

Original Paper

Impact of Women Directors on Corporate Financial Performance-Indian Context

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Abstract

Good corporate governance creates the properly structured board of directors capable of taking independent decisions for the welfare of the company. Women directors or female directors with varied backgrounds and experiences tend to look at problems and solutions from wider perspectives, thereby, diversity in boards has been widely considered as an important contributor to improved decision-making. Against this backdrop, the paper empirically investigates the association between participation of female director on board with the financial performance of corporate, using a sample of 16 listed companies' board membership in India. The study reflects positive and significant impact of female directors on financial performance in the listed companies. The findings could be scientific basis for Indian company to build the most proper board for themselves and contributes to the existing literature through the empirical evidence with more insight into the effect of corporate governance, particularly female directors on firm outcomes from a typical developing country, India. Thus, it is suggested that Indian companies should think about the femininity on board and in senior management to improve financial viability and performance to achieve sustainable growth.

Keywords

corporate governance, financial performance, gender diversity, listed companies, the companies act, women directors

1. Introduction

Corporate governance refers to collective responsibility of all the directors as well as senior management in attaining the goal of the company. Hence, the composition of the board is a very important task. A balance between men and women on board tends to consider wider range of issues and options, resulting in commercial decisions that are more in touch with the customer needs. Policies on women empowerment exist at all levels in many sectors including corporate and gender based violence and political participation. However, there is significant gap between policy advancements and actual practice in the society. As far as social status in Indian environment is concerned, women are not treated as equal to men in all the spheres. Indian society is male inclined from the very inception. But now, the time has drastically changed the thinking of society. Several laws are framed for providing security and special status to women. Yet, the inclusion of women in the highest echelons of business and management has not been promising. The actual fact reveals that majority of companies having only one woman director are following the law only in letter and not in true spirit. The new mandate has given the much desired initial push but the actual implementation would depend on the whole-hearted acceptance of the role of female directors by promoters and shareholders in general and proper supervision by the Government of India. Corporate Governance Score is useful to assess corporate governance practices and policies (Note 1). Right selection of the board of directors is essential as they involve in strategic decision making as well as policy formulation of the company in this competitive age (Vishwakarma, 2017). Board of Directors (BOD) performs responsible tasks like supervising and controlling managers, appointment and deciding remuneration of senior management (Nahar, 2004). Effective selection of board members also provides strategic directions necessary for company's survival in the competitive environment (Ferreira, 2010). A large number of listed companies in India seem to have appointed women directors in response to the recent SEBI mandate; not surprisingly, most Indian listed companies have only one woman director, although studies have shown that companies with three or more female directors have outperformed those that have had less (Balasubraanian, 2015). Directors heterogeneity have gained attention among the regulators, practitioners as well as other academicians for effective supervision and to this end, in India, new mandatory provision as per Section 149(1), Rule 11.1 under the Company Act, 2013 was enacted by the Indian Parliament to make all the listed companies compulsory to have at least one woman on the board to realize women contribution for the effective corporate governance as well as removing the flaws of predominance of inequality existing in terms of gender. The mandatory provision in the Companies Act has pushed the researcher to undertake the study whether inclusion of woman on board positively affects the financial performance of the Indian corporate sector. Gender diversity in boards has less conflict and is associated with more strategic control and board development functions (Nielsen & Huse, 2010).

