Corporate Governance and Gender Diversity in Nigerian Boardrooms

A. Lincoln, and O. Adedoyin

Abstract—In recent times, corporations are increasingly under pressure to ensure diversity within their boardrooms and a large number of academic research have reported findings consistent with the view that boards perform better when they include a diverse range of people. Women have unique characteristics needed to positively influence the strategic direction of a corporation and contribute to the growth of firms. In spite of such revelations, evidence suggests that women are under-represented in senior executive and board positions. In many parts of Africa, socio-cultural traditions inhibit women from attaining these roles. Given the emphasis placed on board diversity and inclusion of women as an essential part of good corporate governance, the relationship between gender diversity and board effectiveness deserves both theoretical and empirical investigation. This research is important because it represents the first theoretical review on gender diversity in corporate boards in Nigeria.

Keywords—Boards, Corporate Governance, Gender Diversity, Nigeria.

I. INTRODUCTION

Effective corporate governance practice is recognised as an essential component not only in terms of a nation’s economic growth strategy, which is ultimately catalyzed for through entrepreneurial activities of the private sector, but also in terms of investor confidence. Consequently, there is now an increasing call for tighter corporate governance control and reform ([1], [2]). Good corporate governance practice is essential especially in developing and emerging nations as it brings about positive change and overall economic advancement. There is also evidence to suggest that good corporate governance promotes disclosure, transparency and accountability, variables which are said to be essential ingredients in promoting the affairs of many developing countries ([3], [4]).

In light of recent financial crisis around the world, there is now unprecedented amount of attention afforded to corporate governance principles and standards by academics, government institutions and corporate bodies alike. The attention given stems from the need to circumvent future scandals and ensure essential lessons are learnt. In a bid to ensure good governance, various countries have devised strategies to ensure transparency and accountability of business practices not only as a means of inculcating investor confidence but also as a way of further strengthening their legal systems. As good corporate governance helps firms improve performance, drive growth, better manage risks, attract and retain investors, and reduce the risk of financial crisis, there is consensus amongst the various stakeholder groups that this can only be achieved if there is greater transparency and accountability within a Nation’s corporate governance framework ([1], [4], [5]).

There is no universal definition of Corporate Governance as the term has been described to connote differing perspectives from one individual to another [5]. The OECD provides a comprehensive definition of corporate governance as a set of relationships between a company’s management, its board, its shareholders and other stakeholders. Corporate governance also provides the structure through which the objectives of the company is set and the means of attaining those objectives and monitoring performance are determined. Corporate governance is thus said to provide the structure through which the objectives of the company are set and the means of attaining those objectives and monitoring performance are determined [4]. An important aspect of the OECD definition is that it emphasises the importance of an effective internal control mechanism and the role of the board as the strategic organ of the company. The need for an effective and functional board of directors is fundamental to the success of the company and essential to good corporate governance and investor relations [1].

The board is tasked with determining the company’s aims and objectives and putting in place strategic plans and policies needed to fulfill those aims. The role of the board also involves leading and controlling the company and providing entrepreneurial leadership of the company within a framework of prudent and effective controls which allows for apt assessment and management of risk ([6], [7]). The case of AWA Ltd v Daniels [8] explains the division of functions between the board of directors and management. According to Roger CJ apart from the statutory functions of the board, a board’s functions are said to be normally four-fold, namely to set the goal for corporations, appoint corporate chief executives, oversight of management plans for the acquisition and organisation of financial and human resources towards attainment of the corporations goals and finally review of the corporations progress towards attaining its goals [9].

Epstein and Roy [10] state that there are three core objectives high performance boards must achieve. They must provide superior strategic guidance to ensure the company’s
growth and prosperity, ensure accountability of the company to its stakeholders and ensure the creation of highly qualified executive teams tasked with managing the company. In light of recent financial crisis various factors including board diversity, succession planning and board evaluation have been identified as essential ingredients in ensuring board effectiveness. The composition and structure of the board is of fundamental significance in assessing a board’s ability and success in achieving its objectives [1]. In recent years more emphasis is placed on board diversity. The importance of a diverse board cannot be overemphasised as diversity results in injection of essential skills, ethnicity, cultures and perspectives on wide range of issues. Consequently, Mallin [1] purports that board diversity enables different perspectives to be considered on various issues due to the fact that men and women approach issues from different viewpoints and may have different behavioural patterns. Furthermore individuals from different ethnicity, background and cultures may bring additional and invaluable insights into the boardroom and reduces the likelihood of a ‘group think’ mentality forming [11]. Furthermore according to various writers having a diverse board is essential in reflecting the constituencies the company needs to address and voicing different concerns than those of traditional directors ([12], [13], [2]).

