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Gender Diversity and Firm Performance: Evidence from Co-operative of Chitwan

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ABSTRACT

This paper examined the relationship between gender diversity and firm performance by taking the evidences from Co-operatives of Chitwan, Nepal. The study adopted descriptive and casual comaparative research design. Secondary data from annual report of the sampled co-operative were used for the analysis. SPSS and Gretl software were used for data analysis. The data of 90 co-operatives were collected from the annual report of the co-operative and Nepal Federation of Savings and Credit Cooperative Unions (NEFSCUN) and saving and Credit Cooperative Society (SACCOS). Based on the resource dependency theory, by measuring gender diversity as inclusion of female director in the boardroom, this study found the positive and significant relationship between gender diversity and firm performance and firm perfermonance is measured by the Return of Asset (ROA). Further analysis revealed that financial performance is positively related to age, level of education and multiple directorships of the female directors in the boardroom.

Keywords: Female directors, firm performance, gender diversity, cooperatives

Introduction

The aspect of gender diversity has been receiving growing attention due to the increasing demand for regulation in many developed countries ensuring females are given more and/or equal representation on company boards (Fernandez-Temprano and Tejerina 2020). On top of ethically oriented factors, there have also been economic implications suggesting that equal gender representation can significantly affect firm performance. However, in developing countries, having no or very little female representation on the board of companies is still a very common practice (Abdullah et al. 2016). The resource dependence theory claims that the presence of female directors on the board of companies can provide assurance to stakeholders about the companies' practice of diversity as well as improve their legitimacy and relationship with the surrounding environment (Luckerath-Rovers 2013). But the findings on the influence of female managers on firm and financial performance have been inconsistent. A positive correlation was found between the variables in the studies of Terjesen et al. (2016), Vieira (2018), Abdullah et al. (2016) and Ahmadi et al. (2018). Meanwhile, a negative association was found by Ahern and Dittmar (2012) and Marimuthu Maran (2009), while several other investigations failed to find any correlation (Chapple and Humphrey 2014; Bennouri et al. 2018; Ararat and Yurtoglu 2021).

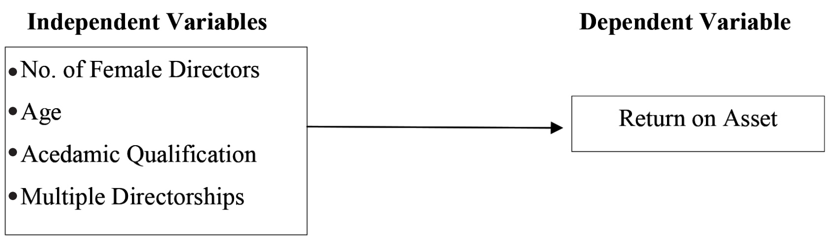
A cooperative is a limited liability entity organized for limited profit and socially responsible business, makes decisions on membership basis, and cares for the benefits of all of its members. As cooperatives are democratic organizations controlled by their members, who actively participate in setting policies and making decisions, they better serve towards economic democracy. As cooperatives are democratic organizations controlled by their members, who actively participate in setting policies and making decisions. So, it has different objectives and set up and they have goal of providing services to their members, not for generating abnormal profits for their owners and investors, they are much more likely to avoid the negative consequences of economic institutions primarily driven by the quest for ever-increasing profits. Cooperative provides different types of credit facilities in different sectorsmainly the business, agriculture, household, homes, and real estate, etc. respectively. The co-operatives have the responsibility of providing financial as well as technical assistance to the poor for generating income. Thus, the cooperative is viewed as an instrument to fill the gap between the haves and have not.