2. Literature Review

Corporate board diversity has focused attention on the participation, position, and promise of women's service on the board. Adams and Ferreira (2009) reported that women directors have significant impact on board inputs and firm outcomes. Chakrabarty and Bass (2014) examined how gender diversity of boards helps improve the viability of corporate operating and found that MFIs with boards having more socio-economic expertise and female representation lower the MFIs' cost of operating. Eulerich et al. (2014) analyzed the influence of board diversity in terms of gender, age, nationality and functional diversity in German management boards on corporate performance empirically with a sample of 149 listed firms for the years from 2009 to 2011 and they mostly found negative effects of board diversity characteristics on corporate performance, regarding age and national diversity. Neema Mori (2014) explored the effect of board of directors' features in terms of age, gender and education in monitoring and resource provision through a survey conducted on 105 board directors, representing 63 MFIs from three East African countries and concluded that the effect of directors' level of education on boards' performance is positive while there was no evidence relating to the effect of female directors on boards. Martin-Ugedo and Mínguez-Vera (2014) also examined the gender diversity on board with the sample of non-financial Spanish Small- and Medium-Sized Enterprises (SMEs) for 2003-2008 and the result showed positive effect of the presence of women board members on firm performance. Thrikawala (2016) analyzed the effect of percentage of female directors, female CEO and female chairperson on financial performance and outreach of MFIs in 61 Sri Lankan MFIs and 113 Indian MFIs and found that the relationship between current MFI performance and past (one-year lagged) performance is significantly positive for financial performance in both countries. Evidence shows large number of women on boards have development program, evaluation (Nielsen & Huse, 2010) and monitor the management reporting that increase earnings value of organization (Srinidhi et al., 2011). Agency theory states that the affirmative impact of gender diversity on the organization efficiency and according to that theory, gender diversity is essential corporate governance practice of organizations (Gallego-Álvarez et al., 2010). Mayer, F. (1997) (Note 2) in his article said that corporate governance is concerned with the development of the bridge between investors' interest and that of managers.

3. Objectives of the Paper

The prime objectives of the study are: i) to study the relation between women representation on board and firm performance. ii) to carry out analysis studying the dependency level of financial performance on presence of female directors. iii) to have a glimpse at issues leading to gap in number of men and women on the composition of board membership in India.

4. Hypothesis Development

The entire study is concerned with Indian context. Hence, in conformity with the objectives of the study, the following testable hypothesis has been formulated:

H₀: There exists no significant relationship between women director and financial performance.

H₁: There exists significant relationship between women director and financial performance.

For testing the hypothesis, 5% level of significance is considered in the study.

5. Data and Research Methodology

The study is dependent on both primary and secondary data. The research comprises of 16 NSE-listed companies in India having women directors on boards at the end of the financial years 2017 and 2018. The researcher, being an external analyst, has to depend mainly on the current literature available on this particular issue in the form of books, journals, articles, research studies, websites, etc., the secondary data for the examination of impact of women directors on financial performance of the selected companies for the years 2017 and 2018. The latest year for which data is available is 2018. The analysis, therefore, confines itself for the years 2017 and 2018. Though there was found apathy or indifference on the part of executives in supplying information, the researcher could overcome the same through moral persuasion and intensive pestering. It was made clear to them that the information so collected will be exclusively used for academic purpose and proper secrecy will be maintained. Editing, classification and tabulation of the data collected from the aforesaid sources have been done as per the requirement of the study. Companies selected in the sample are chosen purposely either to serve a particular object or because it is felt they possess all the characteristics of the parent population (Asthana, 1976), i.e., “Non-Profitability Sampling” or “Purposive Sampling Method”. Different statistical techniques and tools have been applied for the purpose of the analysis.

To examine the relationship between women directors and financial performance and testing the hypothesis, statistical technique of simple correlation coefficient formula introduced by Karl Pearson has been followed. By treating women directors and financial performance in terms of Return on Capital Employed (ROCE) as two independent variables, correlation coefficient has been computed by applying Karl Pearson’s formula as follows:

$$r = \frac{\sum xy}{\sqrt{x^2} \times \sqrt{y^2}}$$

Where, r = Correlation Coefficient, xy = Product of the deviations from respective means.

Simple correlation implies the interdependence of two sets of variables upon each other in such a way that changes in one are in sympathy with changes in other (Asthana, op.cit).

Probable error tells us the limit within which the various values of the coefficient of correlation of the companies taken out of the same group or the entire group will vary. Correlation coefficient less than

the probable error indicate that “r” is insignificant. Probable error “r” is computed in the following manner (Asthana, op.cit):

$$\text{Probable Error of "r"} = 0.6745 \times \frac{1-r^2}{\sqrt{n}}$$

Where n = Number of units or companies.

The significance of correlation coefficient tested by “t”—test is as follows:

$$t = \frac{r}{\sqrt{1-r^2}} \times \sqrt{n-2}$$

Where, r = Correlation Coefficient; n – 2 = Degrees of Freedom.

