

Does Board Diversity affect Corporate Decisions: Evidence from banking sector in Kenya



A stylized blue hand icon with five fingers, positioned on the left side of the slide. The hand is open and facing upwards, with the fingers slightly spread. It is set against a white background that is part of a larger graphic design.

Does Board Diversity affect Corporate Decisions: Evidence from banking sector in Kenya

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Presentation Outline

- Introduction
- Brief review of research evidence
- Kenyan Banking sector findings
- Answer Questions

Introduction

- Women continue to lag behind in board appointments- with **diversity** varying btwn countries, and across industry sectors
- Statistics indicate- Number of female directors in many countries is low:- **EU leading as per FT**
- Sweden-21%; UK-**15.2%**; German-12.4%/15:
Spain- 3.1%/10; Portugal-0.7%.....Overall EUR 8.4%? -(Heidrick and Struggles, 2007)/'2012.
- In Africa, this matter is not reported- data?

Introduction..., Contd

- More stats; In **USA**- highest WOB,
 - Fortune 500-14.7%---up from 9.6% in 1995
- Other Countries-
 - Australia---8.7%
 - Canada---10.6
 - Japan---0.4%



We all agree that these Numbers are low & indicate a gender gap, but the big Question is WHY?

Introduction... Contd

- Many explanations exist for why the glass ceiling exists, But **there are more Questions not answered.**
- Female directors are on the increase world over in boards, but pace is too slow?-
 - EURO- 2001/5%--- 2008/8.4%---EU-27,2012/13%
 - USA – 1995/9.6%...2007/14.7%--- 4 EU countries- >15%
- Is it a problem of : Skills, gender, leadership capacities, ethics, contribution, culture or industry requirements, CGcodes /law?- Norway/Spain route
- This paper looks at Value of WOBs

Explanatory theories- female contribution



- What is the role of women on BOD?
- Arguments for WoB split btwn ethical and economic considerations
- Corporate leadership- theory states that there are differences btwn male & female leadership-value?
- But most arguments try to articulate women contribution based on a priori assumptions.
- However, is there empirical evidence to proof a business case for women inclusion on BOD or are their appts ethically determined?- Key Res. Qn

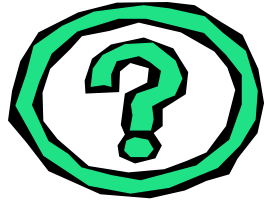
Role of WOB,

- Its suggested, diversity increases:
- Firm competitiveness- better market view
- Creativity and innovations-options
- Problem solving ability-broader perspectives
- Improves decision making processes
- **Reduces corporate risk**
- **Improves firm performance**
- Board effectiveness & independence- **mtgs**
- **Board monitoring and decision control**

Role of WOB... Contd

■ The role of women inclusion in boardrooms is a contestable issue

1. Homogeneous groups communicate better?
2. Diversity is good for decision making
3. Gender diversity generates more opinion, critical questions, **Quality discussions**, more conflicts and indecisiveness in decision making?----**FT**



-Is all these good news for boards?

■ The arguments encompass both positive and negative effects of female directors in firms

- *Empirical evidence is equally ambiguous*
- *Mixed results could be attributed to many things*
- *Contribution of Women on BODs –not clear*

Data, Research method

- **This research undertook an empirical assessment of the benefits/costs of board diversity in Kenyan banks**
- **Data collected in 28 out of 44 banks in Kenya**
- **Data included;**
 - Financial data
 - Corporate governance information
 - Gender diversity
- **Analysis included descriptive statistics and a regression model**

