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CONTENTS

Sr. No.	TITLE & NAME OF THE AUTHOR (S)	Page No.
1.	**AN ANALYSIS OF THE DETERMINANTS OF MINING INVESTMENT IN ZIMBABWE: BASED ON THE FLEXIBLE ACCELERATOR MODEL** *LYMAN MLAMBO*	1
2.	**FINANCIAL PERFORMANCE OF INDIAN GENERAL INSURANCE COMPANIES IN PRE RECESSION PERIOD** *DR. S.M.TARIQ ZAFAR & RITIKA AGGARWAL*	7
3.	**POSTAL SAVINGS IN INDIA – A COMPARATIVE ANALYSIS USING REGRESSION AND ARIMA MODELS** *S.NEHRU & S. RAJARAM*	15
4.	**FDI IN RETAILING: BOOST EMPLOYMENT OPPORTUNITIES FOR INDIA'S YOUTH** *DR. V.SELVAM*	21
5.	**KERALA BUILDING AND OTHER CONSTRUCTION WORKERS WELFARE FUND BOARD - A MACRO PICTURE** *DR. ABDUL NASAR VP, DR. ABOOBACKER SIDHEEQUE KT & DR. MUHAMMED BASHEER UMMATHUR*	25
6.	**GROWTH AND PERFORMANCE OF MICRO, SMALL AND MEDIUM ENTERPRISES IN INDIA IN POST GLOBALIZATION PERIOD** *R. PONMANI & DR. R. ANNAPOORANI*	39
7.	**MICRO-FINANCE: A CHANGING PARADIGM IN THE NEW ECONOMIC SCENARIO IN THE CONTEXT OF WOMEN EMPOWERMENT** *DR. V.V. SUBBA RAO & T. MADHUSUDHAN RAO*	42
8.	**BAMBOO CULTIVATION IN DIMAPUR, NAGALAND – GROWERS PERCEPTION** *DR. P. NATARAJAN & IMTINUNGSANGJAMIR*	47
9.	**USE OF Z-SCORE ANALYSIS FOR EVALUATION OF FINANCIAL HEALTH OF INDIAN OIL REFINERIES** *DR. A. VIJAYAKUMAR & P.GOMATHI*	53
10.	**IMPACT OF PSYCHOLOGICAL FACTORS ON EMPLOYEE TURNOVER INTENTION** *MUHAMMAD RIZWAN, MARIA SHAHID, HAMNA SHAFIQ, SUMAIRA TABASSUM, RAFIA BARI & JAVERIA UMAR*	63
11.	**WOMEN ENTREPRENEURSHIP IN INDIA** *JYOTI KANDPAL BHATT, NEERAJ SHARMA & DEEPIKA GOEL*	70
12.	**THE ROLE OF LOCAL INSTITUTIONS FOR SUSTAINABLE LIVELIHOODS: THE CASE OF HAOR FISHERMEN IN BANGLADESH** *ROMAZA KHANUM*	75
13.	**STRUCTURAL CHANGE IN NORTHERN STATES OF INDIA** *TINA SINGH*	80
14.	**INDIAN IPO MARKET - QUO VADIS** *RASHI M. GOPLANI*	84
15.	**FINANCIAL PERFORMANCE EVALUATION OF PRIVATE SECTOR BANKS IN INDIA: A COMPARATIVE STUDY** *DR. KUSHALAPPA. S & PRADEEP R BHANDARY*	91
16.	**EMOTIONAL INTELLIGENCE OF FEMALE FACULTY IN COLLEGES** *P.YASODHA*	95
17.	**EFFECTIVE EDUCATION FOR DIFFERENTLY ABLED CHILDREN IN REGULAR STREAM: PERCEPTIONS OF TEACHERS** *DR. K. PARTHASARATHY*	99
18.	**WOMEN EMPOWERMENT THROUGH SELF- HELP GROUPS IN PUDUCHERRY: A CASE STUDY OF YANAM** *DR. R.UMA DEVI*	104
19.	**HINDRANCES TO MICROFINANCE SUSTAINABILITY IN RAJOURI DISTRICT OF JAMMU AND KASHMIR** *AASIM MIR*	112
20.	**A STUDY ON FACULTY STRESS IN SELECT COLLEGES IN KANCHIPURAM DISTRICT** *B.SATHYA & DR. M.MURUGAN*	115
21.	**GROWTH, PERFORMANCE AND DETERMINANTS OF AGRICULTURAL VARIATION IN PUNJAB: AN INTER DISTRICTS STUDY** *JASPAL SINGH, NIRMAL SINGH & KULVINDER SINGH*	119
22.	**PROMOTING ORGANIC FARMING: AN ANALYSIS OF STATUS AND ISSUES OF UTTARAKHAND ORGANIC COMMODITY BOARD** *SHALINI SINGH & VISHNU SHANKER MEENA*	127
23.	**RESEARCH ON THE VARIABLES THAT HAVE AN IMPACT ON EMPLOYEE SATISFACTION AND TURNOVER INTENTION** *MUHAMMAD RIZWAN, NIMRA SHAHZAD, QANDEEL SHEIKH, SANIA BATOOL, MARYAM RIAZ & SAMINA SIDDIQUE*	131
24.	**THE DETERMINANTS OF LEVERAGE OF THE LISTED COMPANIES IN SRI LANKA: AN EMPIRICAL STUDY** *S.ANANDASAYANAN, V.A.SUBRAMANIAM, A.SIREERANHAN & M.RAVEESWARAN*	139
25.	**THE IMPACT OF COMMERCIAL BANKS' ACTIVITIES ON RURAL ECONOMIC DEVELOPMENT IN NIGERIA** *OKE, MARGARET ADEBIPE & SAMUEL, IYIOLA KEHINDE OLUWATOYIN*	144
26.	**THE PERFORMANCE OF SMALL MEDIUM ENTERPRISES (SME's) OPERATED BY WOMEN AND MEN IN THE NON AGRICULTURE ROLE ENTERPRISE IN NANDI COUNTY, KENYA** *STEPHEN K. CHELOGOI & EVERLINE C.TUM*	150
27.	**ACCESS TO AND IMPACT OF CREDIT ON HOUSEHOLDS WELFARE IN NIGERIA** *UGWUANYI, HILLARY CHIGOZIE & OMEJE, AMBROSE NNAEMEKA*	154
28.	**BOARD GENDER DIVERSITY AND PERFORMANCE OF LISTED COMMERCIAL BANKS IN KENYA** *UMULKHER ALI ABDILLAHI & MUGANDA MUNIR MANINI*	159
29.	**INDIAN TEA PRODUCTION: AN ANALYSIS** *P.V.ANIL*	166
30.	**THE IMPACT OF THE BRAND TRUST, BRAND ATTACHMENT, BRAND COMMITMENT ON BRAND LOYALTY** *MUHAMMAD RIZWAN, WAQAR AHMAD BHATTI, SAMRAIZ TAHIR, CH. SAJID ALI, FARAZEEN HASEEB PEERZADA, AFFIFA NAZ & QURAT-UL-AIN ZAHRA*	169
	REQUEST FOR FEEDBACK	175

