THE EFFECT OF TOP MANAGEMENT GENDER DIVERSITY ON PERFOMANCE OF FIRMS LISTED AT NAIROBI SECURITIES EXCHANGE

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DECLARATION

I declare that this research project is my original work and that it has not been presented in any other University/Institution for consideration. This research project has been complemented by referenced sources duly acknowledged.

Signature…….. Date……..

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D61/68301/2013

The research project has been submitted for appraisal with my approval as University Supervisor.

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DEDICATION

I would like to express my gratitude towards my parents, my husband and my children; they are forever indebted for their understanding, endless patience and encouragement when it was most required during the study period.

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ABBREVIATIONS AND ACRONYMS

CEO Chief Executive Officers

CMA Capital Markets Authority

GOK Government of Kenya

NSE Nairobi Securities Exchange

TMT Top Management Team

UE Upper Echelons

ABSTRACT

In the recent past, there has been an increasing awareness that the absence of women in top management positions might have an impact on the overall performance of a firm. This has in turn led to growing concern for the need to understand whether diversifying such top management positions have an effect on organizational performance. It is against this backdrop that the overarching objective of this research was grounded. The purpose of this research was to assess the impact of top management gender diversity on organizational performance of firms listed at the Nairobi Securities Exchange. Through a cross-sectional descriptive research design, this study targeted all the 64 firms listed at the NSE and drew a non-probabilistic sample of only 45. The study utilized both primary and secondary data. Primary data was collected from the top management officers in the sampled firms through questionnaires. Secondary data regarding the financial performance of the sampled firms was sourced from NSE annual reports for the period 2012-2016. The collected data was analyzed using SPSS in which descriptive statistics such as mean and frequencies as well as inferential statistics such as multiple regression analysis were computed. The results of the study showed that that there is a positive relationship between firm performance and gender diversity, firm size, as well as, board independence. Enhancing gender diversity, firm size, and board independence generated a corresponding improvement in firm performance. In conclusion, the findings of this study revealed that increasing the number of women at top management positions is necessary in driving firm performance. As such, this study recommended the instituting better recruitment mechanisms by firms that facilitate a more gender diverse top management.

CHAPTER ONE

INTRODUCTION

Performance of a firm is a reflection of the characteristics and actions of the team of managers central to the firm, which is conceptualized as top management (Certo, Lester, & Dalton, 2006). The ultimate objectives of top management team (TMT) efforts are to create competitive advantages and ensure strong organizational performance. As the top management takes important corporate decisions and sets strategic directions, it is therefore recognized as a key component affecting a firm's performance. (Goll, Sambharya, & Tucci, 2001).

1.1 Background of the Study

TMT does important corporate decisions and set strategic directions for the organization and it is a key component that affects firm performance because demographic characteristics of TMT have the potential to result in strategic decision making, greater creativity, more innovation and the ability to reach more and different types of customers.

Gender diversity in top management brings informational and social diversity benefits to the top management team, enriches the behaviors exhibited by managers throughout the firm, and motivates women in middle management. The result should be improved managerial task performance and thus better firm performance (Dezso & Ross, 2012). Upper echelon theory postulates that top managers in organizations make decisions that are consistent with managerial background characteristics (Kilduf, Angelmar, & Mehra, 2000).

The upper echelon's responsibilities are rarely within the exclusive domain of a firm's Chief Executive Officers (CEOs) and the entire team as a unit share collective responsibility to determine organizational outcomes (Tacheva, 2007). Such responsibilities include making corporate level strategic decisions that emerge from complex interactions between individual manager's characteristics with different interests and perceptions. Upper echelons studies typically emphasize the efforts of the entire team, and not a single person, based on the belief that teams are essential to the specialized work of maintaining the organization in operation.

The top management's characteristics usually influence the decisions that they make and actions adopted by the organizations. This occurs because demographic characteristics are associated with many cognitive bases, values and perceptions that influence the decision making of top management. (Navahandi, 2006). Stewardship theory stresses not on the perspective of individualism, but rather on the role of top management being as stewards, integrating their goals as part of the organization. The stewardship perspective suggests that stewards are satisfied and motivated when organizational success is attained (Daily, Dalton, & Cannella, 2003).

Listed firms in Kenya have been rapidly growing as indicated by the rate of entry (GOK. 2010) and they play a key role in the achievement of the Kenyan Vision 2030 which is a development blue print that seeks to enable the country to achieve the status of a developing nation. Although management participation plays a key role in firm performance, there are few studies elucidating the relationship specifically in growing economies where listed firms practice is an economic growth strategy. The motivation of this study was therefore to determine the influence of TMT characteristics on performance of listed firms at the Nairobi Securities Exchange.

1.1.1 Top Management Gender Diversity

There is an increasing awareness that the absence of women in the top management boards of corporations might have adverse effects both to the social and the economic outcomes (European Commission, 2010) of those corporations. This has induced the business agencies globally to come up with changes in corporate governance guidelines to incorporate women in the governance structure of their companies. While participation of women has in recent times increased in the middle-level management, little has changed at the top-level management across the globe (Hede, 2000).

In Kenya, for example, it is said that corporate boards are dominated by the male gender mainly because most of the time, the appointing authorities are also male. This practice has therefore, denied women the chance to be adequately represented at the Kenyan corporate boards. However, the new constitution of Kenya that was promulgated in 2010 provides that at least a third of all appointments to public corporations must be of either gender (Wachudi & Mboya, 2009).

Past research has demonstrated that gender diversity brings about a better understanding of the market place. The reason could be because gender diversity in the board matches the diversity of customers in the market place and employees in lowel levels of the organization. This increases the competitive edge of the companies (Robinson & Dechant, 1997). Diversity improves information provided by the board to the management due to special skill set, experiences and complimentary knowledge held by diverse directors. Diverse directors also provide access to different representatives and other resources in the external environment, which improves the networks and the prosperity of the organization.

The presence of women in the board increases the board's ability to monitor the management more objectively (Carter, Simkins, & Simpson, 2003). Likewise, Smith and Verner (2006), note that women in the board uplift the image of the organization due to the positive signals they send to the labor, product and the financial markets. Female representation in top management brings informational and social diversity benefits to the top management team, enriches the behaviors exhibited by managers throughout the firm, and motivates women in middle management. In consequence, female representation in top management improves managerial task performance throughout the firm and should accordingly lead to better firm performance, even for a firm that has hypothetically eliminated barriers to managerial advancement by women (Dezso & Ross, 2012).

1.1.2 Organization Performance

Measuring performance play an important role in translating strategy into results but it is difficult especially when what has to be measured keeps changing and is multifaceted. The need for organizations to align their performance measures with goals is well documented in literature. The complexities of managing the organizations today require that managers analyze different dimensions of performance because performance itself is multidimensional. Performance measurements are not ends in them, but are useful tools through which managerial purposes are achieved (Behn, 2003).

Kaplan (2001) outlined eight managerial purposes achieved through performance. He observed that performance is used in evaluation, control, motivation, promotion, celebration, learning and improvement of different processes. Therefore, no single performance measure is adequate in capturing all the eight performances uses hence the adoption multidimensional measures of performance defined by the balanced score card between adoption and multidimensional.

The balanced score card gives a holistic view of the organization by simultaneously looking at the four important perspectives of financial, market, internal processes, learning and growth. It is based on the stakeholder theory where a firm is seen as having responsibility to wider sets of stakeholders. Behn (2003) posited that stakeholder theory assesses the organization performance against the expectations of variety of stakeholder groups with specific interests in the organization. Lines (2004) argued that to ensure the long-term survival and growth of a business there has to be a balance between the four performance perspectives. Therefore, company survival depends on how well it can position itself based on the four performance measures.

1.1.3 Nairobi Securities Exchange

The NSE is the only Securities exchange market in Kenya and is located in Nairobi. It was formed in 1954 as a voluntary organization of stock brokers and is now one of the most active capital markets in Africa. As a capital market institution, the NSE plays an important role in the process of economic development. It helps mobilize domestic savings thereby bringing about reallocation of financial resources from dormant to active agents. Long-term investments are made liquid, as the transfer of securities between shareholders is facilitated.

The exchange has also enabled companies to engage local participation in their equity, thereby giving Kenyans a chance to own shares (CMA, 2016) Members of the NSE transact business within the NSE market, with a limited proportion of business conducted in foreign securities through overseas agents. The stockbrokers act as financial advisers to their clients and carry out their orders. Trading at the NSE is automated through the ATS. The NSE deals with both variable income securities and fixed income securities. Variable income securities are the ordinary shares, which have no fixed rate of dividend payable, as the dividend is dependent upon the profitability of the company and what the board of directors decides.

The fixed income securities include treasury and corporate bonds, preference shares, debenture stocks-these have fixed rate of interest/dividend, which is dependent on the profitability. As a member of the UN Sustainable Stock Exchanges (SSE), the NSE is championing Gender Equality, together with other Exchanges, investors, regulators and the private sector, to realize UN Sustainable Development Goal (SDG) Five which is to achieve gender equality and empower all women and girls.