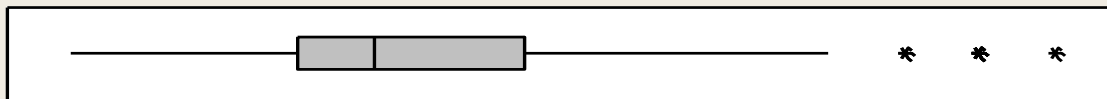
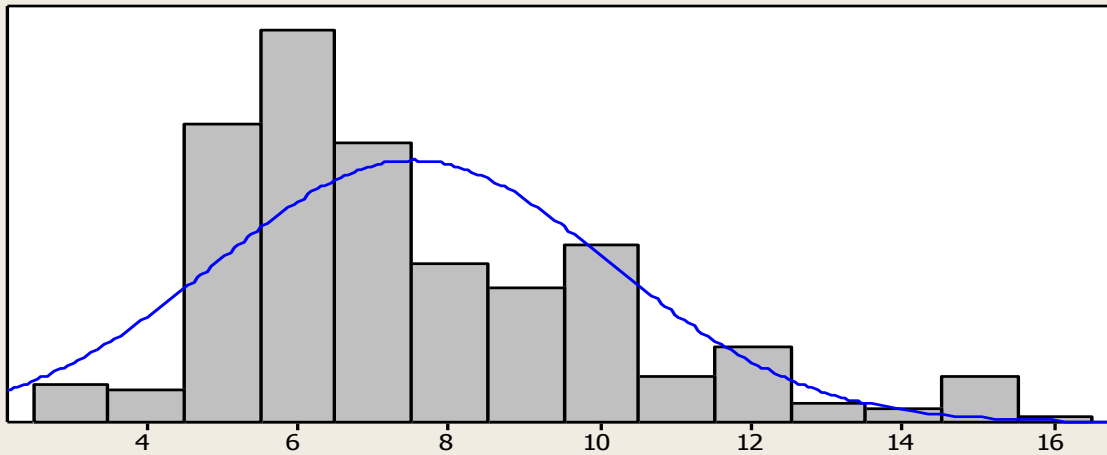
Theories tested

- Resource dependency theory-is inclusion of female director a response to calls, or they are a resource?– so called **Tokenism**
- **Decision control- Do WoB control for and monitor management decisions?**
- **Are WOB associated with better returns in banks?**
- **Do women on boards influence risk-taking behavior?**

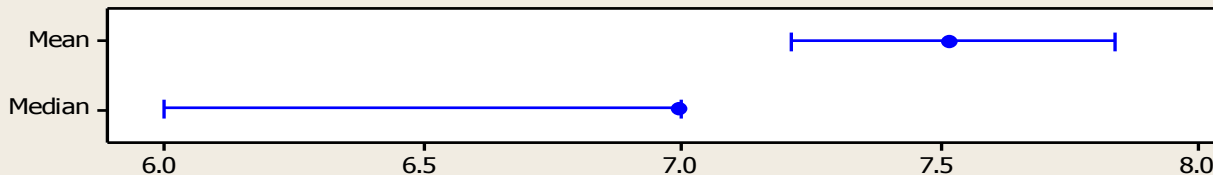
Findings

- Kenyan banking sector Corporate boards

Summary for BS



95% Confidence Intervals



Anderson-Darling Normality Test

A-Squared 8.30
P-Value < 0.005

Mean 7.5222
StDev 2.6049
Variance 6.7857
Skewness 0.993441
Kurtosis 0.747040
N 270

Minimum 3.0000
1st Quartile 6.0000
Median 7.0000
3rd Quartile 9.0000
Maximum 16.0000