6. Analysis and Discussion

More women on board not only attract sales and production but also create public image. It increases financial return as well rather than mere media attention. The study reveals that the board of corporate run by a professional CEO with a mix of both men and women helped ROCE rise. The analysis evidences that there has been an increase in woman participation on the boards and also the highlights that gender diversity has been addressed through initiating a move towards women on board. Failure to address such gender diversity would lead to serious economic consequences in future. All the selected companies must have at least one female director on their boards according to new corporate governance norms finalized by Securities and Exchange Board of India (SEBI). Henceforth, necessity for female directors on board has become inevitable showing good sign for the corporate growth in India. There are many reasons for scarcity of female representations in senior leadership positions. Experts say that women on board lead to more profitability and sustainability. Thus, the 2013 landmark enactment has paved the way for gender diversity and women participation.

6.1 Primary Data Analysis

Initially, a primary survey has been conducted to take the opinion of persons consisting board members, chief executive directors, company secretary, auditors and regulators, regarding their discernment towards the participation of female board member in the composition of board of directors.

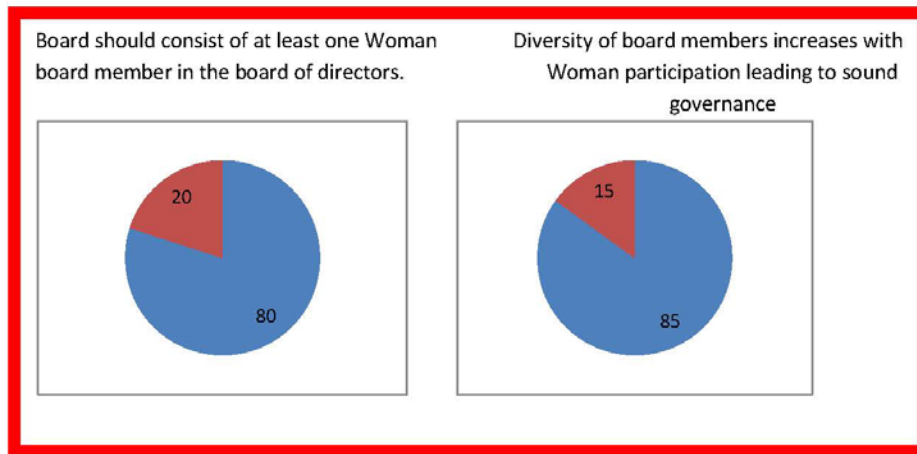


Figure1. Female Board Participation (Researcher's Survey)

Figure 1 exhibits that 80% of the total respondents consented that board should comprise of at least one female member not only for complying with the provision of the Companies Act, 2013 but also because institutions can be benefitted by her strategic guidance, devotion, insights and accountability as a director for the institutions. Only 20% differed due to more challenging aspects such as natural prejudice, cultural and regional bias, workplace related issues, etc., associated with female directors. Further, majority of respondents (85%) accepted female board participation makes board more diverse leading to effective governance and helping the companies achieve their dual missions efficiently and effectively while 15% rejected the view. Hence, it can be portrayed that the representation of women on board is good and affects positively.

6.2 Secondary Data Analysis

SEBI directed the listed companies to meet the rule of having at least one female director on their board by the Companies Act, 2013 within 01.04.2015. Table 1 discloses that out of the available 1567 NSE-listed companies, 70 companies (4.5%) did not have any woman on their boards. Overall, women represented approximately 14.75% of total directorships. About 50% of the 70 NSE-listed companies have yet to meet the requirements of the rule. The analysis clearly shows the unflattering reality that even after the deadline for

Table 1. Position of Men and Women on Board on Listed Companies as on 1st April, 2015

| | Men | % | Women | % | Total |
|---|-------|-------|-------|-------|-------|
| No. of Directors | 8625 | 85.95 | 1410 | 14.05 | 10035 |
| No. of Directorship Positions held | 12091 | 86.41 | 1903 | 13.59 | 13994 |
| No. of Independent Directors | 4160 | 84.55 | 760 | 15.45 | 4920 |
| No. of Directorship Positions held by Independent Directors | 6720 | 85.25 | 1160 | 14.75 | 7862 |

Note. NSE listed companies mandated to have women director.

Source: Prime Database.

