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Research Paper

Gender Diversity of Board Of Directors And Firm's Capital Structure Among Listed Firms In Nairobi Securities Exchange, Kenya

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ABSTRACT
The purpose of the study is to examine the effect of board diversity on capital structure among listed firms in Nairobi Securities Exchange. The study specifically, focused on the effect of gender diversity of board of directors on firm's capital structure. The study adopted longitudinal design. The study utilized census technique for 34 firms that are listed on the Nairobi Security Exchange (NSE) consistently for 8-year period, 2004–2012, hence giving 272 years of observations. This study utilized secondary data. Documentary guide was used to collect data. Data was analyzed using both descriptive statistical method which included mean, standard deviation and inferential statistics to test linear relationship between variables and multiple regression to test hypothesis. The study found that gender diversity (β_2= 0.454, ρ<0.05) has a positive and significant effect on firm's capital structure. The study concluded that board diversity was an important determinant of capital structure. Therefore, there was need to diversify the board of directors so as to effectively monitor management from adopting excessive leverage.

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I. Background of the Study

One of the important decisions made by board of directors is capital structure. Capital structure has long been linked to the firm's profitability and performance (Abor, 2005; Arbiyan and Safari, 2009; Chakraborty, 2010). According to Tarus and Ayabei (2014) board of directors have different characteristics such as board diversity which contribute to firms' corporate governance mechanism, with some characteristics providing more controlling mechanism than others. Therefore it is crucial to examine whether having a diverse board would enhance or reduce the leverage of firms. Researchers agree that diverse boards are critical in exercising strategic control, tougher monitoring and financial decision making such as capital structure in firms (Gulamhussen and Santa, 2011). From agency perspective, boards monitor the management particularly in decision making, critical managerial decision making that require constant monitoring is capital structure decisions. It is argued that diversity is better for decision making particularly from a resource dependency perspective (Hillman *et al.,* 2007). The successful selection and use of capital is one of the key elements of the firms' financial strategy (Velnampy & AloyNiresh, 2012). The existence of a well-developed board diversity assist in the management of debt (kajananthan, 2013).

Carter *et al.,* (2002) argued that board diversity contributes to creating shareholder value, promoted better understanding of the marketplace, led to the evaluation of more alternatives and more careful exploration of the consequences of these alternatives. Diversity also promotes more effective global relationships. Fields *et al.,* (2010) asserted that firms with more diverse boards are less likely to have collateral requirements on their loans and those that also have greater board diversity and better director compensation are less likely to have financial ratio restrictions, even after adjusting for the influences of firm size and the financial characteristics of the borrower.

Previous studies suggested a link between board diversity and improved firm valuations; an extension would suggest a similar link to bank loans (Erhardt *et al.,* 2003; Carter *et al.,*2003). However, Booth *et al*., (2001)

and Bas *et al*., (2008) argued that knowledge about capital structure has mostly been derived from data in developed economies that have many institutional similarities. There are differences in social and cultural issues and in the levels of economic development thus the need to examine differently the board diversity and capital structure for firms in developing economies. According to Bulent *et al.,* (2013) most studies have given attention on the developed countries, such as United States, leaving a gap in the existing literature on the board diversity and capital structure in emerging economies such as Kenya. As such this study attempted to determine the effect of board diversity on capital structure.

