
The Impact of Board Gender Diversity on Firm Value: Evidence from Kuwait

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ABSTRACT

Using a sample of 23 Kuwaiti companies for the period of 2012 to 2014, we examine the impact of board gender diversity on firm value (Tobin's Q). The empirical analysis shows that board gender diversity is positively associated with firm value in Kuwait. Our results suggest that embedding gender quotas in top management can increase firm value for Kuwaiti firms. Our paper contributes to the corporate governance literature, which suggests that presence of women in top management are likely to improve the quality of boards' decisions and in turn increase firm value. Also, it contributes to the literature by exploring the relationship between board gender diversity and firm value in an emerging country.

Keywords: Board gender diversity, Firm value, Agency theory, Resource dependency, Human capital theory, Kuwait

1. Introduction

Board gender diversity has long been an important topic in the corporate governance field (Kirsch 2018). Board gender diversity is a significant element in improving corporate governance system and strategic decisions in boardroom (Daily et al. 1999). There has been ongoing interest and research within the corporate governance literature, examining the impact of board gender diversity on corporate financial performance (Kamenou-Aigbekaen 2019). Although there is a large body of research on the board gender diversity, current research on such a topic in the Middle East is still limited (Issa & Fang 2019; Hutchings et al. 2010). Prior studies have focused on exploring the association between board gender diversity and financial performance in developed countries (e.g., Schrand et al. 2018; Owen & Temesvary 2018; Terjesen et al. 2016; Martín-Ugedo & Minguez-Vera 2014; Adams & Ferreira 2009; Erhardt 2003; Carter et al. 2003). The aim of this study is to extend the literature by examining the impact of board gender diversity on firm value in Kuwaiti firms. This study aims to analyze the relationship between board gender diversity and firm value, by applying GMM technique to a panel dataset of 23 non-financial listed firms in Kuwait over the period 2012–2014. We study the relationship between firm value and three proxies of the board gender diversity; dummy variable, the Blau index and the Shannon index. We use Tobin's Q ratio as proxy for firm value.

Kuwait as a Middle Eastern country provides an exciting avenue to study the issue of board gender diversity and firm value. Kuwait is oil-rich country; it has approximately 10 percent of world crude oil reserves (Hassan et al. 2017). Petroleum products accounted for nearly half of GDP and well over two-thirds of export revenues in 2017. Kuwait has the oldest and second-largest stock exchange among the Arabian Gulf countries; it was established in 1983 (Naser 2003 cited in Shehata 2013). Even though the fact that the KSE is the second-largest market in the Arabian Gulf region, the KSE is still in its early stage and inefficient stock market due to inadequate legislations (Al-Mutairi et al. 2012). According to Al-Saidi & Al-Shammari (2014), Kuwait as a

developing country, its corporate governance systems are behind those of the developed governance systems. Kuwait is in its infant stage and is characterized by a lack of transparency, accountability, disclosure and shareholders' protection. Despite the importance of Arabian Gulf states, which are the major oil producers, including Kuwait, current research which looks at board gender diversity in the region is limited (Kamenou-Aigbekaen 2019; Hutchings et al. 2010).

Despite the fact that the Middle Eastern countries have inherited cultural values, traditions, customs and beliefs that ensure continuous dominance of men, Middle Eastern countries such as Kuwait has made a progress in gender equality. Kuwait, according to the Global Gender Gap report in 2018 issued by the world economic forum (WEF), the report ranks 149 major and emerging economies on gender equality. Kuwait is the second in the Arabian Gulf region, at 126, behind the UAE which ranked 121. Kuwaiti women can achieve their education to a high level, which in turn promotes their abilities to participate in the labour market. According to Global Gender Gap report in 2010, Kuwait has the highest rate of women's literacy among the Arabian Gulf countries, Kuwait (93%), UAE (91%), Qatar (90%), Bahrain (89%), Oman (81%), and Saudi Arabia (80%). Nowadays, Kuwaiti women are allowed to work for both public and private sectors. Kuwait has the highest rate of female workforce participation at 43% (Coleman & Abdelgadir 2014). According to a recent survey published in 2018, as part of WEF's annual Global Gender Gap Report, Kuwait is the best-performing country in the Arabian Gulf region in term of female economic participation and opportunity, the country ranked 127th out of 149 nations. However, forward progress of females is significantly slower than their male peers in the public sector. A small proportion of leading positions are occupied by women, and the unemployment rate of females is higher than males (AlHamli 2013).

