ISSN: 2708-4841(Print), 2708-7042 (Online)

Volume: 6, Issue: 1
Page: 14-24
YEAR: 2025

Commonwealth Journal of Academic Research (CJAR.EU)

Gender Diversity and Financial Success

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Abstract:

Profitability is one of the critical success factors for the continued existence of banks, and as such, banks are more eager to prudently allocate their resources profitably. Board of directors remains one of the mechanisms that banks use in achieving excellent financial outcomes as it assists in given a direction as to how firms should be governed. Among the very many components of board of directors that are crucial for enabling the attainment of board responsibilities is 'board gender diversity. Arising from the critical role of board of directors on financial performance is the need for the investigation of board of gender diversity and profitability of 11 selected listed deposit money banks in Nigeria by obtaining data spanning from 2011 to 2020 using fixed effect regression analysis. The finding deposit that board gender diversity has no significant positive effect on profitability. The study therefore concludes that board gender diversity is not an important driver of profitability of listed deposit money banks in Nigeria. Arising from the finding, the study recommends that listed deposit money banks should include more female directors, and permit them to act and contributes to corporate decision making so that their impacts can better be felt on profitability.

Keywords: Board gender diversity, profitability, Net interest margin and fixed effect regression,

CJAR
Accepted 5 January 2025
Published 15 January 2025
DOI: 10.5281/zenodo.14762707

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Introduction

Firms' profitability is not achievable in isolation of human resources that are available to an entity. Among the human resources are the board of director who sit on the governance of an entity. The board is made of directors with diverse skills, expertise and academic qualifications that position it as an important governance tool in the achievement of the strategic goal of the entity. Board gender diversity is another aspect of corporate board of directors that matters significantly for the attainment of excellent performance in terms of profitability. According to Fahad et al (2022), increased women representation on the corporate board of directors is germane for attaining transparency and accountability in the company. They argued further that women representation on the board serves as an efficient tool for mitigating fraud and facilitate the protection of investor's capital, thus it helps in improving financial performance. Despite the fact that the representation of women in labour force in In United Kingdom has assumed a steady and appreciable improvement from 53% in 1971 to 70% in 2018 Catalyst (2018), global trends show women still remain underrepresented in top managerial positions (Nadeem, De Silva, Gan, & Zaman, 2017), making gender a relevant topic of consideration for academic researchers, regulators and practitioners (Mohan, 2014).

According to social categorization theory, women are considered to approach and proffer solution to ethical dilemmas in terms of relationships, care and compassion while men approach such in terms of justice, riles and rights Gilligan (1982). This argument indicates that how firms are managed and monitored by corporate boards with women directors, may be different due to different standards of ethical judgement may be applied to the decision-making of the firm, which in turns, affects the overall financial outcomes (Chijoke- Mgbame et al, 2020). Thus, a significant positive effect of board gender diversity is expected on firms' profitability.

The issue of gender diversity as a mechanism for improving profitability is even germane in the banking sector for considerable number of reasons. First, the sector remains one of the regulated in terms of corporate governance practices of which gender quota is key. Second, the sector is of significant relevance to the economic setting particularly in developing countries where banking sector serves as fulcrum of economic growth. To this extend, this study aims to examine the effect of board gender diversity on profitability of listed deposit money banks in Nigeria. Most studies in Nigeria have produced conflicting arguments in literature (see Bebeji et al, 2017; Brahma, et al, 2020; Fahad et al, 2022; Islam 2018; Hedija & Němec, 2021).

Literature review

Board gender diversity

Board gender diversity is the proportion of female directors on the corporate board of directors. it is an important corporate governance mechanism as it brings dynamism to the corporate board which facilitates effective decision making and coordination towards excellent financial outcomes. According to agency theory, gender diversity is an important measure of independence and as a tool of fair and transparent decision making (Jensen &

Meckling, 1976; Luoma & Goodstein,1999). The consequential benefits of board gender diversity have also been viewed as a mechanism for reducing fraudulent practices. However, the degree to which increased participation of women will contribute to good corporate governance lies in what goal corporate governance should try to achieve (Fahad et al, 2022).

Profitability

Profitability is the excess of cost over revenue. Profitability is of significant relevance in ensuring financial stability of any business concern as profit serves as the first line of defense against losses from credit impairment (Ben Moussa et al, 2022). According to Sanyaolu, et al (2019), profitability is essential for the continued survival and existence of every business concern. They stated further that profit, in simple term, refers to the excess of revenue over the cost of generating revenue of any business concern. Profitability is beneficial to business and its stakeholders in varieties of ways. First, shareholders are keen about profitability as it determines the extent to which their wealth can be maximized; managers want to make profit so as to get positive evaluation and increase their benefits that are profit-inclined while government needs profitability in order to maximise tax revenue derivable from companies' income tax.