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BOARD GENDER DIVERSITY AND PERFORMANCE OF LISTED COMMERCIAL BANKS IN KENYA

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ABSTRACT

Board gender diversity is heralded by some academics and practitioners as the new mechanism of corporate governance and has gained prominence because of global financial crisis and major corporate failures that shocked major financial centers of the world. This paper investigates the impact of board gender diversity on firms' financial performance using five years data from the year 2007 to 2011 with a sample of nine Kenyan commercial banks. Two financial performance indicators such as return on asset and return on equity were used. The study controls the effect of size, capital and credit risks of banks. The study utilized explanatory research design. Document analysis was employed to collect secondary data. The regression results showed statistically insignificant positive relationship between board gender diversity and bank financial performance. The overall conclusion of the study shows that board diversity has no effect on performance of listed banks in Kenya. It was found that the percentage of female directors is very low and the boards are male dominated. The findings of the study have significant managerial and theoretical implications.

KEYWORDS

Board diversity, Corporate Governance, Commercial Banks, Gender diversity and Financial Performance.

1.0 INTRODUCTION

Board gender diversity has received new urgency because of global financial crisis and major corporate failures that shock major financial centers of the world. Board diversity has become an important factor in managing organizations in the current global and complex environment. Given the increased public scrutiny around boards and corporate governance, board composition in terms of gender diversity and the skill/experience mix is anticipated to shape corporate performance. (Imam and Malik, 2007).

Board gender diversity can be defined as the presence of women on the board of directors and is an important aspect of board diversity and corporate governance (Carter et al. 2003) .It follows that diversity of board members in terms of their skills, experiences and networks enhances decision making improving performance.

Gender diverse boards allocate more effort to oversight and monitoring. In particular, female directors improve board inputs, have higher board attendance, improve board attendance of male directors, are more likely to take up monitoring positions on audit, nominating and corporate governance committees rather than on the compensation committee, and are more likely to hold CEOs accountable for poor performance. (Adams and Ferreira 2008)

Globally, women are lagging far behind their male counterparts in board directorship especially in developing countries since the corporate boards are male dominated. However, the existing literature reveals a slow but steady rise in female presence on boards of directors of companies across the globe. Proposals for board reform have specifically argued that gender diversity improves board effectiveness and therefore have called for more female directors on the board. In their quest for board reform, Sweden has proposed to make 25% female directorship a legal requirement, Norway requires 40% representation by the end of 2008 and Spain requires 40% representation by the end of 2015(Higgs, 2003). In Kenya, corporate boards including those of commercial banks are said to be male dominated (Business Daily, 2010). The Institute of Directors of Kenya decries that this appointment process denies majority of the women the chance to be selected to the corporate boards hence depriving the organization this important resource. This therefore means the effect of a diverse board on firm value as pointed out by Carter et al. (2003), Kim and Rasiah (2010) may not be felt in the Kenyan context. However, this situation may not last especially with the passing of the new constitution which requires female participation in almost all spheres of life.

According to Farrell and Hersch (2005) who studied Fortune 500 and Service 500 companies to establish how gender influenced board selection found out that women were added to the board until the company's diversity goal was met and that once they were pleased that the bare minimum female board representation was ensured, they no longer looked to increase the number of female directors.

