SNEH TEACHERS TRAINING COLLEGE, JAIPUR
"Foster Emotional Intelligence in Youth Through Education" (ICFEIYE-2024)
DATE: 15 April 2024
International Advance Journal of Engineering, Science and Management (IAJESM)
Multidisciplinary, Indexed, Double-Blind, Open Access, Peer-Reviewed, Refereed-International Journal, Impact factor (SJIF) = 7.938

# Analyzing the Relationship Between Board Gender Diversity and Financial Performance in Nepalese Banks

Padam Dongol, Assistant Professor, Email: padamdongol2000@gmail.com

## Abstract

At present, commercial banks in Nepal have implemented guidelines and mandatory rules to increase female representation on their boards of directors. The aim of the study is to analyze the relationship between board gender diversity and financial performance in Nepalese banks Data collected from 27 commercial banks listed on the Nepal Stock Exchange from 2013 to 2020. Independent Samples t-Test analysis was conducted using SPSS -25 to compare the performance of banks with female directors versus without female directors in the board. The study found that the participation of female directors on the board did not have a significant impact on the performance of the banks, as measured by return on equity and return on assets. The findings suggest that, in the context of Nepalese commercial banks studied, gender diversity on the board may not be directly linked to improved financial performance.

**Keywords: Commercial banks, Gender diversity, Bank performance, board of directors.**

## 1. Introduction

The cornerstone of CG- "corporate governance" is indeed BODs, which is in accountable for marketing corporation's decision-making including managing its operations in safeguarding the interests of its investors. They also decide on business matters, ensure corporate profitability, and maximize return on stakeholder investments. Gender diversity on boards is a hot topic right now because it affects how well a company does. Representation of women, on the other hand, is an essential part of board diversity and pertains to the involvement of women on corporate panels of director (Dutta & Bose, 2006), Joshi claims that (2017). Private-sector companies frequently have to rely on anecdotal claims, generalizations, and past experiences when developing gender diversity as part of their workplace strategy. Gender diversity brings about more extensive extending points of view, different kinds of data, and thoughts inside an association and results in unrivalled critical thinking and basic leadership (Richard, Kirby & Chadwick, 2013).

Gender diversity is seen as a way to make use of distinct skills and abilities that exist between men and women, which could give the company a competitive edge (Hassan, 2018). Nevertheless, gender diversity pioneers contend that gender-diverse organizations benefit from advantages such as cheaper expenses due to poorer rates of revenue and nonappearance especially matched to enterprises with far less the gender-diverse employees (Richard, Kirby & Chadwick, 2013). Women need not take part in the worldwide economy in the same way that men do, and is discovered that the institutions including a higher ratio of feminine executives do more well in terms of financial and organizational governance (Omri & Boukattaya, 2018).

Continuing to expand scientific proof women's representation across all organizational levels should indeed be appraised in terms of monitoring women's improvements from entrance to leadership. Statistics governing the treatment of women employees in various positions pertaining to diversity management but instead inclusion should indeed be collected on a regular basis or rather given access for transparent evaluations (Noland, Moran & Kotschwar, 2016). Managers should make certain changes to current rules for managing gender diversity, as well as create and appropriately implement many new policies based on employee demands (Bibi, 2016).

Gender perspective has turned out to be a global issue at present. Women are still underrepresented in the social, economic, political arenas despite fact that there are numerous social organizations safeguarding as well as promoting gender equality throughout nations

(Baral, 2017). Looking towards the Nepalese perspective, in rural areas, the status of women is not encouraging. (Paper, 1999). Despite Nepalese women working in the service industry, there are still some places where they face double discrimination due to their social status and gender (Asian Development Bank, 2016). Our general population does not understand the term "gender," and the status of women in localized generation and transmission in many parts of the state is severely depressed (Baral, 2017).
Despite some progress, women's engagement in a number of activities related to development still falls short of expectations (International Finance Corporation, 2016). Thus, a proper assessment is required to explore these questions in the context of gender diversity in the banking industry.
There are various points of view on relationship between the representation of females on corporation boards have corporate value. Hurst and colleagues (1989). According to Earley and Mosakowski (2000), women have a "sensing" their intellectual style that emphasizes on agreement and the ability to streamline distribution of knowledge. Or else, others believe that presence of women on board might pose obstacles to the organization. Similarly, Jackson et al. (2003) concluded that more diverse the population, the more conflict will arise and decision-making will be slow (Hambrick et al., 1996), and disparities while responding to hazards (Jianakoplos & Bernasek, 1998). Nonetheless, there is a stipulation in Nepalese provisions establishing female quotas as BODs. This article analyzes the relationship between board gender diversity and financial performance in banks

**2. Literature Review**

Diversity is becoming a key component of board composition all across the world. Main elements of board diversity are gender composition of directors. A board's diversity considering gender is evaluated by ratio of feminine directors on the board of an organization. Liaison between board gender diversity as well as economic performance is clearly enlightened by resource necessity theory and social capital theory.

