

BOARD GENDER DOMINATED SECTORS AND FINANCIAL PERFORMANCE IN SRI LANKA

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Abstract

The purpose of this study is to identify the relationship between percentage of women on board and firm financial performance. In order to investigate this relationship, the gender composition of corporate boards of the 20 sectors classified by the Colombo Stock Exchange (CSE) is compared against its financial performances using Return on Assets (ROA) as a proxy. Data collected was analyzed using Pearson correlation technique. The results revealed new insights: The percentage of women directors in Information and Investment sectors has both a positive and significant correlation with the ROA. Moreover, the Information sector has the strongest positive relationship between the women director's percentage and ROA, while the Telecommunication sector has the strongest negative relationship.

Keywords: Women directors, financial performance, Colombo stock exchange

Introduction

The underrepresentation of women in the boardroom has gained substantial attention in the developed economies among a large number of researchers and policymakers in the recent years. This is regardless of the fact that female participation in the labour force and population of women in the world at large have both increased. Abundant literature indicates the impact of women directors on the financial performances of firms in the European Union (EU) and United States (US) ^[1,2]. Moreover, the financial crises and corporate scandals such as Lehman Brothers, Enron and WorldCom increased the concern for gender composition in corporate boards, whether it occurred because of the male domination in the banking industry. In the recent past too, many researches in developed economies have presented evidence on how gender diversity in boards have influenced financial performance. In top corporate firms in Europe, many senior positions and directorships are held by men while women hold only a few such positions although a large number of women join the labour force every year^[3]. A study conducted by Adams & Feirreira² asserted that gender diversity in boards have a positive impact on the firm performance. Firms with more female directors or boards which have a high level of gender diversity tend to be overlooked. A similar study conducted in Spain; which is one of the countries with the highest quota for women on board, revealed that the presence of women directors alone has no impact on firm value. The positive impact is identified only in firms which have a diversified board^[4]. Results of a study conducted on board characteristics in the Sri Lankan context by Priya & Nimalathasan⁵ on Hotels sector of the CSE revealed that the suggested number of women directors and those who are internal directors are significantly correlated with ROA.

Significant amount of evidence supports this research issue encountered in developed countries. A study by Liu^[6] revealed that studies were mainly focused on firms in developed nations. As a result, it becomes evident that currently a research gap exists, due to lack of

insights with regards to addressing a similar issue in a developing economy, such as Sri Lanka. Therefore, it is evident that there is a growing concern to identify if the presence of female directors has any relationship between the financial performances of a firm. The main objective of this study is to identify the relationship between percentages of women directors in the CSE classified sectors and their financial performance. The significance of this study is to showcase the role of women on board and the importance of a well-diversified board. This study overcomes limitations of existing Sri Lankan literature by considering all the listed firms in the CSE during the period of 2012 to 2018, whereas previous researchers have either selected only a sample of the listed firms or selected a particular sector among the 20 sectors available. The seven-year time duration taken for this study is also comparatively higher than that taken in the similar studies conducted in the Sri Lankan context.

Methodology

This study uses panel data of public listed companies in the Colombo Stock Exchange (CSE) over the period of 2012 – 2018. This research is referred to as the panel or longitudinal study, since data has been collected over a period of seven years. In comparison to simple cross-sectional data, panel data have the ability to provide a more accurate analysis, while being appropriate for controlling unobservable heterogeneity and omitting variable biases^[4]. Currently, the CSE has 297 companies representing 20 business sectors. However, after excluding unavailable data, the sample consists of 281 companies with 1,865 observations. Data collected was analyzed using descriptive statistics and Pearson correlation.

Results and Discussion

Percentage of female directors in the 20 sectors classified by the CSE was initially identified prior to finding the correlation between their financial performances. The findings reveal new insights on the presence of women directors in the sectors of CSE as depicted in Figure 1. The distribution of female directors varies from one industry to another. Participation of women on board is relatively high in the Textile, Telecommunication, Land and Beverage industries whereas the Construction, Chemical and Plantation sectors have the least percentage of female directors on boards. Moreover, the Oil sector has no female directors on board.