Lupu and Nichitean (2011) asserted board gender diversity of banks in developing economies is of even greater importance given the dominant position of banks as providers of fund. In developing economies banks are typically the most important source of finance for the majority of firms. A sound financial system is based on profitable and adequate capitalized banks. The performance of banks is affected by good corporate governance practice and policies. In Kenya, corporate boardrooms are not yet much diverse as far as gender is concerned because presence of women on boards of directors is limited. Despite this aspect, little attention has been paid to the research of gender diversity in less developed economies in general and particularly in Kenya. The present study examines whether gender diversity affects the financial performance of commercial banks in Kenya.

An Overview of the Commercial Banking Sector in Kenya

The commercial banks in Kenya are licensed and regulated pursuant to the provisions of the Banking Act and the regulations and prudential guidelines issued by the Central Bank of Kenya. According to the CBK (2011), the banking sector comprised 43 commercial banks, 1 mortgage finance company, 2 deposit taking microfinance institutions, 2 representative offices of foreign banks and 126 foreign exchange bureaus. In Kenya the corporate governance of banks is directed and supervised by the Central Bank of Kenya. The Central Bank of Kenya monitors and controls the banking business and functions as regulators of the country's money supply. Accordingly, CBK issues directives on the size, composition and competence of board of directors. According to the Banking Act, the CBK is responsible for issuing directives on the qualification and competency to be fulfilled by directors; the minimum number of directors in the membership of the board of a bank, the duties, responsibilities and good corporate governance of the boards of directors of bank and the maximum number of years a director may serve in any bank. The Kenyan banking system is well regulated with the CBK conducting off-site and on-site surveillance. Over the last few years, the Banking sector in Kenya has continued to growth in assets, deposits, profitability and products offering. The growth has been mainly underpinned by an industry wide branch network expansion strategy both, automation of a large number of services and a move towards emphasis on the complex customer needs rather than traditional 'off-the-shelf' banking products. Players in this sector have experienced increased competition over the last few years resulting from increased innovations among the players and new entrants into the market

The financial liberalization reform of 1995 allowed the participation of private financial institutions in the economy. Private Banks' participation has increased and hence the share of their banking assets to total commercial banking assets increases. The banking environment in Kenya has, for the past decade, undergone many regulatory and financial reforms. These reforms have brought about many structural changes in the sector and have also encouraged foreign banks to enter and expand their operations in the country. Kenya's financial sector is largely bank-based as the capital market is still considered narrow and shallow (Ngugi *et al*, 2006). Banks dominate the financial sector in Kenya and as such the process of financial intermediation in the country depends heavily on commercial banks. In fact Ngugi *et al*, (2006)describes the banking sector in Kenya as the bond that holds the country's economy together. Sectors such as the agricultural and manufacturing virtually depend on the banking sector for their very survival and growth. Key banking sector policy developments which have taken place include the introduction of credit reference bureaus, Islamic banking, agency banking and licensing of deposit taking microfinance institutions (CBK 2010). As in most developing countries, financial sector policy in Kenya aims at achieving more effective intermediation, and improving soundness and depth (Ngugi *et al*, 2006). According to (Ngugi *et al*, 2006)the Kenyan authorities have chosen to pursue these goals within a distinctive strategic framework for the financial sector, and emphasize the importance of further strengthening corporate governance and accountability of financial institutions. Ensuring better corporate governance of corporations, financial institutions and markets is increasingly recognized as a pre-condition for the economic development.

2.0 REVIEW OF LITERATURE

This section discusses the relationship between board gender diversity and firm performance. The justification for the inclusion of control variables is also presented.

2.1 BOARD GENDER DIVERSITY AND FIRM PERFORMANCE

While significant research has been conducted in the general areas of diversity, corporate boards and firm performance (Sanda et al, 2005; Aljifri and Moustafa, 2007; Sunday O, 2008; Lupu and Nichitean, 2011; Al-Hawary**,** 2011; Khan et al., 2011; Al Manaseer et al., 2012), relatively limited number of gender diversity studies has been undertaken. Further, studies on the relationship between gender diversity and firm performance have produced conflicting results.

Gender diversity is part of the broader concept of board diversity. Boards are concerned with having right composition to provide diverse perspectives. Greater female representation on boards provides some additional skills and perspectives that may not be possible with all-male boards (Boyle and Jane, 2011). Board diversity promotes more effective monitoring and problem-solving reducing information asymmetry. Boyle and Jane, (2011) suggest that female board members will bring diverse viewpoints to the boardroom and will provoke lively boardroom discussions.

Gender diversity in the boards is supported by different theoretical perspectives. Agency theory is mainly concerned with the monitoring role of directors. Representation from diverse groups will provide a balanced board so that no individual or group of individuals can dominate the decision-making of the board (Erhardt et al., 2003). The management may be less able to manipulate a more heterogeneous board to achieve their personal interests. Gender diversity is associated with effectiveness in the oversight function of boards of directors. The oversight function may be more effective if there is gender diversity in board which allows for a broader range of opinions to be considered.

The study undertaken by (Erhardt et al., 2003), provided evidence on the relationship between demographic diversity on boards of directors and firm financial performance. The relationship was examined using two years financial performance data and percentage of women and minorities on boards of directors for 127 US companies. Correlation and regression analyses indicate board diversity was positively associated with financial indicators of firm performance (return on asset and return on investment). According to Erhardt et al. (2003), diversity of the board of directors and the subsequent conflict that is considered to commonly occur with diverse group dynamics is likely to have a positive impact on the controlling function and could be one of several tools used to minimize potential agency issues.