Profitability according to Ilaboya and Izien (2016) refers to the is the level of profit with respect to the level of activities of an organization. Ilaboya (2008). Becker-Blease, Etebari and Bauman (2010) argue that profitability is measured by five common variants which are NET INTEREST MARGINs, return on capital employed, return on equity, net profit margin and gross profit margin. For this purpose of this study, profitability will be measured using NET INTEREST MARGIN. The choice of ROA as a profitability is informed by the fact that it measures the extent of efficiency of the appointed managers as to the extent of using the available resources in generating positive returns. Researchers such as Sanyaolu et al, 2019; Kajola et al, 2021, Sanyaolu et al, 2020 have used ROA as a measure of profitability in the Nigerian banking sector.

Theoretical Review

The nexus between board gender diversity and profitability can be explained by host of theories including m the upper echelon theory, the resource dependence theory and the agency theory. Upper echelons theory argues that the characteristics of the top management team members, such as experiences, values and personalities determine the firm outcomes (Hambrick & Mason, 1984; Ellwood & Garcia-Lacalle, 2015). The differences in Man and Women can make board gender diversity to influence firm performance. Christiansen et al., 2016; Lee & Farh, 2004 argue that high women representation on the board can increase creativity and critical thinking. Greater gender diversity leads to increased heterogeneity in attitudes, beliefs or values which could improve the decision-making process. Contrarily, high women leadership and representation on the board could lead to negative effect on firm performance.

Agency theory argues that women representation on the board could improve financial performance as a result of better monitoring and supervision of firm's activity (Campbell &

Bohdanowicz, 2015). According to (Virtanen, 2012; Adams & Ferreira, 2009), the monitoring and supervisory role played by female directors is facilitated by the fact that they are more active, often ask questions and better prepared for board meetings than their male counterparts. Thus, the decision-making process could be improved by these attributes.

The resource dependence theory states the influence of external factors on the behaviour of the organization. According to this theory, managers could act in such a way to reduce environmental uncertainty and dependence (Hillman et al., 2009). Female representation on the board could then serve as a way of improving firm performance due to the fact that women introduce different and valuable perspective to the board. This fact has been buttressed by Arfken et al. (2004) by arguing that women understand the behaviour of certain markets better than men.

Fahad et al (2022) examined the effect of board gender diversity on financial performance of 27 listed pharmaceutical companies in Bangladesh by obtaining data spanning from 2012 to 2019. The result of the regression analysis deposit that board gender diversity has no significant positive effect on return on return on equity while it was found to be positively significant on tobins Q. the finding implies that pharmaceutical companies that have more women inclusion are better valued by the market than those without sufficient women representation.

In Bangladesh, Islam (2018) conducted a study on seven listed companies of the Dhaka Stock Exchange under the pharmaceutical sector. The study found significant effect of bord of directors' gender on financial performance of listed pharmaceutical companies and advocated for the inclusion of well-trained and educated female directors on the board in order to improve the wealth and value of the firms' shareholders.

Hedija & Němec (2021) analysed the effect of gender diversity in leadership position and firm performance in Czech Republic by obtaining data spanning from 2008 to 2015. The result of the regression analysis deposit that gender diversity has no significant effect on firm performance and firms' financial health.

Brahma, Nwafor and Boateng (2020) analysed the effect of gender diversity on firm performance of listed FTSE 100 firms in the UK using data from 2005 to 2016. The result of the regression analysis shows that increase in the number of women would increase financial performance.
Sanyaolu et al (2021) analysed the moderating effect of board independence on the relationship between board gender diversity on dividend policy of listed 19 non-financial firms in Nigeria using generalized method of moment on data obtained from 2010 to 2019. The result of the study found moderating but negative effect of board independence on the relationship between gender diversity and dividend policy. Bebeji et al, (2017) using a sample of five listed deposit money banks for nine years and adopting regression analysis found that there is existence of significant positive effect of board gender diversity on profitability of listed deposit money banks in Nigeria. Aladejebi (2021) obtaining data of 13

listed banks on their flour of the Nigerian stock exchange for data spanning from 2015 to 2019. The result of the study shows negative and no significant effect of board gender diversity and earnings per share. Bukar et al (2020) found significant a significant positive effect of board of directors' gender diversity on profitability of listed deposit money banks in Nigeria.