There is a growing body of research which shows significant benefits which can be reaped from having gender diversity on corporate boards. For example research work carried out by Carter [14] reported a positive relationship between board diversity and firm financial performance. Gender diversity is said to enhance corporate governance and have a positive effect on financial performance through the audit function of the board. Women are more diligent in attending board meetings than their male counterparts and are more likely than men to join committees that monitor performance. Other benefits associated with a diverse board include better market knowledge, improved shareholder value, increased investor confidence, customer, employee satisfaction and gender representation [15].

II. BOARD OF DIRECTORS AND DIVERSITY

The Board of Directors is one of a number of internal governance mechanisms which seeks to ensure that the interests of shareholders and management are closely aligned, provides information for monitoring and ensures effective decision making ([16], [17]). A significant governance issue currently facing many corporations around the world is board diversity and board effectiveness. Various writers put forward positive aspects for gender diversity in board composition ([14], [18]). Board diversity which includes members from different backgrounds, race, ethnicity, skills and experiences, is said to improve organisational value and performance by providing the board with novel insights and perspectives, enhanced creativity and innovation and results in effective problem solving ability [19]. Board members with diverse perspectives are also more likely to challenge previously held assumptions resulting in a more pro-active board. A more diverse board is also said to improve a firm’s image and performance. Research work carried out by Erhardt [20] found that board diversity positively impacted on return on investment and return on assets.

A conceptual case for diversity is linked to the notion that it promotes deeper understanding of an increasingly varied marketplace, consequently results in better understanding of the complexities of the environment and more astute decisions, encourages effective global relationships and raises awareness of cultural sensitivity within the international environment [21]. Board diversity will go a long way in reducing nepotism, promote fairness and ensure various stakeholder interests are well represented in order to promote the interest of various stakeholders in corporate decision making ([22], [18]). The Tyson Report [23] outlines a number of benefits which can be achieved from board diversity. The report suggests that board diversity helps corporations manage key constituencies including shareholders and employees. Board diversity shows a commitment to promoting people from diverse ethnic backgrounds and a commitment to a policy of non-discrimination against ethnic minority executives. This is also likely to have a positive impact on the external talent pool for board members, as the number of top female managers may influence career progression of women in lower roles ([24], [25]), provide mentoring and networking opportunities for junior level women staff and possibly contribute to increased retention of women [26].

Various factors have been identified to play a prominent role in board diversity [27]. Research work conducted by Hyland and Marcellino [28] found correlation between the number of women on the board and company size and industry. Companies in certain sectors for example services, healthcare and technology-related sectors, are more likely to employ female directors [29], while companies in the banking and finance sector companies tend to employ more male directors [30]. Sealy [31] however states that company’s in male-oriented industries such as mining and oil sectors have women in their top positions. Various scholars identify potential problems to achieving board diversity. Ancona and Caldwell [32] suggest that coordination may be difficult and costly to attain, consequently potential increase in performance may not be adequate to balance the increased associated costs. Other arguments against diversity in boards include less efficient decision-making ability, which affect the firm’s ability to compete effectively. Some scholars argued that actively seeking board diversity can be damaging to board cohesion. Diversity in race, ethnicity, and, gender is said to increase conflict within the board thus resulting in reduced communication, performance and reduce group cohesiveness. Furthermore, some writers assert that executive’s may perceive demographically dissimilar directors as sharing different values and espousing dissimilar views. In spite of some of the problems identified, board diversity should be embraced as the result of diversity is a more proficient and
improved board equipped with necessary resources to withstand various organisational challenges [15].

