

Board Gender Diversity, Board Ethnic Diversity and Firm Value of Listed Financial Firms in Nigeria

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Abstract

This study investigates the effect of board gender diversity, board ethnic diversity, and firm value on the listed financial service companies in Nigeria. Firm value, measured by Tobin's q and computed as the ratio of the firm's market value of equity to its book value of total assets, is the study's explained variable, while board gender diversity and board ethnic diversity are the study's explanatory variables. The study's population comprises fifty-one (51) listed financial service firms on the Nigerian Stock Exchange as of December 31, 2020. Thirty-five (35) of these firms made up the sample size for a period of nine years (2012–2020). Data was acquired from the sampled companies' annual reports and analyzed using the feasible generalized least squares regression (FGLS) approach. According to the study, board gender diversity and board ethnic diversity had a significant positive impact on the firm value of listed financial services firms in Nigeria. According to the findings, the boards of directors of listed financial service organizations in Nigeria should ensure that females are considered for directorship seats on the boards in order to increase their value, as suggested by the resource dependency theory. In addition, the boards of directors of listed financial services firms in Nigeria should consist of a mix of both northerners and southerners to improve firm value.

Keywords: Board gender diversity, board ethnic diversity, firm value, financial service firm, Nigeria.

1.0 introductory paragraph

Firm value is an important indicator of corporate performance that benefits all stakeholders in a corporate entity. Firm value refers to the net returns earned by shareholders from a company's shares. High-value businesses are said to be financially efficient and attract investors, improving the company's chances of further growth (Urhoghide&Omolaye, 2017). Firm value is a monetary measure of how the public views business as a whole. It is an economic metric that reflects the market worth of a firm. It is the sum of all statements raised by investors. That is, both protected and unsecured creditors, as well as preferred and common equity investors. It is a term that is used to describe an entity's overall total worth rather than just its actual market capitalization (Kiharo& Kariuki, 2018).

A firm's primary aim is to maximize shareholders' wealth by growing the firm's value. Maximizing firm value is important for businesses because it requires rising shareholder capital. Good firm value should entice investors to the business (Shuaibu, Ali, & Amin, 2019). In order to increase the firm's value, managers must be shielded from excessively aggressive stakeholders in the immediate future while remaining responsible for the foreseeable future. Boards of directors can be able to cope with unfavorable financial conditions and thus add value to their businesses through their advisory roles (Borghesi, Chang, & Li, 2019).

The financial sector, on the other hand, is vital to any country's economic growth and development. This is due to the fact that it affects the amount of money in stock by making payments and extending credit. Similarly, financial firms play a vital role in accelerating economic growth, and a well-structured financial sector could be

a source of economic growth. Savings mobilization and well-organized financial intermediation roles will be among the advantages extracted from a strong and established financial sector. As a result, the collapse of this sector would have an impact on a country's entire economy (Onyekwere, Wesiah, & Danbatta, 2019).

Similarly, corporate governance standards and procedures are increasingly being recognized as significant in deciding and exercising corporate control over the use of a company's assets and resources. On their part, investors are gradually opting to invest based on the company's outlook, credibility, and corporate governance practices. This means that businesses must adopt corporate governance cultures and practices in order to attract foreign investors and boost their company's sustainability and competitiveness. As a result, proper processes and mechanisms of corporate governance, like those seen in the western world, the European Union, and Japan, are required for the long-term survival of businesses, especially in developing countries such as Africa (Mlthiria & Musyoki, 2014). Corporate governance practices are expected to boost a firm's value. It is expected to raise the worth of companies that practice it compared to those that do not. In the long run, good corporate governance practices can improve stock returns and increase the value of a company (Haryono & Paminto, 2015).