In the next section, we discuss the related literature and build our hypothesis. Section 3 presents the data, methodology and variables used in the study. In Section 4, we present the study's findings, and the final section contains our conclusion and avenues for future research.

2. Literature Review and Hypotheses Building

Board structure is one of the key elements for the effectiveness of board functions. The diversity of knowledge, qualifications and experience of directors (e.g., human capital) in boardroom enhance the boards' decision-making processes (Hillman 2015; Campbell & Minguez-Vera 2008). Inclusion of female directors in boardroom may contribute to the enhancement of decision-making process (Post & Byron 2015); they bring unique experiences and fresh perspectives to the board and improve its governance function (Galbreath 2016). A more diverse board could also be a better monitor of managers because board diversity enhances board independence (Adams et al. 2015).

A large literature investigates in whether or not the gender diversity in boardroom has an impact on firm performance. Some studies suggest a positive relationship between board gender diversity and financial outcomes (e.g., Salloum et al. 2019; Sarhan et al. 2019; Trinh et al. 2018; Scholtz & Kieviet 2018; Bennouri et al. 2018; Gordini & Rancati 2017; Terjesen et al. 2016; Martín-Ugedo & Minguez-Vera 2014; Dezsö & Ross 2012; Campbell & Minguez-Vera 2008; Carter et al. 2003) and others find a negative (e.g., Shehata et al. 2017; Abdullah 2014; Abdullah & Ismail 2013; Darmadi 2011; Minguez-Vera & Martin 2011; Haslam et al. 2010), or both positive and negative results (e.g., Carter et al. 2010; Adams & Ferreira 2009). The inconsistent and ambiguous findings on the association between board gender diversity and firm performance can be attributed to differences across studies in measures, methodologies, time horizons, omitted variable biases and other contextual issues (Redor 2018; Adams et al. 2015).

Previous studies have employed several theories on boards to explore the relationship between appointment of women on corporate boards and corporate performance. Agency, resource dependence and human capital theories are the most common theories used to support the view that board gender diversity is linked to firm performance. One basic proposition driven by these theories argues that board diversity including the gender affects the board's functions that in turn has impact on firm performance (Isidro

& Sobral 2015; Carter et al. 2010; Campbell & Minguez-Vera, 2008).

First, agency theory proposes that heterogeneous board may improve board's monitoring function because board diversity increases independence of board (Lucas-Pérez et al. 2015; Abdullah 2014; Adams & Ferreira 2009; Carter et al. 2003). The appointment of women on board may reduce agency costs by improving board monitoring, enhancing board's independence, providing legitimacy, and improving the relationships with stakeholders (Ali et al. 2017; Ntim et al., 2012; Adams & Ferreira 2009; Carter et al. 2003). Hillman and Dalziel (2003) suggest that female directors bring a variety of skills, ideas, knowledge, and expertise to perform effective monitoring.

Empirical studies have indicated that female directors provide greater oversight and monitoring of managers' behaviour and actions. Terjesen et al. (2009) suggest that female directors can monitor managers' behaviour better and more effectively than their male counterparts. A recent study by Li & Zhang (2019) suggests that mixed-gender board can affect corporate capital structure. They find that female directors are more likely to use short-term debt to monitor managers than are male directors. Pucheta-Martínez & Bel-Oms (2019) find that a higher number of independent female directors on boards is positively associated with the probability of the voluntary creation of a committee for supervision and control. Adams & Ferreira (2009) find that female directors show better attendance records at board meetings than male directors and are more likely to sit on monitoring-related committees, such as the audit and compensation committees. Gull et al. (2018) suggest that women are more likely to be assigned to audit, nominating, and corporate governance committees, although they are less likely to sit on compensation committees than men are.