Rose (2007) examined whether female board representation influence firm performance using all Danish firms listed on the Copenhagen Stock Exchange during 1998–2001 excluding banks and insurance companies with 443 firm-time observations. Its objective was to explore the impact of board diversity on firm performance. Cross sectional data analysis method was used. Tobin's Q was used as a measure of performance and board gender diversity were measured as percentage of female directors and using dummy variable. The study does not find any significant link between firm performance as measured by Tobin's Q and female board representation, However, many scholars now believe that an increase in board diversity leads to better boards and governance on the ground that diversity allows boards to tap on broader talent pools for the role of directors (Bathula, 2008).

Bathula (2008) studied the association between board characteristics and firm performance. Board characteristics which were considered in the research included; board size, director ownership, chief executive officer duality, gender diversity, educational qualification of board members and the number of board meetings. Additionally, firm age and firm size was used as control variables. Firm performance was measured by return on assets. To test the hypothesis a sample of 156 firms over a four year period data from 2004 to 2007 was used. The sample included all firms listed on New Zealand stock exchange. Empirical analysis was undertaken using Generalized Least Squares analyses. The findings of the study showed that board characteristics such as board size, chief executive officer duality and gender diversity were positively related with firm performance, whereas director ownership, board meetings and the number of board members with PhD level education was found to be negatively related. Firm age and firm size does not have significant influence.

Carter et al., (2003) examined the relationship between board gender- diversity and firm value for the Fortune 1000 firms. Using Tobin's Q as a measure of firm value, they found statistically significant positive relationships between the percentage of women on the board of directors and firm value as well as presence of women on the board of directors and firm value.

Zahra and Stanton (1998) examined the relationship between gender diversity and firm financial performance. They worked with 100 Fortune 500 firms and they used return on equity (ROE), profit, earnings per share, dividend per share and profit margin on sales as performance variables. They did not find a statistically significant relationship between gender diversity and firm financial performance.

Marinova and Remery (2010) built a case for the importance of corporate diversity. They believe that diversity affects a firm's financial value in both the short and long run. They postulated that: (a) corporate diversity promotes a better understanding of the marketplace; (b) diversity increases creativity and innovation; (c) diversity produces more effective problem solving; (d) diversity enhances the effectiveness of corporate leadership; and (e) diversity promotes effective global relationships. If one accepts that women add to the diversity of corporate leadership, then the proposed benefits can be reaped by having women in the boardroom.

Anastasopoulos, et al., (2002) found that gender diversity changed the functioning and deliberative style of the board in clear and consistent ways. Barontini and Caprio, (2006) found a positive relationship between the percentage of female board directors and market value added (MVA). He used MVA as a measure of financial performance. From stakeholders' theory, diversity also provides representation for different stakeholders of the firm for equity and fairness (Keasey et al., 1997). From resource dependency perspective, the board is a strategic resource, which provides a linkage to various external resources (Walt and Ingley, 2003). This is facilitated by board diversity.

2.2 CONTROL VARIABLES

2.2.1 Bank Size

The size of the bank is included as a control variable to account for size related economies and diseconomies of scale. Financial intermediation theory predicts the efficiency benefits related to bank's size, due to economies of scale. This could imply lower cost for larger banks that they may retain as higher profits if they do not operate in a very competitive environment (Flamini, et.al 2009). Moreover, Gul, et.al (2011) suggest that large banks have grater loans and greater product diversification and accessibility to asset markets, which may not be available for smaller banks.

2.2.2 Bank Capital

Capital plays a vital role in supporting safety and soundness of banks. Banks with higher capital to the assets ratio could be considered relatively safer in the event of loss or liquidation. Guru et al. (2000) indicated that capital adequacy requirement would increase the capital assets ratio and thus reduce the risk. This may induce banks to absorb more risk in their investment in the hope of maximizing return. Moreover, Naceur and Goaied (2001) suggest that the higher capital

to assets ratio, the lower the need for external financing and therefore, higher profitability. The study, therefore, uses the ratio of equity capital to assets as a proxy of bank capital (BCAP).

2.2.3 Credit risk

Credit risk is measured using the ratio of non-performing loans to total loans. Credit risk is a major source of loss. An increase of credit risk is normally associated with decreased bank profitability. Hence, banks improve profitability by minimizing the credit risk level through improving their appropriate lending policies (Flamini, et.al 2009).

3.0 IMPORTANCE OF THE STUDY

The results of this study will contribute to commercial banking firms by identifying relevant corporate board gender diversity mechanisms and how this affects financial performance. The result of this study contributes to the existing literature by providing evidence on the relation between board gender diversity and banks' financial performance. The empirical results would also be useful for regulators, policy makers, managers and business people in making policies and decisions. It can serve as a stepping stone for future researchers who want to conduct study on related topic. To the best of the researcher's knowledge no empirical study has been undertaken to ascertain the impact of board gender diversity on financial performance of commercial banks in Kenya The current study, therefore, seeks to fill this gap using panel data from the banking industry in Kenya.