The consequences of corporate failures on businesses and national economies have prompted governments around the world to take steps to improve corporate governance. Diversifying the corporate directors on the board is one of these steps (Garba & Abubakar, 2014). Diverse boards of directors have a huge impact on a company's value, asset maximization, and investor trust (Hassan & Marimuthu, 2014). The significance of board diversity in determining a firm's value will encourage companies to make informed decisions about the appointment of board members in order to optimize their value (Olaoti, 2016). According to Carter, Simkins, Souza, and Simpson (2007), a board that is more diverse or heterogeneous has the potential to make crucial choices while examining more options than a board that is more homogeneous. Individuals from various backgrounds and locations do have a greater grasp of the company's business, enhancing the efficacy of creativity and innovation by comprehending what the market wants. Since contributions are made by individuals of various backgrounds, a diversified board of directors is well-equipped with suggestions for improving customer service. As a result, customer satisfaction and the firm's goodwill or image will improve. This would improve consumer perceptions of the business and its goods while also growing the firm's value in order to attract investors.

Females with appropriate experience, credentials, and expertise should be considered for corporate board roles. Female participation among company directors may strengthen corporate governance and raise the company's value. Women have qualities that can help improve companies' performance and, as a result, improve the value of the firm. They are, on average, younger than their male colleagues, giving them a competitive advantage. Better communication and new ideas are some of the advantages (Mintah and Schadewitz 2018).

According to Mba, Ofobruku, Nwanah, and Anikwe (2018), ethnicity remains the most important feature of diversity, notably in Nigeria, where the country is sharply divided along ethnic lines, with each ethnic minority clamoring for recognition. Ethnic diversity would help to create a higher degree of corporate governance, as well as the board of directors' decision-making process, and thereby increase the firm's value. This is because people of various ethnic backgrounds are more inclined to approach challenges in unique ways, encouraging the board to explore a larger variety of ideas and strategies when it comes to addressing organizational issues (Olaoti 2016).

According to Vanguard (2018), nineteen companies registered on the Nigerian stock market were subjected to hostile takeovers when stock values fell below par value. The stocks became vulnerable to low valuation when the NSE scrapped the years-old nominal value price floor of 50 kobo, below which share prices could not fall. Fourteen out of the nineteen companies affected are insurance companies, while the other five come from other sectors. According to capital market operators and shareholders, the new nominal value policy, which presently enables quoted firms to sell for as little as one kobo, can ultimately result in forcible acquisitions and management changes because if the stock becomes too cheap or the price falls too low, the firm's value would be affected. This could result in a hostile takeover. They urged businesses that are affected by the policy to revise their procedures and re-strategize in order to provide the best possible value to their shareholders.

The board of directors has faced criticism as a result of the decline in shareholders' value caused by poor management of the company, which has led to the demise of many well-known organizations around the world in recent times. The failure of the board of directors to effectively supervise the firms with which they have been entrusted has been connected to such corporate failures (Garba& Abubakar 2014). As a result, attention has been focused on a company's decision-making process in order to create a balanced board that will make the best decisions possible and provide optimum value to the shareholders (Najjar 2013). Forbes and Miliken (2009) pointed out that, while a diverse board is likely to have differing viewpoints, it may face communication and teamwork difficulties as a result of failing to understand other members' experiences in the problem-solving process. Furthermore, if a diverse board generates additional input and severe assessments, it could consume more time, especially if the company works in a competitive industry. (Smith, Smith & Verner, 2006). This study filled a gap in the literature by examining the effects of board gender diversity, board ethnic diversity, and firm value of listed financial service firms in Nigeria for the period 2012–2020.