In line with this, the NSE runs a Leadership and Diversity Dialogue Series, which focuses on sensitizing listed companies on various aspects of leadership and diversity in relation to firm performance. Leading companies in the world recognize that markets are becoming increasingly dynamic and in order to excel, they must ensure that the companies are best equipped to respond to changing market needs and trends. Diverse and inclusive leadership has become a key strategic initiative in promoting performance, productivity, innovation, and creativity impacting corporates' financial performance and ultimately economic growth. A diverse corporate climate has been linked to higher employee satisfaction and better corporate governance (NSE, 2016).

1.2 Research Problem

The ability of an organization to anticipate and respond to opportunities or pressures for change, both internal and external, is one of the most important ways in which its competitiveness and viability are ensured. The nature and effectiveness of organizational responses vary in part with how top management triggers and interprets strategic issues (Kilduff, Angelmar, & Mehra 2000). Advancing gender equality in corporate governance has increasingly become the focus of many debates in the world (Pande & Ford,2011).A number of studies have investigated the relationship between gender diversity and firm financial performance and their conclusion are indefinite. A study by Robinson and Dechant (1997) indicated that board gender diversity led to a better-informed corporate strategic decisions and this in turn affected the firm performance.

In Kenya studies conducted by Wachudi and Mboya (2012) found no significant relationship between board gender diversity and firm performance, whereas another study by Barako and Brown (2008), found that board gender diversity improves firm performance as it increases effective decision making. Management's role provides a major link between a firm and its external environment firm in defining the developments and events that have the potential to influence the organization's current or future performance strategy. The role of top management teams as opposed to that of individual leaders, is consistent with recent emphasis to the strategy field. In large organizations, managerial responsibilities are not likely to be the exclusive domain of just one individual (Michalisin, Karau, & Tangpong 2004).

The role of top management team (TMT) characteristics on organizational performance has been emphasized in strategic management literature (Muchemi, 2013). However, the study of top management team characteristics has attracted contrasting perspectives in academia (Li, Guohuiand, & Eppler, 2008). While some scholars view TMT as members of senior management responsible for proposing the direction of the organization, (Hambrick & Mason, 1984 and Irungu, 2007). Wiersema and Bantel (1992) consider TMT as the dominant coalition of individuals responsible for setting the direction of an organization. Other definition perspectives of TMT include information processing center (Haleblian & Finkelstein, 1993). Although research on the influence of TMTs on organizational outcomes is abundant, the role of TMT gender diversity in organizational performance is unclear (Tacheva, 2007).

In spite of all these alternative studies that have been carried out, a gap in the literature relating to the effect of TMT gender diversity and firm performance of firms listed at the NSE exist because there are still no conclusive results that have been arrived at. Therefore, this study seeks to fill this gap by critically evaluating the effect of TMT gender diversity on the performance of companies listed at the NSE by answering the research question: Does TMT gender diversity affect performance of companies listed in Nairobi Securities Exchange in Kenya?

1.3 Objective of the Study

The main objective of the study was to determine the effect of top management gender diversity on performance of companies listed at the Nairobi Securities Exchange.

1.4 Value of the Study

To the Government: The findings of this study will provide information to the government on whether the firms listed in the NSE adhered to the third gender rule that was introduced by the enforced 2010 Kenya constitution. It would also assist the CMA in its attempt to push forward its agenda of getting more gender diversity in the top-level management of the listed firms in NSE.

To Nairobi Securities Exchange listed companies: The findings of this study will enhance the understanding of the linkage between board composition and financial performance of firms listed in the Nairobi securities Exchange. It is important to have a strong team of decision makers with a broad range of perspectives and an ability that is crucial to the financial success and in building trust among the firm's stakeholders.

To policy makers: the findings of this study will provide a basis upon which relevant decision and policy makers in the listed companies may re-evaluate and adjust their board membership to meet the fundamentals of firm management for improved financial performance, sustainability and longevity of the unique roles the sector plays in providing a sense of calmness amidst vast economic uncertainties. Future studies may build on the findings of this study as a source of empirical information regarding the relationship between board composition and the financial performance in the Nairobi Securities exchange listed companies in Kenya. To Academics and Scholars: The findings of this study will contribute to the body of knowledge and literature relating to gender diversity and its impact on firms performance.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter examines literature on board gender diversity and financial performance of firms listed on the NSE. The first section examines various theories that are relevant to this study. The second part will examine the determinants of financial performance. The third section will discuss empirical literature by various scholars and the summary will explain the gap identified from empirical studies reviewed.

2.2 Theoretical foundations

Neuman (2006) defines a theory as a system of interconnected ideas that condense and organize knowledge about the world. Although there is a wide spectrum of theories linking the issue of gender diversity, this study focused on four relevant theories namely; Agency theory, Contingency Theory, Legitimacy Theory, and Upper Echelon Theory. This section discusses the tenets and applicability of each of these theories in regards to the overarching objective of the study.

2.2.1 Agency Theory

Agency theory is defined as the relationship between the principals, such as shareholders and agents such as the company executives and managers. In this theory, shareholders who are the owners or principals of the company, hires the agents to perform work. Principals delegate the running of business to the directors or managers, who are the shareholder's agents (Clarke, 2004). Agency theory suggests that employees or managers in organizations can be self-interested hence affecting the share prices of the company. The agency theory shareholders expect the agents to act and make decisions in the principal's interest.

On the contrary, the agent may not necessarily make decisions in the best interests of the principals (Padilla, 2000). The agent may be succumbed to self-interest, opportunistic behavior and falling short of congruence between the aspirations of the principal and the agent's pursuits. Even the understanding of risk defers in its approach. Although with such setbacks, agency theory was introduced basically as a separation of ownership and control (Bhimani, 2008).

The agents are controlled by principal-made rules, with the aim of maximizing shareholders value. Hence, a more individualistic view is applied in this theory (Clarke, 2004). Indeed, agency theory can be employed to explore the relationship between the ownership and management structure and the effects it has on the share prices of the listed firm. However, where there is a separation, the agency model can be applied to align the goals of the management with that of the owners. The model of an employee portrayed in the agency theory is more of a self-interested, individualistic and are bounded rationality where rewards and punishments seem to take priority (Jensen & Meckling, 2006).

2.2.2 Contingency theory

The contingency theory of organizations has its essence in the paradigm that organizational effectiveness results from fitting characteristics of the organization (structure) to different contingencies such as environment, organizational size and strategy. Overall, various versions of organizational theory emphasize the importance of task characteristics, especially task programmability, to the choice of control strategy. The existence of "people" or social control is as an alternative to control through performance evaluation.

In contrast to the classical scholars, most theorists today believe that there is no one best way to organize. What is important is that there be a fit between the organization's structure, its size, its technology, and the requirements of its environment. This perspective is known as contingency theory (Fiedler, 1964) that contends that the optimal organization / leadership style is contingent upon various internal and external constraints. Contingency theory of PM is based on the argument that there is no universally appropriate PM system that applies equally to all organizations in all conditions but particular features of the system and its effectiveness will depend on specific organizational and contextual factors (Otley, 1980).

Ferreira and Otley (2010) pointed out that studies utilizing contingency theory suffer from methodological and theoretical weaknesses such as too few variables, model under specification, and measurement error leading to conflicting findings. Despite the limitations of the contingency theory, it remains a plausible theory to understand the relationship between contextual variables and PM in the highly complex and dynamic third sector context.

2.2.3 Legitimacy Theory

Legitimacy theory suggests that organizations search continuously to assure that they are seen to do business according to the required standards applied in certain societies (Suchman 1995; Wilmshurs & Frost, 2000). It is believed that companies always try to guarantee that their operational activities are accepted as legitimate by outside parties affected by the existence of the firms (Deegan 2009). It is further argued that these standards are not perceived to be fixed, but change frequently, so that firms are required to be responsive to the changing environment in which they operate.

Chen and Roberts (2010) consider this theory as an influential theory within the domain of social and environmental accounting research since it is interested in organizations and societal interactions which focuses on whether the value systems of firms are in line with those in the society (Dowling & Pfeffer, 1975) and whether the social expectations have been met through the objective of the firms (Suchman 1995).

There has been considerable progress recently in terms of research in the social and environmental disclosure that is linked to legitimacy theory. Suchman (1995) states that legitimacy is a generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions. Organizations seek this legitimacy to enhance both the stability and the comprehensibility of organizational activities although it is believed that this process is challenging and proactive strategies are needed to achieve the goal.

Suchman (1995) then continues to describe strategies that may be utilized by organizations to gain legitimacy. These include: (a) efforts to conform to the dictates of preexisting audiences within the organization's current environment, (b) efforts to select among multiple environments in pursuit of an audience that will support current practices, and (c) efforts to 'manipulate' environmental structure by creating new audiences and new legitimating beliefs. After gaining legitimacy, organizations should also maintain and repair legitimacy when needed.

2.2.4 Upper Echelon Theory

Hambrick and Mason developed the Upper echelon theory in 1984. This theory hypothesizes that demographic characteristics of decision makers partially predict their strategic orientations. The theory proposes that organizational outcomes are related to top level decision makers possessing particular demographic profiles, and so 'if you want to understand why organizations do the things they do, or why they perform the way they do, we must consider the biases and dispositions of the most powerful actors- their top executives' (Hambrick, 2007).

The core assumption of Hambricks and Manson's (1984) perspective is the belief that demographic characteristics of corporate executives serve as surrogates for their cognitive orientation, beliefs, values, perceptions and knowledge base, with implications for financial performance. According to Hambrick (2007), executives act based on their personalized interpretations of a given strategic situations they are confronted with, and the personalized interpretations are a function of their experiences, values, beliefs and personalities.