III. GENDER AND BOARD DIVERSITY

There is agreement among stakeholders in various countries around the world that board diversity leads to transparency and improved corporate governance practice [7]. Many countries in a bid to increase the number of women in top executive positions and board roles have introduced various forms of positive action, legislations and quotas [11]. For example the Davies Report [11] highlights the significant role women play in board diversity and encourages all Chairmen of FTSE 350 companies to outline the percentage of women they aim to have on their board by 2013 and 2015. In addition, a new rule enacted in Norway in 2008 requires all listed companies must ensure that at least 40 percent of their board of directors are women or face dissolution ([33], [34]). In addition the Spanish government in a bid to promote women on boards enacted a new law requiring companies to increase the number of women directors to 40 percent by 2015 [35]. Whilst there is support in academic literature in relation to enhanced gender diversity, the use of quota systems and their effect is questionable. For example, Mychasuk [36] casts doubts over the effectiveness of quotas in helping women climb the corporate ladder. While quotas may help increase the number of women on the board over time, they do not necessarily result in improved numbers of women in senior management roles. Women are considered to be independent and possess a better understanding of consumer behaviour and opportunities to meet those needs, this is because women make around 70 percent of consumer purchasing decisions as such being able to connect better with the female workforce and consumer base affords more opportunities for companies to be able to better understand their customer base and drivers of the decision making process. Various writers suggest that having women in top management can result in higher earnings and greater shareholder wealth and better corporate governance and increased competitive advantage ([37], [33]). Furthermore, research in the UK shows that having at least one female on the board of directors helps reduce the risk of bankruptcy, enhance accountability and ensure more effective communication between the board and stakeholders [38].

Research carried out by Carter [14] show that female presence on the board leads to better performance of Fortune 500 companies, primarily through the effect on the boards audit function. Empirical research carried shows companies with more women on their boards out-perform with a 42 percent return in sales, 66 percent return on invested capital and a 53 percent return on equity [39]. Evidence suggests that boards with better gender balance pay more attention to audit, risk oversight and control. Adams and Ferreira [40] suggest that women pay greater attention to monitoring firms and appear to be better at explicitly identifying criteria for measuring and monitoring the implementation of corporate strategy as compared to all male boards. In addition they play a more active role in setting the strategic direction and weighing long-term priorities of the company [41]. The main impact include increased attendance and better board monitoring and increased diversity in the company’s top management team ([42], [14], [43]).

IV. CONCEPTUALIZING WOMEN DIRECTORS ON BOARDS

In-spite of efforts in recent decades to achieve equal opportunities for men and women, various academic scholars have reported the slow advancement of women onto corporate boards. Terjesen [44] provide a theoretical framework which takes into consideration a number of factors said to impact on women’s advancement into top executive and board positions. They group the factors into four main constituent parts namely individual level, board level, firm level and industry and environmental level factors. In relation to the individual level, Terjesen [44] consider factors such as human capital and gender self schema. Human capital is said to consist of various competencies ranging from education, skills and experience in enhancing cognitive and productive capabilities that benefit both the individual and their corporations. Traditionally, women compared to their male counterparts are said to have fewer investments in educations and work experience and this reflects in their lower pay band and their ability to progress in the workplace [45]. Terjesen [44] argue that evidence from the US and UK refutes such claims that women lack the right human capital for board positions. They emphasize that women directors’ combination of human capital assets adds value to the boards. They also posit that male and female gender schemas differ. They rely on research work carried out by Konrad [46] which views male self schemas to be based on roles, norms, values and beliefs that are considered appropriate for men such as income provider, dominance, aggression, achievement, autonomy and endurance. Female gender self schemas are largely based on roles, norms, values and beliefs held about women such as homemakers, affiliation to others, nurturing, defense and abasement [46].

In relation to the board level factors, Terjenen [44] argue that social identity theory may explain the exclusion of women from boardrooms due to the fact that many corporations’ replicate male-dominated power structures, as such members seek to surround themselves with people who share similar demographic profiles, perspectives and values which are later reinforced in their group communication. This is linked somewhat to social network and cohesion, which views board membership as a privilege closed-group with its own rules and ways of thinking. The board of Directors is said to facilitate invitations to join other boards by recommending and sponsoring colleagues like themselves whom they know are likely to fit the existing mould [44]. The size of the board is also considered to be an important factor. Some authors state that the larger the board, the greater the number of women in top executive positions or board roles [31]. Peterson and Philpot [47] state that male and female board members have different roles within the board. Women are
reported to be more likely to serve on public affairs committees and less likely to serve on key committees. Terjenen [44] however argue that gender is insignificant in the likelihood of a woman being on the nomination, compensation, and finance or audit committee.

In relation to the firm level, factors such as resource, institutional and agency theoretical perspectives are considered vital. In relation to resource dependence, women’s representation on board is said to be linked to organisation size, industry type, firm diversification strategy and the network effects of linkages to other boards with female directors [48]. Bilimoria [26] extends institutional legitimacy theory and explores the relationship between the presence of women on boards and the presence of women at multiple levels in the company. They found a positive relationship between female board membership and presence of a critical mass of women officers, supporting the notion that corporations with women who hold top executive and board positions demonstrates that the corporation values the achievement of its women [26].