2.0 Review of Literature and Theoretical Underpinning

A firm's valuation is a monetary measure of how the public views the business as a whole. That is the sum of all statements raised by investors. The list includes protected and unsecured creditors, as well as preferred and common equity investors. It is a term that is used to describe an entity's total worth rather than just its actual market capitalization. It's a series of statements from borrowers and investors (Kiharo& Kariuki, 2018). The market valuation of a corporation is measured by the combined value of its properties, which represents the collective wealth of investors, lenders, and owners (Awan, Lodhi, & Hussain, 2018). Tobin's Q is one of the most often used financial measurements for determining a firm's value. It is a measure of market return that compares the assessed worth of a firm by financial markets to the value of its assets. James Tobin developed the Tobin's q ratio after hypothesizing that the aggregate market valuation of all publicly traded firms must be nearly equivalent to their replacement costs. Tobin's Q ratio is computed by dividing the market value of equity by the book value of the total assets (Tobin, 1969). Diversity on the board involves having members from diverse ethnic groups, languages, educational backgrounds, gender, skills, and experiences together to preside over a variety of important issues (Abubakar, 2018).

Board Gender Diversity and Firm Value

Board gender diversity was described by Khan and Subhan (2019) as the overall number of female representatives on the board. According to Mintah and Schadewitz (2018), board gender diversity is described as the appointing committee nominating males and females to the company's board of directors with the goal of combining diverse perspectives and increasing a company's valuation. The following studies were undertaken on the impact of board gender diversity and firm value: Salem, Metawe, Youssef, and Mohamed (2019) investigated the qualities of the board of directors and firm value in Egypt and the United States. Variables like CEO duality, board freedom, board size, board meetings, and board gender diversity were studied between 2012 and 2017. A total of 84 Egyptian-listed companies and 30 American companies were chosen for the report. Secondary data was gathered from sampled firms' annual reports and accounts and evaluated using multiple regression analysis. Gender diversity on boards is linked to firm value in both nations, according to the survey. However, since the study was not conducted in Nigeria, a local replication is needed. Contrary to the above study, Tarigan, Hervindra, and Hatane (2018) examined the impact of board diversity on financial results using Tobin's q as a metric of financial progress. Gender diversity, racial diversity, and educational diversity are among the study's factors. The study's sample consists of 525 firms that were quoted on the Indonesian stock market between 2011 and 2015. Secondary data was collected from the sampled firms' financial accounts and analyzed using regression analysis. According to the study, gender diversity has a negative impact on Tobin's Q. The study, however, is not Nigerian; therefore, a local replication is needed. Based on its theoretical basis, the study formulated the following hypothesis:

H0: Board gender diversity has no significant relationship with the firm value of listed financial firms in Nigeria.

Board Ethnic Diversity and Firm Value

Board ethnic diversity, according to Joyce (2017), applies to members of a board that come from a variety of ethnic backgrounds. Egwakhe, Akpa, and Ajayi (2019) define ethnic diversity as the amount, proportion, or presence of a race, ethnic, or socio-cultural community on a board in relation to the overall directors on the board at any particular time. Studies conducted on board ethnic diversity and firm value include the following: Chuah and Hooy (2018) researched the effect of board ethnic diversity on company performance in Malaysia, using Tobin's q as a metric for firm performance. The sample of the research consists of 260 publicly traded firms in Malaysia from 2010 to 2012. Data was gathered from the listed companies' financial statements and evaluated via regression analysis. According to the findings, ethnic diversity on the board has a favorable effect on Tobin's Q . This research, however, is not Nigerian research; therefore, a Nigerian replication is needed. Contrary to the above study, Ilogho (2017) investigated the effect of nationality on the board and ethnic diversity on the financial performance of Nigerian listed firms. The study used Tobin's q as a metric of financial performance. The sample of the research includes 60 non-financial companies that traded on the Nigerian stock market between 2012 and 2015. Secondary data was acquired from the sampled firms' financial statements and analyzed using OLS regression. The study reveals that ethnic diversity has no bearing on the sampled firms (Tobin's q). However, the financial sector was excluded from the sample, and just two variables of board diversity were examined in the study. Based on its theoretical basis, the study formulated the following hypothesis:

H0: Board ethnic diversity has no significant relationship with the firm value of listed financial firms in Nigeria.