Statement of the Problem

Capital structure decisions are critical for a firms' success. Capital structure entails mix of both equity and debt in financing firms operations (Pahuja and Sahi, 2012). The decisions on structuring the mix of financing is largely a management responsibility, however with increasing cases of agency problems (Bebchuk, 2004), boards of directors act as monitors in such decisions. Corporate failure among companies in Kenya has often been associated with the financing behavior of the firms. Momentous efforts to revive the ailing and liquidating companies have focused on financial restructuring. A great dilemma for management and investors alike is whether there exists an optimal capital structure and how various capital structure decisions, both short-term and long-term, influence business performance (Mwangi, Makau and Kosimbei, 2014). Corporate governance literature has placed a lot of emphasis on the value of board diversity in corporate decision making. Some scholars such as (Carter *et al*., 2003; Carter *et al*., 2002; Adams and Ferreira, 2009; Hillman *et al*., 2007) argued that diverse boards bring in wealth of skills and experience as well as networks in decision making. Empirical evidence by Boone *et al.,* (2007), Coles *et al.,* (2008), and Linck *et al.,* (2008) find that board structure and capital structure are related. Over the last decade, many authors have investigated the relationship between board composition and firm performance (Kiel and Nicholson, 2003; Van Ees *et al.,* 2003; Uadiale, 2010), but the effect of diverse boards on capital structure is barely considered. In addition, recent diversity studies have focused on board diversity with interesting but mixed results (Dagsson, 2011). In Kenya for example, scanty literature can be found on relationship between gender diversity and firm performance with exception of Barako & Brown (2008). Barako & Brown (2008) established that board diversity in Kenya's banking industry leads to improved corporate social reporting. This study however, focused on the relationship between gender diversity and capital structure in Kenya. This study is timely in establishing what effect board diversity have on capital structure with specific focus on the listed firms. Based on the above discussion, the current study assessed the effect of board diversity (age diversity, gender diversity, ethnic diversity and national diversity).

II. LETERATURE REVIEW

Board of Directors' Gender Diversity on Capital Structure

Board gender diversity is the presence of female directors in corporate boards of directors (Dutta& Bose 2007; Campbell & Mínguez-Vera 2008). The participation of women in the labor market has grown since 1980 although this has not been matched with the improvement in quality of employment and capital structure debt and equity financing (ILO, 2007). In many European countries the participation of women in the labor market is lower as compared to men which have improved capital structure because women were likely to be turned down for a loan by banks. (Curdova, 2005). In the US, female representation in boards increased from 3.7% to 8.6% from 1993 to 2003 (Singh & Vinnicombe, 2004). Such an increasing trend has also been experienced in UK where female directors have doubled since 1999 (Grosvold *et al.,* 2007). It is believed that the change in board gender diversity has led to Orser *et al.,* (2000) concluding that women were more concerned about access to capital than with any other business problem leading to an improvement in the financing (Grosvold *et al.,* 2007).

In Kenya, statistics on gender representation in boards of directors are scanty. However, scattered data and some anecdotal evidence reports that Kenyan boards are overwhelmingly male dominated and this has improved debt and equity financing because of the idea that women are likely to be turned down for loan and most fear to use equity as way of financing due to lack of past experience(Business daily, 2010). At the same time it is believed that the corporate scene is male dominated because of inadequacy of the nominating committees as recommended by the Capital Markets Authority and this as termed by Ibid, (2010) has led to women lacking experience of how to finance a company.

The effect of gender diversity on firm performance is inconclusive given the findings of various studies that have been undertaken worldwide. Although the effect is not clear, many theories have been put forward explaining why gender diversity may have an effect on the firm value and capital structure. First, Robinson & Dechant (1997) through their intuitive reasoning argue that firms that are diverse in the board rooms tend to outperform those that are less diverse because of broad ideas on firm's capital structure. They argue that diversity promotes better understanding of the marketplace by matching the diversity of directors to that of customers and employees hence increasing market penetrability. It is 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 that, they argued that increasing the number of female directors may increase board's independence and better ways of financing a firm 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 debt and equity financing process.

In western economies board gender diversity is desired by customers, employees and other stakeholders since it demonstrates the sensitivity of management to stakeholder preferences, better capital structure, aspirations and concerns (Throsvold *et al.,* 2007). Some researchers have actually established that a board that is diverse in terms of gender is likely to have positive impact on its capital structure performance. For instance, (Erhardt *et al.,* 2003) establish that a company that has got women and minority groups as part of its directors tend to have positive impact on capital structure performance.

A further reason supporting the observation that greater board gender diversity is related with lower debt and equity management can be found in the arguments of Jianakoplos and Bernasek (1998) that women are more risk-averse than men, while Cox and Blake (1991) explain that women increase the costs of the firm as a result of higher turnover and absenteeism. Greater gender diversity may negatively affect the performance and capital structure of the firm if women directors are appointed as tokens rather than for their competence.