4.0 STATEMENT OF THE PROBLEM

Board gender diversity has become an issue of global significance and has received new urgency due to various corporate scandals and failures. Female Board representation is hinged in on improving corporate governance practices promoting more effective monitoring and problem-solving reducing information asymmetry. Boyle and Jane, (2011) suggest that female board members will bring diverse viewpoints to the boardroom and will provoke lively boardroom discussions. Significant research and much anecdotal evidence suggest that superior corporate performance cannot be assumed to be an automatic outcome of board gender diversity mechanisms. The extent of success on the objectives and activities of these mechanisms are subject to the level of real changes brought on by the female directors. Simply the presence of female directors will not improve banks operation and performance unless they are qualified and competent depending on factors such as experience; education and assertiveness of female directors However, studies that critically assess the impact of board gender diversity and firm performance are, so far limited in the country. This is perhaps due to the fact that both board gender diversity and other corporate governance mechanisms are new, and it is only now that they are recognized as important strategies in the process of corporate policy development in Kenya.

5.0 OBJECTIVES

1. To examine the association between board gender diversity and bank performance in Kenya
2. To investigate the relationship between board gender diversity and bank profitability in Kenya
3. To investigate the relationship between board gender diversity and bank efficiency in Kenya

6.0 HYPOTHESES

1. There is a significant positive association between board gender diversity and financial performance of banks in Kenya
2. There is a significant positive association between board gender diversity and profitability of banks in Kenya
3. There is a significant positive association between board gender diversity and efficiency of banks in Kenya

7.0 RESEARCH METHODOLOGY

7.1 RESEARCH DESIGN

The study utilized explanatory research design with a mixed approach as it sought to identify and evaluate the causal relationships among the key study variables. Mixed methods research provides better inferences as it is able to capitalize the strength of quantitative and qualitative approach and remove any biases that exist in any single research method (Creswell, 2003). Finally, a panel data study design was used. The advantage of panel data analysis is that more reliable estimates of the parameters in the model can be obtained between the different variables under consideration (Gujarati, 2004).

7.2 SAMPLING DESIGN

The population of the study was all commercial banks operating in Kenya in the period 2007-2011. According to the information obtained from Central Bank of Kenya there were 43 registered banks operating in Kenya of which nine are listed in the Nairobi Securities Exchange. The sample size for the study comprised a total of nine commercial banks which were listed on the Nairobi Stock Exchange (NSE) during the study period. Purposive sampling was used to get the sample in order to include a representation critical to providing answers to the research hypotheses.

7.3 DATA SOURCE AND COLLECTION METHODS

The data for this study was collected from secondary sources. The secondary sources of data were the audited financial statements of the sample commercial banks over a period of five years (2007-2011). Data for the study were extracted from the annual reports of the nine listed banks. The website of each of the banks was visited to collect necessary data for the study. In all, 45 observations were obtained after editing the annual reports of the nine banks and were used for the study.

7.4 DESCRIPTION OF VARIABLES AND MEASUREMENTS

The independent variable of the study was board gender diversity (BGD). In line with the studies of Ibrahim et al., 2010; Adusei, 2011; and Al-Manaseer et al., 2012) board gender diversity was measured as the percentage of number of female directors divided by the total number of board members. The control variables were bank size (BSIZE); bank capital (BCAP); and the banks credit risk (BCR). The size of a bank is calculated as the natural logarithm of the total assets (Anderson and Reeb, 2003; Carter et al., 2003; and Barontini and Caprio, 2006). The bank capital is measured as the ratio of equity capital to assets as a proxy of bank capital. The banks' credit risk is measured using the ratio of non-performing loans to total loans. Two accounting measures were used as proxy measures for firm performance namely Return of Asset (ROA) and Return on Equity (ROE) which were the dependent variables. Return on Equity (ROE) measures a firm's financial performance by revealing how much profit a company generates with the money shareholders have invested. It shows how well the shareholders funds are managed and used to generate return. ROE is measured profit after tax divided by total equity. Return on Asset (ROA) measures the overall efficiency of management and gives an idea as to how efficient management is at using its assets to generate earnings (Al-Manaseer et al., 2012). ROA is defined as profit after tax divided by total asset. The description of the study variables is presented in Table 1.

TABLE 1: DESCRIPTION OF VARIABLES

Variables	*Description*
Measures of bank performance(dependent variable)	
Return on Equity (ROE) Return on Asset (ROA)	Profit after tax/Total Equity Profit after tax/Total Asset
Measure of Board Gender Diversity (independent variable)	
Board gender diversity(BGD)	Proportion of female directors on the board
Control Variables	
Size of bank (BSIZE) Bank Capital (BCAP) Bank Credit Risk (BCR)	The natural logarithm of total assets Total Equity/ Total Asset Non-performing loans(NPL)/Total Loans

Source: Author's construction

7.4.1 SPECIFICATIONS OF EMPIRICAL RESEARCH MODEL

To estimate the impact of board gender diversity on the financial performance of sample commercial banks in Kenya the following general empirical research model is developed.