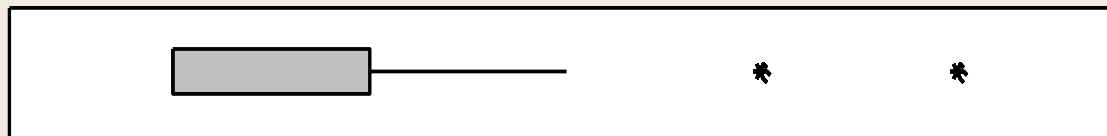
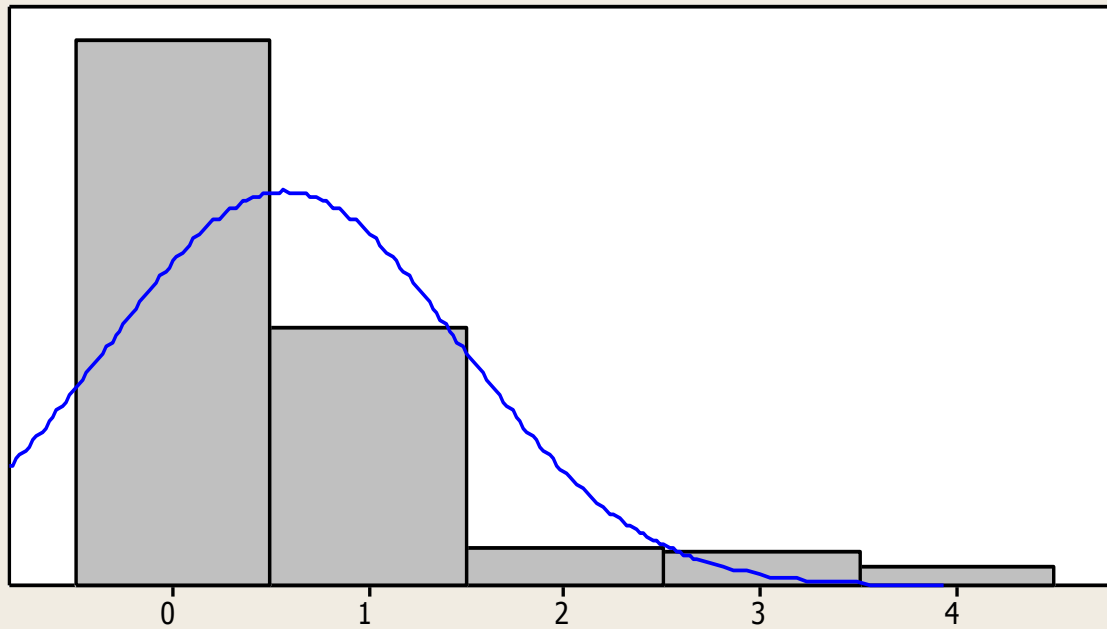
95% Confidence Interval for Mean
7.2101 7.8343

95% Confidence Interval for Median
6.0000 7.0000

95% Confidence Interval for StDev
2.4022 2.8454

Findings- # female directors

Summary for FD



95% Confidence Intervals

Anderson-Darling Normality Test

A-Squared	35.42
P-Value <	0.005

Mean	0.57037
StDev	0.90468
Variance	0.81845
Skewness	1.98873
Kurtosis	4.02942
N	270

Minimum	0.00000
1st Quartile	0.00000
Median	0.00000
3rd Quartile	1.00000
Maximum	4.00000