Theoretical Underpinning

The theory that underpins this research is resource dependency theory. Jeffrey Pfeffer and Gerald Salanick created resource dependency theory in the 1970s. Pfeffer and Salanick (1978) argued that businesses operate in an open system in which they must exchange or acquire certain resources in order to survive, making them dependent on external units in their environment. This theory explains how critical it is for the company's board of directors to connect to the outside world because the board serves as a supplier of resources that are lacking internally. Organizations benefit from boards of directors because they provide advice, counsel, and information channels, as well as access to resources. Firms are increasingly faced with a complex and uncertain macro environment, necessitating leadership from a diverse group of individuals who can provide a diverse range of resources compatible with modern business culture. As a result, resource dependency theory explains the link that exists between board diversity and the firm's value by concluding that the best-performing management teams should include members with a diverse range of experience, work background, age, ethnicity, nationality, and gender. Similarly, Hermalin and Weisbach (2001) agree with resource dependence theorists, arguing that board members' skills, gender, experience, expertise, nationality, and ethnicity are valuable resources for guiding and improving the firm's value. Boards with a diverse ethnicity, gender, nationality, experience, education, and background, according to Thomsen and Conyon (2012), have a diverse range of knowledge and skills. Diverse boards assist directors in gaining a better understanding of the industry, consumers, workers, and the company's prospects. This results in a greater grasp of business situations, which raises the company's value.

Moreover, having a female board of directors will also help the firm connect with important external elements. Female directors on boards create a positive image for companies, which can assist organizations in garnering support from key stakeholders, including suppliers, customers, and investors, as well as gaining access to valuable resources (Knippen, Shen, & Zhu, 2019). Unlike male directors, Joyce (2017) contends that female directors bring to their boards unique and valuable resources and relationships. In addition, according to resource dependence theory, gender and ethnicity disparities are likely to create specific knowledge sets that may be accessible to management for improved decision-making, thereby increasing the firm's value.

3.0 Methodology

The research employed a correlational research approach to look into the impact of board gender diversity and board ethnic diversity on firm value. The research population consists of all the fifty one (51) financial service organizations listed on the Nigerian stock market (NSE) as at 31st December 2020. However, a sample of thirty five (35) organizations was arrived at after filtering out firms that did not have sufficient data for the period under study (2012-2020). The research employed secondary data from annual reports of Nigeria's publicly traded financial services organizations. Panel data regression technique was employed to estimate the link between the explained and explanatory variables. Fixed effect and random effect options were explored to address the panel effect of the data. Hausman specification test was also employed to decide between fixed effect and random effect. In addition, robustness tests of multicollinearity and heteroskedasticity were also conducted.

Model Specification

In order to examine the factors that have an effect on firm value, a multiple linear regression model is established. The model accounts for the impact of board gender diversity and board ethnic diversity on firm value. In order to maintain consistency with previous studies, a control variable for firm size was added to the regression analysis. Firm size was used as a control variable because of the general notion that larger firms have more competitive advantages and benefit from economies of scale. This variable was chosen as a control variable based on the results of Lee-kuen, Sok-gee, and Zainudin (2017), where they discovered a substantial association between firm size and firm value. The model is stated below:

$$\text{Tobin's } Q_{it} = \beta_0 + \beta_1 \text{BGED}_{it} + \beta_2 \text{BETHD}_{it} + \beta_3 \text{FSIZE}_{it} + \varepsilon_{it} \dots$$

Where:

Tobin's Q = Firm Value

BGED = Board Gender Diversity

BETHD = Board Ethnic Diversity

FSIZE = Firm Size

ε = Error term

t = Time

i = Firm

β_0 is the Constant, β_1 - β_3 are the coefficients of the variables

Variables Definition and Measurement

Table 3.1: Variables Measurement

S/N	Variables	Measurement	Source
1.	Tobin's Q	The ratio of a company's market value of equity to its entire assets book value.	Nguyen (2016).
2.	Board Gender Diversity	Female directors as a percentage of total board members.	Siantar (2016).
3.	Board Ethnic Diversity	If the board is made up of both northern and	Charles <i>et al.</i> , (2018).

		southern Nigerians, the value will be 1; otherwise, it will be 0.
4.	Size	Natural Logarithm of Total Asset of Lee-kuenet <i>al.</i> , (2017).