Although upper echelons theory was based on top management teams, this study contends that boards of directors are 'the apex of corporate power' Zahra and Pearce (1989), and so are involved in firms' decisions. Due to changing role of the board of directors from control to service and strategic roles, their involvement in firms' strategic decisions is critical. Taking cognizance of this, upper echelons theory views firms' leaders as a critical component in influencing organizational outcomes (Hambrick & Mason, 1984), and therefore, 'organizational outcomes- both strategies and effectiveness- are viewed as reflections of values and cognitive bases of powerful actors in the organization' and in this case the board of directors.

They argued that demographic characteristics such as age, formal education, career experiences, and functional background) shape the lenses through which they view strategic opportunities. Proponents of the theory hypothesized that strategic choices cannot be separated from inherent demographic characteristics of decision makers. While most studies on corporate executives and corporate strategy have emphasized more on CEO and/or Top Management Teams (TMT).

This study follows Finkelstein and Hambrick's (1996) suggestion that research needs to extend to board of directors because boards of directors have a significant influence in strategic decisions of the firm. Boards of directors provide advisory roles, and play a major role in reviewing, approving, and facilitating strategic decisions. Golden and Zajac (2001) argues that demographic features of board of directors may influence the inclination of the company in terms of financial performance. This is particularly important because corporate governance will require the involvement of the board; in terms of advising, review, and approval of strategic decisions.

2.3 Components of Top Management Gender Diversity

A firm's behavior and performance are to a large extent a function of its top management team, which makes most of the firm's important strategic and organizational decisions 6 (Carpenter, Geletkanycz, & Sanders, 2004). Anything that improves the task performance of the top management team should accordingly improve firm performance. Top management teams are overwhelmingly composed of men. Accordingly, when a woman joins a firm's top management team, the team becomes more diverse, both in terms of social categorization and information (Van Knippenberg, De Dreu, & Homan, 2004).

There are a number of distinct but related reasons why this diversity should improve the information processing and decision-making of the team. Clearly, women add to the diversity of life experiences among a top management team's members. Women have additional insight into important strategic questions, especially those that relate to female consumers, employees, and trading partners (Daily, Certo, & Dalton, 1999). In general, more heterogeneous groups have different points of view and knowledge, consider a more comprehensive set of solutions, and debate each other's' viewpoints more vigorously, leading to higher quality decisions (Wiersema & Bantel, 1992), especially where, as with top management team decision-making, the group task has a high information-processing component (Van Knippenberg, Dreu, & Homan, 2004).

While diversity may become excessive, causing problems with communication (Wiersema & Bantel, 1992), this concern is unlikely to be empirically relevant for most top management teams, because the number of teams with more than a small minority of women is vanishingly small. Diversity may also negatively impact social cohesion and thus employee satisfaction (Tsui, Egan, & O'Reilly, 1991). However, affective discomfort does not necessarily imply inferior performance; indeed, research suggests that the affective discomfort associated with diversity is intimately related to the superior decision-making to which diversity can give rise. Intuitively, some level of conflict, dissent, and cognitive cost may often accompany the full elaboration of alternative perspectives that leads to better decision-making in diverse groups (Van Knippenberg et al., 2004).

2.3.1 Board Composition

Previous academic research has focused on the effects of board composition on corporate performance and limited attention has been paid to the question of how board composition influences firm performance. The composition of the board of directors is a critical factor in establishing a board as it ensures that the board attends to the common interests of all shareholders (Erle, 2008). According to Ranasinghe (2010), shareholders of firms will want a board of directors that will advise managers on matters related to tax planning.

The composition of the board of directors should be a reliable proxy of how well the board can process information provided by insiders and advise as well as monitor the firm's risk taking practices in the best interests of its shareholders. According to Landolf (2006), the risks faced in performance have become more diverse, the board of directors must, within the framework of the risk management strategy of the corporation as a whole, involve itself directly in planning. Further, the board should implement such a strategy after carefully considering the important aspects of sustainability, compatibility with business activities and compliance culture of the corporation.

2.3.2 Gender diversity

While a successful corporate performance is highly related to an effective and functioning board, gender diversity leads to more focused and highly productive board (Zahra &Pearce (1989). Gender diversity has a great effect on firm performance and thus it is important for a government to find out the impact of its legislation on gender diversity in a firm's board of directors, so that it is aware of how to respond to the law's impact on business in the economy.

Studies done on gender diversity impact on firm performance mostly concentrate on the developed world and they do not validate the theoretical predictions behind their assumptions. For example a study carried out in the US by Carter et al (2003) found a positive relationship between gender diversity at the board and firm performance as measured by the Tobin Q Ratio, with a sample of Fortune 1000 firms in 1997.

2.3.3 Organizational Culture

The culture of an organization is the psychology, attitudes, experiences, beliefs and values of that organization. These values and norms are shared by the people and groups in the organization and control the way they interact with each other and with stakeholders Culture can be classified in many ways depending on the dimensions of its variations. Human resource practices typically reflect and reinforce national culture and organizational culture and because culture is a complex phenomenon, ranging from underlying beliefs and assumptions to visible structures and practices, some researchers question as to whether culture can be measured in a comparative sense. Culture gives people a sense of who they are, how they should behave and what they should be doing (Harris & Moran, 1989).

Racial diversity was negatively related to performance in business units with competitive organizational cultures, growth oriented business strategies and training focused human resource practices but not in the units that lacked those specific cultures, practices and strategies. A cultural environment must allow differences to be celebrated instead of merely tolerated. All employees must understand the competitive and moral advantages of diversity. Often, an organization must undergo a “cultural transformation” before it can successfully achieve the full benefits of diversity (Carnevale, 1994).

2.3.4 Traits of Management

With regard to trait effects, the extent to which a member has a certain demographic characteristic predicts his or her perspective and interpretations. For example, a variety of research studies have shown that certain demographic variables can be linked to an individual's receptivity to change. Several studies have found a link between long tenure and high commitment to the status quo (Alutto & Hrebiniak, 1975; Staw & Ross, 1980; Stevens, Beyer, & Trice, 1978). As our interest was the strategic decision making of teams, we used the average level of a given demographic trait in a team to represent the group's overall perspective.

2.4 Empirical Review

According to Mutuku, Peter, & Bolo (2013) the effect of TMT diversity on organizational performance has a significant effect. TMT characteristics can be measured as a function of ten possible values: production, marketing and sales, engineering, finance and accounting, general management, research and development, legal, human resources, logistic and others. The hierarchal regression model tests provided evidence that TMT nationality and international experience diversity have a positive impact on firm performance. Stock market return measures were used to operationalize firm performance (Tacheva, 2007).The empirical results further support a positive effect of team tenure on corporate performance. This coincides with the findings of Auden, Shackmann, and Onken (2006) and Nielsen and Nielsen (2013). Aosa, Machuki, and Letting (2012) examined the relationship between board diversity and financial performance of firms listed in the Nairobi Stock Exchange. They analyzed on boards' age, gender, educational qualifications, study specialization, and board specialization as well as the companies' financial performance.

Using the Ordinary Least Squares (OLS) regression, the results show that there is a weak positive association between board diversity and financial performance. Overall, the results indicate a statistically no significant effect of board diversity on financial performance except for the independent effect of board study specialization on dividend yield. The results partially concur with agency and resource dependency theories of corporate governance as well as similar empirical studies.

Wetukha (2013) analyzed the relationship between board composition and financial performance of listed firms at the Nairobi Securities Exchange. Specifically, this study examined board size, gender diversity, board independence and CEO duality and how they affect the financial performance of listed firms in Kenya. Firm performance was measured using Return on Assets (ROA). Gender diversity and the proportion of executive directors were found to negatively affect the financial performance of companies listed at the NSE. Pfeffer (1972) views boards mainly as a mechanism for co-opting other external organizations and individuals, which is consistent with his view of firms as dependent on external resources. He hypothesized that board composition in terms of insiders and outsiders, the number of directors with financial expertise, and the number of lawyers on boards depends on the firm's need for creating links with the external environment.

Agrawal & Knoeber's (2001) investigation of the appointment of directors with political connections is motivated by this idea and they found that firms industries that are more dependent on the government have more directors with political connections. Robinson and Dechant (1997) through their intuitive reasoning argue that firms that are diverse in the boardrooms tend to outperform those that are less diverse.

They argued that diversity promotes better understanding of the marketplace by matching the diversity of directors to that of customers and employees hence increasing market value. They also argued that gender diversity leads to creativity and innovation as these features are not randomly distributed in the population (Ibid, 1997), hence bringing about changes in firm performance. Carter et al. (2003) explained the relationship between board gender diversity and firm performance based on the agency theory and they posit that board gender diversity enhances the board's ability to monitor top management.

In addition to this, they argue that increasing the number of female directors may increase board's independence since women tend to ask questions that male directors may not ask. In addition, Smith et al. (2006), posit that board gender diversity enhances problem solving as a variety of perspectives arise hence more alternatives are evaluated in the process. Furthermore, a more gender diverse board may also improve a firm's competitive advantage provided it improves the image of the firm and if this has a positive effect on customers' behavior and thus on the firm performance. Busta (2007) found no evidence of a significant association between board composition and ROA. At the same time, the effect of the board size, although positive, was insignificant in all cases. The results from the 125 banks show that board size has a positive relationship with the market-to-book ratio and return on investment capital and negatively related to return on assets; however it is insignificant in most cases.