Second, resource dependence theory suggests that board diversity could increase resource provisions via the needed human and social capital of boards (Pfeffer & Salancik 2003; Hillman & Dalziel 2003). Women can help to provide additional resources to boards that benefit board decisions (Markoczy et al. 2019; Kanadli et al. 2018). Gender diverse board could produce a broader range of knowledge, ideas, and information which lead to increasing creativity of thinking and brainstorm in corporate meetings (Amason & Sapienza 1997; Jackson 1991). This large pool of resources

provided by diverse boards generates different opinions and perspectives and improving boards' capabilities in dealing with non-routine problems (Kanadlı et al. 2018). Diverse boards could experience different discussion patterns and increased debate compared to homogeneous boards. This could lead to in-depth and profound debates and help address simultaneously different aspects of the issues at hand, thereby take higher quality decisions related to improving firm performance (Nielsen & Huse 2010; Campbell & Minguez-Vera 2008). Furthermore, female directors on boards may link the corporation to important elements in the external environment. Inclusion of female directors on boards provide a positive image may result in a competitive advantage for a firm by allowing it to gain support from key stakeholders such as suppliers, customers, and investors and access to valuable resources (Knippen et al. 2019; Hillman et al., 2007; Hillman et al. 2002). Such linkages to external environment by having female directors improves the legitimacy because it signals that the firm promotes gender equality and responses to social diversity norms, and that is reflected in firm value (Isidro & Sobral 2015).

Third, human capital theory has been used to explain board gender diversity in corporate boards (Isidro & Sobral 2015; Carter 2010). Human capital theory examines how the role of a person's cumulative stocks of education, skills, and experience can be allocated for the benefit of an organization (Terjesen et al. 2009; Singh 2007; Becker 1964).

Traditionally, women in most cultures have been considered as having insufficient human capital for board positions (Burke 2000). But empirical evidence on the human capital of women refutes this argument. Singh et al. (2008) use a sample of 100 corporate boards in the UK and find that women are more likely to have professional certificates and international experience. Furthermore, compared to their male counterparts, new female directors are significantly more likely to have experience as smaller firm board directors, but less likely to have executive experience. Peterson & Philpot (2007) examine the directors' professional backgrounds of female and male directors in the U.S. Fortune 500 companies. They show that females are as highly qualified as their male counterparts but boards evaluate resource dependence differently

for women than men. Overall, the evidence suggests that women and men are equally qualified for board functions, and the performance of the board can be improved by hiring both men and women as a result of diverse and unique human capital.

However, according to Carter et al. (2010) the effect of gender diversity could be either positive or negative from a financial performance perspective, and not be useful under different internal and external circumstances of the firm. Some authors suggest that more female directors on boards may bring disadvantages to the firm. More gender diverse-board may introduce conflict and impede decision making, which could slow decision-making process to solve problems (Triana et al. 2013; Joshi et al. 2006; Richard et al. 2004; Hambrick et al. 1996). Board gender diversity may also hinder strategic change due to producing a number of divergent opinions, thus inhibiting the ability to catalyze change (Tasheva & Hillman 2018; Triana et al. 2013; Williams & O'Reilly 1998). Also, women tend to take more risk in their decisions than men in leadership positions (Jurajda & Janhuba 2018; Charness & Gneezy 2012).

Based on the theoretical arguments, female directors improve firm value through their influence governance system and corporate strategic decisions. Therefore, we expect to find a positive relationship between board gender diversity and firm value. Hence, we propose that:

H1: Board gender diversity will have a positive impact on firm value.

3. Data and Methodology

Our initial sample is composed of the 178 listed firms in the Kuwait Stock Exchange (KSE). We construct a balanced panel dataset from 2012–2014, collected from the Thomson Reuters database. We collect board of director information from the firms' annual reports. We exclude 62 financial firms from our sample due to their distinctive features and different disclosure requirements. 93 firms are necessarily omitted from the sample as a result of data unavailability for all three years. After the selection process, our final sample includes 23 Kuwaiti firms, resulting in 69 firm-year

observations.