**Resources dependency theory**

The directors are more responsible for overseeing and controlling the firm's internal operations while providing the necessary resources. Based on this theory, the main responsibility of directors has been providing different resources to company. Thus, when directors have been viewed as resource providers, gender, experience, and qualification diversity of directors becomes significant. This idea suggests that board members could be used as a means of fostering relationships with the outside world to assist management in accomplishing corporate goals (Wang, 2009) and that the function of BODs is to provide firm with access to necessary resources (Abdullah and Valentine, 2009). Boards of directors assist firms with experience, skills, knowledge, and potential environmental connections (Ayuso & Argandona, 2007). Bryant (2012) suggested that BODs could be used as a way to establish connections with outside world and help the management further organizational objectives.

**Human capital theory**

Becker (1962) discovered that, everything else being identical, personal income varies according to quantity of money invested in human capital, characterized as training and qualifications obtained by characters or teams of workers. Hillman et Dalziel (2003) argue that efficiency of board members in overseeing and commodity roles is dependent upon their abilities and expertise. Board members' skills and ability may be used to generate intellectual resources. Thus, in accordance with this people management theory, the various human resources on BODs demonstrate how board diversity influences firm's ability (Carter et al., 2010). As a consequence, we would conclude that only a board member improves corporate performance.

International Advance Journal of Engineering, Science and Management (IAJESM)
Multidisciplinary, Indexed, Double-Blind, Open Access, Peer-Reviewed, Refereed-International Journal, Impact factor (SJIF) = 7.938

**Bank performance**

Bank concert refers to degree to attain the economic objectives have been skilled. It is process of evaluating financial impact of a company's activities and policies. Arend (2004) found that all businesses strive to achieve the highest performance levels among those of their peers. But, there are many views regarding the bank performance of the firm. The most commonly used bank performance indicators are "Return on Equity" (ROE) and "Return on Assets" (ROA), Return on Investments, and net income.

**Board gender diversity and financial performance**

One of responsibilities, tasks of BODs, based on the OECD corporate governance guidelines (2004), is to ensure validity of company's accounting and budgeting systems, along with the independent review, as well as the necessary structures of regulation are in place, — especially mechanisms for danger management, operational and financial control but indeed compliance with relevant laws. Gender diversity on board is necessary for them to carry out their duties. The larger idea of board diversity includes gender diversity. Boards worry about having the correct makeup to offer varied opinions. A large no of female participants on the boards provides some extra viewpoints and talents that all-male boards might not be able to offer (Boyle & Jane, 2011).

As boards become more capable of dealing with the complexities as well as uncertainties surrounding company strategic choices, the inclusion of females at the post of directors may result in panels flattering more active in advising besides creating strategy (Post & Byron, 2015). Female directors have been evaluated based on the ratio of female board members who have women as directors, which is summarized as follows (Ararat & Yurtoglu, 2020). Adams and Ferreira, (2007) found that firms with gender-diverse boards outperformed those without because the women's representation provided the perception of being tough monitors. In addition, Carmo, Alves, and Quaresma, (2022) examined the women found optimistic effects on economic enactment of their company. Arvanitis, Varouchas, and Agiomirgianakis, (2022) state that gender diversity had recognized a constructive link of "Gender Board Diversity" with the individual's performance in a firm consisting of 111 samples from 2008 to 2020

Carter et al. (2010) studied major companies in United States using financial tools such as Tobin's Q and reappearance on assets to extent firm enactment and concluded that there is no significant relationship among two parameters. Furthermore, its impact on board may be challenging depending on the situation and the time of year. The effects of the results were probably offset many times over.

Smith et al. (2005) measured that Board Gender Diversity is potentially constructive for financial performance. Contrary to the findings based on the Danish companies, there is no significant relationship between financial performance and the proportion of females on boards (Rose, 2007). Similarly, Almarayeh (2021) investigated link between board characteristics, board remuneration, and company financial success in 510 firm-year data from 2009 to 2018 and discovered fresh evidence that board characteristics doesn't always contribute to firms' financial performance.

