Print ISSN: 2008-448X
Online ISSN: 2538-3310
International Journal of Business and Development Studies
University of Sistan and Baluchestan
Homepage: https://ijbds.usb.ac.ir

Determinants of Board Diversity for Firms Listed on the Zimbabwe Stock Exchange

Zvinaiye Chimbadzwa[1] Lighton Dube[2] Emmanuel Guveya[3]

[1] Corresponding Author, Ph.D. Candidate, Department of Business Management, Faculty of Commerce, Zimbabwe Open University, Harare, Zimbabwe. Email: zvinkamoko@gmail.com.
[2] Associate Professor, Graduate School of Business, Faculty of Commerce, Zimbabwe Open University, Harare, Zimbabwe. Email: dubelig@gmail.com.
[3] Development Economist, NATRAGS Development Consultants, 7479 Limpopo Road, Ruwa, Zimbabwe. Email: emmguvs@gmail.com.

ARTICLE INFO
Article type:
Research

Article history
Received: 28.07.2023
Accepted: 29.12.2023

Keywords:
Board diversity,
Listed firms,
Determinants of board diversity.

JEL Classification:
E5, H2, C21

Abstract:
Board diversity is a topical discourse in firm governance and management. Diversity came up as a way of eliminating discrimination in employment and making sure there is equality, inclusion and affirmative action in the way firms do business. Board diversity has produced mixed results in relation to firm performance. On the one hand, diversity enables good governance to take place, ensures satisfaction of stakeholders and the firm to attain competitive advantage. Contrary, diversity may come with difficulties in communication, boardroom fights and decreased productivity among a plethora of negative contributions. The study investigates the various factors that affect board diversity from a Zimbabwean context.
The Zimbabwe Stock Exchange's 35 firms' data is analysed to estimate the relationship between board diversity and firm performance. The study employed the quantitative methodology to establish factors that influence board diversity on firm performance of thirty-five (35) firms listed on the Zimbabwe Stock Exchange using panel data collected over the period 2009 – 2015.
The major factors that promote diversity are firm size, liquidity, leverage, operating experience (years listed), market share (Tobin's Q) and being in the service sector. On the other hand, board size, being in the food, financial, real and industrial and manufacturing sectors negatively and significantly influence diversity.
Based on the above results, the study recommends that companies should come up with diversity-enabling policies to enhance firm performance.

Cite this article: Z. Chimbadzwa, L. Dube and E. Guveya (2024) Determinants of Board Diversity for Firms Listed on the Zimbabwe Stock Exchange, 16 (1), 45-50.
DOI: 10.22111/ijbds.2024.46274.2043.

Publisher: University of Sistan and Baluchestan

1. Introduction

Managing board diversity has become a topical issue in organisations the world over. This phenomenon emerged in the 1990s as a response to the perceived failings of the equal employment opportunities (EEO) approach in the United Kingdom (UK) and United States of America (USA). There was perceived discrimination against minority groups such as females and Black Americans (Centre for Strategy and Evaluation Services, 2003; Kochan et al, 2003) and pay discrimination against female employees which still exists in America and Iceland where women get 30% and 14% less the salary of their male counterparts respectively, regardless of their qualifications. This form of discrimination has triggered the need to manage diversity in organisations (Wilton, 2011).

Firms are prohibited from discriminating board members based on diversity grounds. The 1964 Civil Rights Act makes it illegal for firms to discriminate employees on primary, secondary or tertiary dimensions of board diversity. Some countries in the developed world (Europe and America) have gone as far as penalising organisations which fail to operationalise board diversity. Ganero et al (2013) added that there is legislative pressure for firms to diversify their boards through quotas or affirmative action to eliminate discrimination of underprivileged groups. Diversity studies have revealed that predominant diversity issues in each country are different with multiculturalism being dominant in the western, European, and Asian countries, whereas racial discrimination is prevalent in USA and South Africa where there is a long history of systematic discrimination (Shen et al, 2009).

2. Literature Review

The focus for managing diverse boards is to create a working culture which respects, values and harnesses the differences in individual employees, teams, and groups (Wilton, 2011). Employees are free to move from one city to another within their countries of origin, one region to another and move across continents in search for satisfying careers but the employers seem not keen to take cognisance of these movements. Organisations have failed to understand why it is important to manage diverse board to improve and enhance firm performance.