Methodology

The study obtained data on board of directors' gender diversity and profitability from the annual reports and accounts of the 11 selected listed banks in Nigeria out of the 15 listed using data spanning from 2011 to 2020. The choice is informed by the availability of consistent data on the variables of the study. The dependent variable for our study is NET INTEREST MARGIN (a mirror of profitability) measured as the proportion of net profit to total asset. The study used board gender diversity as the independent variable of the study. Board gender diversity is measured as the proportion of female directors on the board to total board size. The study used some other variables that are likely to influence profitability outside board of directors' gender diversity. The variables are:

i. Age which is measured as the natural logarithm of banks listing years
ii. Board size which is the total number of directors on the board
iii. Loan to deposit ratio which is a measure of liquidity and it shows the proportion of banks' deposit that is allocated to loan
iv. Asset which is measured as the natural logarithm of total asset.

The specific models for the study are depicted in equations below:

NIM_{it}=$\beta_1 NIM_{it-1}$+$\beta_2 GD_{it}$ + $\beta_3 AGE_{it}$ + $\beta_{4it} BS_{it}$ + $\beta_5 LDR_{it}$ + $\beta_6 LASSET_{it}$ e_{it}………………………………………………………………………………………. (1)

Where,

NIM_{it} = Net Interest Margin of firm i in period t
NIM_{it-1}= a period lag of net interest margin of firm i in period t
GD_{it}=gender diversity of firm i in period t
AGEit= age of firm i in period t
BS_{it} = Board size of firm i in period t
LDR_{it} = Loan to deposit ratio of firm i in period t
$LASSET_{it}$ =Natural logarithm of asset of firm i in period t
ei_t = Error term

Results

Table 1: Descriptive Statistics.

The table shows the statistical attributes of the variables of the study. ROA is averaged 1.7% and varies from -2% to 7%. Gender diversity is averaged 20.2% and ranges from 0 to 40%. Age is averaged 53 and varies from 20 to 126. Board size ranges from 9 to 20 and it is averaged 14. Loan to deposit ratio has a mean of 85% and ranges from 14% to 1100%.

	NIM	GD	AGE	BS	LDR	LASSET
Mean	0.017367	0.201958	52.86364	14.10000	0.847562	21.25474
Median	0.013179	0.210526	34.50000	14.00000	0.628807	21.29589
Maximum	0.070035	0.400000	126.0000	20.00000	11.99603	22.76306
Minimum	-0.022546	0.000000	20.00000	9.000000	0.143312	19.21438
Std. Dev.	0.016572	0.101671	32.03109	2.552027	1.365164	0.773310
Skewness	0.951497	-0.393948	0.927235	0.154106	6.582236	-0.265959
Kurtosis	4.832267	2.371811	2.613909	2.478966	48.40422	2.758150
Jarque-Bera	31.69443	4.653932	16.44557	1.679659	10243.05	1.550656
Probability	0.000000	0.097591	0.000268	0.431784	0.000000	0.460553
Sum	1.893014	22.21537	5815.000	1551.000	93.23184	2316.766
Sum Sq. Dev.	0.029661	1.126736	111833.0	709.9000	203.1403	64.58488

Natural logarithm of total asset is averaged 21.3 and varies from 19 to 23. among the variables, firm age has the highest standard deviation while audit effort has the lowest.

Table 2: Pearson Correlation Matrix

	NIM	GD	AGE	BS	LDR	LASSET
ROA	1.000000	0.179301	-0.317838	0.076000	0.061710	0.441838
GD	0.179301	1.000000	0.161440	0.094871	0.098512	0.141363
AGE	-0.317838	0.161440	1.000000	0.077695	-0.201155	0.043219
BS	0.076000	0.094871	0.077695	1.000000	0.135570	0.135417
LDR	0.061710	0.098512	-0.201155	0.135570	1.000000	0.005084
LASSET	0.441838	0.141363	0.043219	0.135417	0.005084	1.000000

Source: Researchers' computation (2022) using E-views 9

	Pooled OLS	Estimation		Fixed Effect			Random Effect		
Regressors	Coeff	t-stat	P-Val	Coeff	t-stat	p-val	Coeff	t-stat	p-val
C	0.003146	0.114791	0.9089	0.130258	1.628459	0.1074	0.002220	0.116079	0.9078
NIM(-1)	0.764005	12.07254	0.0000	0.151413	2.006734	0.0482	0.749552	17.05034	0.0000
GD	-0.003197	-0.360459	0.7193	0.013810	1.573974	0.1194	-0.002929	-0.480197	0.6323
AGE	-4.11E-05	-1.329516	0.1870	0.000337	0.551709	0.5827	-4.41E-05	-2.035523	0.0447
BS	0.000579	1.682965	0.0958	0.000930	2.606475	0.0109	0.000591	2.494045	0.0145
LDR	-0.000283	-0.457284	0.6486	-0.000171	-0.313243	0.7549	-0.000273	-0.645954	0.5200
LASSET	-0.000134	-	0.9199	-	-	0.1770	-8.18E-	-	0.9296