However, many academics now contend that more board diversity improves boards and governance since it enables boards to access wider talent pools for the director position (Bathula, 2008). He also focused that in the corporate world female participation on boards is very less. Thus, from the study review, following postulate has been formulated:

**Hypothesis**

$H_1$: Female participation on the board has significant difference in commercial bank's performance than without female participation.

## 3. Methodology

The study's main goal was to look at diversity of boards as well as financial leverage of Nepalese commercial banks. We utilized a qualitative and causal study approach (Malhotra & Birks, 2006; Sigmund, 2000). The survey included all 27 commercial banks in this investigation. The information was gathered from sample banks that were all listed just on Nepal Stock Exchange between 2013 and 2020. For examining the effect of gender diversification upon that board and bank performance, a t-test of independent samples was used. This study compared the involvement of female directors mostly on boards of Nepalese commercial banks containing and without female directors. The "Return on Equity" but instead "Return on Assets" of the bank are used to assess its financial performance (ROA). "The Independent Samples t-Test" is used to calculate gender diversity on the board and performance of banks.

## 4. Result and Discussion

**Table 1.1 Statistics of ROE and ROA by Grouping Variables (Gender Diversity)**

| Descriptive Statistics | | | | | |
|---|---|---|---|---|---|
| | Banks with gender diversity in BOD | N | Mean | SD | Std. Error Mean |
| ROE | Bank with female participation in | 16 | 14.9479 | 5.79189 | 1.44797 |
| | Banks without female participation | 11 | 15.1181 | 3.51245 | 1.05904 |
| ROA | Bank with female participation | 16 | 1.7191 | .56375 | .14094 |
| | Banks without female participation | 11 | 1.4080 | .43053 | .12981 |

**Table 1.2 Sample t-test**

| "Independent Samples Test" | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | "Levene's Test for Equality of Variances" | | "t-test for Equality of Means" | | | | | | |
| | | "F" | "Sig". | "t" | "df" | "Sig. (2-tailed)" | "Mean Difference" | "Std. Error Difference" | "95% Confidence Interval of the Difference" | |
| | | | | | | | | | Lower | Upper |
| ROE | Equal variances assumed | .264 | .612 | -.087 | 25 | .932 | -.17021 | 1.96082 | -4.20859 | 3.86818 |
| | Equal variances not assumed | | | -.095 | 24.727 | .925 | -.17021 | 1.79393 | -3.86695 | 3.52654 |
| ROA | Equal variances assumed | .349 | .560 | 1.544 | 25 | .135 | .31117 | .20156 | -.10396 | .72630 |
| | Equal variances not assumed | | | 1.624 | 24.643 | .117 | .31117 | .19161 | -.08375 | .70609 |

Table 1.1 shows the descriptive measures of ROE and ROA by a grouping variable (gender diversity). There are 16 banks having feminine participation on BODs and 11 banks without feminine directors on their board. The mean ROE of banks with female participation on the

International Advance Journal of Engineering, Science and Management (IAJESM)
Multidisciplinary, Indexed, Double-Blind, Open Access, Peer-Reviewed, Refereed-International Journal, Impact factor (SJIF) = 7.938
board is14.9479 (SD 5.79189) and that of banks without female participation on board is 15.1181 (SD 3.51245). Likewise, the mean ROA of the banks with female participation on the board is1.7191 (SD 0.56375) and that of banks without female participation on the board is 1.4080 (SD 0.43053).
The t-test result which was shown in Table 1.2, first section of table displays the results of Levene's tests. This test is used to determine whether or not variances of ROE and ROA inside the two major categories of gender diversity mostly on board are homogenous (equal).
The p-value (Sig.) of Levene's test is 0.612 in this case. Because p-value is more than 0.05, the variations of ROE of banks with and without female involvement on the board are equal. As a consequence, "p-value" of Levene's test exceeded 0.05, and research accepted the t-test findings with "Equal Variances Assumed."
"An independent-sample t-test" was accompanied just to compare bank performance (ROE) for a bank with female participation on the board of directors and a bank without female participation. Based on the results, there were no significant differences (t (25) = -0.087, p = 0.932) in scores for banks with female participation on the board of directors (M = 14.9479, SD = 5.79189) and a bank without female participation on the board of directors (M = 15.1181, SD = 3.51245). Therefore, mean differences ("mean difference =-0.17021, 95% CI: -4.20859 to 3.86818") has been observed as so small. Hence, the null hypothesis failed to reject. This means that the mean ROE of gender diversity on the board is not different (p = 0.932)
Similarly, p-value (Sig.) of Levene's test is 0.560. Since the p-value is > 0.05, it indicates the variances of ROA of banks with female participation and without participation in the board are equal. Therefore, as p-value due to Levene's test is > 0.05, so the study supposed the t-test results of "Equal Variances assumed". "An independent-samples t-test" has been done for comparing the bank performance (ROA) for a bank with participation of females on director board and a bank without the participation of females on director board. There were no significant differences (t (25) = 1.544, p = 0.135) in scores for banks with female participation on BODs (M = 1.7191, SD = 0.56375) and a bank without female participation on BODs (M = 1.4080, SD = 0.43053). The degree of mean difference ("mean difference = 0.31117, 95% CI: -0.10396 to 0.72630") observed as small. Hence, the null hypothesis failed to reject (p = 0.135)