We use a market-based measure of corporate performance, a proxy for Tobin's q. Our proxy for Tobin's q is the ratio of the firm's market value to its book value. Following previous empirical studies (e.g., Manita et al. 2018; Martín-Ugedo & Minguez-Vera 2014; Minguez-Vera & Martin 2011; Campbell & Minguez-Vera 2008), the board gender diversity is measured by using three measures; dummy variable (Jia & Zhang, 2013; Bear et al. 2010), Shannon index (Claude E. Shannon 1948) and Blau index (Blau 1977). The Shannon and Blau indices are calculated as follows:

$$\text{Shannon index} = -\sum_{i=1}^n P_i \times \ln(P_i) \quad \dots \text{(Formula 1)}$$

$$\text{Blau index} = 1 - \sum_{i=1}^n p_i^2 \quad \dots \text{(Formula 2)}$$

Where,

P_i is the percentage of (male/female) directors.

n is the number of distinguished categories (males/females) in the firm.

Several corporate control variables are used in this study, including firm size, profitability, CEO duality, board size, board independence, leverage, organizational slack and dummy variables (for year and industry type). The control variables are selected based on prior studies (e.g., Galbreath 2016; Terjesen et al. 2016; Carter 2010; Adams & Ferreira 2009; Di Pietra et al. 2008; Carter 2003) investigating the relationship between board diversity and firm value. The measurement of dependent variables, independent variables and control variables are summarized in table 3.1 below.

Table 3.1: Description of the variables.

Dependent Variables	
Tobin's Q	The sum of market capitalization and book value of debt to the book value of total assets (Tobin's Q).
Independent Variables	
Women dummy	1 if there is woman director on the board; 0 otherwise.
Shannon index	An index to measure gender diversity, as shown in (<i>Formula 1</i>).
Blau index	An index to measure gender diversity, as shown in (<i>Formula 2</i>).
Control Variables	
CEO duality	1 if the roles of chairperson and CEO of the firm are split; 0 otherwise.
Board size	Total number of directors on firm's board.
Board independence	Percentage of independent directors on the board of directors.
Leverage	Ratio of total debt scaled by total assets at the end of the year.
Firm size	Natural log of total assets.
Organizational slack	Natural log of current assets minus current liabilities.
Year	A dummy variable for each year of the sample period from 2012 to 2014.
Industry	A dummy variable for each industry on the stock market (classified to four industries).

Prior studies have shown corporate board characteristics are endogenous (Boulouta 2013; Gul et al. 2011; Adams and Ferreira 2009). We employ the Durbin-Wu-Hausman and the instrumental variable technique to test for the endogeneity of board gender diversity. The results indicate that board gender diversity is endogenous. To account for the potential endogeneity of board diversity, we use the two-step system generalised method of moments (GMM) estimation. The GMM uses first differences in the regression equation to remove any unobserved effects and then instruments any endogenous explanatory variables by using dependent variables (Boulouta 2013). The GMM is widely used in corporate governance literature (e.g., Bennouri et al. 2018; Ahmed et al 2017; Boulouta 2013). The econometric model tested is

$$Y_{it} = \mathbf{X}_{it} \beta + c_i + u_{it}$$

where i is firms, t is time periods, \mathbf{X} is a $1 \times K$ vector of observed variables, β is a vector of corresponding coefficients, c_i is the unobserved variables. Y_{it} is the dependent variable (Tobin's Q), while the independent and control variables are the following:

$X_{1,it}$ = Board gender diversity (it is measured by using three proxies; dummy variable, Blau index and Shannon index)
 $X_{2,it}$ = CEO duality
 $X_{3,it}$ = Board size
 $X_{4,it}$ = Board independence
 $X_{5,it}$ = Leverage
 $X_{6,it}$ = Firm size
 $X_{7,it}$ = Organizational slack
 $X_{8,it}$ = Year dummy
 $X_{9,it}$ = Industry dummy