Complying with the female director mandate, female still constitutes a very little part of the board composition. In response to the mandate of SEBI, there was a spurt of appointments in 2014-2015 (about 762 female directors), but there still exists a gap between the number of men and women members on boards. A cursory glance at the table evidences the percentage of men and women on boards of the listed companies. Total No. of directors on the boards is 10,035, whereas only 14% are women with absolute figure of 1,410. As far as directorship positions are concerned, women lag behind representing 13.59%. Out of the total 13,994, only 1,903 directorship positions are occupied by women. Total No. of independent directors on the boards is 4,920, whereas only 15.45% are women with absolute figure of 760. Major portions (85.25%) with Total No. of 6,702 directorship positions are occupied by men whereas women occupied only 1,160 directorship positions (14.75%) as independent directors. Thus, there exists a clear gap in number of female directors and men directors on the board.

Table 2. Women Directors and ROCE of the Selected NSE Companies

| Sl. No. | Name of the Company | Women (%) | ROCE (%) | |
|------------------------------|----------------------|-----------|----------|-------|
| | | | 2017 | 2018 |
| 1 | Infosys | 30.0 | 20.3 | 25.2 |
| 2 | ITC | 16.7 | 21.5 | 21.0 |
| 3 | Raymond | 12.5 | 2.0 | 5.5 |
| 4 | WIPRO | 10.0 | 12.8 | 12.9 |
| 5 | Ashok Leyland | 10.0 | 14.1 | 14.8 |
| 6 | TCS | 14.3 | 7.1 | 7.4 |
| 7 | ONGC | 6.3 | 32.6 | 27.0 |
| 8 | Bajaj Auto Ltd. | 6.3 | 21.7 | 20.6 |
| 9 | Asian Paints Ltd. | 14.3 | 40.9 | 38.7 |
| 10 | Coal India Ltd. | 12.5 | 38.0 | 35.0 |
| 11 | CIPLA | 33.3 | 9.3 | 14.0 |
| 12 | Dr.Reddy's Lab. Ltd. | 10.0 | 10.3 | 8.2 |
| 13 | Hero MotoCorp. | 9.1 | 49.2 | 47.9 |
| 14 | HCC | 10.0 | 12.7 | 11.3 |
| 15 | Bata India Ltd. | 11.1 | 12.0 | 15.1 |
| 16 | Godrej Industries | 8.3 | 1.0 | 10.0 |
| Total | | | 305.5 | 314.6 |
| Average (\bar{x}) | | | 19.1 | 19.7 |
| % Change (Increase/Decrease) | | | 3.14 | |

Source: Annual Reports and Accounts-Results Computed.

Table 2 shows the listed companies in India having one or more women directors on board with Cipla having the highest % (i.e., 33.3%) of women as board member compared to other listed companies. Financial performance with the measure of ROCE has been compared for the years 2017 and 2018. On an average, 3.14% increase is revealed from the table.

With a view to testing the association between women directors and financial performance of the selected companies taken together, simple correlation coefficient has been exhibited in Table 3. Table 3 also shows Probable error and "t" value.

Table 3. Correlation Coefficient between Women Director and ROCE of all the Selected Companies Taken together

| Year | Correlation Coefficient | Computed Value (t) | Probable Error (PE) |
|------|-------------------------|--------------------|---------------------|
| 2018 | 0.74 | 4.11 | ±0.08 |

Source: Annual Reports and Accounts-Results Computed.

Table 3 evidences that in all the selected companies taken together, Women Directors and ROCE are positively correlated. Correlation Coefficient between Women Directors and ROCE is 0.74. Probable Error is ±0.08. To study the significance of the computed value of such correlation coefficient, the “t” test has further been applied. The computed value of “t”, i.e., 4.11 is higher than the critical value of “t”, i.e. 2.57 at 5% level of significance. Hence, H_1 hypothesis can be accepted signifying that there is decidedly significant relationship between the Women Director and ROCE. Hence, the study reveals that the induction of female directors on boards positively affects the financial performance of the companies.

Correlation analysis conducted above reveals that the presence of women on board positively affects the financial performance of the companies under study. Now, an attempt has been made to study with the help of regression analysis whether the existence of female director is related positively and significantly with ROCE.

