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DOES GENDER IN CORPORATE GOVERNANCE AFFECT FIRM FINANCIAL PERFORMANCE IN LATIN AMERICA?

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ABSTRACT

The low participation rate of women in corporate governance has generated recent cross-country research. Although women currently occupy approximately 50 percent of managerial and professional positions, top management of many firms across the world remains dominated by men. The main goal of this study is to examine the association between the presence of women in top management and boards of directors with the financial performance of firms. Past studies suggest the importance of diversity (including gender) in firm performance, and document the impact of the under representation of women in the corporate governance of firms. This study extends the current literature in the area of gender and corporate governance in Latin American firms.

Our sample will consist of Mexican corporations that trade securities in the United States (U.S.). The Mergent database will be used to identify women in top management positions or on the boards of directors of Mexican firms. For the firms in our sample, we will obtain their profitability (Return on Equity) from the Economática® database for the years 2007-2012. For each year and for each industry, we will calculate: the representation of women in the corporate governance, the representation of women in the board of directors, and the representation of female officers. The companies will be subsequently divided by industry and its ROE will be determined for each industry. Our results may help understand if gender diversity affects financial performance.

RESUMEN

La baja participación de las mujeres en el gobierno corporativo ha generado recientes investigaciones entre países. Aunque las mujeres ocupan aproximadamente el 50 por ciento de los puestos gerenciales y profesionales, la alta gerencia de muchas empresas alrededor del mundo sigue dominada por hombres. El objetivo principal de este estudio es examinar la asociación entre la presencia de mujeres en la alta gerencia y junta de directores con el desempeño financiero de las empresas. Pasados estudios sugieren la importancia de la diversidad (incluyendo género) en el desempeño financiero y documentan el impacto de la baja representación de las mujeres en el gobierno corporativo de las empresas. Este estudio extiende la literatura reciente en el área de género y gobierno corporativo en las empresas de Latino América.

Nuestra muestra consistirá de empresas mexicanas que venden valores en los Estados Unidos (EU). La base de datos Mergent se utilizará para identificar a las mujeres en puestos de alta gerencia o en la junta de directores de las empresas mexicanas. Obtendremos la medida de rentabilidad de las empresas (Rendimiento sobre el Patrimonio de los Accionistas) de la base de datos Economática para los años 2007-2012. Para cada año, y para cada industria, se calculará: la representación de las mujeres en el gobierno corporativo, la representación de las mujeres en la junta de directores y la representación de mujeres como oficiales. Las empresas se dividirán posteriormente por industria y el rendimiento sobre el patrimonio de los accionistas se determinará para cada industria. Nuestros resultados pueden ayudar a comprender si la diversidad de género afecta el desempeño financiero.

Keywords: Corporate governance, financial performance, returns on equity

Research Problem

Prior research documents that women occupy few board seats in the corporate governance of firms. A 2004 report prepared by Catalyst, Inc. notes that women held only 3% of the board seats in Mexican firms (Maxfield, 2007). The Corporate Women Directors International (CWDI) report on *Women Board Directors of Top Retail and Consumer Products Companies Globally for 2013* states that the percentage of women of the board seats of Fortune Global 200 firms is estimated to be 20.9% in the United States (U.S.), 25.1% in France and 3.1% in Japan. However, some studies have found a relationship between women at senior levels and better financial performance. Research done by McKinsey & Company, Inc. in 2007 suggests that the companies where women are most strongly represented at board or top-management level are also the companies that perform best. Abbot, Parker and Presly (2012) find a significant association between the presence of at least one woman on the board and a lower likelihood of financial restatement.

Several countries have approved legislation requiring a specific percentage of board seats for women. For example, in 2005 Norway required a quota of 40% of females on the Boards of Directors of public firms (Madslien 2002). Recently Spain also enacted legislation requiring companies to increase the presence of female directors to 40% by 2015 (Adams & Ferreira, 2009).

The objective of this study is to update the current literature by examining the presence of female managers and directors in Mexican public firms and its association with the financial performance of these firms for the period 2007 to 2012. A prior study by Ríos (2007) examines this relationship for the period 2004 to 2006 and finds an increasing participation rate of females in governance roles, but females continue to be significantly underrepresented.

Motivation and justification

The members of company boards and top management have been viewed for years as key to a company's success. Academic research documents the association of women in corporate governance with the financial results of firms in developed countries such as Canada and the U.S., but to the best of our knowledge there are few studies of Latin American firms. Many Latin American countries are examples of emerging markets and economies. Mexico was selected for this study because it is one of the largest emerging economies in Latin America.

This study merges our research interests to examine the impact of diversity (gender) in firm financial performance considering our globalized environment. The academic literature on diversity and corporate governance is of interest to companies, managers, accountants, government, regulatory agencies, present and/or future investors. This study will add to the existing body of knowledge regarding diversity, corporate governance and their financial impact in Latin American countries.

Related Literature

Shrader, Blackburn and Iles (1997) examine a sample of 200 U.S. firms with the largest market value and find that large firms with a high percentage of female managers have higher ROS (Return on Sales), ROA (Return on Assets), ROI (Return on Investment), and ROE (Return on Equity) than other firms with lower female representation. In top management and boards there was no such impact; the authors explained that the low average number of women per board seems to be a plausible explanation for that conclusion. Carter, Simkins and Simpson (2002) examine a sample of 637 U.S. firms and find a positive relation between the fraction of women and minorities on the board of directors and firm value. Using Tobin's Q ratio as a dependent variable for the model, the authors find significant positive estimates for both the female director dummy variable and the percentage of women on the board variables.