Source: Compiled by Author, 2021

4.0 Results and Discussion of Findings

The descriptive statistics, correlation matrix, and regression results on the relationship between board gender diversity and board ethnic diversity, as explanatory variables, with firm value measured by Tobin's q as the explained variable are presented in this section.

Table 4.1: Descriptive Statistics Results

Variables	Obs	Mean	Std.Dev.	Min	Max
TOBIN'S Q	315	0.435	0.717	0.014	6.901
BGD	315	0.175	0.131	0	0.667
BETHD	315	0.819	0.386	0	1
SIZE(Million)	315	680,095	1,426,243	382	7,689,028

Source: Stata Output, 2021

The average Tobin's q is 0.44, with a standard deviation of 0.72, as shown in Table 4.1. This indicates that firm valuation varies widely among Nigeria's publicly traded financial services organizations. Tobin's q has a minimum and maximum value of 0.01 and 6.90, respectively. This indicates that the lowest Tobin's q value across the listed financial service firms was 0.01 and the highest Tobin's q value was 6.90.

Board gender diversity (BGD), on the other hand, has a mean value of about 18% with a standard deviation of about 13%. The mean value of 18% indicates that women made up 18% of the directors of Nigeria's publicly traded financial services firms. The standard deviation of 13% implies that there is a little variation in gender diversity among Nigeria's publicly traded financial services firms. Board Gender Diversity has a minimum and maximum value of 0% and 67%, respectively. This indicates that some listed financial services firms in Nigeria did not have any female directors on their boards, while others had as many as 67% female directors on their boards.

Board ethnic diversity (BETHD) has an average of approximately 82%, which indicates that 82% of listed financial services firms in Nigeria have both northerners and southerners present on their boards. The standard deviation of approximately 39% indicates a high variation in ethnic diversity across Nigeria's publicly traded financial services firms. Board ethnic diversity has a minimum and maximum value of 0 and 1, respectively.

Lastly, firm size has an average of 680 billion naira and a standard deviation of 1.4 trillion naira, which indicates a high variation in the values of total assets across Nigeria's publicly traded financial service firms. Firm size has a minimum and maximum value of 382 million naira and 7.6 trillion naira, respectively.

Table 4.2: Correlation Matrix Results

VARIABLES	TOBIN'S Q	BGD	BETHD	FSIZE
TOBIN'S Q	1.000			

BGD	0.008	1.000		
	0.884			
BETHD	0.056	-0.084	1.000	
	0.324	0.139		
FSIZE	-0.319*	0.293*	0.184*	1.000
	0.000	0.000	0.001	
*shows	significance	at	the	.05 level

The correlation matrix of the dependent and independent variables is shown in Table 4.2 above. The result indicates that board gender diversity has a correlation coefficient of 0.008, indicating that board gender has a positive link with the firm value of Nigeria's listed financial service firms. This implies that board gender diversity and firm value move in the same direction. The correlation coefficient for board ethnic diversity is 0.056, as shown in the correlation matrix table above. This implies that there is a positive link between board ethnic diversity and the firm value of Nigeria's publicly traded financial services firms. More so, the correlation coefficient of firm size has a value of -0.319. This implies that there is a negative relationship between firm size and firm value of Nigerian listed financial service firms. This relationship indicates that both variables are moving in the opposite direction. There is no evidence of possible multicollinearity among the explanatory variables, according to the correlation matrix table. This is because, as shown in Table 4.2, all the correlation coefficients among the explanatory variables are less than 0.80, as proposed by Gujarati (2004). Therefore, there is no possibility of multicollinearity among the independent variables.

