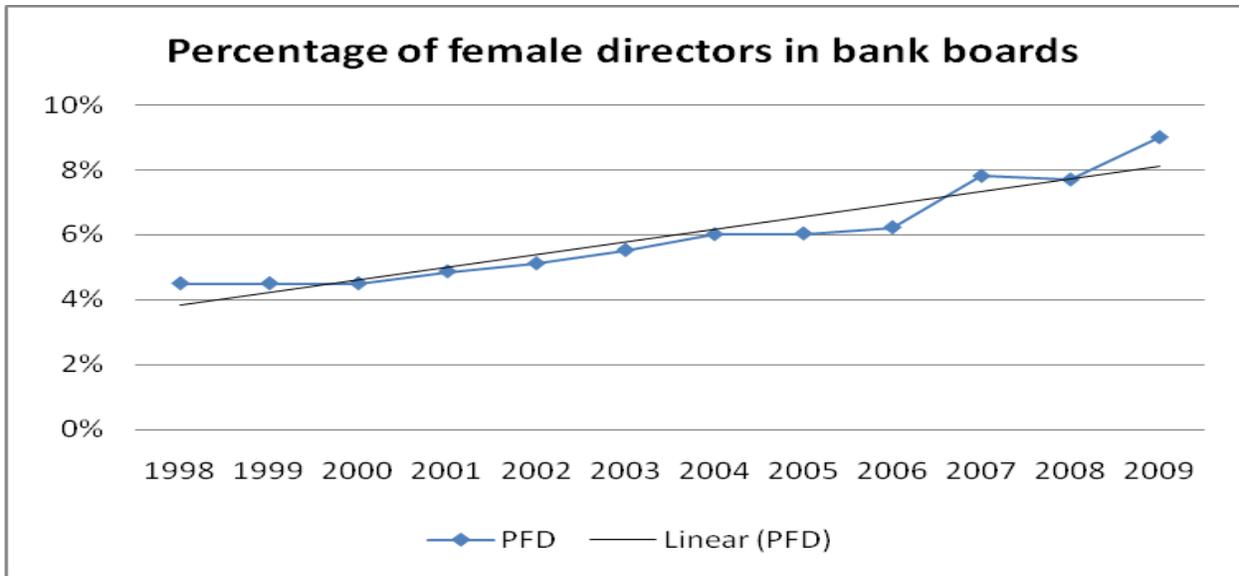


Figure 3: Women representation on bank boards in Kenya

The trend on women representation in bank boards is changing in Kenya as it is changing around the world with proposals of corporate governance reforms. As gender diversity increase in boards, one wonders about the effect of this increase on board effectiveness. This is particularly crucial when choice of women on boards goes beyond tokenism. A review of female director inclusion on boards overtime reveals that, adding a woman on the board is more likely to lead to an addition of more women on boards.

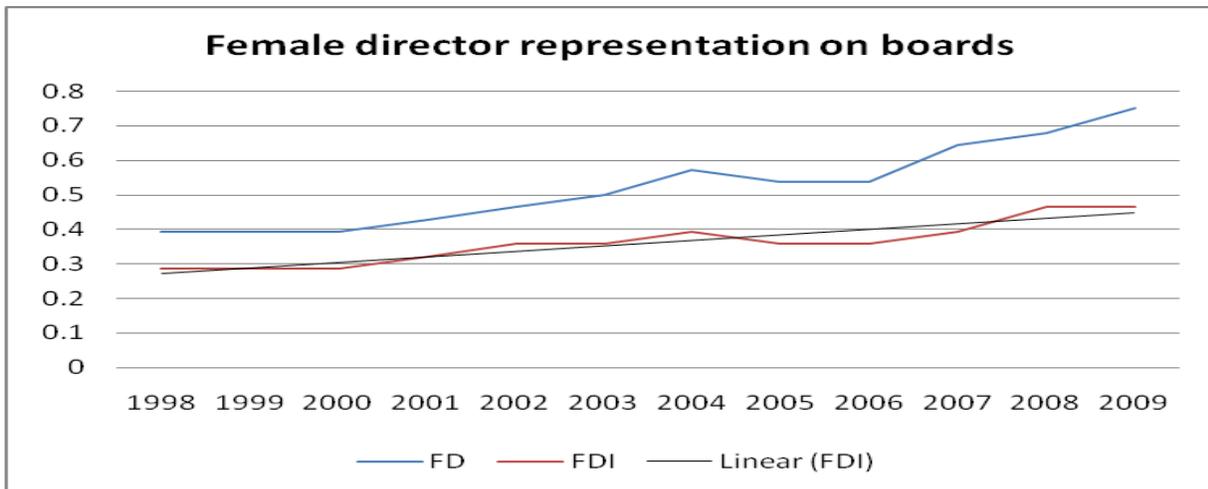


Figure 4: This figure represents female director inclusion (FDI) on bank boards overtime and average female directors (FD) added each year.

Figure 4 shows that Kenyan banks continued to add more and more female directors on boards on average till the trend was broken in 2004. In 2006, banks seem to be considering women for at average appointment. Notwithstanding, the glass ceiling or tokenism is still a glaring reality since for the last 10 years Kenyan banks seem to have a tendency of keeping one female director. Probably this is a proof of resource dependency theory. But, can token female directors influence corporate decisions? This paper seeks to answer these and more questions regarding the benefits female directors bring to corporate boards.

4.2 Board gender diversity and bank performance, and risk taking behavior:

The results of the relationship of female directors in bank board are reported in table 2.