As per the report of Department of Co-operative, 2077, the total no. of female member is greater than male member by 26 % in the Bharatpur. So, the total participation of the female is greater that male and this fact must be explored and analyzed that the female participation is greater than male and what what is the condition about participation of female in the board room. Board of director is quite important and responsible for the well being of the whole organization and accounatbale for the better policy making. So, this reseatch addresses this issue locally. Additionally, the effect of gender diversity on the firm performance is inconclusive. Some reported a significantly positive relationship between board gender diversity and firm performance, but others reported a significantly negative relationship. Carter et al. (2003) proved that the board diversity could improve financial value, evidence from Fortune 100 firms but Ferreira (2009) showed that gender diversity transfer more effort to monitoring and the executive director become more sensitive to own equity. This result expressed a negative effect of gender quotas for director which could cause fewer takeover defenses and decrease the well-governed firm's value. So, the results of past studies are conflicting. So, this is the main purpose of this research to find positive, negative or no relation between the gender diversity and firm performance in the saving and credit cooperatives of the Chitwan.

Literature review

Gender diversity is a significant aspect of corporate governance; it refers to the presence of women as directors or women representation on corporate boards (Dutta & Bose, 2006; Wagana & Nzulwa, 2016; Fidanoski, et al., 2014). It is the level of heterogeneity in male and females that is portrayed in boardroom (Bekele, 2013). Gender diversity can be viewed as the recognition and promoting of different characteristics and skills of male and female as equal resources (Sumedrea, 2016; Ely, et al., 2003). Theoretically, the relationship between gender diversity and firm financial performance can be explained by agency, resource dependence, social psychological and human capital theory (Zahoor, 2016; Dang & Nguyen, 2016). Research around the globe confirms the benefits of gender-balanced board. While some studies found a positive relationship of gender diversity (Carter, et al., 2010; Low, et al., 2015), whereas some other scholors found no relationship (Afrifa , 2015; Sanan, 2016) and even negative relationship with firm performance (Eulerich, et al., 2014; Kilic, 2015). More diverse boards have an advantage in obtaining and maintaining essential resources (Hillman, Withers, & Collins, 2009), which can lead to better decisions and ultimately improve firm environmental performance (Kassinis et al., 2016). Research suggests that female directors are concerned with environmental problems and are motivated to support corporate reforms that aim to advance environmental quality (e.g., Glass, Cook, & Ingersoll, 2016; Post, Rahman, & McQuillen, 2015).

Boateng et al., (2020) found positive and significant relationship between gender diversity and firm performance from financial performance in the UK. They presented control variables in two categories namely control variables pertain to board characteristics such as board size, incentive policy, and CEO duality.But, Hassan (2018) found that increasing number of female directors has a negative significant impact on ROA. Similarly, Adams and Ferreira (2009) showed that gender diversity transfer more effort to monitoring and the executive director become more sensitive to own equity. This result expressed a negative effect of gender quotas for director which could cause fewer takeover defenses and decrease the well-governed firm's value. Besides, they think that the scarcity of women in the board room is not a big issue. It is quite interesting that some studies did not find significant relationship between gender diversity and firm performace. Agyapong and Appiah (2015) conducted a research titled "Effect of Gender Diversity on the Performance of Non-financial Listed Firms in Ghana". Sanan (2016) also did not find any relation between gender diversity and firm performance. The basic objective of this study is to examine the gender diversity and firm performance from the evidences of co-operatives of Chitwan. Firm performance which is measured by the ROA is used as dependent variable and this variable depends no. of female director, age, qualification and multiple directorships of the female directors, which are used as independent variable.



The following hypotheses are formulated and are tested for empirical verification based on theoretical predictions hypothesis, written as:

Hypothesis 1 (H1):- High female representation on company boards significantly and positively affects business performance.

Hypothesis 2 (H2):- firm performance will be positively related to multiple directorships of female directors.

Hypothesis 3 (H3):- firm performance will be positively related to age of female directors.

Hypothesis 4 (H4):- firm performance will be positively related to level of education of female directors.