Zulkaflia and Samad (2007) examined 107 banks in 9 Asian markets in 2004. Their findings suggest no significant relationship between performance measures . return on assets and Tobin's Q) and the board size or composition. Based on a sample of large publicly traded US banks (Pi & Timme, 1993) reported that cost efficiency and return on assets are insignificantly related to the percentage of inside (outside) directors. For the few financial sector studies that focused on board gender diversity, the results points to a positive relationship between bank performance and the presence of female directors in boards. Gulamhussen and Santa (2010) established a positive relationship between bank performance and board gender diversity among the OECD countries banking industry. 2SLS model was used to analyze the effect of board diversity on performance. Only 25 top banks were sampled.

2.5 Summary of Literature and Knowledge Gaps

Board diversity is of paramount importance in all organizations regardless of their industry, size or level of growth. The literature establishes that good corporate governance results in a lower cost of capital due to a limitation to the risk on the investment. This in essence guarantees investors a payback on returns to their investments. Good governance is a symptom of lower agency costs – a signal not properly incorporated in market prices Several mechanisms can be used to overcome the problems associated with separation of ownership and control: alignment of shareholders' interest with managerial interests (compensation plans, stock options, bonus schemes); board monitoring by large shareholders and lenders; legal protection of (minority) shareholders from managerial expropriation through shareholder rights and the market for corporate control as an external device.

The number of board of directors is assumed to have an influence on performance. The board is vested with responsibility for managing the firm and its activities. The studies cited in the literature mostly concentrate on the developed countries whose strategic approach and governance systems are not similar to that of Kenya. Local studies have been done on other mechanisms of corporate governance other than the board size and board composition. Wachudi and Mboya (2012) conclude that gender diversity and firm performance have no correlation when they looked at the effect of board gender diversity on the performance of banks in Kenya. While Baraka and Brown (2008) conclude that board diversity in Kenyan banks improves CSR, which in return has a positive impact on the firm performance. To the best of the researcher's knowledge, most of these studies gave divergent empirical conclusions, thus a need to investigate the same under a new scenario. Also most of the studies generalize all the mechanisms of corporate governance. This study therefore, seeks to examine whether and to what extent board gender diversity affects firm performance amongst listed firms in Kenya.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter describes the research methodology of the study. It provides the procedural plan that was used by the researcher to validly, objectively, economically and accurately answers the research questions. This section of the study therefore describes the research design, population, sample, data collection and data analysis.

3.2 Research Design

Research design refers to the arrangement of conditions for collection and analysis of data in a manner that aims to combine relevance to the research purpose with economy in the procedure (Babbie, 2002). This study followed a cross-sectional descriptive research design paradigm to investigate the effect of gender diversity on performance of firms listed on NSE. Descriptive research design objectively and systematically investigates variables and relationships with the intent to establish and authenticate relationships that can be generalized to a larger population (Leedy & Ormrod, 2010).

The advantage of adopting a quantitative research is that it enables the study of variables at particular periods of time and thus investigation takes a shorter period of time. Its main disadvantage though is that the study cannot establish any causal relationship between variables, thus in this study the shortfall will be supplemented by the use of regression analysis to validate if there is any relation between gender diversity and firm performance.

3.3 Population

A study population encompasses a complete set of items that share at least one characteristic in common that is the subject of a statistical analysis. Cooper & Schindler (2014) define a target population as those people, events, or records that contain the desired information and that can answer the measurement question. The population of this study includes all the 64 companies listed on the Nairobi Securities Exchange as at 31st December 2016.

3.4 Data Collection

The study used both primary and secondary data. Primary data was gathered using questionnaires while secondary data was gathered from the Capital Markets Authority (CMA) reports and respective company websites and annual reports. The data was collected based on the variables of interest for the five year period beginning 2012 to 2016. This period is deemed appropriate because that study will use panel data for analysis.

3.5 Data Analysis

The collected data was coded and input into SPSS for analysis. The analysis involved computing descriptive and inferential statistics. The descriptive statistics involved means, frequencies, and standard deviations. As for the inferential statistics, multiple linear regression was used. The mean and median value was used to interpret the results of the variables. To determine the effect of board gender diversity on firm performance, regression analysis was carried out using panel data regression techniques.

The study adopted following model.

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \varepsilon$$

Where Y is the firms' performance (ROA), Net Income/Total Assets, β_0 is constant.

X_1	=	Gender (measured by the percentage of women on the Board)
X_2	=	Director Independence. (Measured by the percentage of NED)
X_3	=	Firm Size (Log of Total Assets) control variable
ε	=	Error Term.

β_0, β_1, $\beta_2$and β_3, are Regression coefficients

3.5.1 Test of Significance

T-tests can be used to determine whether there is a significant difference between two sets of means. Therefore t-tests using SPSS statistical program would be employed in this study. Conducting the t-tests requires that the normality of the data is not violated. The P-values of results of the multiple regression analysis shall be used to test for significance of the relationship between variables. The significance level to be used shall be 0.05 (5%) to test for significance where any P-value of less than 0.05 shall indicate a significant relationship.

CHAPTER FOUR

DATA ANALYSIS, RESULTS, AND DISCUSSION

4.1 Introduction

In this chapter, the study provided two types of data analysis; namely descriptive analysis and inferential analysis. The descriptive analysis helps the study to describe the relevant aspects of the phenomena under consideration and provide detailed information about each relevant variable. For the inferential analysis, the study used the Pearson correlation and the regression analysis statistics. While the Pearson correlation measures the degree of association between variables under consideration, the regression estimates the relationship between top management gender diversity and financial performance.

4.2 Questionnaire Response Rate

A questionnaire completion rate is the proportion of the sample that participated as intended in all the research procedures. In the study, out of 64 questionnaires administered 45(70%) filled in and returned, this questionnaire return rate was deemed adequate for the study.

4.3 Demographic Information

This section presents the findings regarding the general information of the survey respondents. Table 4.1 below shows the sex distribution of the respondents.

Table 4.1: Sex

Factor	Frequency	Percentage
Male	39	87
Female	6	13
Total	**45**	**100**

Source: Research Data (2017)

As shown in Table 4.1, the highest number of respondents was male with 39(87%) while only 6(13%) were female respondents. The study implied that large numbers of the respondents were drawn from male respondents. Figure 4.1 displays the work designation of the respondents.

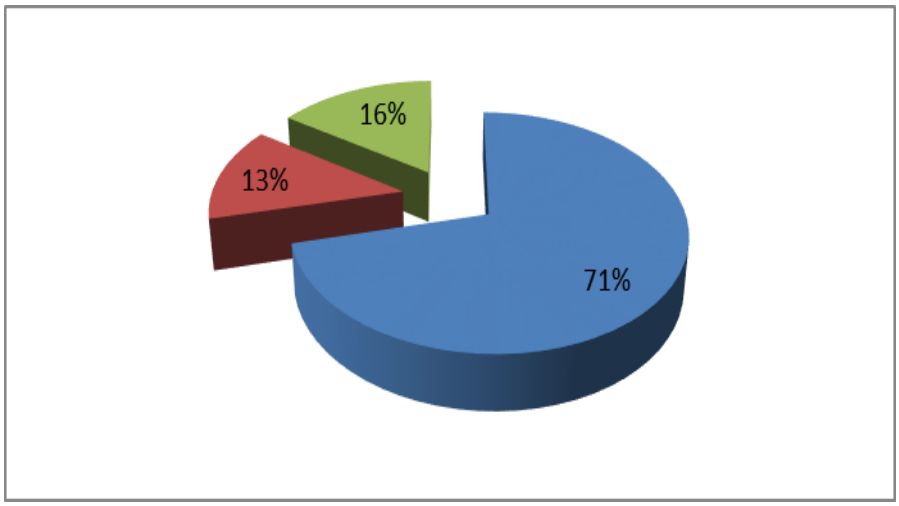

Figure 4.1 Designation

Source: Research Data (2017)

The results reveal that when the respondents were asked about their designation, the response was as follows: 32(71%) indicated administration, 7(16%) indicated finance and 6(13%) indicated production. The researcher concluded that most of the respondents were administrators. Table 4.2 shows the age distribution of the respondents.

Table 4.2: Age

Factor	Frequency	Percentage (%)
19 – 24 years	0	0
25 – 29 years	4	4
30 – 34 years	8	11
35 – 39 years	10	13
40 – 44 years	12	22
44 – 49 years	8	18
Over 50 years	14	31
Total	**45**	**100**

Source: Research Data (2017)

As per Table 4.2, 0(0%) were drawn from the age group of 19 – 24 years while 4(4%) were drawn from 25 -29 years, 8(11%) were drawn from the age group 30-34 years, 8(11%) were drawn from the age group 30-34 years, 10(13%) were drawn from the age group 35-39 years, 12(12%) were drawn from the age group 40-44 years, 8(18%) were drawn from the age group 44-49 years and 14(31%) were drawn from the age group of over 50 years. Therefore from the above table 2 therefore is a strong indication that majority of the top management team are over 50 years among the companies listed at the NSE.

