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FEMALE DIRECTORS ON CORPORATE BOARDS IN NIGERIA: A CONCEPTUAL FRAMEWORK

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ABSTRACT

Corporate governance plays an important role in board composition. This paper is aimed at unravelling what affects the appointment of a female to the corporate boards. The paper proposes seven hypothesis that could be tested and the probable measurement of the variables. thus, it is expected that these hypotheses could help in providing additional information on factors influencing hiring of female director to the board.

Keywords: Female Director; Gender Diversity; Corporate Governance; Nigeria.

1. INTRODUCTION

Corporate Boards have been dominated by male directors in the country. Although the 2011 Securities and Exchange Commission corporate governance code (SEC CGC 2011) has encouraged the listed firms to have female director(s) on its board, yet several firms are yet to do so. It is quite disturbing for the neglect the of diversity particularly the presence of female on corporate boards (Mordi & Obanya, 2014; Sotola, 2019). A recent report by Deloitte global centre for corporate governance (2019) indicated that female directors on the listed firms account for only 17.4% (among 138 sampled firms). This issue may negatively affect the female population academically in their achievement. On the other hand, it may portray the Nigerian market as a market that marginalized the female population in the face of investors and other human right activists that are gender sensitive.

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Gender diversity has nowadays draw the attention of researchers, policy makers and investors (Saeed et al., 2016). This may be linked to the dominance of male directors on corporate boards. The supporters of diversity particularly gender diversity on corporate boards posited that female director on corporate boards brings about effectiveness through the provision of resources for instance, strategic advice and links to external sources of dependency (Anderson et al., 2011; Carter et al., 2003). Studies such as Adams and Ferreira (2009) and Huse and Solberg (2006) have shown that female directors on board improve corporate governance by monitoring and controlling of the managers effectively. Besides, other reasons that include social inclusion, the need for greater number of female directors on board could be driven across many nations by economic factors. Additionally, female directors are considered as individuals that contribute to greater corporate governance practices and improved monitoring of corporate managers and decision making (Ntim, 2013).

Growing evidence has shown that some countries around the world have stipulated a certain percentage for female directors. For instance, 30% for Austria, Belgium and Malaysia and 20%-40% for France (Mordi & Obanya, 2014). However, in Nigeria, there is no such quota but then recommends to the firms to consider female during board appointments. Hence, this may not be adequate for the country with 49.3% of female population (Sotola, 2019). The study showed that female directors on corporate boards between 2016 and 2019 accounts for only 16.8% compared with Ghana, Kenya South Africa and Rwanda that had 17.8%, 19.8%, 20% and 30% respectively. This is clear evidence of low engagement of female on corporate activities and hence, do not matched with good corporate governance practices. Prior literature has underscored the cultural settings of a country (Bae et al., 2012; DCSL Corporate Services, 2019) and female-director experience among others (Nekhili & Gatfaoui, 2013). It is unclear as to how these factors may contribute to the lower engagement of female on corporate boards. Hence, this study aims at unravelling the determinants of female director on the boards of listed firms on the Nigerian Stock Exchange market.

This study is unique and differ from prior studies in several ways. Firstly, the study will be among the first set of studies to explore what affect female director’s diversity. This will shade more light on how female director are being recruited to the board. Secondly, prior studies have neglected the tendency of board ownership, firm age, board size and firm diversification in analysing the determinants of female director. However, the current study will employ these variables with a view of obtaining more insight on what influences female directors’ appointment on board. Thirdly, our study

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is also the first that will use mixed method research design in addressing the issue of few female directors on board.

The remainder of the paper is structured as follows. Section two provides a review of literature and hypothesis development. Section three presents the methodology, while section four concludes.

2. LITERATURE REVIEW

Theoretically, the findings of the paper are underpinned using institutional theory. According to Scott (1995) institutional environment incorporates social, political and economic systems. These systems do surround firms, therefore, granting them legitimacy in their operations. The author indicated that there are certain factors that influences the decision of companies in hiring a female director while constituting the membership of the boards. Among these factors is socio-economic laws, as well as the institutional constituents' attitudes. These are weak in several developing economies as compared with the developed economies (Saeed et al., 2016). Uncertainty in business environment may likely prevail and result in lower tendencies in having a heterogeneous board that may include female directors.

Because of the environmental settings, same firm operating in different environment may likely vary in their decisions. Saeed et al. (2016) argued that firm characteristics are significantly influenced by the institutional environment. La Porta et al. (2000) noted that firms do consider the institutional environment while making decisions. The study further reported that market with better investor protection rights pay more dividends. Other studies also indicated that configuration of country-level conditions is a factor that affects the presence of female directors on board. Iannotta et al. (2016) suggested that the board gender quota legislation is not a sufficient condition on its own to achieve a higher number of women on boards. Consequently, variation in firm characteristics could be because of innate institutional differences across economies.

2.1 Firm Size

Empirical evidence have shown that firm size has effect on female director on board. (Agrawal & Knoeber, 2001; Carter et al., 2003; de Jonge, 2014; Esteban-Salvador, 2011). In a recent studies, Pusic (2020) and Saeed et al. (2016) revealed that firm size and female director are positively related. Thus, indicating that the larger the firm the higher the proportion of females on boards. Larger firms tend to be more visible than smaller firms. More so, their activities are being monitors by various stakeholders.

