Impact of board gender diversity on dividend payments: Evidence from some emerging economies

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1 Since 1997, more than 250 proposal have been initiated by shareholders to enhance women representation on corporate boards, among them over 30 proposals were led in 2013 alone (Marquardt and Wiedman, 2016).

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ABSTRACT
This study investigates the impact of board gender diversity on dividend payments in the context of emerging economies. Using a dataset of listed firms from India, China and Russia over the period 2007–2014, we find strong and robust evidence indicating that board gender diversity is negatively related to cash dividend payments in all emerging economies. Moreover, we find that state-ownership positively moderates the relationship between gender diversity and dividend payments. However, this effect is observed only for China and Russia. In additional analyses, we find that the negative link between board gender diversity and dividend payments is more pronounced during the financial crisis. However, the moderating role of state-ownership does not remain significant during the financial crisis.

1. Introduction

According to agency theory, managers have the opportunity to use the corporate resources in ways that benefit themselves not the shareholders (e.g., Jensen, 1986). Paying higher dividends to shareholders thus mitigates the amount of free cash available to the managers, and thereby reduces the extent of agency problems (Firth, Gao, Shen, & Zhang, 2016; Ben-Nasr, 2015). A question arises as to how a firm’s directors can be persuaded to pay higher dividends when their natural inclination is to retain excess cash. One possible way is to include people of different characteristics, backgrounds, and experiences on board who may be able to influence the overall board decisions, including those relating to dividends. Prior studies have investigated how board various characteristics such as board size (Abdelsalam, El-Masyr, & Elsegini, 2008; Van Pelt, 2013), outside directors (Al-Najjar & Hussainey, 2009; Boumosleh & Cline, 2015), CEO duality (Officer, 2006; Sawicki, 2009), and age and experience (Custodio & Metzger, 2014) influence dividend policy. However, empirical evidence on whether gender composition of boards effect dividend payouts is relatively scant. To protect their interests, shareholders along with regulatory and legislative bodies have increased their pressure on firms for greater board gender diversity in recent years. Consequently, companies have started to respond by increasing the representation of women on boards. For instance, during 2011 to 2014 the board gender diversity at UK’ FTSE 350 and US’ S & P 500 firms grew by almost 8 percent and 2.5%, respectively. In the EU, it increased to 21.2% in 2015 from 11.9 percent in 2010. The increased demand of board gender diversity has led researchers to examine the impact of board gender diversity on organizational outcomes and various aspects of management such as board supervision and monitoring (Adams & Ferreira, 2009; Carter, Simkins, & Simpson, 2003; European Commission, 2012), reporting quality (Cumming, Leung, & Rui, 2015; Francis, Hasan, Park, & Wu, 2015), firm performance (Martín-Ugedo & Mínguez-Vera, 2014); Campbell and Mínguez-Vera (2008), and earning management (Srinidhi, Gul, Tsui, 2011). A central hypothesis in this stream of literature is that concentration of women on boards leads to reduced agency problems. These includePucheta-Martínez and Bel-Oms (2016) using Spanish data; McGuinness et al. started to respond by increasing the representation of women on boards. For instance, during 2011 to 2014 the board gender diversity at UK’ FTSE 350 and US’ S & P 500 firms grew by almost 8 percent and 2.5%, respectively. In the EU, it increased to 21.2% in 2015 from 11.9 percent in 2010. The increased demand of board gender diversity has led researchers to examine the impact of board gender diversity on organizational outcomes and various aspects of management such as board supervision and monitoring (Adams & Ferreira, 2009; Carter, Simkins, & Simpson, 2003; European Commission, 2012), reporting quality (Cumming, Leung, & Rui, 2015; Francis, Hasan, Park, & Wu, 2015), firm performance (Martín-Ugedo & Mínguez-Vera, 2014); Campbell and Mínguez-Vera (2008), and earning management (Srinidhi, Gul, Tsui, 2011). A central hypothesis in this stream of literature is that concentration of women on boards leads to reduced agency problems. These includePucheta-Martínez and Bel-Oms (2016) using Spanish data; McGuinness et al.
(2015) in Chinese setting; and Jurkus, Jung, Woodard, and Lorraine (2011), Byoun (2016) and Van Pelt (2013) using US data. Findings of these studies show that presence of women on board reduces agency problem by influencing corporate cash payouts. Although these studies offer useful insights into the advancement in the related literary work however, the empirical investigations is remained focused on the developed countries and very little attention is paid to emerging markets’ firms. In particular, the regulatory environment in emerging economies is distinctly different from the developed ones which may include weak external disciplining mechanisms and high involvement of government (Beck & Levine, 2004; La Porta, Lopez-de-Silanes, Shleifer, & Vishny, 2000). The arguments on agency problems highlighted in studies of developed country could equally relevant in the context of emerging economies. Nevertheless, some of the institutional specificities of emerging markets, such as disdain for the rights of minority shareholders, government ownership, and market uncertainty could aggravate the extent of agency problems in these markets, so that mechanically extrapolating the experiences of dividend policy decisions of gender diverse boards in developed countries may not yield the necessary answers. Noticeably, these distinct market characteristics working together can have conflicting effects on board’ payout decision. On the one hand, to mitigate the agency problem of free cash flows female directors tend to pay more dividends, while at the same time, female directors are likely to be influenced by uncertainties inherent in these markets and make conservative financial decision, and consequently distribute low cash as dividend. So, we can suggest that conflicting tendencies exist in institutional setting of developing markets which may influence the effect of board gender diversity on dividend policy.