III. RESEARCH METHODOLOGY

RESEARCH METHODOLOGY

Research Design

Research design is the arrangement of condition for collections and analysis of data in a manner that aims to combine relevance to the research purpose with economy as procedure (Kothari, 2008).This study adopted longitudinal design. . The researcher did not visit individual firms under study to administer any questioner but instead used secondary data from the Nairobi Securities Exchange handbook, published financial statements for the firms under study. A longitudinal study is an observational research method in which data is gathered for the same subjects repeatedly over a period of time. Longitudinal research projects can extend over years or even decades. In a longitudinal cohort study, the same individuals are observed over the study period.. The design was best for ascertaining the effects of board diversity on capital structure among listed firms at Nairobi Securities exchange in Kenya and it allowed for the use of secondary data through documentary guide analysis to facilitate data collection in the listed firms.

Target Population

The target population of this study was the published financial statements of the listed firms in Kenya, there are 34 listed firms in the NSE being firms which have shown consistency in the market during the period 2004-2012 giving a total of 272 firm year observations therefore the target population above was chosen since it provided research information in respect to the study.

Sampling Size and procedure

The study sampled all firms that have been listed on the Nairobi Securities Exchange (NSE) during the eight-year period, 2004–2012. Thirty four firms qualified to be included in the study sample. The sample was selected from the firms which had been listed consistently for 8 years**.**

Data Collection

This study utilized secondary data which was obtained through hand book, magazine articles, sales analysis summaries and investor annual reports, for the researcher to get systematic information it used a designed documentary analysis guide. This guide was used to find out the information concerning board diversity ethnic and national.

Measurement of Variables

Dependent Variable*:*

Capital structure was measured as ratio of debt to equity (Rafique, 2010). In the prior studies for example in (Al Shammari *et al.,* 2007, Ali *et al.,* 2004) capital structure has been tested using Debt to Assets or Debt to Equity. For this research ratio of Debt to Equity was utilized in measuring capital structure.

Independent variable

Gender diversity was measured using the percentage of women in board of directors by dividing the number of women in the board of directors by the total number of directors in the board (Erhardt *et al.,* 2003; Marinova *et al.,* 2010; Rose, 2007).

Data Analysis

The study utilized quantitative technique to analyze data; Quantitative data was analyzed using descriptive statistical method, the statistical tools such as frequency distribution, measures of central tendency and dispersal such as mean and standard deviation was used.

The data collected was analyzed using multiple regressions and correlation analysis, the significance of each independent variable was tested at a confidence level of 95%. The regression equation of the form below was applied.

Model Specification

$$y_{it} = \alpha_{it} + \beta_1 x_{1it} + \beta_2 x_{2it} + \beta_3 x_{3it} + \beta_4 x_{4it} + \varepsilon_{it}$$

Where, Y =capital structure of the firm measured by ratio of debt to equity, which was the dependent variable.

α = Constant

$\beta_1 \ldots \beta_4$=the slope which represented the degree in which capital structure of the firm changes as the independent variable change by one unit variables.

X_1= age diversity; X_2= gender diversity; X3= ethnic diversity; X4= National diversity; ε = error term; i = measure of firms; t= measure of time.

Ethical considerations

The study was undertaken bearing in mind all the ethical concerns and it attempted to uphold them. Permission to carry out the research was sought from the relevant authorities and from the participants who were involved in the study. The nature and purpose of the study was explained to the listed firms. During the course of the study, the listed firms were assured of confidentiality, anonymity, and researcher's responsibility (Mugenda and Mugenda 1999). The information was based on the selected listed firms which marked an informed decision on whether or not to participate in the study. The study maintained confidentiality of all data collected of the listed firms as it related to the operations of the organization that was used to gain competitive advantage.

IV. DATA PRESENTATION, ANALYSIS AND INTERPRETATION

Descriptive statistics

The findings in Table 4.1 presented capital structure in all the sectors. The results in table 4.1 revealed that all sectors had an average of 53 years of operation. Gender diversity mean ratio was 12.2045, ethnic diversity (mean = 26.0389).

