



Does boardroom gender diversity matter? Evidence from a transitional economy



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ABSTRACT

This research investigates the relationship between board gender diversity and firm financial performance in the context of a transitional economy characterised by an underdeveloped corporate governance system. Using a sample of 120 publicly listed companies in Vietnam covering a 4-year period from 2008 to 2011, we examine this relationship in a dynamic modelling framework, which controls for potential sources of endogeneity. We find that board gender diversity appears to have an effect on firm performance. This finding remains robust when alternative proxies for gender diversity are employed and is consistent with the perspectives of agency theory and resource dependence theory. The number of female directors in the boardroom also matters, supporting the view that if female board representation affects firm outcomes, this effect is more pronounced when the number of female directors increases. It is observed, furthermore, that the marginal positive performance effect of board gender diversity ceases when the percentage of female directors reaches a breakpoint of about 20%. This finding suggests that there is perhaps a potential trade-off between the costs and benefits of board gender diversification. Our findings significantly contribute to the growing literature of non-US based studies, by providing robust empirical evidence from a transitional economy in East Asia.

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1. Introduction

Using empirical data from the Vietnamese context, this research contributes to understanding how female representation on boards of directors (BOD) affects a company's financial performance. The topic has become a central focus of corporate governance (CG) rejuvenation efforts around the world, with companies being encouraged to appoint female directors to their boards¹ (Adams & Ferreira, 2009). This raises an important research question as to whether there is a causal relationship between gender diversity on the BOD and firm performance (FP). There has been an increase in the literature on this topic but it relates predominantly to studies in mature markets characterised by well-established CG systems (Adams & Funk, 2012). Several have reported inconclusive results (Campbell & Mínguez-Vera, 2008; Rose, 2007). Moreover, they have not fully addressed potential endogeneity concerns, making inferences about the causal relationship between gender diversity and FP problematic (Terjesen, Sealy, & Singh, 2009). Consequently,

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¹ For example, in 2004 Norway adopted a mandatory gender quota law requiring 40% of positions on the boards of listed companies to be reserved for women (HKEC, 2012). This initiative has motivated many countries in Europe to follow suit, including Belgium (2011), Finland (2005), and Spain (2007). In the Australasian region, Australia (2009), Hong Kong (2012), Malaysia (2011), New Zealand (2012) and others have revised their CG codes to include new “comply or explain” provisions. The new provisions require listed companies to report measurable goals for diversity in their boardrooms, as well as progress in attaining those goals (see e.g., Catalyst, 2012b; HKEC, 2012 for detail).

the causal effect of board gender diversity on FP, especially in markets characterised by underdeveloped CG systems, remains unclear. The current research, applying a well-structured dynamic modelling approach to control for potential endogeneity concerns, makes an important contribution to understanding how such diversity works in the Vietnamese market and suggests an approach for similar economies.

The issue tends to be more complicated since, as Adams and Ferreira (2009) suggested, the nature of the relationship between board gender diversity and FP is contingent upon whether the firms are well governed. Using a sample of US firms, they contended that because female directors bring tougher monitoring to boardrooms, adding more women directors is likely to provide excessive and unnecessary monitoring for well-governed firms, which may ultimately have a detrimental impact on FP. If so, the subsequent question is whether more gender-diverse boards will improve FP in markets where the companies, which are generally poorly governed, benefit from additional monitoring. Our study addresses this question, contributing to the growing literature of non-US based studies by focusing on Vietnam, a market characterised by an underdeveloped CG system, where the benefits of board diversity may be more pronounced.

It is argued by Carter, Simkins, and Simpson (2003) that the link between board gender diversity and FP is not predicted directly by any single extant theory. Therefore, examining this causal relationship becomes an empirical issue (Carter et al., 2003). As pointed out by Mohan (2014) in a recent comprehensive review paper, however, there are several reasons why we might expect such a causal relationship to exist. Prior research suggests that the presence of women in boardrooms may matter for risk-taking and leadership style, both of which eventually result in effects on FP.² If the gender of directors matters for firm outcomes, then female directors may fundamentally differ from their male counterparts in terms of behaviour and personality characteristics.