Motivated by the significance of board’s dividend payout decision in emerging economies, we analyze the impact of board gender diversity on dividend policy of firms from three emerging economies, namely, China, India and Russia. Using the dataset of 552 firms, over the period 2007–2014, our Tobit regression estimates show strong and robust evidence that board gender diversity negatively relates to cash dividend payments in all three emerging markets. This finding shows women directors’ preference for conservative approach to dividend payout due to market uncertainties and suggests that women directors make decisions according to business environment in which they operate. Thus, it can be inferred that impact of board gender diversity on payout policy is inherently context-specific. In a way, our evidence supports the substitution hypothesis, proposed by La Porta et al. (2000), by showing that firms use board gender diversity as a substitute for other monitoring mechanism such as dividend payment. Moreover, we find that state-ownership positively moderates the relationship between gender diversity and dividend payments. However, this effect is observed only for China and Russia. These results are robust to an array of sensitivity tests including alternative definitions of dividend policy and board gender diversity, different sample composition, instrumental estimation technique, and cross-country estimations. In additional analyses, we examine the effect of the 2008–2009 financial crisis on the relationship between board gender diversity and payout policy. Interestingly, our results show that the negative link between board gender diversity and dividend payouts is more pronounced during the financial crisis. However, the moderating role of state-ownership does not remain significant during financial crisis. These results also lend support to our contention that effect of board gender diversity on dividend payment is context-specific.

This article contributes to the existing literature in three important ways. Firstly, the study provides new evidence on the role of gender diverse boards from three emerging economies, India, China, and Russia. To date, evidence on the impact of board gender diversity on dividend payout policies from emerging markets is scarce. The economic and institutional features of these fast-growing emerging countries are different from the contexts in which previous board diversity studies were carried out. Therefore, a study on emerging economies is essential, because most of our understanding on the effect of women representation on boards comes from single country studies that focus on developed countries. As such this research expands our knowledge by offering new insight into how business environment affect directors’ decisions for dividend payments.

Secondly, our study adds to the gender diversity literature, which primarily presents the business case of gender diversity through investigating the impact of directors’ gender on firm performance. We provide evidence of the negative relationship between the presence of women on boards and dividend payment, which contradicts the findings of existing studies conducted in developed markets (e.g., Byoun, 2016; Pucheta-Martinez & Bel-Oms, 2016), confirms the conservative behavior of female directors caused by high institutional uncertainty and shows that women directors make decision according to business environment in which they operate. Thus, in a way, our evidence more directly contributes to the literature on the hitherto inconclusive debate over director gender and risk-taking. Off these, many studies link women director with more conservative and less risky financial decisions (e.g. Breuer, Rieger, & Soykap, 2014; Levi, Li, & Zhang, 2014; Sila, Gonzalez, & Hagendorff, 2016), while quite a few studies document a positive or no relationship between gender of the firm’s director and risk-taking (e.g. Adams & Ragunathan, 2015; Adams & Funk, 2012; Berger, Kick, & Schaeck, 2014). We contribute to this literature by confirming that women tend to be more risk averse and most importantly, the risk-taking propensity of women directors is context specific. Lastly, by showing that board gender diversity may substitute for dividend payment, we add to the contentious literature investigating if board composition substitutes or complements the dividend policy as disciplining mechanism (e.g., Al-Najjar & Hussainey, 2009; Bathala & Rao, 1995; Boumosleh & Cline, 2015; Sawicki, 2009).

This study is unfolds as follows. Section 2 presents the related literature and develops testable hypotheses. Data and research design is presented in Section 3. Section 4 presents the results. Section 5 concludes the study.

2. Literature review and hypotheses development

2.1. Agency theory

Agency theory focuses on the conflicts that occur in firms based on the contractual relations between the principal (shareholder/owner) and the agent (manager). The existence of asymmetric information between owners and managers create agency problems, which make shareholders pessimistic about future cash flows being absorbed. To mitigate such problems, agency theory suggests various mechanisms including dividend payment, utilization of leverage, managerial equity compensation, and board composition (Jensen, 1986). Agency theory seeks to explain the dividend puzzle by examining the agency relationship between managers and shareholders. It holds that dividend payouts mitigate agency conflict by depriving managers of discretionary funds which may lead them to act sub-optimally (Jiraporn, Kim, & Kim, 2011). According to Jensen (1986) dividends act as a ‘bonding’ mechanism to mitigate the agency costs stemming from the conflict between managers and shareholders. Easterbrook argues that dividend payout might also reduce agency problems by causing firms to visit capital markets more frequently for financing needs, since paying out dividends increases the likelihood of issuing new common shares which brings them under greater scrutiny of capital markets.

The agency literature recognizes that the board of directors serves as a primary monitoring mechanism to help to align the interests of managers and shareholders (Boumosleh & Cline, 2015; Bathala & Rao, 1995). La Porta et al. (2000) present two opposing arguments to elaborate the dynamics between role of board effectiveness and dividend policy. First, they predict that poorly governed firms use dividend payment as an alternative means of establishing a reputation.
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