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Therefore, these firms, may likely behave in a manner that may not results in public outrage. Owing to this and in line with prior studies, we hypothesis that,

H1: Positive association prevails between firm size and female director on board.

2.2. Firm Risk

Institutional theory suggest that firms take into cognizance of the environment while taking a decision. Issues relating to efficiency or inefficiency of government services, undue level of bureaucracy as well as corruption, and weak rule of law fall within the realm of institutional environment and thus aggravate the level of uncertainty (Saeed et al., 2016). In this regard, having a heterogenous board may be relevant to the firm operating under uncertain environment. De Cabo et al. (2011) revealed that firms with higher level of uncertainty are those with that are less likely to have female director. Adams and Ferreira (2009) showed that firms with lower female directors are more likely to have higher uncertainty. Saeed et al. (2016) and Hillman et al. (2007) found that company risk and female director are negatively related from BRICS and US market respectively. in line with the theory and prior evidence, we proposed that

H2: firm risk is negatively related to female director on board.

2.3 Board Size

Gender diversity is an important element in the support of good corporate governance practices (Nekhili & Gatfaoui, 2013). However, it is not all corporate boards that have a female representation. In particular, smaller boards tends to be homogenous in nature (de Cabo et al., 2012). Board size is may likely have effect on the presence of female (Ruigrok et al., 2006). A larger board is associated greater number of expertise (de Villiers et al., 2011), experience and knowledge (Dalton et al., 1999) and gender diversity (Byoun et al., 2016). Despite the importance of female director on board, many corporate board tends to be dominated by male. Bianco et al. (2015) documented that most of the gender diverse boards are likely to be connected to the block shareholder. The result is also consistent with the findings of Ruigrok et al. (2006) that female directors are more likely to be linked to the management of the firm through family connection. A large board tend to be mixed and has heterogenous members on board. Evidence from French market revealed that board size strongly affects gender diversity (Nekhili & Gatfaoui, 2013). de Jonge (2014) also find that board size and female director on the board are positively related. Consistent with the existing literature, we proposed that.

H3: Board size is positively related to female director on board

2.4 Firm Age

Firm age is seen as a factor for the appointment of a female director on board. (Pusic, 2020) suggested that the strength of an organization's glass ceiling depend on the age of the firm. The theory suggested that older firms may be reluctant to alter aspects of their business practices that may include management style and hiring of directors (Pfeffer & Salancik, 1978) in our own case. Nakano and Nguyen (2012) posited that conservative board members are largely found in older firms and are less likely to take risk. This will likely influence corporate gender diversity recruitment. In agreement with this view, Ahmed et al. (2018) asserted that firms with older directors on board may have lower tendencies in hiring a female director. The study found negative association between firm age and female directors on boards. This results is also consistent with Morikawa (2016) from Japan that revealed inverse relationship between firm age and female director on the board. Thus, we proposed that.

H_4: Firm age and female director on board are negatively related.

2.5 Board Ownership

Desender et al. (2013) argued that ownership structure has a greater influence on firm corporate governance through board composition. It is also noteworthy that ownership characteristics does not only influence board members' incentives to monitor, but also their abilities to do so. Moreover, ownership structures play a vital role in hiring decision of a female director. Prior studies have indicated that blockholders are likely to affect board compositions (Yeh & Woidtke, 2005). Evidence from the French (Nekhili & Gatfaoui, 2013) indicated that managerial ownership positively influence female directors on the board. Thus, the appointment of female directors to the board could be facilitated by the desire of the CEO and his team to work with a diversified board in which gender is one of them. The desire may largely be because of the expected benefit therefrom. Among the benefit that necessitated this desire could for advice and counsel (Hillman et al., 2007), fewer connections with female stakeholders for a male dominated board (Ali et al., 2014) or due to the exposure to the institutional environment where firms nongender diverse board may suffer public outrage (Saeed et al., 2016). Hence, we hypothesize that:

H_5: Board ownership is positively associated hiring of female to the board

2.6 Leverage

Extant evidence has also showed that debt (leverage) is an important feature of a firm. The higher the leverage, the closer the firm is in breaching debt covenants (Abdullah, 2014). Also firms with positive manage earnings upwards to when the expected

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dividend level falls below the threshold (Daniel et al., 2008). This behavior may be reduced when there is gender diversity on the board. Abdullah (2014) argued that female directors are more ethical and vigilant compared to male directors. Hence, firms with more debt are likely to be pressured by the institutional environment to hire female directors. Study from the Chinese market has found that leverage and gender diversity are positively correlated (Du, 2014). Thus, suggesting that firm with higher financial leverage has higher diversity in terms of women on the board. Absence of diversity on the board may affect the firm negatively in the environment it operates (Daily et al., 2003) and therefore, the firm may have difficulties in accessing resources for instance, loan. Ahmed et al. (2018) found some relationship between firm leverage and female directors on the board of (ASX 500) Australian market. We hypothesis that

H_6: leverage and female director on the board are related positively.