Table 4.1 Descriptive Statistics for all Sectors

	Mean	Std. Deviation	Skewness	Kurtosis	Minimum	Maximum
Age	53.997	6.27248	-0.067	-0.497	40.18	69.27
Gender	12.2045	12.0455	0.926	0.26	0	48.2
Ethnic	26.0389	17.04075	0.215	-0.345	0	81
National	35.8739	30.23173	0.382	-0.883	0	128.33
Board Size	9.2587	2.8598	-0.102	-0.582	3	16
CEO Duality	0.1439	0.35156	2.04	2.178	0	1
Firm Size	6.5566	1.25838	-1.426	4.17	0	8.89
CEO Tenure	2.7108	0.93681	0.221	0.987	1	6
Board Independence	0.5412	0.55379	1.494	3.685	0	2.8
Capital Structure	1.7331	4.86528	3.715	12.696	0	26.91

4.1.1 Correlation Results

Correlation analysis is a technique of assessing the relationship between all variables: age, gender, ethnic, national diversity, industry, board size, CEO duality, firm size, CEO tenure and capital structure. Thus, the study analyzed the relationships that are inherent among the independent and dependent variables. The results were summarized and presented in Table 4.2.

From the results, the most significant relationship existed between gender and capital structure with a correlation coefficient value of 0.472 (significant at $\alpha = 0.01$) which indicates that gender contributes up to 47.2% of the change in capital structure. Eckel and Grossman (2002) found that on average women are consistently more risk-averse than men. Besides, the authors also concluded that both men and women overestimated the risk aversion of others especially that of women. The possible explanation is that when women are in the board they have negative attitude towards risk similar to those of men as they have overcome their risk-aversion in ascending the carrier ladder.

Table 4.2 Correlation Results

	CS	AG	GRD	ETH	NTL	BS	CD	FZ	CT	BI	I
CS	1										
AG	.310**	1									
GRD	.472**	-.154*	1								
ETH	-.140*	-0.028	-0.007	1							
NTL	-.184**	0.056	-.169**	-0.093	1						
BS	-0.098	0.067	0.032	0.061	-.201**	1					
CD	-0.105	0.017	-.187**	-0.046	0.04	-.399**	1				
FZ	-.136*	-0.063	-0.038	0.036	-0.004	.121*	-0.054	1			
CT	.391**	.173**	.140*	-0.073	-0.076	0.008	-0.033	-0.003	1		
BI	-0.034	0.048	-0.097	.174**	.283**	-.250**	0.063	0.018	0.019	1	
I	-.139*	-.146*	-.163**	-0.045	-.158**	.301**	-.148*	0.097	-0.022	-.131*	1

** Correlation is significant at the 0.01 level (2-tailed).
* Correlation is significant at the 0.05 level (2-tailed).

Key:

CS = *Capital structure*
AG = *Age*
GRD = *gender*
ETH = *Ethnic*
NTL = *National*
BS = *board size*
CD = *CEO duality*
FZ = *Firm size*
CT = *CEO tenure*
BI = *Board independence*
I = *industry*

Hypothesis Testing

The results in Table 4.4 shows that gender had significant and positive effect on capital structure (β_2= 0.454, ρ<0.05). Thus the hypothesis was rejected. This indicates that there is a change in capital structure by 0.454 units with an increase in gender. In addition, the effect of gender is stated by the t-value = 9.536 which implies that the effect contributed by the estimated parameter related to gender is over 9 times that contributed by the error associated with the parameter.

V. SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS

Summary of Findings

The study was carried out to determine the effect of Board Diversity on Capital Structure among Listed firms in Nairobi Securities Exchange, Kenya. The study adopted an explanatory design. The study utilized secondary data which was obtained through hand book, magazine articles, sales analysis summaries and investor annual reports. Further, the study made inference on the hypothesis that; gender diversity has no significant effect on firm's capital structure. the findings are opposed to hypothesis that holds that gender has no effect on capital structure (β_2= 0.454, ρ<0.05).Thus, having gender diversity will lead to a higher capital structure. According to ILO, (2007), the participation of women has been on a rising trend since the 1980s though the growth has not been commensurate with the improvement in quality of employment and capital structure debt and equity financing. Thus, having gender diversity led to a lower capital structure. Contrary to the results, Curdova, (2005) echoed that in many European countries, the participation of women in the labor market is lower compared to men, which has improved capital structure since women were likely to be turned down for a loan by banks. In reference to Kenya, the boards are overwhelmingly male dominated and this has improved debt and equity financing due to the idea that women were likely to be turned down for loan and most fear to use equity as way of financing due to lack of past experience(Business daily, 2010).This is due to the fact that old members of the board introduce their own friends to be board members before they retire hence the corporate scene becomes male dominated due to inadequacy of the nominating committees as stipulated by CMA.As a result, women lack experience of how to finance a company (Ibid, 2010).

According to the results in the study, Orser *et al.,* (2000) concluded that women were more concerned about access to capital than with any other business problem leading to an improvement in the financing (Grosvold *et al.,* 2007).Further, Robinson & Dechant (1997) argued that firms that are diverse in the board rooms tend to outperform those that are less diverse because of broad ideas on firm's capital structure. On the same note, Ibid, (1997) argued that gender diversity led to creativity and innovation hence bringing about changes in firm performance. Similarly, Carter *et al.,* (2003) posited that gender diversity enhanced the board's ability to monitor management. Therefore, increasing the number of female directors' increased board independence and better ways of financing a firm since women tend to ask questions more than male do.

Further support to the study was provided by Smith *et al.,* (2006) who posited that board gender diversity enhanced problem solving hence more alternatives are evaluated in the debt and equity financing process. Also, Throsvold *et al.,* (2007) stipulated that in western economies, board gender diversity is desired by customers, employees and other stakeholders since it demonstrated the sensitivity of management to stakeholder preferences, better capital structure, aspirations and concerns. Moreover, Erhardt *et al.,* (2003) reported that a board that is diverse is likely to have positive impact on its capital structure performance. From the foregoing, it is evident that gender diversity has a mixed effect on the capital structure though greater gender diversity may negatively affect capital structure of the firm if women directors were appointed as tokens rather than due to their competency.

Conclusion

The study showed that age diversity of board of directors is positively and significantly associated with a firm's capital structure. Basing on the study findings, gender diversity of board of directors impacted positively on firm's capital structure. The involvement of women in the board is advantageous to a firm since women are more concerned about access to capital than any other business problem leading to an improvement in the financing. However, women lack expertise on the use of equity to finance firm's activities; hence a male dominated board leads to improved equity and debt financing. As much as a male dominated board is well versed with the knowledge on financing, firms that are diverse tend to outperform those that are less diverse because of broad ideas on firm's capital structure. Gender diversity promotes better understanding of the market since wide arrays of skills are brought on board.

Recommendations

There is evidence that gender diversity of board of directors' impacts positively on firm's capital structure. Thus, there is need to include women in the board so as to increase access to capital. Also, when women are included in the board they will acquire the required expertise to manage the firm. Also an increase in the number of female directors' increases board independence and better ways of financing a firm are availed since women tend to ask more questions than male do. Therefore, gender diversity makes it possible for firms to outperform competitors and promotes better understanding of the market.

Further Research Recommendations

This study has looked at the effect of Board Diversity on Capital Structure among listed firms in Nairobi Securities Exchange, Kenya. Furthermore, because gender and race are proxies for human and social capital, future research may want to investigate how they influence nomination and selection to boards. Future research should investigate whether board members value diversity and whether these perceptions of value impact selection processes. This study recommends that other studies be done to augment finding in this study; it therefore recommends a study be done on more number of firms rather than including only firms in the NSE for the sake of generalizing the results of the study. Moreover, including moderator factors can also be made in the research models of the new research by other scholars in future.

This study included only four factors, there could be some other relevant factors that may be perceived important but were excluded from this study. Future researches, therefore, may consider more factors, like non-executive directors, audit committee, independent directors and other variables which can influence capital structure.

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