In relation to industry and environment level factors, Terjenen and Singh [49] consider the role of socio-political and economic structures on women’s representation on corporate boards. A countries socio-political belief and attitude to women and their roles has a significant impact on career progression and the country’s macro-economic environment. As such in many countries women’s working lives are predominantly driven by public policy. Terjenen et al [44] posit that in countries where more women made it to the boardroom, there is also a tendency for significantly more women in senior management roles and legislative positions and smaller gender pay gap. Furthermore research work by Nelson and Levesque [50] reveal that the presence of institutional factors such as child care responsibilities, stereotypes, sex discrimination and gender schemas may influence the presence of women on boards of high growth firms.

V. CORPORATE GOVERNANCE IN NIGERIA AND GENDER DISCRIMINATION

There is evidence in academic literature to suggest that effective corporate governance strategies positively impact on shareholders and the broader society. This is of significant importance especially in a country such as Nigeria where prevalent socio-economic turbulence coupled with endemic culture of bad governance from both corporate and public entities has led to a widespread custom of unethical conduct [51]. This state of affairs has resulted in numerous corporate scandals affecting all investors and stakeholders. For example, the exposure of financial accounts manipulation perpetrated by executives Cadbury Nigeria Plc in 2006 leading to over N13 billion balance sheet overstatement and profit to shareholders over a number of years and an operating loss between N1 billion and N2 billion in 2006. Investors and other stakeholders were severely affected as the exposé of unethical practice of the executives led to panic in the Nigerian stock markets as investors began to dump their shares on the stock exchange [52]. Market information showed that there was a N7.56 fall in Cadbury share prices between the 22nd of November 2006 and the 15th of December 2006. The company executives responsible for the atrocious acts, including the auditors involved in the account manipulation were not prosecuted and no sanctions taken against many of them under the Nigerian legal system. In fact, the sacked CEO of Cadbury Plc was successfully able to sue Cadbury for unlawful termination from office [52].

The corporate scandals are further exacerbated by the prevalent culture of institutionalised bribery and corruption in Nigeria. This culture has extended to the corporate sphere and MNC’s operating subsidiaries in Nigeria are obligated to participate in the culture of corruption that exists within the country. The situation is worsened by recorded incidents where representatives of foreign companies have been exposed for exploiting the system of bribery and corruption in securing government contracts. For example, the N21 billion bribe offered by Halliburton’s subsidiary, Kellogg Brown and Root, to government officials so as to secure the Nation’s liquefied natural gas plant in Bonney [53]. The implications of such systematic unethical practices has profound effects on the economy as the cost of doing business in Nigeria and the associated risk involved remains high.

Various policy initiatives in Nigeria highlight a commitment to removing gender discrimination and guaranteeing equal access to political, social and economic wealth creation opportunities for both genders. As a member of the United Nations, Nigeria has ratified various international agreements which have emphasised the adoption of mechanisms needed to eliminate gender discrimination in national and state statutes, customary and religious law. In addition, in recognition of the unique role played by women, a National Gender Policy was developed which aims to ‘build a just society devoid of discrimination and harness the full potential of all social groups regardless of sex or circumstances’. In spite of such open commitment to equality the practical situation is different and discriminatory traditions, customs sexual stereotyping of social roles and cultural prejudices continue to militate against enjoyment of rights and full participation of women in national development [54]. Nigeria is a highly patriarchal society and men are still noted to dominate all spheres of women’s lives and women are considered to be in a subordinate position to men [54].

Women in Nigeria form an underclass and lack equality of opportunity both in relation to their contributions to economic development and benefits received from it. They are confronted with a host of challenges due to systematic pervasive and deeply entrenched discriminatory practices coupled with the practical impact on behaviour and outcomes of complex social institutions and formal and informal rules that reflect kinship patterns, constitutional laws and policies [55], [56]).

Nigeria is yet to achieve gender parity as evidence suggests that there is very limited gender diversity. For example
Nigeria is ranked 79 out of 86 in the 2012 Social Institutions and gender Index [57]. The attitude towards women can be regarded as a traditional African attitude which saps women’s initiation in Nigeria. In addition, access to equal opportunities between men and women are often hampered by socio-traditional constraints, religion, unemployment as well as the never ending household chores and responsibilities to which women are bound [58]. Women are subjected to poverty repressive policies and are considered to be weak economic agents due to lack of employment opportunities, access to financial resources and lack of assets and property, legal discrimination, socio-cultural and religious issues [59], [60], [61]. The Nigerian labour market is gendered, with women reported to earn consistently less than their male counterparts, in some cases well educated women are reported to earn less than men who have lower qualifications ([62], [54]). This state of affairs is supported by Okpara [63] who identifies significant pay gaps between male and female managers within the banking sector.