Table 2: Regression Analysis Results

Predictor	Coef	SE Coef	T	P	VIF
Constant	0.1280	0.1941	0.66	0.510	
NPL	0.00004813	0.00000916	5.25	0.000	2.6
TA	-0.00000069	0.00000075	-0.92	0.360	5.4
Financing Cost	-0.00005622	0.00003139	-1.79	0.074	3.8
NII/TOI	-0.0352	0.1239	-0.28	0.776	2.4
Eq/TA	-0.5129	0.2602	-1.97	0.050	5.2
NII_TA	-0.8808	0.8262	-1.07	0.287	1.9
ROA	0.6789	0.4868	1.39	0.164	2.6
ROE	-0.14673	0.04248	-3.45	0.001	6.8
De/Eq	-0.033362	0.008631	-3.87	0.000	9.2
T/Insider Loans	0.00000322	0.00000637	0.50	0.614	1.8
BAge	0.0052477	0.0007591	6.91	0.000	2.8
BS	0.031790	0.006259	5.08	0.000	2.2
GDP %	-0.009542	0.006864	-1.39	0.166	2.0
O/ship	-0.01468	0.03210	-0.46	0.648	1.7
FDI	-0.27427	0.04840	-5.67	0.000	4.7
PFD	8.9928	0.2578	34.89	0.000	5.1
HHI	0.0379	0.2032	0.19	0.852	1.9
IntRate	-0.005692	0.005229	-1.09	0.277	2.3
Tier	0.12022	0.04358	2.76	0.006	3.5
S = 0.178881 R-Sq = 96.4% R-Sq(adj) = 96.1%					
Durbin-Watson statistic = 0.803346					

The analysis revealed that some of the variables in the regression model were highly related. Consequently debt to total assets ratio was removed from the equation. The fitted model results are presented in table 2.

Based on the economic arguments for female board representation, the results suggest that there is a relationship between increased female directors (Female directors on board= FD) in boards and a number of key variables. The estimated equation indicates a statistically significant (at 1%) positive correlation between non performing loans (NPLs) and more female directors. It thus appears that a woman's presence implies high level of NPLs in the bank. This result is surprising because the literature argues that women are tougher monitors and would tend to control for granting of loans that have a high probability of default risk.

The p-value for equity to asset ratio (CAPITAL) is significant at the 5% level and negative. This indicates that banks with high number of women on boards tend to be associated with low capital ratios. Low capital ratios mean that female directors love taking risk- by holding less capital. This is consistent with the result on NPLs but defers with findings of Gulamhussen and Santa (2011) who found that European banks hold high levels of capital ratio. A probable explanation for this behavior could be that Kenyan banks chose to leverage on loan capital. The ratio of debt to asset ratio is also highly significant and negative. This implies that diverse boards prefer low leverage and financial risk. The financing charges variable is significant at the 10% level and negative meaning that the more female directors are on the board the better the control for financing.

Results of the link between profitability and presence of female directors were not significant except for return on shareholders (ROE) which significant and negative. This suggests that presence of female directors means less return to shareholders contradicting previous findings (Gulamhussen and anta, 2011; Nguyen and Faff, 2007). This implies that diverse boards pay a high cost for the risks they take- meaning that such bank corporate decisions are not well compensated.

The results are however consistent with the expectation that larger banks, measured by the variable (TIER) are likely to have bigger boards (BS) and hence more likely to have women directors. This is consistent with Nguyen and Faff (2007) findings that suggest a firm is more likely to have a female director if it is larger and has a larger board.

A key finding of this research is that a diversification strategy (HHI) is not associated with presence of female directors. Equally important is the finding that ownership of a bank does not determine appointment of female directors. But the results are indicatively clear that the more mature the bank (BAGE) in terms of years of existence, the more likely it is to have female directors. As expected there is a positive correlation between the number of directors on the board and percentage of female directors (PFD). But the presence of female director (FDI) is a deterrent to appointment of more women on the board. The negative and highly significant relation between these two variables is clear indication of tokenism in corporate appointments in Kenyan banking sector.

5. Concluding Remarks

This paper addressed the issue of whether women representation in bank board influences corporate risk taking and bank performance in a sample of Kenyan commercial banks. Specifically, the study examined the impact of board gender diversity as measured by percentage of women on board, and number female directors on risk taking behavior and profitability. Using ROA, ROE and ratio of net income to assets as measures of profitability the study found that diverse boards are generally associated with less profitable banks. The implication of this finding is either women are not career bankers, or women presence creates an environment that does not promote good decision making at the board. The findings also demonstrate that presence of women in boards does not in any way affect return on assets- a key measure of bank performance.

The findings suggest that the higher the number of female directors, the higher the levels of loan default. The study finds that the high levels of NPLs are also associated with low capital ratios, meaning that not enough capital is available to caution losses from non performance of loans.

The risk preference of holding less capital is certainly not compensated as additional loans are consequently defaulted. Notwithstanding, the study established that diverse boards are good in controlling financing cost (or sourcing low cost finance) and that women directors are not associated with insider loan dealings.

A contribution of this study is the identification of key drivers of women inclusion on boards. Specifically, larger boards and larger firms in addition to a long history of existence determine women appointment to the board. Overall, the results indicate tokenism is a key practice in the Kenyan banking sector and that more often than not a female appointment in a corporate board is determined by whether the board has a woman appointee already or not. Quite commendable is the finding that women directors are associated with low financing costs. This could point to good negotiating skills, and or credible networks for cheaper resources. This is by itself an indication that this finding supports resource dependence theory as the key driver for women appointments in Kenyan bank boardrooms.

The study in the context of an emerging country, points to increased gender diversity in boards with women holding 9% of bank board seats in 2009. However, the value of women in bank boardrooms could not be clearly justified based on the results of the study. Probably the number of women directors need to go up higher for them to influence corporate decisions. This could also imply besides the men dominating decision making in boards, they are either too strong and women find it difficult to break the cartel networks or women lack decision control.

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