From Table 4.2, there is an indication that the number of top management team tends to increase with age. Based on the results, the highest number of respondents fell in the over 50 years age group. The results also show that the least number of employees fell in the 19-24 years category. These results imply that the older employees have more experience that is why they are in the management positions while the young employees do not have the required experience. Figure 4.2 shows the highest level of education attained by the respondents

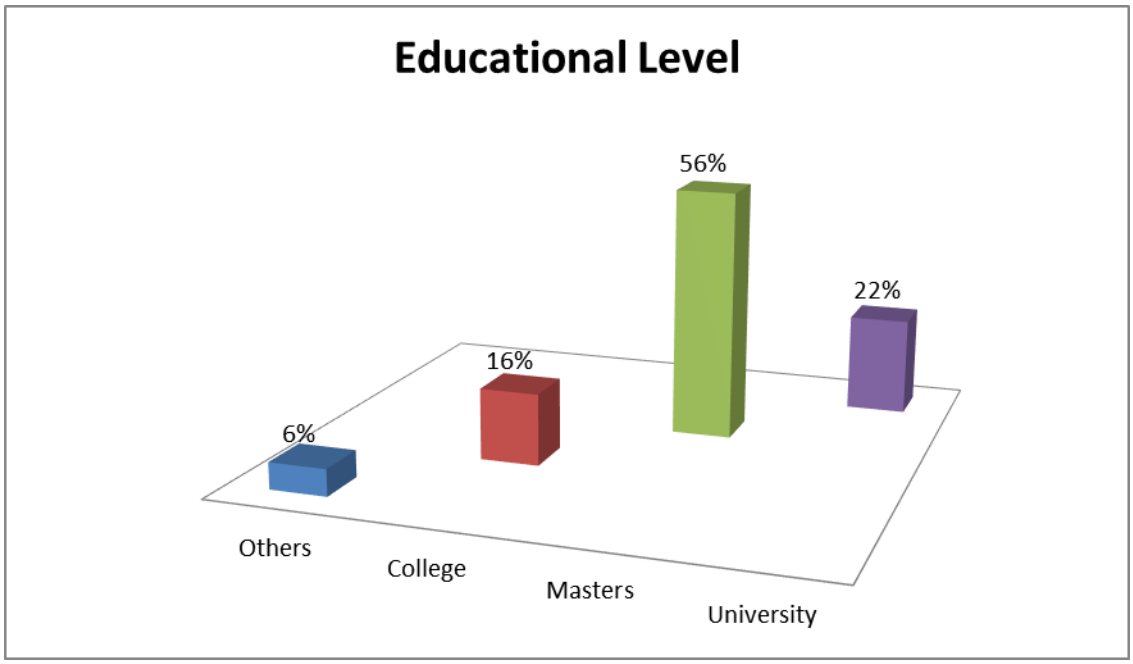

Figure 4.2 Educational Level

Source: Research Data (2017)

On the educational level the majority of the respondents attained Master's Degree level 25(56%), this was closely followed by University which is 10(22%), and those who indicated College level were 7 (16%) while those who indicated others were 3 (6%). The study revealed that most of the respondents attained Masters Level of education in the listed companies in Kenya. Table 4.3 shows the distribution of the number of years worked by the respondents.

Table 4.3: Working Years

Factor	Frequency	Percentage
1 – 5 years	11	24.4
16 – 20 years	7	15.6
26 – 30 years	7	15.6
6 – 10 years	5	11.1
21 – 25 years	7	15.6
11 – 15 years	8	17.8
Over 30 years	0	0
Total	**45**	**100**

Source: Research Data (2017)

As per the working years in the ministries and counties the response were as follows 11(24.4%) indicated 1 – 5 years then 8(17.8%) indicated 11 – 15 years 16 – 20 years, 26 – 30 years and 21 – 25 years tied with each indicating 7(15.6%). The remaining counterparts of 5(11.1%) indicated 6–10 years. The study revealed that most of the workers have worked from 1–5 years in the listed companies in Kenya. Regarding professional technical background majority of the respondents 10 (22%) indicated accounting and finance. This implied that all the respondents were accountants. Table 4.4 shows the professional background of the respondents.

Table 4.4: Professional Background

Factor	Frequency	Percentage (%)
Accounting and finance	3	7
Economics	4	9
Administration	10	22
Politics and governance	2	4
Public Relations	3	7
Banking	4	9
Marketing	6	13
Media and civil society	1	2
Strategic Management	3	7
Construction and engineering	3	7
Teaching learning and research	2	4
Others	4	9
Total	**45**	**100**

Source: Research Data (2017)

From Table 4.4, majority of the respondents have a background in administration (22%), closely followed by marketing (13%). Additionally, the results indicated that the only 2% of the respondents had a professional background in media and civil society. These results indicate that most individuals at top management positions in NSE listed firms have administrative skills.

4.4 Descriptive Statistics

Descriptive measures involved mean, maximum, minimum, standard error of estimate, skewness and kurtosis. Mean is a measure of central tendency used to describe the most typical value in a set of values. The standard error is a statistical term that measures the accuracy within a set of values. Skewness is a measure of symmetry, or more precisely, the lack of symmetry. A distribution, or data set, is symmetric if it looks the same to the left and right of the center point. Kurtosis is a measure of whether the data are peaked or flat relative to a normal distribution (Cooper & Schindler, 2008).The pertinent results are presented in Table 4.5.

Table 4.5: Descriptive Statistics for Main Variables

	N	Minimum	Maximum	Mean	Std. Deviation
TMGD	45	1.00	5.00	3.9689	.97836
NED	45	.20	.98	.7426	.19140
SIZE	45	10.42	25.85	15.3567	3.59806
ROA	45	.00	1.16	.1404	.16405
Valid N (Listwise)	45				

Source: Research Data (2017)

From Table 4.5 the mean for top management gender diversity (TMGD) was 3.9689 with a standard deviation of 0.97836. The minimum was 1.0 while the maximum was 5.0. The board independence (NED) had a mean of 0.7426 with a standard deviation of 0.1914. The minimum was 0.2 while the maximum was 0.98. The total assets (SIZE) had a mean of 15.3567 with a standard deviation of 3.598. The minimum was 10.42 while the maximum was 25.85. The performance (ROA) had a mean of 0.1404 with a standard deviation of 0.16405. The minimum was 0.00 while the maximum was 1.16.

4.3.3 Background Gender Diversity Information

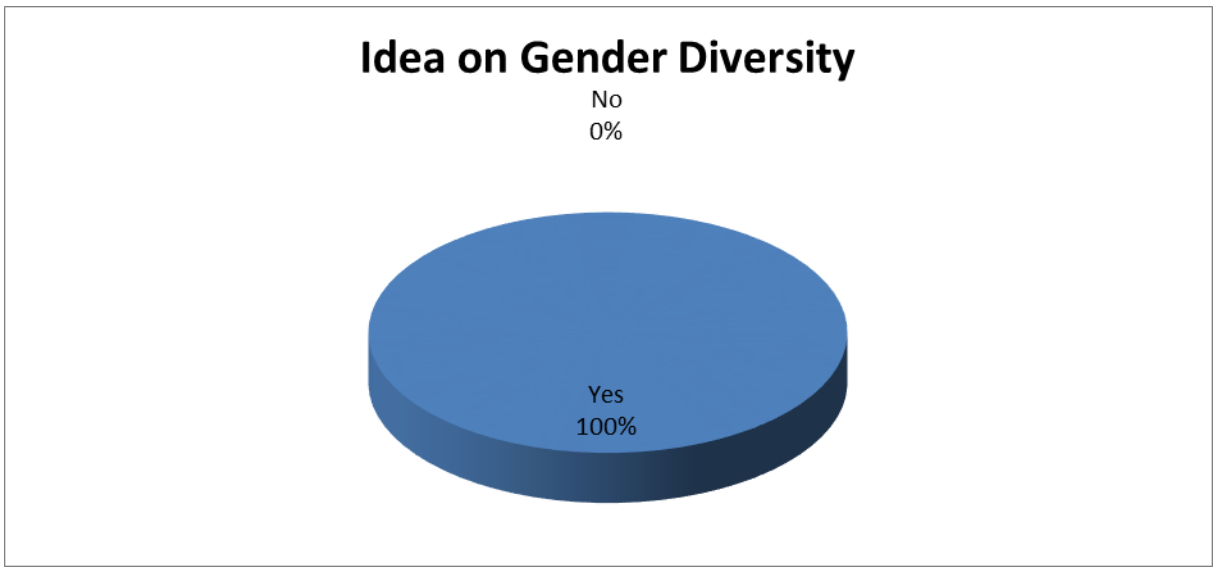

Figure 4.3: Gender Diversity Information

Source: Research Data (2017)

Figure 4.3 shows the idea of gender diversity information among the clients. As shown, 45(100%) of the respondents indicated they have an idea on gender diversity. Based on this finding, it can be concluded that all the employees are fully knowledgeable on gender diversity.