4. Empirical results

Table 4.1 provides the descriptive statistics for all the variables used in our models. As shown in Table 4.1 below, the highest Tobin's Q (Tobinq) value is 1.876 and the lowest is 0.093 with a standard deviation of 0.425. The average of Tobin's Q ratio is 0.559. Dummy variable (Womendum), Blau index (Blauindex) and Shannon index (Shannonindex) are introduced into the examined model as independent variables (proxies of board gender diversity). As can be seen in Table 4.1, the average of women directors proxied by dummy variable (Womendum) is 0.405. The Blau index (Blauindex) varies between 0.480 and 0, with a mean of 0.124, while the highest Shannon index (Shannonindex) is 0.673 and the lowest was 0, with an average of 0.195. On average, a board contains 6.3 members, 21.1% of whom are independent. CEO duality (CEO_duality) ranges between 0 and 1, with a mean of 0.043. Finally, the means of our leverage variable, (Leverage), organizational slack (Org_Slack) and the firm size variable (Size) are 0.414, 2.241 and 3.939, respectively. Table 4.2 exhibits that the pairwise matrix of correlations between variables. All correlation coefficients are less than the critical threshold of 0.8 (Gujarati and Porter, 2013).

The results of the GMM estimations in Table 4.3 present the concurrent relation between board gender diversity and firm value (Tobin's Q). The results of our tests of models (1), (2) and (3) using three different measures of board gender diversity including, dummy variable, Shannon index and Blau index, respectively, indicate that the board gender diversity is positively linked to Tobin's Q. The coefficient of board

gender diversity using dummy variable (Womendum) in Model (1) is positive and statistically significant ($\beta = 0.335$, $p < 0.10$). Model (2) tests the impact of board gender diversity using Blau index (Blauindex) on firm value. The coefficient of Blau index (Blauindex) is found positive and significant ($\beta = 0.353$, $p < 0.5$). Also, in Model (3), we can observe that the impact of the Shannon index (Shannonindex) on firm value (Tobin's Q) is positive and significant ($\beta = 0.359$, $p < 0.5$). The findings corroborate the notion that the right balance of males and females is the key to having an effective decision-making process in boards that ultimately affect firm value. Our findings are also similar to those of Gordini & Rancati (2017); Salloum et al. (2017); Terjesen et al. (2016); Dezsö & Ross (2012), who suggest significant positive association between the presence of women on the board and firm value.

Concerning control variables, there are two control variables are significant in the three models namely, leverage and firm size. Overall, the results of the analysis are aligned with the set hypothesis and discussed theoretical framework that predict the positive association between the existence of women directors and firm value on corporate boards. The results from the panel data analysis in this study indicate that the association between the presence of female directors in boardroom and firm value in Kuwait is significant and positive.

Table 4.1: Descriptive Statistics

	Observations	Mean	SD	Min	Max
Tobinq	69	0.559	0.425	0.093	1.876
Womendum	69	0.405	0.494	0	1
Blauindex	69	0.124	0.161	0	0.480
Shannonindex	69	0.195	0.246	0	0.673
CEO_duality	69	0.043	0.205	0	1
Board_size	69	6.376	1.138	5	9
Board_ind	69	0.211	0.083	0.125	0.400
Leverage	69	0.414	0.222	0.012	0.862
Org_Slack	69	2.241	.645	2.924	5.420
Size	69	3.939	1.107	4.762	6.679

Table 4.2: Pair-wise correlation coefficients

	1	2	3	4	5	6	7	8	9	10
Tobinq	1									
Womendum	0.186**	1								
Blauindex	0.157*	0.739***	1							
Shannonindex	0.143*	0.667***	0.795**	1						
CEO_duality	0.025	-0.031	-0.024	-0.025	1					
Board_size	-0.197	-0.092	-0.214*	-0.185	0.117	1				
Board_ind	-0.073	-0.110	0.027	-0.010	0.163	-0.253**	1			
Leverage	-0.462***	0.000	-0.066	-0.051	0.084	0.285**	-0.098	1		
Org_Slack	0.350***	0.112	0.078	0.088	0.027	0.006	-0.180	-0.278**	1	
Size	-0.416***	0.077	-0.036	-0.007	-0.168	0.367***	-0.299*	0.29**	0.032	1

Notes: ***, ** and * denote significance at 1%, 5% and 10% levels, respectively.