		0.100822		0.006919	1.362164	05	0.088614
R-square	0.735455				0.891947	0.720961	
Adj.R-square	0.717818				0.870337	0.702359	
F-stat	41.70106				41.27373	38.75600	
Prob F-stat	0.000000				0.000000	0.000000	
Durbin Watson			1.650595		1.753017	1.640338	
Hausman Test	109.095809	6	0.0000				

Table 2 above shows the association between the variables of the study. The result shows that none of the variables has a correlation coefficient in excess of 82%; hence, there is no problem of multicollinerity.

Table 3: Regression result for Liquidity management and net interest margin

Source: Researchers' computation (2022) using E-views 9

Based on the outcome of the Hausman test, which is significant at all levels of significance, the study adopts fixed effect model in drawing inferences (Hausman, 1978). The study found from the outcome of the analysis that board gender diversity has no significant positive effect on profitability of listed deposit money banks in Nigeria. The positive coefficient of 0.013810 implies that a percentage increase in board size would increase profitability by just 3%. The logical conclusion that can be drawn from the finding is that the gender diversity of listed deposit money banks is still low to trigger profitability and also, where female directors are appointed on the corporate board of directors, they are not given equal opportunities like their male counterparts. The result of the finding is in tandem with that of Hedija & Němec 2021;Fahad et al (2022) that reported positive but no significant effect of board gender diversity on profitability while it contradicts that of Sanyaolu et al (2021); Brahma, Nwafor and Boateng (2020)that found significant effect of board gender diversity on profitability.

With respect to the control variables of the study, firm age has a coefficient of 0.000337 and it is found to be insignificant. The coefficient implies that a unit increase in age will lead to almost 0.3% increase in NET INTEREST MARGIN. The finding implies that older banks are not associated with high profitability. The study found significant effect positive effect of board size on profitability of listed deposit money banks in Nigeria. This means that as the number of directors increases, they are able to improve profitability. This might be attributable to the fact that high board size increases the chances of having high caliber of directors with pull of experience that translated to excellent performance. Loan to deposit ratio and firm size were found to exert no significant negative effect on profitability. To finding as to the negative effect of loan to deposit ratio on profitability implies that as more deposit is channeled to loan, profitability drops. The major reason that could be adjudged for this is that most of the loan granted to customers turned out to be non-performing which in turn diminishes profitability. As to firm size, it was found to have a negative and no significant effect on profitability. This means that as firm size increases in terms of its asset, profitability drops.

Conclusion

The study analyzed the effect of board gender diversity on profitability of listed deposit money banks in Nigeria from 2011 to 2020. The study draws inferences by using fixed effect regression analysis which was informed by the probability of Hausman test to examined the nexus between the independent variables (board gender diversity, age, board size, loan to deposit ratio and firm size) Despite the fact that some empirical studies have been conducted in both developed and developing countries in this area, it is to be noted that most of the studies conducted in Nigeria have produced conflicting empirical outcomes in literature. The result of the study deposit board gender diversity has no significant positive effect on profitability of listed deposit money banks. The study therefore concludes that board gender diversity has no significant implication on profitability of listed deposit money banks in Nigeria. Arising from the finding, the study recommends that listed deposit money banks should include more female directors, and permit them to act and contributes to corporate decision making so that their impacts can better be felt on profitability.

Despite the contributions of the study, it has some limitations. The study only focused on the banking sector; future studies should consider other non-financial sectors in Nigeria. It was also noted that the study only concentrated on the direct effect of board gender diversity on profitability, other moderating variables should be included in order to achieve robust and more reliable results.

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Cite this article:

Author(s), CHIMENKA, Ezeribe, Dr. REGIDOR III Poblete Dioso ADENIYI, Sarafadeen Diran, Dr. MURTADHO, Alao, (**2025**). "Gender Diversity and Financial Success", ***Name of the Journal:*** Commonwealth Journal of Academic Research, (CJAR.EU), P, 14- 24. DOI: http://doi.org/10.5281/zenodo.14762707 , Issue: 1, Vol.: 6, Article: 2, Month: January, Year: 2025. Retrieved from https://www.cjar.eu/all-issues/

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