$Y_{it} = \beta_0 + \Sigma\beta_K X_{it} + \varepsilon_{it}$ -- (1)

Where:

- Y_{it} represents the dependent variables (ROA and ROE) of bank *i* for time period *t.*
- β_0 is the intercept
- β_K represents the coefficients of the X_{it} variables
- X_{it} represents the explanatory variables (BGD, BSIZE, BCAP and BCR) of bank *i* for time period *t.*
- ε_{it} is the error term

Therefore, the panel data models relating to the impact of board gender diversity on the firm's financial performance was stated as:

$ROE_{it} = \beta_0 + \beta_1(BGD_{it}) + \beta_2(BSIZE_{it}) + \beta_3(BCAP_{it}) + \beta_4(BCR_{it}) + \varepsilon_{it}$--------------------(2)

$ROA_{it} = \beta_0 + \beta_1(BGD_{it}) + \beta_2(BSIZE_{it}) + \beta_3(BCAP_{it}) + \beta_4(BCR_{it}) + \varepsilon_{it}$--------------------(3)

Where:

i denote banks ranging from 1 to 9 (cross-sectional dimension).

t denote years ranging from 2007 to 2011 (time-series dimension).

Dependent Variables

ROE*it*	Return on Equity for *i*th bank and time period *t*
ROA*it*	Return on Asset for *i*th bank and time period *t*

Independent variables

BGD*it*	Female Directors on the board for *i*th bank and time period *t*

Control variables

BSIZE*it*	Bank size for *i*th bank and time period *t*
BCAP*it*	Banks capital for *i*th bank and time period *t*
BCR*it*	Bank credit risk for *i*th bank and time period

DATA ANALYSIS AND PRESENTATION

Correlation and multiple linear regression analysis were employed to analyze data collected. The correlation analysis was used to identify the relationship between the independent, dependent and control variables using Pearson correlation analysis. The correlation analysis shows only the degree of association between variables and does not permit the researcher to make causal inferences regarding the relationship between variables (Marczyk et al., 2005). Therefore, multiple panel linear regression analysis was also used to test the hypothesis and to explain the relationship between board gender diversity and financial performance measures by controlling the influence of some selected variables. SPSS 17 software was used for analysis and the results were presented through tables.

8.0 RESULTS AND DISCUSSIONS

This section presents the correlation analysis and multiple linear regression analysis of the study variables.

Correlation analysis of Return on Asset (ROA) and board gender diversity

The Pearson's correlation matrix in Appendix 1 shows the relationship between the return on asset, board gender diversity, bank size, bank capital and bank credit risk. This table also shows the linear relationships between each independent variables and control variables used in this study.

The correlation analysis shows that board gender diversity and bank size are positively and significantly correlated at 1 percent significance level with return on asset. On the other hand, bank capital is negatively and significantly correlated at 5 percent significance level with return on asset. However, bank credit risk size shows insignificant correlation with return on asset. Even though it is not significant bank credit risk shows a positive coefficient as expected. The Pearson correlation coefficients of board gender diversity, bank size, bank capital and bank credit risk are 47.6 percent, 40.8 percent, -27.5 percent, 10.9 percent, respectively. From this it can be understand that board gender diversity and bank size have a strong association with return on asset.

Correlation analysis of Return on Equity (ROE) and board gender diversity

Appendix 2 presents the Pearson correlations among return on equity and board gender diversity as well as control variables of the study. The analysis show board gender diversity is positively correlated with return on equity of a bank. However, this is statistically insignificant. Bank size is positively related with return on equity at 1 percent significance level. While bank capital is positively correlated with return on equity at 5 percent significance level. But board gender diversity and bank credit risk do not have a significant relation with return on equity. Furthermore, the Pearson correlation coefficients of bank size is 43 percent, board gender diversity is 9.4 percent, bank capital is 25 percent, and bank credit risk is 17 percent with return on equity. This indicates that the association between board gender and bank credit risk shows a weak correlation with return on equity.

The Pearson's correlation matrices in appendices 1 and 2 below indicate that the degree of correlation between each pair of independent variables is low which suggests the absence of multicollinearity problem in the models All the independent and control variables included in the two models are not strongly correlated with each other hence no multicollinearity problem since all the coefficients are lower than 0.8.

Regression Results and Discussion

Influence of the bank's board gender diversity on their efficiency (ROA)

To assess the impact of bank's gender diversity on their efficiency, the dependent variable return on assets was regressed on the independent variable (board gender diversity) controlling for other variables (bank size, bank capital and bank credit risk). The relevant results are presented in Appendix 3 below. The analysis in Appendix 3 indicates that the overall effect of the explanatory and control variables on the bank's profitability is statistically significant (overall p-value=0.001). The relationship between board gender diversity and the return on asset. (ROA**)** is insignificant (β=0.227, -value= .088) . However, it has a positive coefficient with return on asset. Bank credit risk has a positive and significant effect on the return on asset (β=1.046, -value= 0.015). Bank size has a positive effect on ROA although not statistically significant. Bank capital has a negative effect on ROA although this influence is not statistically significant.

Influence of the bank's board gender diversity on their profitability (ROE)

To assess the impact of bank's gender diversity on their profitability, the dependent variable return on equity (ROE) was regressed on the independent variable (board gender diversity) controlling for other variables (bank size, bank capital and bank credit risk). The relevant results are presented in Appendix 4 below. The analysis in Appendix 4 shows that the overall effect of the explanatory and control variables on the bank's profitability is statistically significant (overall p-value=0.003). The relationship between board gender diversity and the return on equity (ROE**)** is insignificant (β=-0.018, -value= .466) and it has a negative coefficient with return on equity. Bank size (β=-0.031, -value= .001) and bank capital (β=-0.044, -value= .040) have a positive and significant relationship with the bank's profitability.