95% Confidence Interval for Mean	0.46197	0.67877
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95% Confidence Interval for Median	0.00000	0.00000
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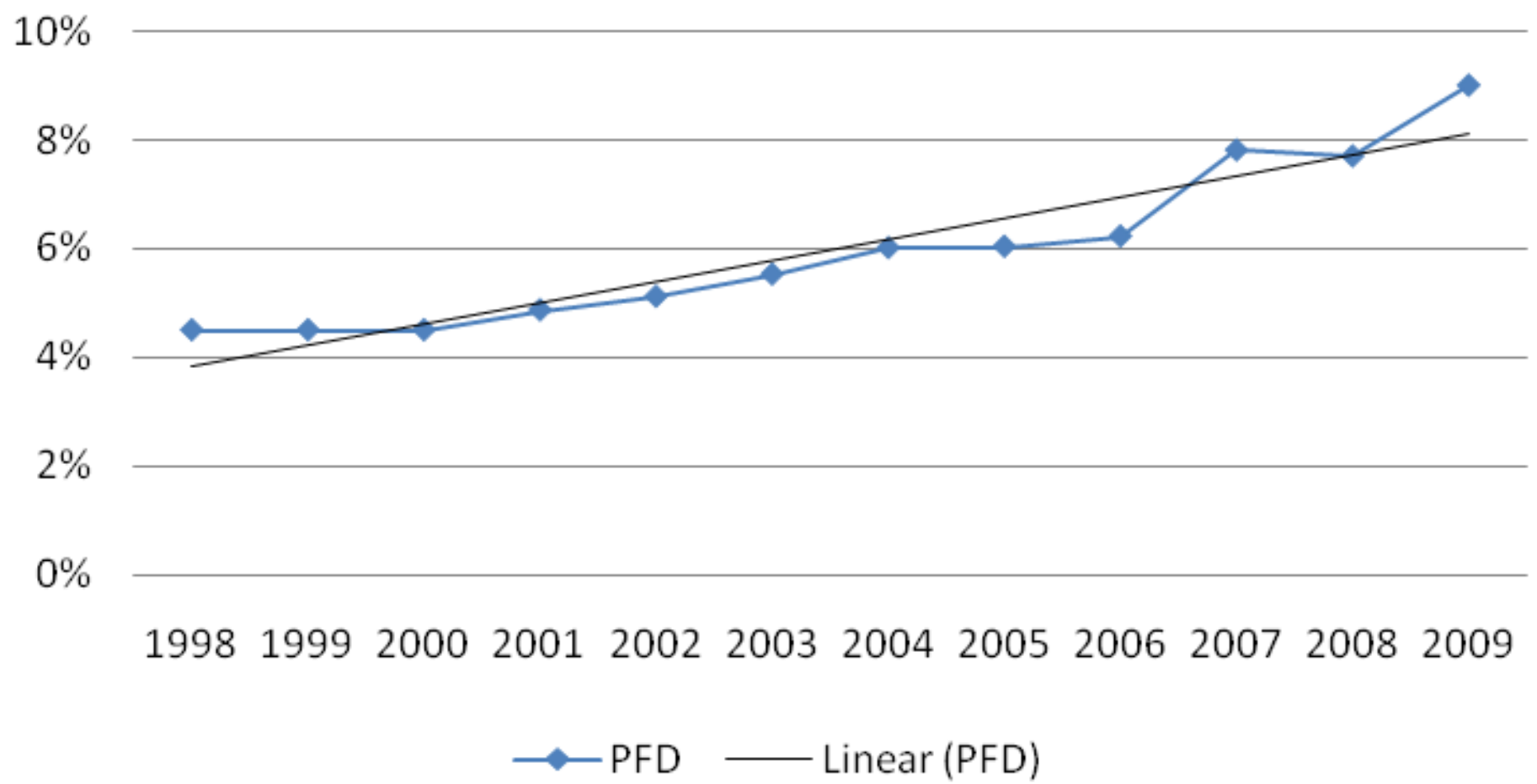
95% Confidence Interval for StDev	0.83427	0.98818
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Findings- Women representation

- The percentage of female directors (PFD) in **Kenyan banks** is - **6.5%**
- Results comparable with:
 - Australia- **8.7%**
 - Canada- **10.6%**
 - Europe- **8.7%**-EU-27/2012-13%
 - Switzerland – **7.2%**
 - France – **7.5%**---/2012-21%

Findings- Women representation

Percentage of female directors in bank boards



Findings- Regression model 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
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

Findings- WoB effect on cost control

- WoB associated with-
 - Low financing costs- pointer to; Networks, negotiation skills, concerned about drain on cash
 - Low financial leverage/risk of too much debt
 - Low levels of Insider loans/deals
 - Traditional banking strategy- No income diversification....Lack of innovativeness/venture to new ground?

Findings- WoB and Credit-risk taking



- WoB are linked with:
 - High NPLs-no control for default risk
 - Low Capital ratio- indicative of love for risk!

Less profitability to shareholders!

- Measured by ROE, NII/Assets
- Interestingly, ROA not significant in model-
female presence No effect on ROA
- **No compensation for Risk!**

Determinants for more women directors

1. **Bank maturity/history**- measured by age
2. **Bank size**- larger banks -more female directors
 1. Consistent with Fortune 500/EU large Listed Coys
3. **Board size**- larger boards are more diverse
4. **Presence of female director** on Board
5. **Tokenism**- ‘answer the call’, good ethics or at worst comply with law – Norway, Spain



Conclusion- Are WoB beneficial?



- YES/No !
- **WoB could be good and dangerous**, depends
 - For Kenyan banks, No support for effective control and monitoring role on risk
 - However, **clear monitoring on financing cost**
- **Tokenism practice**- either too few, or not strong enough to overcome male dominance
- Presence of female directors on Boards **-not economically justifiable for now!**
- More studies needed

