

The Business Case for Gender and Culture Diversity on Corporate Boards

Shireenjit K Johl (Deakin) University & Larelle (Ellie) Chapple (QUT)

Research Objective

1. Examine the impact of culture / ethnic and gender diversity on a specific firm outcome, namely financial reporting (absolute abnormal accruals).
2. Examine whether Board Independence, an important corporate governance element, moderates the association between culture diversity (and gender diversity) with financial reporting quality.

Model Specification

$$FRQ = \alpha + CULDIV + GENDIV + BODIND (CULDIV*BODIND + GENDIV*BODIND) + LTA + DEBT + CURRENT + LTACC + BIG4 + AGE + MB + Industry \text{ and Year Dummies} + \epsilon$$

FRQ – Financial Reporting Quality - Absolute Abnormal Accruals – derived using the Kothari modified Jones (1991) model

CULDIV - Culture Diversity – derived using Blau index methodology

GENDIV – Gender Diversity – derived using Blau index methodology

BODIND - Board Independence – the percentage of independent directors over the total number of directors

(note: additional analyses – CULDIV is replaced with proportion of non-Anglo (NONANGLO), Europeans (EURO), Asians (ASIAN) and Others (OTH); GENDIV is replaced with proportion of Females (FEM))

Sample Description

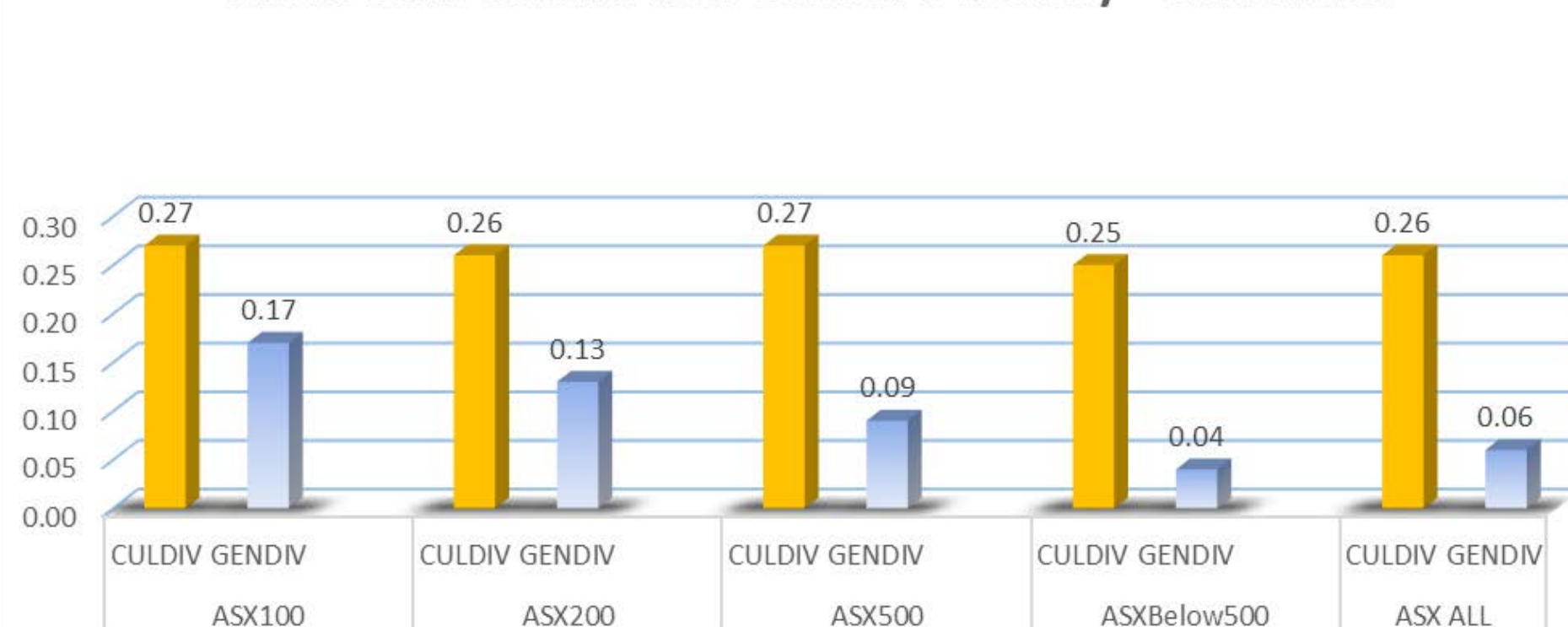
Initial sample: 75,208 director firm year observations (equivalent 10,580 firm year observations).