Values of $R^2 = b \times SS_{xy} / SS_{yy}$

Where, $b = SS_{xy} / SS_{xx}$

$SS_{xx} = \sum x^2 - (\sum x)^2 / n$; $SS_{yy} = \sum y^2 - (\sum y)^2 / n$ and $SS_{xy} = \sum xy - (\sum x \times \sum y) / n$

Now, putting the values in the equation, $R^2 = 0.0003$ and $R = 0.02$; at 5% level of significance, $t = 2.18$. The results above also evidence that the presence of female director on the board relates positively and significantly to ROCE. A striking result that follows from the study is that higher return on capital employed is consistently and statistically significant for companies with females on the board. Correlation and regression analyses show the presence of females to be significantly variable in relation to ROCE. Both results suggest that on an average, the presence of women on the board is a distinctive feature of the listed companies performing well. However, there may be other factors contributing better corporate performance.

7. Discussion

Board of directors plays vital role in governance systems supporting to line up the benefits of shareholders and managers (Reguera et al., 2010). Board composition may affect the success of decision making of board yielding its effect on financial performance. The findings of the study support the hypothesis that woman director has significant effect on financial performance, thus ROCE, the financial

indicator shows that gender diversity on the board has positive association. Conversely several reasons are in favor of inducting woman director to their board, as gender diversity has positive effect on economic growth. Corporate governance mechanism is also improved by board gender diversity (Carter, 2003) and produce better communication and relation with other women customer (Rose, 2007). Women also enhance the efficiency of decision making by coming up with different views and approaches in board (Carter, op.cit.).

8. Suggestion

Women empowerment calls for steps to be adopted by the corporate world to provide the working women strength, safety and security. Corporate should supply more opportunities and career advancement programs for women so that they can get their due shares. Consistent monitoring and prevention programs should be organized by the corporate with proper support from top management to address and eliminate gender issues for lessening the percentage of women in senior positions and widening gender pay gap. Corporate have bigger role to play as a catalyst of social change. Gender equality and women empowerment will not be distant dream if the corporate world, the Government and women themselves take initiatives in this regard. Unequal pay creates depression and demotivation among women leading to gender imbalances, confliction in work-family and deterioration in their work performance. Hence, eradication of this pay gap is pre-requisite. Analysis of NSE listed companies' evidences that women still have a very meager representation of directorship position in corporate sector in Indian environment. The Organization for Economic Co-operation and Development (OECD) reports that the annual growth of the economy might improve 2.4% if India implements pro-growth and pro-gender policies. Last but not the least, women should shoulder the responsibility to discard the nature of self-denial, sacrificing and compromising nature and adopt principles of self-assertion and self-confidence.

9. Research Limitations

There are several limitations of this research work. Firstly, this study has not taken all the elements to measure the financial performance with regard to presence of women on board. Hence besides ROCE, future studies should consider other indicators like liquidity, profitability ratios, etc. of financial performance. Secondly, gender is only one feature of board diversity. Future research needs to check other aspects of board diversity such as education, experience, culture, age, etc. This study is mainly based on quantitative research as secondary data from annual reports of corporate has been collected. Further studies need to be conducted with more corporate sample in India and different methodologies such as surveys, case studies and qualitative research to find out the causes of the issue why the number of women on board affects ROCA. Thus, this study recommends re-assessing the association between

gender diversity and corporate performance after the regulation concerning the gender quotas has been executed by code of corporate governance in India. There are thousands of capable women in India to be on the boards of Indian corporate sector. However, an overwhelming majority of the listed companies in India have now just one woman on the board only to comply with the legal mandatory requirement. It is believed that they will witness the merits of female directors on board in the times to come and will accept the provision of female director in spirit and not just in letter. The study correctly emphasizes the positive and significant impact of presence of women directors on corporate financial performance. The outcome of the study supports the idea that having female on the board is a logical consequence of a more innovative, modern and transparent enterprise where all levels of corporate attain high performance.