A recent survey by the United Nations Industrial Development Organization (UNIDO, 2010) confirmed that Vietnamese female entrepreneurs are distinguishable from their male counterparts in regard to both human values and attitudes to risk.³ These findings are relevant to our current study since Vietnamese female directors are typically appointed from the pool of female entrepreneurs. This being the case, it is plausible that female and male directors in Vietnam will differ in terms of their human values and attitudes to risk. This suggests a causal effect of board female representation on FP in Vietnamese companies. We argue that the UNIDO (2010) findings strengthen the context for the current study and help establish not only the rationale but also the significance of our results for policy implications.

Our study is noteworthy for the following four key reasons. First, it is both relevant and timely due to the board gender diversification policy initiatives currently undertaken by several countries, including the European Union and Australasian countries. Board gender diversity has also emerged as a contemporary policy debate in Vietnam. Accordingly, the significance of the market-based consequences of such policy initiatives is an important policy concern in many countries in the region.

Secondly, our study employs the system generalised method of moments (System GMM) approach, which is considered to be the most appropriate method for exploring the CG–FP relationship in a dynamic framework (Flannery & Hankins, 2013). This estimation technique allows us to control for potential sources of endogeneity which have plagued many earlier studies. Thirdly, the CG–FP relationship and, specifically, the relationship between board gender diversity and FP in the Vietnamese market, are virtually unknown to international scholars.⁴ Finally, because the Vietnamese market is characterised simultaneously by a weak CG system and an advanced gender-related institutional context,⁵ it provides a unique environment for examining the nexus of board gender diversity and FP.

The rest of this paper is organised as follows. First, we discuss the gender-related institutional environment and the CG context in Vietnam to help readers grasp the significance and background of the research. We then briefly review the relevant literature to develop our main research hypothesis. Data, data sources, and method are described next. Finally, we present the empirical results and conclude the paper with a discussion of the contributions and limitations of the study.

2. Background

Corporate governance is a new concept for Vietnam and there is also no equivalent Vietnamese terminology that fully explains CG. The term ‘corporate governance’ is translated as ‘quản-trị-công-ty’, similar in meaning to ‘company administration’ (OECD, 2006). The CG system in Vietnam is in the initial stages of development (World Bank, 2006a) and the current situation can be characterised as

² For example, Adams and Funk (2012) documented that female and male directors are systematically different in their core values and attitudes to risk. The subsequent question is how financial markets evaluate these differences. Adams et al. (2011) found that market reaction to the appointment of female directors is—on average—significantly positive, and consistently greater than it is to the appointment of their male counterparts. Mohan and Chen (2004), however, documented that the initial public offering (IPO) markets do not appear to distinguish between female- and male-led IPOs when evaluating them.

³ For instance, while Vietnamese male entrepreneurs are risk-taking investors and tend to make decisions by themselves, their female counterparts—due to cultural tradition and their social role—tend to consult their family members on important business decisions (UNIDO, 2010). Furthermore, the perseverance and determination to succeed of Vietnamese female entrepreneurs appear to be greater than those of their male counterparts. As goal-oriented entrepreneurs, Vietnamese women also take their businesses seriously, participate in entrepreneurial organisations, and readily grasp how to use informal means to promote their own businesses (UNIDO, 2010).

⁴ The latest review paper on the theme of CG in emerging markets conducted by Claessens and Yurtoglu (2013) does not include any information about Vietnam. Another recent meta-analysis paper concerning corporate board–FP relationship in the Asian region conducted by Van Essen et al. (2012) similarly provides no information about Vietnam. In the most recent comprehensive review paper by Terjesen et al. (2009) dealing with the topic of female directors in the boardroom, there is no research using Vietnamese company data among more than 400 relevant publications. We also conducted a simple ‘survey’ at the end of 2012 to look for publications of the CG and FP relationship in Vietnam. We followed Love (2011) and used the key words ‘corporate governance’ + ‘performance’ + ‘Vietnam’ to search www.GoogleScholar.com, www.SSRN.com, and the Proquest5000 database. Generally speaking, the search results showed that there was no empirical research considering the case of Vietnam.

⁵ See Background section for more detail.

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