Research Methods

The study adopted descriptive and casual comparative research design. 90 savings and credit cooperatives have been selected for my rssearch.The basic equation for building the model is as follows:-

ROA = α + β1 FEMALE DIRECTOR + β2 AGE + β3 EDU + β4 MULTIPLE DIRECTORSHIP + γ …. (1)

The details of variables have been presented in table mentioned below:

Where,

ROA = Return on Asset

γ is the random disturbance term,

α is the y-intercept term of the model

β1 = Coefficient of no. of Female Director

β2= Coefficient of Age of female director

β3= Coefficient of Education

β4= Coefficient of Multiple directroship

Table 1: Corelation

Variables	ROA	Female Director	Age	Edu	MD	BSIZE	LIQUIDITY
ROA	1						
Female Director	.749**	1					
Age	.492**	.399**	1				
Edu	.395**	.323**	0.168	1			
MD	.231*	0.139	.230*	0.122	1		
BSIZE	.360**	.582**	.285**	0.147	.278**	1	
LIQUIDITY	0.155	0.032	0.169	0.118	0.194	-0.157	1

Here, we can see only the correlation between ROA and no. of female director is high i.e. 0.749**.** Apart from no. of female director all other independent variables have lowest and moderate degree of correlation i.e. less that 0.7 with ROA and all of the independent vaiables are significant at 1% and 5% confidence level.Table 2 represents the regression analysis between the dependent and independent variable incorporated in this study.

Table 2: Regression Analysis

Model 1: OLS, using observations 1-90

Dependent variable: ROA

	Coefficient	Std. Error	t-ratio	p-value	
Const	0.029	0.387	0.075	0.940	
Female Director	0.539	0.068	7.879	<0.001	***
Age	0.026	0.009	2.789	0.006	***
Edu	0.218	0.106	2.058	0.043	**
MD	0.157	0.107	1.470	0.146	
BSIZE	−0.065	0.039	−1.667	0.099	*
LIQUIDITY	0.046	0.080	0.566	0.573	

Mean dependent var.	2.218	S.D. dependent var.	0.739
Sum squared resid	16.946	S.E. of regression	0.452
R-squared	0.6517	Adjusted R-squared	0.6265
F(6, 83)	25.888	P-value(F)	<0.001
Log-likelihood	−52.5651	Akaike criterion	119.130
Schwarz criterion	136.629	Hannan-Quinn	126.187
		Durwin-watson	2.116

****, ** and * indicate that the results are significant at 1%, 5% and 10% level respectively.*

In Table 2, value of the R^2 is 0.6517, which shows that the correlation between variables is 65.17 % and it explains that both explanatory and dependent variables have a relation of 65.17 %. Moreover, the value of adjusted R^2 is 0.6266 which means that 62.66% of the variation in the dependent variable is explained by the independent variables. The Durbin Watson (DW) statistic is a test for autocorrelation in the residuals from a statistical regression analysis the result showed that the value of Durbin Watson is 2.116 which indicates that there is no autocorrelation. There is significant positive association between no. of female director and firm's performance. Similarly, the age and the education have aslo the positive and significant realtio with the ROA. Additionnaly, the result revealed that multiple directorship and liquidity have also the positive association with ROA but they don't have significant relation. The regression model showed that the the association of board size and ROA is negative and significant.

Results and Findings

The result of the regression model showed that the no. female director significantly and positively affects firm performance. And this result is consistent with the study such as the findings of Darmadi (2013); Ming and Eam (2016); and Ararat and Yurtoglu (2021). Further analysis in respect of female attributes such as age, level of education, multiple directorship, prominence and whether the female board members hold also executive position have any influence on firm performance. Our results indicate that females with executive position on board, age and level of education exert a positive and significant influence on post-appointment performance. The findings of positive and significant relationship between female directors' education and age appear interesting and lend some support to human capital theory by Becker (1964) which argues that managerial knowledge and experiences are crucial for firm performance. Similarly, the findings resonate with empirical evidences by Smith et al. (2006) and Singh et al. (2008) who found a positive association between female directors with good education level. The result showed remarkable negative relationship between board size and firm performance. And the result is consistent woth the result of Hermalin and Weisbach (2003) and they mentioned that a larger board is not easy to manage, but smaller boards arw easier to coordinate and communicate. The result about liquidity is not consistent with the Alfawareh et al. (2021b) and Nguyen and Nguyen (2020).

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