4.3.4 Board Gender Diversity Descriptive Statistics

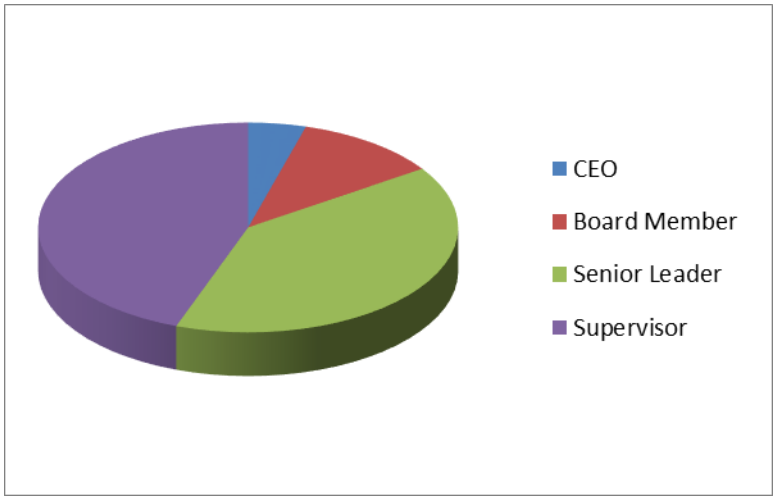

Figure 4.4: Board Gender Diversity
Source: Research Data (2017)

From the Figure 4.4, the report identified that only 2 of the 45 listed companies sampled had female chairpersons, a 4 percent representation. This however this same as the global average of 4 percent, further, at least 25 percent female board members had a positive influence on financial performance with a compounded annual growth rate of assets and revenues. On the skills front, the survey reports that finance and business-based professions continue to dominate boardrooms with accountants, auditors, bankers and investment sector professionals occupying 40 percent of the slots. Science, technology and mathematics based careers had less than 10 percent representation.

Table 4.6: Board Gender Diversity

	Mean
The extent of the current board mix reflect the diversity of our owners	4.1
How knowledgeable, skilled, and understanding are our current board members in working equally comfortably and competently with diverse stakeholders?	4.1
Does the board actively seek out and integrate issues related to diversity in their decision-making	3.9
Is the CEO personally committed to having women serve on the board and on the senior management committees	4.2
Does the company activities encourage women in leadership (mentoring, speaking, networks)	4.5
Do the company maintain and update a roster or pool of potential board and senior management candidates	3.9
Does the organization use an outside search firm in the board/senior management selection process?	4.3
Does the company have a development program in place concerning diversity/gender issues?	3.8
How many different stakeholder groups (e.g., owners, customers, employees, partners, and communities) are explicitly mentioned in the organization's mission/vision/values?	3.9
How do rate the proportion of the executive team is women	4
How do rate length of service of the current board members	3.5
Can you are rare what leads the board selection process	4
How do rate the gender representation among the criteria used to select board members?	3.7
The company provides measures of gender/diversity representation in management at each level?.	4
Average Gender Diversity	3.9

Source: Research Data (2017)

From Table 4.6, the average board gender diversity is 3.9. The activities to support gender diversity have the highest score of 4.5. The length of service has the lowest score of 3.5. There is also an indication that the listed companies have adopted the board gender diversity.

4.3.5 Return on Assets

Table 4.7: Return on Assets

Year	Return on Assets
2012	0.118
2013	0.135
2014	0.253
2015	0.274
2016	0.312

Source: Research Data (2017)

From Table 4.7 it is evident that return on assets for the listed companies at the Nairobi Securities Exchange has been on the rise since 2012 to 2016. In 2012 the ROA was 11.80% while in 2013 the ROA was 13.50%. In 2014, it rose to 25.30%, 27.40% in 2015 and in 2016 it was 31.20%.

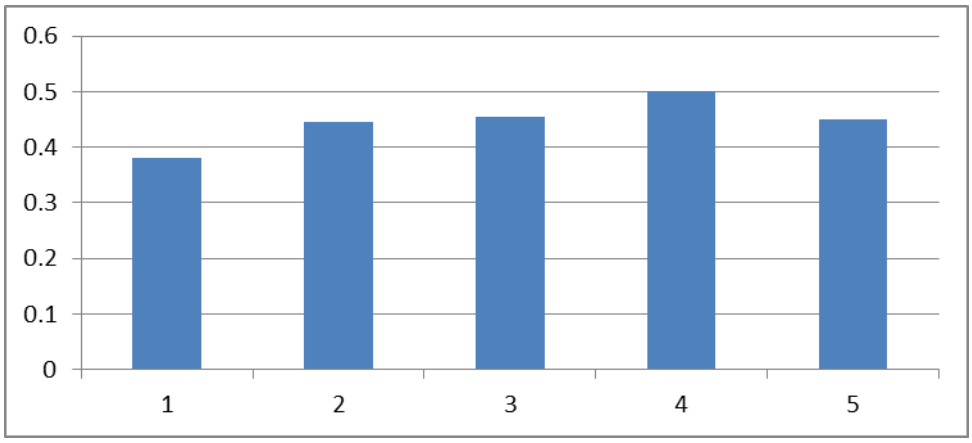

Figure 4.5 Return on Assets

According to figure 4.6 it is evident that ROA for the listed companies at NSE has been on the rise since 2012 to 2016. In 2012 the return on assets was 11.80% while in 2013 the ROA was 13.50%, in 2014 it was 25.30%, in 2015 the ROA was 27.40% and in 2016 it was 31.20%.

4.5 Correlation Analysis

A number of statistical tests have been conducted in order to determine whether there is a relationship between the companies selected factors and the firm performance. The main statistical programs used in the research are SPSS. One of the most commonly used measurements in order to test the relationship between variables is Pearson correlation coefficient (Keller, 2005). Pearson correlation measures the strength of a linear relationship between a number variables and the requirement when using Person correlation is normality of the data. The range of possible correlation coefficients stretches between -1 and 1. Where -1 implies that there is a perfect negative linear relationship between the variables and a correlation coefficient of 1 implies that there is a perfect positive relationship between the variables (Keller, 2005).

In case the correlation coefficient is equal to zero there is no relationship between the two variables and they are independent to each other. But is it rarely the case that the correlation coefficient takes one of the positions described above and the correlation is in most cases located between the extreme positions. However, even though the correlation coefficient is widely used in these types of studies, the measurement is not perfect and it contains some limitations.

One of the major drawbacks is that it only reveals how strong a linear relationship is between two variables, consequently other relationships than linear are excluded. Another drawback with the measurement is that it not indicates the casualty of the relationship. It only specifies that there is a relationship between the variables but it does not explain that one variable causes the variability in the other variable.

Table 4.8: Correlation Analysis

		GBD	NED	SIZE	ROA
GBD	Pearson Correlation	1			
	Sig. (2-tailed)				
	N	45			
NED	Pearson Correlation	.810**	1		
	Sig. (2-tailed)	.000			
	N	45	45		
SIZE	Pearson Correlation	.604**	.646**	1	
	Sig. (2-tailed)	.000	.000		
	N	45	45	45	
ROA	Pearson Correlation	.348*	.332*	.375*	1
	Sig. (2-tailed)	.019	.026	.011	
	N	45	45	45	45

Source: Research Data (2017)

Table 4.8 indicates that all the predictor variables had a positive association among themselves; with the strongest (0.810) being indicated board independence and ROA, while there was also a positive association between gender diversity and firm performance (0.348). As cited in Wong and Hiew (2005) the correlation coefficient value (r) range from 0.10 to 0.29 is considered weak, from 0.30 to 0.49 is considered medium and from 0.50 to 1.0 is considered strong.

4.6 Regression Analysis

In order to establish the relationship between variables as well as the effect of top management gender diversity on performance of companies quoted at NSE. And also to determine whether there is a relationship between the board independence and firm performance, company selected factors have been regressed. According to Keller (2005) a regression analysis is used to predict the value of one variable on the basis of other variables. There basically exist two main types of regression analysis, simple linear regression and multiple regressions.

Since we have more than one independent variable included in the research the multiple regression analysis is most appropriate in our case. A multiple regression analysis may include all company-selected factors (independent variables) in one single test and compare them with the firm performance (dependent variable).

Table 4.9: Regression Analysis

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.811[a]	.6577	.6977	.29072

a. Predictors: (Constant), SIZE, TMGD, NED

Source: Research Data (2017)

Analysis in Table 4.9 shows that the coefficient of determination between the variables are strong at R=0.811. This is an indication that the relationship between the variables i.e firm performance, top management gender diversity, board independence and firm size is strong. The percentage variation in the dependent variable being explained by the changes in the independent variables (R square) equals 0.656, that is, top management gender diversity, board independence, and firm size explains 65.6% change in firm performance. 34.4% of the variation in firm performances is explained by other variables other than the ones covered in this research.

Table 4.10: ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.681	3	.227	2.687	.04[a]
	Residual	3.465	41	.085		
	Total	4.146	44			

a. Predictors: (Constant), SIZE, TMGD, NED

b. Dependent Variable: ROA

Source: Research Data (2017)

ANOVA findings (P- value of 0.04) in table 4.10 show that there is correlation between the predictor variables (top management gender diversity, board independence and firm size) and dependent variable (firm performance). An F ratio is calculated which represents the variance between the groups, divided by the variance within the groups. A large F ratio indicates that there is more variability between the groups (caused by the independent variable) than there is within each group, referred to as the error term. The P value is 0.04 is less than 0.05 level of significance.