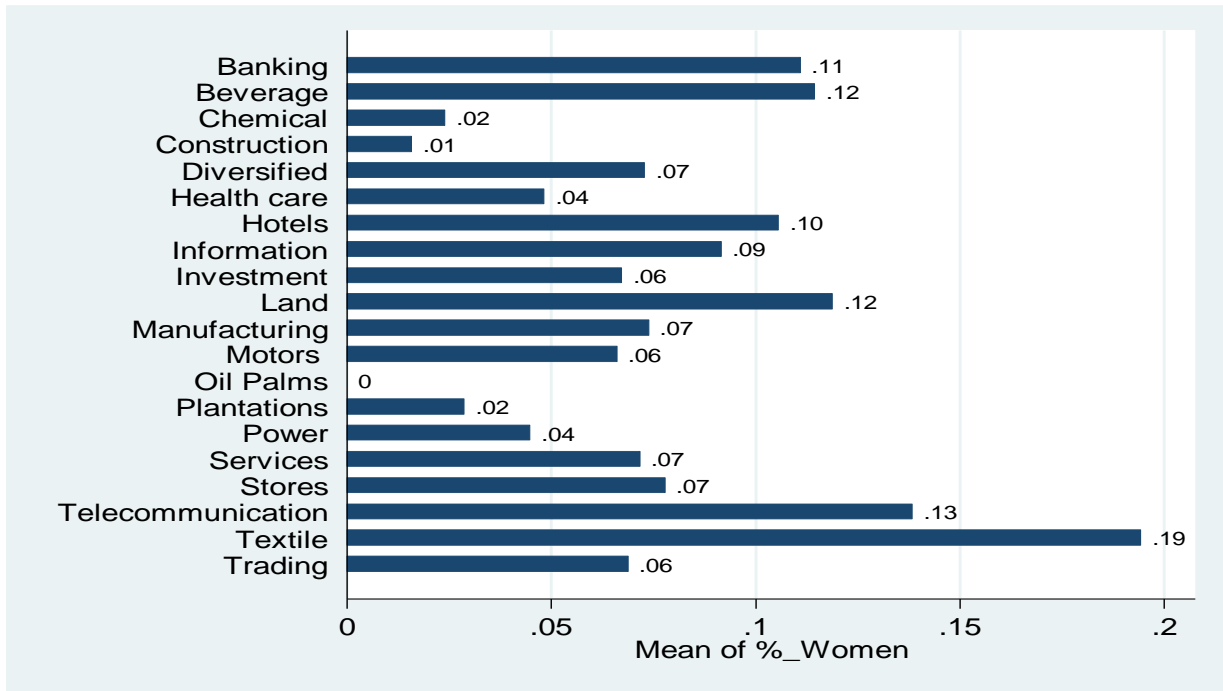


Figure 1. The percentage of women directors in the sectors classified by the CSE.

Table 1. Correlation between ROA and percentage of women directors representing the 20 sectors in the CSE.

CSE classified sectors	ROA	Observations
Banking	-0.0213	420
Beverage	-0.1979**	139
Chemical	0.1104	53
Construction	-0.0623	28
Diversified	0.0110	120
Health	-0.0005	39
Hotels	0.0455	228
Information	0.7435**	9
Investment	0.2634**	63
Land	-0.1116	104
Manufacturing	-0.0294	250
Motors	-0.2188	42
Oil	-	35
Plantation	0.1259	120
Power	-0.1194	57
Service	0.2103	56
Stores	-0.2399	28
Telecommunication	-0.8796***	13
Textile	0.4257	7
Trading	-0.1693	54

Note: ** Significance at the 5% level. *** Significance at the 1% level.

This study employed ROA as a proxy for financial performance since it is considered as a widely used financial performance indicator^[6]. This ratio can be calculated as net income divided by total assets. The Pearson correlation between ROA and the percentage of women directors in the CSE classified sectors is illustrated in Table 1. Accordingly, results suggested that Information and Investment sectors are positively and significantly correlated with ROA, which is the measurement of firm's financial performance. Moreover, the Information sector has the strongest positive relationship between the women percentage on board and ROA with a coefficient of 0.7435. Strength of the relationship is lower in the Investment sector relative to the Information sector, since the coefficient is 0.2634.

On the contrary, Beverage and Telecommunication sectors reported significant negative relationship between percentage of women in the director board and ROA. Among these sectors, Telecommunication indicates the strongest negative relationship between the women percentage in the director board and ROA, with the highest negative coefficient of -0.8796. A similar study conducted by Pasaribu⁷ in the United Kingdom (UK) revealed reasons so as to why these sectors have more female directors. He stated that firms are more likely to appoint female directors if these are into consumer-based industries such as retail, media, personal and household goods and healthcare sectors.

Conclusion

This study contributes new evidence on the relationship between board gender dominated sectors and firm financial performance in Sri Lanka. It has taken into consideration data of all the listed companies to provide a comprehensive picture on aspects of pertaining to board gender diversity in Sri Lanka. Similar studies conducted in Sri Lanka to date, were based on a sample of companies listed in the CSE. According to this study, new findings indicate that: Textile, Telecommunication, Beverage, Land, Banking and Hotel sectors have the highest percentage of female directors on board, while Construction, Chemical and Plantation sectors have the least.

Firms in many developed economies, such as in the EU and in US have compulsory gender quotas to comply and implement when determining its board gender composition. In contrast, Sri Lanka is a developing economy and has no such mandatory gender quotas to be adhered to. Therefore, the significance of the presence of women on board is still a topic that lacks awareness and with limited interest. Women in Asian countries such as Sri Lanka are still confined to family roles and invisible barriers tend to prevent them from climbing up the corporate ladder. Even in Sri Lanka, the gender composition in the corporate boards shows the extent to which women are underrepresented in boards. Therefore, the findings of this study will be much important to women of Sri Lanka, corporate boards and policy makers such as United Nations Women. The reason is being that these stakeholders are keen in ensuring rights of women and also in the process of implementing gender inclusive policies. These findings will also be vital to encourage women participation in senior positions and corporate boards. It is evident from these results, that women too have an ability to drive the financial performance of various sectors in Sri Lanka.

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