Table 4.3: Two-step system generalized method of moments (GMM) regressions

	(1)	(2)	(3)
	TobinQ	TobinQ	TobinQ
L.TobinQ	0.107	-0.060	-0.023
	(0.707)	(0.852)	(0.941)
Womendum	0.389*		
	(0.061)		
Blauindex		0.353**	
		(0.026)	
Shannonindex			0.359**
			(0.031)
CEO_duality	-0.040	-0.031	-0.024
	(0.997)	(0.799)	(0.840)
Board_size	0.027	-0.046	-0.023
	(0.654)	(0.629)	(0.764)
Board_ind	-0.368	-0.773	-0.652
	(0.613)	(0.433)	(0.478)
Leverage	-0.575*	-0.627*	-0.618*
	(0.086)	(0.093)	(0.098)
Org_Slack	0.031	0.042	0.023
	(0.510)	(0.431)	(0.453)
Size	-0.313*	-0.340**	-0.335*
	(0.059)	(0.047)	(0.050)
Year dummies	<i>Included</i>	<i>Included</i>	<i>Included</i>
Industry dummies	<i>Included</i>	<i>Included</i>	<i>Included</i>
Constant	0.404**	0.798**	0.703**
	(0.044)	(0.025)	(0.029)
Observations	46	46	46
Number of firms	23	23	23

Notes: P-values are in parentheses. ***, ** and * denote significance at 1%, 5% and 10% levels, respectively.

5. Conclusion

Gender diversity is considered as a critical factor in board composition. There is a growing area of research, particularly in developed world, indicates the potential benefits of female directors at the board level. The aim of this study is to extend the literature by examining this phenomenon in Kuwaiti firms. Our research aims to examine the relationship between board gender diversity and firm value. This study contributes to corporate governance literature by examining the importance of female

directors' characteristics as a driver of the association between the existence of women in boardroom and firm value in Kuwaiti firms. This study is based on a panel dataset from firms listed on the Kuwait stock exchange (KSE) over the period of 2012-2014. The results indicate that the relationship between the number of female directors and firm value is significant and positive. Corporate gender diverse boards in Kuwait seem to be in harmony to make relational decision that enhances firm value. There are reasonable theoretical arguments that suggest a link between board gender diversity and improving corporate governance system. According to agency theory, inclusion of female directors on boards could strength corporate governance mechanism through the application of efficient monitoring and control systems which may lead to restraining corporate executives from enhancing their own positions, and the mitigation of agency costs. Resource dependence theory also proposes that female directors may bring diverse viewpoints to boardroom as well as professional backgrounds different from those of the "old boys' club". In addition, human capital theory suggests that female directors bring unique human capital to the board which lead to improve the quality of decision-making. The findings of this study are important to policymakers in Kuwait. These findings indicate that the representation of female directors on boards should be promoted and encouraged in Kuwaiti firms. Policymakers should propose regulations that enforce quotas for women on boards, adopting such regulations will improve the quality of decisions of the firms and gender equality. This study has some shortcomings which potentially represent opportunities for further corporate governance research. First, it only examines a single nation. Therefore, the generalization of the findings might be limited due to different regulatory, economic conditions and sociocultural values in every country. Future research should investigate whether the impact of women representation on firm valuation varies between countries. Second, the final sample used was relatively small. Thus, future studies could use a larger sample with a view to further improving the generalisability of their results. Third, there may be other moderating variables were not included in our study that can affect the relationship between board gender diversity and firm value. Future research should incorporate other factors such as the educational level or the qualification of female directors.

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