Van der Walt, Ingley, and Townsend (2006) study 59 listed companies in New Zealand and find limited support for the notion that there is an association between board configuration, strategic context and corporate decision quality. However, the results for the profit variable used in their research suggest that a high level of board diversity seems to be positively related to profitability.

Francoeur, Labelle and Desgagné (2007) examine approximately 250 Canadian publicly held firms. The empirical evidence obtained using the Fama-French model suggests that firms with a higher proportion of women on their boards are able to generate enough value to maintain normal stock-market returns. In addition, firms operating in complex environments with a high proportion of female officers experience positive and significant monthly abnormal returns of 17% (6% over three years).

Rose (2007) uses a cross-sectional analysis with a sample of listed Danish firms during the period of 1998-2001 and did not observe any significant relationship between firm performance as measured by the Tobin's Q ratio and female representation on boards.

There are countries that have enacted legislation mandating a specific percentage of directorship positions for women. For example, in 2005 Norway required a quota of 40% of females on boards of directors of public firms (Madslien, 2002). Other studies suggest the importance of diversity (including gender) in firm performance, and emphasize the impact of the under representation of women in the corporate governance of firms. Maxfield (2007) understands that diversity can help grow sales and improve customer satisfaction, help risk management and enhance creativity and flexibility in organizational processes leading to better problem solving. The author suggests that there is a strong opportunity for Latin American companies to improve both their financial and social performance through policies that bring gender and diversity into the mainstream of corporate life. However, Maxfield reported that at the highest level of corporate hierarchy, the boardroom, women are still a rarity. Clancy (2007) argues that one reason that explains why women are not as successful as men in corporate governance is because women have better things to do (for example, their families).

Other studies have examined the relationship between the size of an organization and the presence of women in the corporate governance of a firm. McCormick and Marcellino (2002) examine top 100 public companies in the U.S. and find a positive relation between the organization's size and both the number of women and having at least one woman on the board. All of the studies on gender diversity recently support the theory that women remain largely underrepresented on corporate boards. As a result, some authors have been trying to find a relationship between industry and women in corporate governance functions.

McCormick and Marcellino (2002) find a positive relationship between the number of women on boards and one of two industry categories: (1) finance, insurance, real estate and (2) transportation, communications, electric/gas and sanitary. Moreover, Ríos (2007), using a sample of 122 companies of Argentina, Chile and Peru finds a high percentage of women in the following industries: banking, minerals, energy, education, telecommunications, metals, tourism and pension funds administrations.

Zabludovsky (2005) notes that the growing insertion of women is reflected in every area of the economy, notably in education, and this change has spread to other leadership positions worldwide. Other authors suggest that women have contributed to improving the performance of companies. Maddock (1999) notes that female managers are challenging, and are extremely innovative, but at the same time, there is little public recognition of the role women play in organizations.

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Konrad and Kramer (2006) report that if companies want to fully realize the contribution that women make to corporate governance they should increase the number of women on boards. Burke (2003) suggests that having more qualified women directors would reduce the likelihood of increased company failure. Women are more oriented towards achieving consensus; they are more empathetic and more engaging in their job than men (Clancy 2007). In addition, Maxfield (2007) argues that other characteristics possessed by women ("otherness") make them potentially strong contributors to change, flexibility and innovation in the private sector.

Research design

<u>Sample</u>

To examine the association between the presence of women in top management positions or in the boards of directors with the financial performance of firms, our study will include a sample of Mexican corporations that trade securities in the U.S. Using the Mergent database we will be able to identify the eligible firms for our study. Mergent provides data on more than 10,000 NYSE, AMEX, NASDAQ and other select regional exchange companies

We will identify women elected to the board of directors and for those that work as officers, in particular those that have Hispanic surnames. A database will be created for the years 2007 to 2012 that will include the following information: company name, the number of women in the board of directors and the total number of directors; the number of women officers and the total of officers. For each year the number of female directors and the number of female officers will be added and compared with the total number of directors and officers.

Rios (2007) identified the following industries for the firms included in the study for the period 2004 to 2006: telecommunications, construction, retail, beverages, poultry, manufacturing, conglomerates, food in general, and service. In this study, we will identify the industry for the firms in our sample and calculate the following: the representation of women in corporate governance positions (board of directors and officers), the representation of women in the board of directors, and the representation of women as officers.

The financial measures of firm profitability will be obtained from the Economática® database. The return on equity (net income divided by average common stockholders' equity or ROE) will be used, because it is one of the most important and frequently used profitability financial ratios. ROE measures how much profit a company earned in comparison to the total amount of equity as reported on its balance sheet.
ROE will be measured for all the firms in our sample. Subsequently, an average ROE will be calculated for each industry. Tables and graphs will be prepared to reflect any changes more clearly and to compare more easily each industry. Finally, we will perform a statistical analysis to examine the association between the participation of females in roles of corporate governance in top management and on boards with the financial performance of Mexican firms.

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Research Agenda and Schedule

Activity	Dates
Work with data to obtain the preliminary results.	June 1 to August 31
Prepare the first draft of the paper.	September 1, 2014 to September 30, 2014
Present the paper in the 2014 Mid-year Meeting of the Diversity Section of the American Accounting Association (AAA).	October 31, 2014 to November 2, 2014
Submit the first revised draft as evidence of the research performed.	February 1, 2014
Submit the paper for publication in a peer reviewed journal such as: 1. Corporate Governance: The International Journal of Business in Society 2. Corporate Governance: An International Review 3. Review of Business and Finance Studies 4. Corporate Governance	March 31, 2014