Managing diverse boards has some benefits which when fully utilised result in increased productivity. Organisations are mandated with attracting, employing, and retaining skilled, qualified, and competent employees who will advance the interests of the organisation and the shareholders (Bathula, 2008). A diverse board helps strengthen the organisation's cultural values for organisations to remain competitive. Board diversity enhances the organisation's reputation and customers prefer to be associated with organisations whose board members are from diverse backgrounds (Wilton, 2011; Henry & Evans, 2007).

There are challenges that are associated with managing a diverse board. Board diversity brings with it groups and categorisations and these results in conflicts, harassment, discrimination, and exclusions. These acts negatively impact individual and firm performance. Cultural differences bring with them challenges in serving the customers. Some religions are strict on their religious hours and days which means business must close at those hours or days when they practice their religious beliefs. Board diversity is influenced by communication barriers (Wilton, 2011; Henry & Evans, 2007). Employees from different ethnic backgrounds may find it difficult to effectively communicate with each other. They may also fail to communicate with customers resulting in organisations losing business to competitors.

In Africa, board diversity is managed willingly and unwillingly due to extensive labour migration. Countries which will be undergoing a recession or economic turmoil experience brain drain as skilled board leaves to find employment in neighbouring countries and abroad. Zimbabwe is among the countries which are going through an economic turmoil and several of its qualified and skilled board members have left the country to find better opportunities elsewhere. The Zimbabwe Stock Exchange has not been spared by this brain drain and some companies have stopped trading on the bourse. Research by Sandada et al (2016) dwelled on the impact of diversity on firm performance for non-insurance firms and operating in men's shoes by and Chuma and Ncube (2011). The purpose of this study is to establish the factors that influence board diversity on firm performance of ZSE listed firms for a six-year period from 2009 - 2015.

3. Research Methodology

The study employs the quantitative approach to estimate the factors that influence board diversity for thirty-five ZSE listed firms for the period 2009-2015. Board diversity is measured using the Blau (1977) model whilst firm performance was analysed using the PCSE regression analysis model. The dependent variable is firm performance and is estimated using returns per share, Tobin's Q, asset turn-over, current ratio, debt equity ratio, and market value. The independent variable is board diversity estimated by board gender diversity, board executive diversity and board education diversity. The moderating variables are board size, firm size, firm experience (years listed) and sector in which firm belongs. The regression analysis variables are described in Table 1 below.

Table 1: Regression model variable description

No	Variable	Description	Measurement
1	RPS	Returns per share	Returns per share calculated as net income over total shares
2	TQ	Tobin's Q	Ratio of market capitalisation plus total debt over total assets
3	ATO	Asset turn-over	Sales over total assets

4	CR	Current ratio	Current assets over current liabilities
5	DER	Debt-equity ratio	Debt to equity ratio calculated as long-term debt over stockholder's equity
6	MV	Market value	Price at which property would change hands between a willing buyer and willing seller
7	GP	Gross profit	Sales revenue less cost of sales
8	BGEN	Gender diversity	Board gender Blau
9	BEXEC	Executive diversity	Executive Blau
10	BED	Education diversity	Education Blau
11	BSIZE	Board size	Number of board members
12	FSIZE	Firm size	Natural log of value of total firm assets
13	FOOD	Sector Food	Dummy 1 = firm in food industry 0 = firm not in food industry
14	FIN	Sector Financial	Dummy 1 = firm in financial industry 0 = firm not in financial industry
15	SERV	Sector Services	Dummy 1 = firm in services industry 0 = firm not in services industry
16	REAL	Sector Real estate	Dummy 1 = firm in real estate industry 0 = firm not in real estate industry
17	MANF	Sector Industrial manufacturing	Dummy 1 = firm in industrial manufacturing industry 0 = firm not in industrial manufacturing industry
18	YEARL	Years listed	Number of years

4. Model Estimation and Results

Table 2 presents the PCSE regression results obtained from STATA which assessed the factors that influence board diversity for the ZSE listed firms. The model parameter estimates, the standard errors and the t-ratios are also presented. The Wald chi2 test is 70212.56 and is highly significant at 1%. All the variables are expected to have a positive and significant impact on board diversity. Asset turn-over, debt-equity ratio, market value and gross profit were not determining factors for board diversity.