10. Research Comment

Issue of equal opportunities for women and their roles in sustainable economic development has become a burning subject of discussion in the political environment throughout the world particularly in India. The United Nations adopted a resolution on the world sustainable development over the next 15 years in which gender equality is among the goals of global sustainable development (United Nations Transforming, 2015). This document shows world-wide consensus about women participation at all levels of decision-making for achieving the desired development. Women involvement in managerial decision should not penalize corporate but preferably enhance their financial performance without legal/political constraints. In this context, an interesting research setting is the European Union (EU), which proposed a directive in 2012 (European Commission proposal, June, 2018) to increase gender equality in the board so that at least 40% of the non-executive directors of listed companies are women by the latest January, 2020. Although, there have been various political and legislative actions on the issue, there is not yet a gender balance concerning leading decisions in economic, political and social life.

11. Research Opportunities

The results of this study show that having women in board is well to corporate performance. Research can also be conducted on the impact of presence of female directors by other measures of profitability, i.e., return on equity, return on sales, dividend payout ratio, etc. Hence, the endogeneity issue should be addressed and dealt with by future studies to propose more incisive conclusions with higher reliability. Links should be developed with other disciplines, such as corporate environmental studies, to identify how boards with women directors actually deal with increasingly important environmental issues. However, it is unreasonable to expect one female director to bring about financial contribution soon after appointment. Researchers could concentrate on the direct outcomes of having more women and look at when and how they contribute most effectively as corporate board directors.

Most corporate in India presents their board demographics in proxy statements and annual reports, but in many countries it is not mandatory to present such information. As the lack of female access to corporate boardrooms is an international phenomenon, the field would benefit from further international study. More in-depth investigation and collaboration among the researchers are required beyond the statistics for transparency about board structures, governance systems, methodologies, and sampling decisions. Future research should contemplate manifold levels of examinations—the individual, board, corporate and industry/environment.

12. Conclusion

This study has empirically examined the impact of women participation on the corporate financial performance and found that percentage of women on board has a significant effect on ROCE at 5 percent level of significance indicating women board participation has a positive and significant impact in predicting the financial performance in the context of India. Thus, having more female member on board, corporate would have better financial viability and social outreach. Few corporate expressed their desire to have a woman board member solely to comply with the provision of the Indian Companies Act, 2013 [Section 149 (1), Provision 2]. The reason behind adopting best practices of female representation on board might be strong commitment towards responsibility and goal of the company. Therefore, it can be inferred that women affect the corporate in a positive manner both in managing the social and financial performance to achieve their social mission and growing into sustainable business.

Although there are thousands of capable women on the boards, however, an overwhelming majority of listed companies in India now have just one woman on their boards only to comply with the legal mandatory requirement. It is believed that they will witness the merits of women directors on boards in the times to come and will accept the provision of woman director on board in spirit and not just in letter. The study rightly highlights the significant impact of presence of female directors on company's performance. However, research on the impact of female directors in the boardrooms on financial performance produces significant, positive result owing to methodological issues. These results are encouraging for emerging markets to portray poor corporate governance mechanisms and beneficiary on increasing quotas of female directors.

This study brings attention to the regulatory bodies, government companies, policy makers, shareholders having gender composition of board. From a purely economic perception, this research suggests that corporate should proliferation women representation on their boards. Eliminating woman from boards merely on gender basis is discriminatory and unethical. Gender diversity shows positive indication to the people regarding its ethical and social behaviors (Terjesen, 2016). The Governments monitor the implementation and effectiveness of diversity policies and practices, using strong research results to

design interventions. Research into women on corporate board is an important tool, not only for academic contribution or just equitable, but also for providing the basis for change and effective gender representation at the decision-making levels of the corporate world. Strong association between increased gender diversity and corporate financial performance strengthens the case for equal gender representation (Xingwana, 2013). Suggestions for future research include increasing the sample size both longitudinally and in cross-section, as well as controlling for survivorship bias. Besides, an extended battery of independent variables measuring board diversity as well as additional dependent variables measuring company performance would promote the study.

13. Implication of the Study

The present study states the impact of women directors on financial performance of companies through applying statistical tools and techniques. The study can better be applied to focus the sector wise presence of women on board to further analyze the reasons of their less representation on Indian board. The study issues a basis for further research into the gap analysis of female board member among various countries to observe where women stand in India. Research can also be conducted on the impact of presence of female directors on other measures of profitability, i.e., return on sales, return on investment, etc.

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