## 5. Conclusion

The study has addressed the advantages of female participation in board and offers new insights into the association among the bank board gender diversity and their performance. The analysis covers all 27 banks as a sample bank for the study. All of these have been enumerated on Nepal Stock Exchange from the year 2013 to 2020 period. The findings of study show that participation of females on BOD did not play a significant role in the performance of the commercial banks in Nepal, which is consistent with the results of Carter et al. (2010) and Almarayeh, (2021). So, the formulated hypothesis ($H_1$) is rejected. Therefore, the policy of adding feminine directors to the board of a bank did not provide a significant result in bank performance. So, the recommendation would be to refrain from adding female directors to the board.

## References

Abdullah, H., & Valentine, B. (2009). Fundamental and ethics theories of corporate governance. Middle Eastern Finance and Economics, 4, 89-96.
Adams, R. B., & Ferreira, D. (2007). A theory of friendly boards. Journal of Finance 62(1), 217-250.
Almarayeh, T. (2021). Board gender diversity, board compensation and firm performance. Evidence from Jordan. Journal of Financial Reporting and Accounting.
Ararat, M., & Yurtoglu, B. B. (2020). Female Directors, Board Committees, and Firm Performance: Time-series Evidence from Turkey. Emerging Markets Review, 48, 1-27.

Arvanitis, S. E., Varouchas, E. G., & Agiomirgianakis, G. M. (2022). Does Board Gender Diversity Really Improve Firm Performance? Evidence from Greek Listed Firms. Journal of Risk and Financial Management, 15(7), 306.
Asian Development Bank. (2016). Gender equality results case study: Nepal gender equality and empowerment of women project. Retrieved from https://www.adb.org/sites/default/files/publication/185563/ne pal-gender-equality-and-empowerment-women-project.pdf.
Ayuso, S., & Argandona, A. (2007). Responsible corporate governance: Towards a stakeholder's board of directors. IESE Business School – University of Navarra, working paper No. 701. Retrieved from https://media.iese.edu/research/pdfs/DI-0701-E.pdf.
Baral, B. (2017). Gender development perspective: A contemporary review in global and Nepalese context. Geographical Journal of Nepal, 10, 141–152.
Bathula, H. (2008). Board characteristics and firm performance: Evidence from New Zealand (Doctoral Dissertation). AUT University. Available at: http://aut.researchgateway.ac.nz/bitstream/handle/10292/376/BathulaH_a.pdf?sequence=5.
Becker, G. S. (1962). Investment in human capital: A theoretical analysis. Journal of Political Economy, 70(5), 9-49.
Bibi, N. (2016). Role of gender diversity in organizational effectiveness and its implications. International Review of Management and Marketing, 6(4), 80–85.
Boukattaya, S., & Omri, A. (2018). Gender diversity and firm performance: Evidence from French boardrooms. Euro-Med Journal of Management, 2(4), 356-368 https://dx.doi.org/10.1504/EMJM.2018.10017841.
Boyle, G., & Jane, J. (2011). New Zealand corporate boards in transition: Composition, activity, and incentives between 1995 and 2010. Working Paper No. 36. Available at http://www.econ.canterbury.ac.nz/RePEc/cbt/econwp/1136.pdf
Bryant, P., & Davis, C. (2012). Regulated change effects on boards of directors: A look at agency theory and resource dependency theory. Academy of Strategic Management Journal, 11(2), 1-136.
Carmo, C., Alves, S., & Quaresma, B. (2022). Women on Boards in Portuguese Listed Companies: Does Gender Diversity Influence Financial Performance? Sustainability, 14(10), 6186.
Carter, D. A., D'Souza, F., Simkins, B. J., & Simpson, W. G. (2010). The gender and ethnic diversity of US boards and board committees and firm financial performance. Corporate Governance: An International Review, 18(5), 396-414.
Dutta, P., & Bose, S. (2006). Gender diversity in the boardroom and financial performance of commercial banks: Evidence from Bangladesh. The Cost and Management, 34(6), 70-74.
Earley, P. C., & Mosakowski, E. (2000). Creating hybrid team cultures: An empirical test of transnational team functioning. Academy of Management Journal, 43(1)26-49.
Hambrick, D. C., Cho, T. S., & Chen, M. J. (1996). The influence of top management team heterogeneity on firms' competitive moves. Administrative Science Quarterly, 41(4), 659- 684.
Hassan, Z. (2018). Impact of gender diversity on Indian firm's financial performance. International Journal of Management, Accounting, and Economics, 5(5), 319-341.
Hillman, A. J., & Dalziel, T. (2003). Boards of directors and firm performance: Integrating agency and resource dependence perspectives. Academy of Management Review, 28(3), 383-396.
Hurst, D. K., Rust, J. C., & White, R. E. (1989). Top management teams and organizational renewal. Strategic Management Journal, 10(1), 87-105.
International Finance Corporation. (2016). she works: Putting gender-smart commitments into practice. https://doi.org/10.1111/acel.12450.