VI. BARRIERS TO GENDER AND BOARD DIVERSITY IN NIGERIA

There is evidence to suggest significant correlation between the number of females on boards and financial performance ([64], [18]). Failure of any business or economy to maximise the full potential and talents of its entire human resource, including women, results in marginal performance. Consequently, tapping into the under-utilised pool of female talent at board level is vital if corporations in Nigeria are to remain competitive and respond to rapidly changing expectations and market demands. Fewer women than men in Nigeria are feeding through the corporate pipeline to the top executive levels and Nigerian women are poorly represented in corporate board rooms. Some of the reasons for the disproportionate number of men on corporate boards stems from the fact that men in Nigeria often tend to occupy the senior managerial positions deemed to be a prerequisite of board membership. Traditional views and values as to gender roles in the economic sphere also influence women’s employment outcomes and their progression ([65], [43]). Social norms about gender roles in the economic sphere also influence women’s employment outcomes and their progression [43]. The supply challenge is linked to women’s double shift as wives, mothers and career women, as well as the greater geographical mobility required at higher executive levels. Nigerian women are reported to avoid promotion to executive positions if these involve working anti-social hours or frequent travel away from their families [54]. This is not surprising as Nigerian women bear the brunt of house-hold chores and care responsibilities.

In order to bring about real and effective change in this area, there is a need for a culture change in many corporations in Nigeria. Self regulation or voluntary business-led strategies to a large extent is vital in order to improve the situation and increase the number of women reaching top executive and board positions. However, this may prove difficult in a country like Nigerian with weak and ineffective legal regulatory systems and lack of accountability and transparency. Consequently, it seems more appropriate to adopt mandatory requirements like those adopted in Norway and Spain. There is a need to ensure that selection of women on boards is based on merit and not tokenism [66]. Women should be selected to reflect board strength and weaknesses and because they have the required skills and experience to do an effect job [67].

The Central Bank of Nigeria (CBN) advocates for inclusion of more women in top executive positions and the importance of gender diversity in board positions. Statistics from the CBN shows that women occupy 27 percent of senior management positions and 15 percent of board seats [68]. In a bid to address the gender imbalance, the CBN has set a mandatory target requirement through the Banker’s Committee, the target is said to increase the number of women on the boards and ensure that 40 percent of top management positions and 30 percent of board seats are held by women by 2014. Many corporations in Nigeria have set up committees tasked with oversight of the CBN Directive in a bid to ensure that they are able to meet the target and address gender imbalance in their organisations. The CBN is also encouraging corporations to ensure that they monitor and report on the number of women and include in their annual report a summary of how they have complied with the policy initiative.

VII. CONCLUSION

The aim of this paper is to provide a theoretical investigation into the relationship between gender diversity and board effectiveness in Nigeria. The study reveals that gender inequality prevents Nigerian women from attaining top executive and board positions [69], [70]). Nigerian women function in an unsupportive working environment and face difficulty in balancing their career aspirations with their family responsibilities [71]. Morrison [72] highlights the cost of inequality and argues that it is good economics to ensure parity between men and women. Gender segregation in access to economic opportunities is said to reinforce gender differences in time use and in access to inputs and perpetuates market and institutional failures. As a result of the negative attitudes and the challenges they face, Nigerian women are more likely than their male counterparts to choose jobs that offer flexible working arrangements so that they are able to effectively combine work with care responsibilities [43].

There is support in academic literature that lower gender diversity undermines a company’s potential value and growth. Gender diversity in board composition contributes to effective corporate governance and company performance by being able to access a wide pool of talent available to the company at all levels. Companies with at least one female director on the board are advocated for as presenting a more positive picture. Consequently inclusion of women on boards is synonymous to improved monitoring capacity, broadened
access to information on potential consumer base and enhanced creativity and divergent perspectives ([14], [15], [43]). Evidence around the world shows that in spite of gender inequality women have been able to overcome various challenges and attain executive positions traditionally held by men [70]. Many countries in a bid to increase the number of women in top executive positions and board roles have introduced various forms of positive action, legislations and quotas. Furthermore there is a need to ensure that policies and initiatives in place have positive impact. Countries differ and interventions which may be appropriate in one country may not work effectively in another country due to differences in socio-cultural norms, religion, political and legislative systems. Consequently there is a need to ensure that strategies adopted are appropriate for the country concerned.

REFERENCES