Robustness Tests

The modified Wald test was employed to test for the presence of heteroskedasticity. The chi-square value was 48008.50 with a p-value of 0.0000, which implies that the result was significant. This indicates the presence of heteroskedasticity. The research carried out a multicollinearity test to show the strength of the relationship among the explanatory variables themselves. The variance inflation factor (VIF) test was employed, and all of the variables have values less than 10 and tolerance values greater than 0.10. Rule of thumb This demonstrates that there is no issue with multicollinearity. To decide between the fixed and random effect models, a Hausman specification test was conducted. The Hausman specification test was insignificant, with a chi square value of 10.938 and a p-value of 0.053, which was in favor of the random effect model. However, the Breusch and Pagan Lagrangian multiplier test for random effects was carried out in order to select between the random effect regression and the pooled ordinary least square (OLS) regression. The findings showed a chi-square value of 462.44 and a p-value of 0.0000, which is significant. This indicates that the random effect should be selected. The presence of heteroskedasticity, on the other hand, prompted the researcher to run and interpret additional feasible generalized least squares (FGLS) regression.

Table 4.3 Feasible Generalized Least Square Regression Result

TOBIN'S Q	Coef.	St.Err.	T-value	P-value	Sig
BGD	0.722	0.303	2.38	0.017	**
BETHD	0.255	0.100	2.54	0.011	**

FSIZE	-0.118	0.017	-6.81	0.000	***
Constant	3.016	0.408	7.40	0.000	
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Number of obs	315				
Chi-square	47.51				
Prob> chi2	0.000				

*** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$

Source: Stata Output 2021

The fitness of the model of the study as revealed in table 4.4 shows a chi-square value of 60.229, which is significant at 1%. This led to the robustness of the result and the subsequent discussions that followed: Table 4.3 reveals that gender diversity on the board has a coefficient of 0.899 and a p-value of 0.003, which is statistically significant at 1%. The findings show that gender diversity on corporate boards has a positive and significant effect on firm value. By implication, it means an increase in board gender diversity will contribute to a rise in the firm value of Nigeria's publicly traded financial services firms. This is because positive female participation among corporate directors strengthens corporate reputation and raises the company's worth. The null hypothesis, which states that board gender diversity has no significant effect on the firm value of listed financial service firms in Nigeria, is thus rejected. This research agrees with the study of Salem *et al.* (2019); however, it disagrees with the study of Tarigan *et al.* (2018).

In addition, table 4.3 shows that board ethnic diversity has a coefficient of 0.296 with a p-value of 0.003, which is statistically significant at 1%. The findings show that ethnic diversity on the board of directors has a favorable and significant impact on the firm's value. By implication, this means that an increase in the mix of northerners and southerners on the board of directors will lead to a rise in the firm value of Nigeria's listed financial service firms. This is possible because people from various ethnic backgrounds are more inclined to approach challenges in distinctive ways, encouraging the board to explore a larger variety of options and strategies when it comes to addressing organizational issues. This provides evidence for rejecting the null hypothesis, which states that board ethnic diversity has no significant effect on the firm value of listed financial service firms in Nigeria. The findings are consistent with Chuah and Hooy (2018) but not with Ilogho (2017).

5.0 Conclusion and Recommendation

The research looked into the effect of board gender diversity and board ethnic diversity on the firm value of listed financial service firms in Nigeria. According to the findings, the research concludes that board gender diversity has a positive and significant effect on the firm value of Nigeria's listed financial service firms. Similarly, board ethnic diversity also has a positive and significant effect on the firm value of listed financial services firms in Nigeria. According to the findings, the research recommends that females be considered for directorship positions in order to boost the firm's value in line with the resource dependency theory proposition, and the board of directors should consist of a mix of both northerners and southerners in Nigeria. This is logical, because an ethnically diverse board would have a lot of synergy, and its decisions are expected to have an impact on all ethnic groups across the country.

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