Jackson, S. E., Joshi, A., & Erhardt, N. L. (2003). Recent research on team and organizational diversity: SWOT analysis and implications. Journal of Management, 29(6), 801-830.
Jianakoplos, N. A., & Bernasek, A. (1998). Are women more risk averse? Economic Inquiry, 36(4), 620–630.
Joshi, R. (2017). Does gender diversity improve firm performance? Evidence from India. Just Jobs Network Inc. Retrieved from - https://www.undp.org/sites/g/files/zskgke326/files/migration/in/JustJobs_Disha_report.pdf.
Kochhar, K., & Jain-Chandra, S. (2017). Women, work, and economic growth: Leveling the playing field. Retrieved from http://www.elibrary.imf.org/doc/IMF071/23146-9781513516103/23146- 9781513516103.
Malhotra, N.K., & Birks, D.F. (2006). Marketing research: An applied approach (2nd European Ed.). Harlow: Financial Times, Prentice Hall.
Noland, M., Moran, T., & Kotschwar, B. R. (2016). Is gender diversity profitable? Evidence from a global survey (February 2016). Peterson Institute for International Economics Working Paper No. 16-3, Available at SSRN: https://ssrn.com/abstract=2729348 or http://dx.doi.org/10.2139/ssrn.2729348
OECD (2004). OECD principles of corporate governance, organization for economic co-operation and development. France: OECD Publication Service. Retrieved from https://www.oecd.org/corporate/ca/corporategovernanceprinciples/31557724.pdf.
Paper, C. B. (1999). Women in Nepal. Asian Development Bank. Retrieved from https://www.adb.org/sites/default/files/institutional-document/32561/women-nepal.pdf
Post, C., & Byron, K. (2015). Women on Boards and Firm Financial Performance: A Meta-analysis. Academy of Management Journal, 58(5), 1546- 1571.
Richard, O. C., Kirby, S. L., & Chadwick, K. (2013). The impact of racial and gender diversity in management on financial performance: How participative strategy making features can unleash a diversity advantage. International Journal of Human Resource Management, 24(13), 2571-2582. https://doi.org/10.1080/09585192.2012.744335.
Rose, C. (2007). Does female board representation influence firm performance? The Danish evidence. Corporate Governance: An International Review, 15(2), 404–413.
Smith, N., Smith, V., & Verner, M. (2005). Do women in top management affect firm performance? A panel study of 2500 Danish firms. IZA Discussion Paper No. 1708. Retrieved from https://docs.iza.org/dp1708.pdf.
Taljaard, C. C., Ward, M. J., & Muller, C. J. (2015). Board diversity and financial performance: A graphical time-series approach. South African Journal of Economic and Management Sciences, 18(3), 425-448. DOI: https://doi.org/10.4102/sajems.v18i3.926. Retrieved from https://repository.up.ac.za/bitstream/handle/2263/52197/Taljaard_Board_2015.pdf?sequence=1&isAllowed=y.
Wang, Y. (2009). Board independence and firm performance: Evidence from ASX-listed companies (Doctoral Dissertation). Retrieved http://researchbank.swinburne.edu.au/vital/access/manager/Repository/swin:14387.
Zikmund, W.G. (2000). Business research methods. Fort Worth: The Dryden Press.