Table 4.11: Coefficients

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-.347	.202		-1.716	.044
	TMGD	.053	.078	.170	.689	.001
	NED	.050	.414	.031	.121	.004
	SIZE	.019	.014	.252	1.327	.019

a. Dependent Variable: ROA

Source: Research Data (2017)

These are the values for the regression equation for predicting the dependent variable from the independent variable. The regression model was as follows:

$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + e$

Where Y =Firm Performance

α = constant which is the intercept of the regression equation

β_1, β_2,β_3, β_4= the gradient which represents the coefficients of the independent variables

X_1= Top Management Gender Diversity measured by considering the percentage of women in the board.

X_2=Board Independent measured by considering the percentage of the NED.

X_3=Firm Size is measured by considering the log of total assets.

e = error term which reflects other factors that influence firm performance

The regression model becomes:

$$\mathbf{Y = -.347 + 0.053X_1 + 0.05X_2 + 0.19X_3}$$

Where: Constant = -0.347, shows that if top management gender diversity, board independence and firm size, firm performance would be -0.347. X_1=-0.053, shows that one unit increase in top management gender diversity results in 0.053 units increase in firm performance and the relationship is significant (p value is less than 5% level of significance, X_2= 0.05, shows that one unit increase in board independence (NED) results in an increase of 0.05 in firm performance. X_3=0.19, shows that one unit increase in firm size results in an increase of 0.19 in firm performance.

4.7 Reliability Tests

Table 4.12 Reliability Test Results

	Cronbach Alpha
The extent of the current board mix reflect the diversity of our owners	0.78
How knowledgeable, skilled, and understanding are our current board members in working equally comfortably and competently with diverse stakeholders?	0.76
Does the board actively seek out and integrate issues related to diversity in their decision-making	0.80
Is the CEO personally committed to having women serve on the board and on the senior management committees	0.74
Does the company activities encourage women in leadership (mentoring, speaking, networks)	0.83
Do the company maintain and update a roster or pool of potential board and senior management candidates	0.75
Does the organization use an outside search firm in the board/senior management selection process?	0.77
Does the company have a development program in place concerning diversity/gender issues?	0.88
How many different stakeholder groups (e.g., owners, customers, employees, partners, and communities) are explicitly mentioned in the organization's mission/vision/values?	0.89
How do rate the proportion of the executive team is women	0.84
How do rate length of service of the current board members	0.67
Can you are rare what leads the board selection process	0.89
How do rate the gender representation among the criteria used to select board members?	0.90
The company provides measures of gender/diversity representation in management at each level?.	0.67
Mean Score Cronbach Alpha	0.74

Source: Research Data (2017)

The reliability of all the items used in assessing factors associated with gender diversity and organizational performance of firms in the questionnaire was examined using the Cronbach statistics. As shown in Table 4.12, the average score for all the items was 0.74. This was greater than the threshold of 0.7, thus proving that the data used in this research was reliable.

4.8 Discussion of Findings

This study provides support for the role of gender diversity and board independence on the firm performance of listed companies in NSE. The result raises the questions regarding the impact of more gender diverse boards on corporate governance and eventually firm performance. Building on previous work such as by Adams and Ferreira (2009) who found the share of female board members to affect various measures of governance, I add into these insights by pointing to the significant relationship between top management gender diversity and firm performance.

These results also point to the conclusion that the effect from increasing the share of women in corporate boards will (at least) not immediately translate into measurable financial performance. It is important to stress, that while these results suggest that gender-diverse boards may be indeed beneficial for board stability, they do not advocate gender quotas. On the contrary, these results suggest that it may be in the self-interest of companies to aim for gender diversity in the boardroom if it facilitates better monitoring with potential long-run beneficial effects on corporate governance.

These findings suggest that board diversity is positively, related to performance of firms listed at NSE. This is similar to the study of Smith et al (2006) which found that there is significant relationship between board gender diversity and various

accounting measures. At the same time De Cabo et al. (2009) found out that the proportion of women on the board had no significant differences in relation to ROA. The implication of these findings as noted by (Campbell &Mínguez-Vera 2008) is that the presence of female directors is not punished by the business community since its effect is not significant on the performance of firms. The general outcome from the interviews was that the women directors acknowledged being able to affect firm performance. An example given was their influence in the decision-making process in board meetings when financial matters were discussed. Besides the involvement of their department's team members and other subordinates, the women saw themselves as having influenced the quality of the company's financial situation. Gender mix brings a higher diversity in the group as well as more diverse values and perspectives. While potential interpersonal conflicts are likely to be raised, it reduces the use of agreement-seeking behaviors within the group and imposes a difficulty on reaching the consensus (Knight et al., 1999). Further, the potential conflicts between board members become a constraint on decision-making process.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter summarizes the study and provides the results and useful insights drawn from the analysis presented in chapter four. It captures the summary of findings, conclusions, limitations as well as recommendations for further research.

5.2 Summary of Findings

The study investigated three dimensions of a firm's performance, namely, gender diversity, board independence and firm size. The descriptive results indicated that most listed firms had gender diversity in their boards and most listed firms had a stable asset base. However, the findings concluded that board diversity did not contribute to performance of listed firms. The financial performance of listed firms was 14.4%, which is a moderate score. This was an indication that top management gender diversity did contribute to profitability of listed firms.

These findings are however not consistent with the study of Smith et al (2006) which found no significant relationship between board gender diversity and various accounting measures. At the same time De Cabo et al. (2009) found out that the proportion of women on the board had no significant differences in relation to ROA. The implication of these findings as noted by (Campbell & Mínguez-Vera, 2008) is that the business community does not punish the presence of female directors since its effect is not significant on the performance of firms.

One of the main findings of this study is that top management gender diversity has significant effect on the performance of banks. This is shown by a statistically the significant relationship between top management ender diversity and firm performance. These findings suggest that diversity could be an important corporate governance concept in other business facets as opposed to boardrooms. Whatever measure could be taken to improve gender diversity in boards may not be seen negatively by the business community since it has effect on the bottom-line of banks. This is inconsistent with Campbell and Minguez-Vera (2008) who suggested that the market does not punish firms that have included female directors on the boards since board gender diversity was found to have no effect on performance.

The findings on the number of female directors on the Kenyan boards could also point to the fact there is a glass ceiling on women in many organizations. The study results also indicate that increased gender diversity does not fosters greater efficiency (better economic performance) and enhanced competences, which may not justify legislation for implementing quota rules. Female board representation is not associated with superior performance.

5.3 Conclusion

One of the main findings of this study is that top management gender diversity has a significant effect on the performance of firms listed at NSE. This is shown by a statistically significant relationship between top management gender diversity and firm performance. These findings suggest that diversity could be an important corporate governance concept in other business facets as opposed to boardrooms.

Whatever measure could be taken to improve gender diversity in boards may not be seen negatively by the business community since it does not have any effect on the bottom-line of banks. This is consistent with Campbell and Minguez-Vera (2008) who suggested that the market does not punish firms that have included female directors on the boards since board gender diversity was found to have no effect on performance. These findings could be like this may be because majority of the boards are male dominated and the few women that are on the board may not be having any influence on the strategies of the firms.

The role of women as board directors and top corporate executives in driving firm performance has become a very topical issue. Especially in the current times of economic crisis which is largely attributed to unsound risk management practices, there is debate if the global economic picture would have looked less grim, had there been more women on boards of directors in the distressed financial institutions. The proponents refer in this respect to the fact that women are more risk-averse and claim that more gender diverse corporate teams will help bring the global economy back on track. These arguments strongly relate to the business case for top management gender diversity, which has been investigated empirically in this article.

5.4 Recommendations

The study adds to the limited evidence on the effect of top management gender diversity on firm performance. Drawing on the development in organizational strategy and corporate governance over recent years, which approaches women's representation in top corporate positions as a value-driver, the hypothesis in our study is that board gender diversity will lead to positive firm performance effects.

Additionally, firms should also employ better mechanisms for the appointment of top management members. The candidates must have the qualifications required, especially regarding educational background, and tenure and work experiences and these may assure the shareholders that appropriate top management members have been elected, regardless of gender, to maximize firm value. As a consequence, the appointment of family members who do not meet the requirements to be board members must be abolished.

Finally, firms, through the major shareholders, should start to ensure that women possess equal access to be board members since it seems that women leaders are more able than male colleagues to deliver leadership behaviors that could be effective when applied in current conditions. The leadership styles in this context are the transformational and contingent reward behaviors. This is because women are believed to have the ability to exercise these leadership behaviors to manage their relationship and to exercise similar management style with men.

5.5 Limitations

There are several limitations of the current study that might be improved in future research. Since the research sample only cover the financial firms publicly-listed on the NSE form 2012 to 2016, the research results can only be applied to the firms in the sample in this periods and not to other firms or outside of the time spans considered in this study. Moreover, the study consists of different types of financial firms (banks, insurance firms, securities firms, financial institutions, and other type of firm). Each type of financial firm has its own nature and characteristic and this may influence the final research results.

Another limitation of this study is that it utilized secondary data sources and might not necessarily reflect the exact needs of the study. This might negatively affect the accuracy and reliability of the results and impact negatively on the findings drawn in this study. The study was only limited to four variables only; gender diversity, board independence, firm size and firm performance. It is imperative to note that firm performance is affected by many factors other than the ones confounders discussed in this study that have a bearing on firm performance. Other factors considered, it would be important to establish whether the findings will hold or not after which conclusive results can be drawn.