Table 2: Determinants of board diversity

Variable	Coef.	Std. Err.	z	P>|z|
Board Size	-0.000527	0.0001706	-3.09	0.002
FIRMSIZE	0.005975	0.0027372	2.18	0.029
DEBT EQUITY RATIO	0.0371342	0.0082624	4.49	0.000
CURRENT RATIO	0.0020166	0.0009568	2.11	0.035
Sector Food Industry	-0.0605946	0.0078409	-7.73	0.000
Sector Financial	-0.0095734	0.0058936	-1.62	0.104
Sector Services	0.0410958	0.0072283	5.69	0.000
Sector Real Estate	-0.0850823	0.007931	-10.73	0.000
Sector Industrial Manufacturing	-0.0812121	0.00884	-9.19	0.000

Years Listed	0.0002376	0.0000613	3.88	0.000
RPS	0.01204	0.0428688	0.28	0.779
TOBIN’S Q	0.000379	0.0000924	4.10	0.000
Cons	0.2902054	0.0548395	5.29	0.000
R-squared	0.3806			
Wald chi2(12)	70212.56			
Prob > chi2	0.0000			

The results established that firm size, debt ratio, current ratio, the services sector, years a firm has been listed on the ZSE and the Tobin’s Q ratio had a positive and significant relationship with board diversity. The variables can therefore be classified as the major factors that influence board diversity.

The food sector, real estate sector, industrial and manufacturing sector and board size have a negative yet significant impact on board diversity whilst, the financial sector and returns per share have no significant impact on board diversity. It therefore, is imperative for firms to focus and monitor the firm performance variables as they may affect the overall firm performance.

5. Conclusion and Recommendations

The purpose of this research is to establish the factors that affect board diversity for firms listed on the Zimbabwe Stock Exchange (ZSE). The researcher argues in this study that understanding and utilising the determinants of board diversity brings about positive impact to firm performance as it influences innovation, creativity, productivity and sharing of ideas; whereas, the failure to manage and take advantage of board diversity manifests challenges of poor communication, discrimination, stereotyping, in/out group conflicts and prejudice.

The major factors that promote diversity are firm size, debt ratio, current ratio, services sector, years listed on the ZSE and the Tobin’s Q ratio. On the other hand, board size, being in the food, financial, real and industrial and manufacturing sectors negatively and significantly influence diversity. Financial sector and returns per share had no significant impact on board diversity.

Gender discrimination has always been in existence in organisations for time immemorial. The presence of glass ceilings and gender-based discrimination and stereotyping has caused women to be side-lined in decision making positions. Senior management should investigate affirming diversity as women now want to be upgraded rather than included into the board. If boards are to be effective in achieving positive firm performance, the inclusion of female board members (both executive and non-executive) is inevitable.

Board executive and non-executive directors were found to have a positive impact to firm performance. The research recommends the balance of executive and non-executive board members to increase profitability and competitive advantage.

References

1. Bathula, H. (2008). Board characteristics and firm performance: Evidence from New Zealand. *AUT University*, *New Zealand*.
2. Ganero, A., Kampelmann, S. and Rycx, F. (2014). The Heterogeneous Effects of Board Diversity on Productivity, Wages and Profits. *Industrial Relations: A Journal of Economy and Society.* Volume 53, Issue 3, pp. 430-477. IZA DP No. 7350
3. Guba, E. & Lincoln, Y. (1994). Competing paradigm in qualitative research. Handbook of qualitative research. Sage Publications, USA.
4. Henry, O. & Evans, A. J. (2007). Critical review of literature on board diversity. *African Journal of Business Management* pp. 072-076, July 2007 Available online http://www.academicjournals.org/ajbm ISSN 1993-8233 ©2007 Academic Journals
5. Kochan, T., Bezrukova, K., Ely, R., Jackson, S., Joshi, A., Jehn, K., Leonard, J., Levine, D. and Thomas, D. (2003). The Effects of Diversity on Business Performance: Report of the Diversity Research Network. *Human Resources Management. Wiley Periodicals Productions. Volume 42*, Issue 1, pp. 3-21.
6. Kothari, C. R. (2009). *Research Methodology: Methods and Techniques.* New Age Publications.
7. Saunders, M., Lewis, P & Thornhill, A. (2009). *Research for business students*. Sixth Edition.
8. Shen, J., Chanda, A, D'Netto, B. and Monga, M. (2009). Managing diversity through human resource management: an international perspective and conceptual framework. *The International Journal of Human Resource Management. Volume 20*, Issue, 2, pp. 235-251.
9. Wilton, N. (2011). *An Introduction to Human Resource Management.* SAGE Publications Ltd, London, UK.