2.7 Firm Diversification

Female director is considered as a unique member of the boards. Prior studies for example, (Hillman et al., 2000) have emphasised that firms may require female director only when it strategy is tailored toward a diverse board. Type of industry a firm chooses to operate and level of diversification are among these strategies. Evidence have also shown that multiple products are expected to enhance the need for a wider set of perspectives (Hillman et al., 2007). Since female director have a perspective different from the male (Ali et al., 2014). Therefore, it may call for external constituents that only female director seating on the board. Hillman et al. (2007) documented evidence supporting this view. The study found firm diversification strategy to have effect on the tendencies of having a female director on the board. Thus, we hypothesize that.

H_7: The association between firm diversification and female director is positive.

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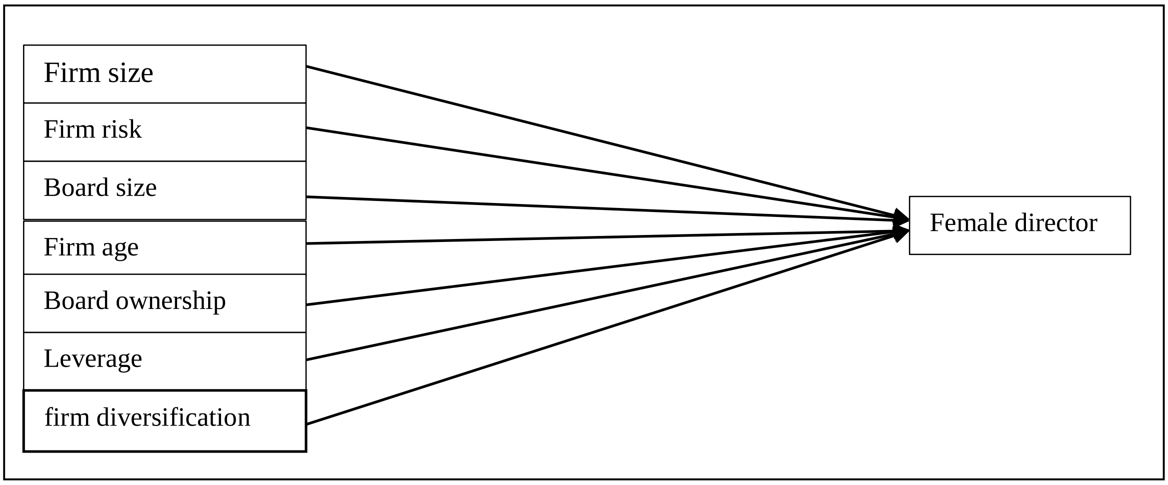

Figure 1. Proposed research framework

3. METHODOLOGY

The hypotheses of the current study may be tested in any market. The result may be similar or otherwise depending on the origin of its legal system and corporate governance practices. More so, the variable measurement should also be analyzed as they may affect the results. The dependent variable is female director on the board could be measured in either of the following ways which is consistent with the prior studies: percentage of female directors to the number of directors sitting on the board (Ahmed et al., 2018; De Cabo et al., 2011; Idris et al., 2019; Saeed et al., 2016); dummy variable 1 if company has a female director on the board, otherwise 0 (Byoun et al., 2016; Saeed et al., 2016). However, for hypothesis 1, firm size may be measured as the natural logarithm of total assets (Ahmed et al., 2018; Bianco et al., 2015; Saeed et al., 2016) the natural logarithm of market capitalization (Pusic, 2020). The second hypothesis is firm risk and can be measured using natural logarithm of the variability of the return on assets over the previous five years (Saeed et al., 2016) standard deviation of the return on assets (De Cabo et al., 2011). To capture the effect of board size which is the third proposed hypothesis, the natural logarithm of the number of directors (Carter et al., 2003; Saeed et al., 2016) number of board members on the board (De Cabo et al., 2011; Idris et al., 2017) could be used as its measurement. The fourth hypothesis is on whether the firm has been in existence, or it is a newly incorporated of listed firm. Prior studies (see for example, De Cabo et al., 2011; Pusic, 2020; Saeed et al., 2016) used number of years of since the firm was incorporated.

Board ownership may be measured using the proportion of shares owned by managers (Nekhili & Gatfaoui, 2013) or the proportion of shares owned by board of directors (Onuorah et al., 2018). For hypothesis debt-to-assets ratio is often associated with gender diversity (de Cabo et al., 2012; De Cabo et al., 2011; Hillman et al., 2007; Pusic, 2020). This measured how leverage influence female director. The last hypothesis is on the firm's diversification (business complexity) in relation to its products. To capture its effects on gender diversity on board, number of production segments (Du, 2014) could be used.

4. SUMMARY AND CONCLUSION

Presently, there is scarce legislation on female representation on the corporate boards in Nigeria. Good corporate governance practices encourage corporate boards to be diversified for example, in terms of gender. This is because it is not always the case that male dominated boards will achieve the strategic goal of the firm. The study is expected to unravel the firm specific factors that influences hiring a female director to board. Also, the study intended to use mixed method approach design to achieve its objectives.

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