9.0 FINDINGS

Board gender diversity has an insignificant relationship with all the two financial performance measures used. However, it has a positive coefficient with return on asset but a negative coefficient return on equity. Hypothesis 1 predicts that the number of women directors on the board is positively associated with financial performance. The insignificant coefficient of the percentage of women directors does not support this hypothesis. Therefore, this study does not support the view that gender diversity leads to superior banks financial performance. This finding challenges the works of some previous studies documenting a positive effect of the role of women on boards in enhancing the quality of decision making and firm performance (Bathula, 2008; Erhardt et al., 2003). However, this study does not find a significant positive association between percentage of women directors and banks financial performance. This may be due to the relatively small proportion of board members who are women which does not permit them to be powerful enough to make a difference to monitoring. This result does not necessarily contradict the notion that women's presence on boards may be useful and positive in general. Nevertheless, the low number of women on the boards of sampled Kenyan commercial banks does not give them sufficient monitoring power. The result is not surprising because other studies that examined the association between proportion of women on boards and firm performance also found insignificant relationship (Rose, 2007; Habbash, 2010). Board gender diversity is important since almost half of the country's population is female. But, simply the presence of female directors will not improve banks operation and performance unless they are qualified and competent. Whether gender diversity helps improve banks operation and performance all depends on factors such as experience, education and assertiveness of female directors

Bank size has a positive relationship with the two financial performance measures, yet this is statistically significant only with return on equity with p-value < 0.05. The finding contrasts previous studies and arguments made in which bank size negatively influences performance (Sanda et al, 2005; Babatunde and Olaniran,2009); Amran, 2011; Al-Manaseer, et al, 2012). Al-Manaseer et al. (2012) found a significant negative relation between bank size and net interest margin but insignificant negative relation was found with return on asset and return on equity. It can be explained as large banks have economies of scale and scope from this point it is supposed to influence bank performance positively. However, at the same time agency problem increases and this may outweigh the efficiencies of large banks achieved through economies of scale leading to bank inefficiencies. Further, banks may not be able to fully control and monitor the business as the companies become larger in size. The result implies size of a bank measured by its asset enhances performance if this is put to efficient use. Therefore, sampled Kenyan banks are utilizing their size to enhance their financial performance.

Bank credit risk has significant positive influence on bank performance measured by return on asset (p-value< 0.05) and it is only marginally insignificant with return on equity. In addition, although no statistically significant relationship is detected, a positive directional sign of the coefficient is observed in return on equity. It implies that an increase in the risk is associated with increase in performance. The result indicates that banks with higher levels of non-performing loans. as a proportion of total loans perform better than those having lower proportion of non-performing loans.

According to the agency theory, the monitoring provided by debt financing reduces management's incentive to misuse free cash flows, and consequently leads to a better firm performance. The finding is consistent with the literature and with the study conducted earlier (Khatab, et al, 2011; Sanda et al., 2005; Babatunde and Olaniran, 2009).

Bank capital has significant positive influence on bank performance measured by return on equity and has an insignificant negative influence on return on asset. High cost of funds could be one of the factors that have accounted for this. High cost of funds can negatively affect profitability if a bank is unable to lend the funds for higher returns after acquiring them.

10.0 RECOMMENDATIONS

This study examined the impact of board gender diversity on firms' financial performance by taking evidence from selected commercial banks in Kenya. On the basis of the findings and conclusions reached, the following recommendations were forwarded.

This study revealed that the boards of banks are dominated by male and board gender diversity is very limited in Kenyan commercial banks. Thus, a lot needs to be done to improve the gender balance of boards in Kenyan banks with a great care about their qualification and competency to effectively monitor managers and help to improve bank performance.

11.0 CONCLUSION

Based on the findings of this study, the following conclusions have been reached. There is evidence to conclude that no statistically significant relation was found between percentage of female directors and financial performance. However, this is due to very small numbers of female directors which does not permit them to be powerful enough to make a difference to monitoring. However qualified and competent female directors may help improve banks operation and monitoring performance. Therefore, only the presence of qualified and competent female directors helps improve banks performance. Therefore, board gender diversity does not increase the performance of listed banks in Kenya. Majority of the banks had no female director on their boards. And for those who had female directors on their boards the number was so small.

12.0 SCOPE FOR FURTHER RESEARCH

Based on the outcomes of this study, the following issues are suggested for further research.

- First, increasing the study population and the sample size to the whole financial sector.
- Second, by taking evidence from other industries and increasing the number of observations through the use of large sample size and long years data.
- The relationship between board gender diversity and firms' financial performance can also be further explained if future researchers conduct study including more gender diversity variables.