5.6 Recommendations for Future Research

The future research may utilize samples of non-financial firms in, or other than, the Kenyan context and in more current time spans. Moreover, when different types of firms are used for the sample, the variable of regulation should also be considered. Other research methods may be applied to achieve a better understanding of board mechanisms and how board members work on a day-to-day basis.

Future research related to firm social or environmental performance utilizes the value of money disbursed by firms in meeting the needs of the society for the proxy of firm philanthropy. Another possibility is use independent agencies or organizations to rank the firms in terms of their social or environmental performance. Furthermore, the effects of the presence of women board members on firm performance should be explored further in future research because there is a possibility that shareholders behavior may change in relation to the gender bias due to the acknowledgement that gender diversity of board members is needed to maintain the going concern of the business.

Additionally, because the public currently has been demanding firms to provide more opportunities for women to be leaders, the effect of this structural change in firms may be examined over the long term. More research should also be undertaken regarding investor behavior, especially factors affecting their investment decisions when faced with the presence of women board members. However, within firms there might also be assimilation processes through which women ‘mask’ specific gender-related propensities in order to reach board positions.

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APPENDICES

Appendix I: Introduction Letter

UNIVERSITY OF NAIROBI
SCHOOL OF BUSINESS

Telephone: 020-2059162
Telegrams: "Varsity", Nairobi
Telex: 22095 Varsity

P.O. Box 30197
Nairobi, Kenya

DATE.....

TO WHOM IT MAY CONCERN

The bearer of this letter ...CAROLINE MAKENA KITHINJI

Registration No.....D61/68301/2013.....

is a bona fide continuing student in the Master of Business Administration (MBA) degree program in this University.

He/she is required to submit as part of his/her coursework assessment a research project report on a management problem. We would like the students to do their projects on real problems affecting firms in Kenya. We would, therefore, appreciate your assistance to enable him/her collect data in your organization.

The results of the report will be used solely for academic purposes and a copy of the same will be availed to the interviewed organizations on request.

Thank you.

UNIVERSITY OF NAIROBI
SCHOOL OF BUSINESS
09 NOV 2017
MBA OFFICE
P.O. Box 30197 - 00100, NAIROBI

PATRICK NYABUTO
SENIOR ADMINISTRATIVE ASSISTANT
SCHOOL OF BUSINESS

APPENDIX II: QUESTIONNAIRE

A: DEMOGRAPHIC INFORMATION

This questionnaire is intended to collect views on the effect of top management gender diversity on performance of listed firms quoted at the Nairobi securities exchange. The results will be of interest to the Policy Makers in both the Public and Private sectors. Please answer all the questions honestly

Name of the Company……

What is the type of the industry the company is in:

Agriculture ☐

Automobiles and Assessors ☐

Banking ☐

Commercial and Services ☐

Construction and Allied ☐

Energy and Petroleum ☐

Insurance ☐

Investment ☐

Manufacturing and Allied ☐

Telecommunication ☐

Other(specify)……

The company has been in operation for how many years. Please tick below

Less than 5 [ ] 5 -10 years [ ]

10-20 years [ ] Over 20 years [ ]

What is your highest education level? (Tick as applicable)

College [ ] Bachelors' degree [ ]

Others-specify

Years of service/working period with Company (Tick as applicable)

Less than 1 year [ ] 6-10 years [ ]

1-5 years [ ] Over 10 years [ ]

B: TOP MANAGEMENT GENDER DIVESITY

Which gender do you identify with?	
Man	☐
Woman	☐
Other preferred description	☐
Prefer not to say	☐
Which age category are you in?	
16 – 24	☐
25 – 34	☐
35 – 44	☐
45 – 54	☐
55 – 64	☐
65+	☐
Prefer not to say	☐
Do you consider your own gender identity to be different from that associated with your sex as registered at birth?	
Yes	☐
No	☐
Prefer not to say	☐

What do you estimate is the percentage of female employees at different levels in your organization? (For CEO this will be either 0 if you have a male CEO or 100 for a female CEO). Leave a box blank if your organization doesn't distinguish between particular levels e.g. Middle Manager & Supervisor

CEO ☐

Board Member ☐

Senior Leader ☐

Supervisor ☐

How do you rate board gender diversity in your company in a scale of 1 to 5? (1=very low and 5= Very high)

	1	2	3	4	5
1. The extent of the current board mix reflect the diversity of our owners 2. How knowledgeable, skilled, and understanding are our current board members in working equally comfortably and competently with diverse stakeholders? 3. Does the board actively seek out and integrate issues related to diversity in their decision-making 4. Is the CEO personally committed to having women serve on the board and on the senior management committees 5. Does the company activities encourage women in leadership (mentoring, speaking, networks) 6. Do the company maintain and update a roster or pool of potential board and senior management candidates 7. Does the organization use an outside search firm in the board/senior management selection process? 8. Does the company have a development program in place concerning diversity/gender issues? 9. How many different stakeholder groups (e.g., owners, customers, employees, partners, and communities) are explicitly mentioned in the organization's mission/vision/values? 10. How do rate the proportion of the executive team is women 11. How do rate length of service of the current board members 12. Can you are rare what leads the board selection process 13. How do rate the gender representation among the criteria used to select board members? 15. The company provides measures of gender/diversity representation in management at each level?.					

How aware are you of Equality and Diversity policies in the company?

	No knowledge	Little knowledge	Some knowledge	Familiar with	Fully familiar with
Equal Opportunities Policy					
Race Equality Action Plan					
Race Equality Policy					
Other University equalities' policies					

6. Are there any particular issues you would like to know about e.g. how to deal with specific cases, particular equality areas, legislation, good practice, staff issues, and staff management issues?.....

……..

7. Training

Have you attended Equality and Diversity training in the last 2 years? Please give details.	
Yes	
No	
b) If not, why not? Please give details.	

THANK YOU

APPENDIX III: COMPANIES LISTED AT THE NSE AS AT DECEMBER 31ST2016

	AGRICULTURAL
1	Eaagads Ltd
2	Kakuzi Ltd
3	Kapchorua Tea Co. Ltd
4	The Limuru Tea Co. Ltd
5	Sasini Ltd
6	Williamson Tea Kenya Ltd
	AUTOMOBILES & ACCESSORIES
7	Car & General (K) Ltd
8	Marshalls (E.A.) Ltd
9	Sameer Africa Ltd
	BANKING
10	Barclays Bank of Kenya Ltd
11	CFC Stanbic of Kenya Holdings Ltd
12	Diamond Trust Bank Kenya Ltd
13	Equity Group Holdings Ltd
14	Housing Finance Group Ltd
15	I&M Holdings Ltd
16	KCB Group Ltd Ord
17	National Bank of Kenya Ltd
18	NIC Bank Ltd
19	Standard Chartered Bank Kenya Ltd
20	The Co-operative Bank of Kenya Ltd
	COMMERCIAL AND SERVICES
21	Atlas African Industries Ltd
22	Express Kenya Ltd
23	Hutchings Biemer Ltd
24	Kenya Airways Ltd
25	Longhorn Publishers Ltd
26	Nairobi Business Ventures Ltd

27	Nation Media Group Ltd
28	Standard Group Ltd
29	TPS Eastern Africa Ltd
30	Uchumi Supermarket Ltd
31	WPP Scangroup Ltd
	CONSTRUCTION & ALLIED
32	ARM Cement Ltd
33	Bamburi Cement Ltd
34	Crown Paints Kenya Ltd
35	E.A.Cables Ltd
36	E.A.Portland Cement Co. Ltd
	ENERGY & PETROLEUM
37	KenGen Co. Ltd
38	KenolKobil Ltd
39	Kenya Power & Lighting Co Ltd
40	Total Kenya Ltd
41	Umeme Ltd
	INSURANCE
42	Britam Holdings Ltd
43	CIC Insurance Group Ltd
44	Jubilee Holdings Ltd
45	Kenya Re Insurance Corporation Ltd
46	Liberty Kenya Holdings Ltd
47	Pan Africa Insurance Holdings Ltd
	INVESTMENT
48	Centum Investment Co Ltd
49	Home Afrika Ltd
50	Kurwitu Ventures Ltd
51	Olympia Capital Holdings Ltd
52	Trans-Century Ltd
	INVESTMENT SERVICES

53	Nairobi Securities Exchange Ltd Ord 4.00
	MANUFACTURING & ALLIED
54	A.Baumann & Co Ltd
55	B.O.C Kenya Ltd
56	British American Tobacco Kenya Ltd
57	Carbacid Investments Ltd
58	East African Breweries Ltd
59	Eveready East Africa Ltd
60	Flame Tree Group Holdings Ltd
61	Kenya Orchards Ltd
62	Mumias Sugar Co. Ltd
63	Unga Group Ltd
	TELECOMMUNICATION& TECHNOLOGY
64	Safaricom Ltd
	REAL ESTATE INVESTMENT TRUST
65	STANLIB FAHARI I-REIT. Ord.20.00
	AGRICULTURAL
1	Eaagads Ltd
2	Kakuzi Ltd

Source: Nairobi Securities Exchange Website (December 31, 2016).