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APPENDICES

APPENDIX 1: CORRELATION ANALYSIS OF RETURN ON ASSET (ROA) AND BOARD GENDER DIVERSITY

CORRELATIONS

		RETURN ON ASSET	BOARD GENDER DIVERSITY	BANK SIZE	BANK CAPITAL	BANK CREDIT RISK
RETURN ON ASSET	Pearson Correlation	1	.476(**)	.408(**)	-.275(*)	.109
	Sig. (1-tailed)	.	.000	.003	.034	.237
	N	45	45	45	45	45
BOARD GENDER DIVERSITY	Pearson Correlation	.476(**)	1	.571(**)	-.345(*)	-.188
	Sig. (1-tailed)	.000	.	.000	.010	.108
	N	45	45	45	45	45
BANK SIZE	Pearson Correlation	.408(**)	.571(**)	1	-.216	-.311(*)
	Sig. (1-tailed)	.003	.000	.	.077	.019
	N	45	45	45	45	45
BANK CAPITAL	Pearson Correlation	-.275(*)	-.345(*)	-.216	1	.410(**)
	Sig. (1-tailed)	.034	.010	.077	.	.003
	N	45	45	45	45	45
BANK CREDIT RISK	Pearson Correlation	.109	-.188	-.311(*)	.410(**)	1
	Sig. (1-tailed)	.237	.108	.019	.003	.
	N	45	45	45	45	45

** Correlation is significant at the 0.01 level (1-tailed).

* Correlation is significant at the 0.05 level (1-tailed).

APPENDIX 2: CORRELATION ANALYSIS OF RETURN ON EQUITY (ROE)AND BOARD GENDER DIVERSITY

CORRELATIONS

		RETURN ON EQUITY	BOARD GENDER DIVERSITY	BANK SIZE	BANK CAPITAL	BANK CREDIT RISK
RETURN ON EQUITY	Pearson Correlation	1	.094	.433(**)	.251(*)	.011
	Sig. (1-tailed)	.	.270	.001	.048	.471
	N	45	45	45	45	45
BOARD GENDER DIVERSITY	Pearson Correlation	.094	1	.571(**)	-.345(*)	-.188
	Sig. (1-tailed)	.270	.	.000	.010	.108
	N	45	45	45	45	45
BANK SIZE	Pearson Correlation	.433(**)	.571(**)	1	-.216	-.311(*)
	Sig. (1-tailed)	.001	.000	.	.077	.019
	N	45	45	45	45	45
BANK CAPITAL	Pearson Correlation	.251(*)	-.345(*)	-.216	1	.410(**)
	Sig. (1-tailed)	.048	.010	.077	.	.003
	N	45	45	45	45	45
BANK CREDIT RISK	Pearson Correlation	.011	-.188	-.311(*)	.410(**)	1
	Sig. (1-tailed)	.471	.108	.019	.003	.
	N	45	45	45	45	45

** Correlation is significant at the 0.01 level (1-tailed).
* Correlation is significant at the 0.05 level (1-tailed).
Source: SPSS correlation result based on the data obtained from sample commercial banks.

APPENDIX 3: SUMMARY OF REGRESSION RESULTS: RETURN ON ASSET (ROA)

MODEL SUMMARY (b)

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.608(a)	.370	.307	.06280	.918

a Predictors: (Constant), BANK CREDIT RISK, BOARD GENDER DIVERSITY, BANK CAPITAL, BANK SIZE
b Dependent Variable: RETURN ON ASSET

ANOVA (b)

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.093	4	.023	5.864	.001(a)
	Residual	.158	40	.004		
	Total	.250	44			

a Predictors: (Constant), BANK CREDIT RISK, BOARD GENDER DIVERSITY, BANK CAPITAL, BANK SIZE
b Dependent Variable: RETURN ON ASSET

COEFFICIENTS (a)

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	-.162	.221		-.735	.466		
	BOARD GENDER DIVERSITY	.227	.130	.280	1.749	.088	.616	1.623
	BANK SIZE	.090	.046	.305	1.927	.061	.628	1.593
	BANK CAPITAL	-.200	.110	-.262	-1.809	.078	.753	1.329
	BANK CREDIT RISK	1.046	.410	.364	2.549	.015	.772	1.295

a Dependent Variable: RETURN ON ASSET

Source: SPSS regression results based on the data obtained from sample banks

APPENDIX 4: SUMMARY OF REGRESSION RESULTS: RETURN ON EQUITY (ROE)

MODEL SUMMARY (b)

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.567(a)	.322	.254	.01182	.937

a Predictors: (Constant), BANK CREDIT RISK, BOARD GENDER DIVERSITY, BANK CAPITAL, BANK SIZE
b Dependent Variable: RETURN ON EQUITY

ANOVA (b)

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.003	4	.001	4.749	.003(a)
	Residual	.006	40	.000		
	Total	.008	44			

a Predictors: (Constant), BANK CREDIT RISK, BOARD GENDER DIVERSITY, BANK CAPITAL, BANK SIZE
b Dependent Variable: RETURN ON EQUITY

COEFFICIENTS (a)

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	-.120	.042		-2.886	.006		
	BOARD GENDER DIVERSITY	-.018	.024	-.122	-.736	.466	.616	1.623
	BANK SIZE	.031	.009	.584	3.553	.001	.628	1.593
	BANK CAPITAL	.044	.021	.319	2.123	.040	.753	1.329
	BANK CREDIT RISK	.020	.077	.039	.263	.794	.772	1.295

a Dependent Variable: RETURN ON EQUITY

Source: SPSS regression results based on the data obtained from sample banks

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