Database: Connect 4 Boardroom (contains list of all Australian listed firms' directors by given, middle, family names and gender from years 2004 to 2013).

Origins software - classify each firm's directors to its' most likely culture (ethnic) background based on their family, middle and given name.

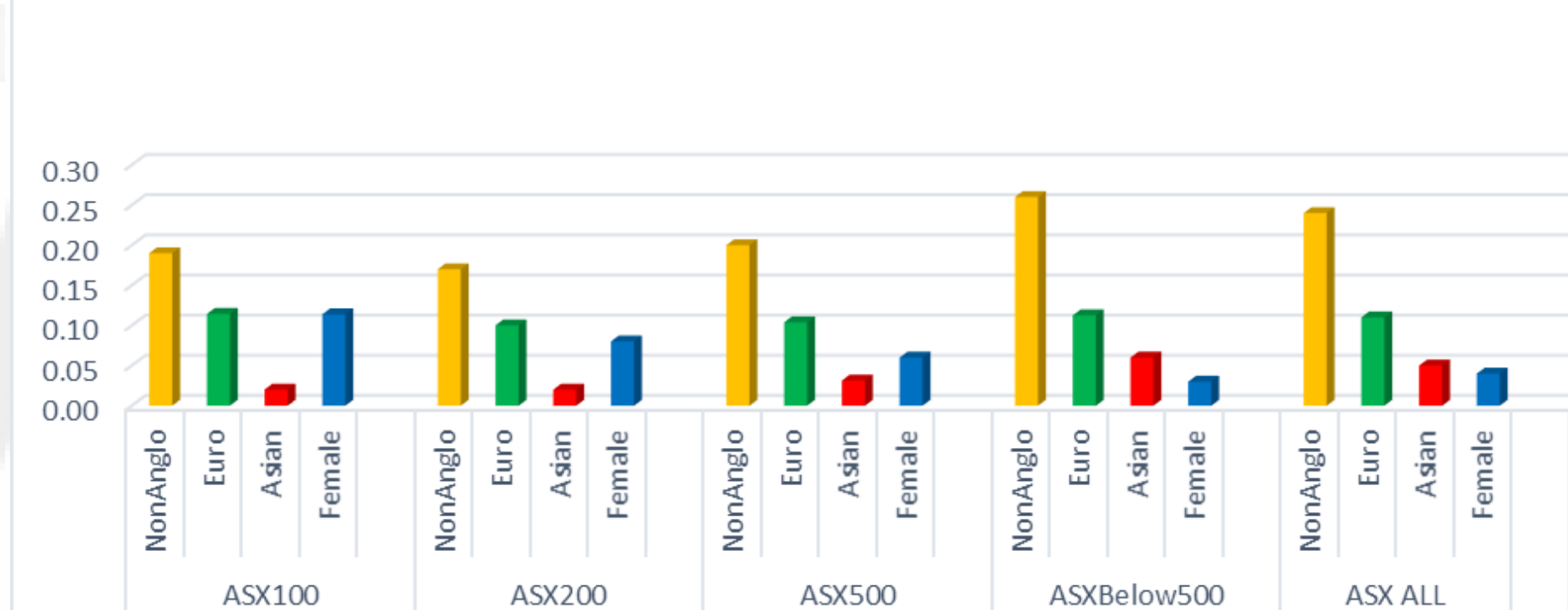
Final sample = 8,736 firm year observations (excludes finance firms).

ASX Board Culture and Gender Diversity - Blau Index



Sample Description

ASX Board Culture and Gender Representation (proportions)



Culture and Gender Board Representation: Test of Means

	PANEL 1			PANEL 2		
	ANGLO	NON-ANGLO	t-Stat	MALE	FEMALE	t-Stat
FRQ	0.08	0.08	2.12**	0.08	0.06	9.07***
BODIND	0.41	0.41	-0.56	0.39	0.51	-15.35***
LTA	10.58	10.97	-8.42***	10.50	12.20	-31.82***
DEBT	0.11	0.12	-3.56***	0.10	0.16	-13.44***
CURRENT	7.52	6.05	5.68***	7.16	4.23	9.45***
LAGE	2.25	2.32	-3.63***	2.25	2.47	-9.67***
LOSS	0.61	0.56	4.48***	0.62	0.40	17.27***
BIG4	0.48	0.51	-2.30**	0.45	0.69	-17.65***

Multivariate Analyses Findings

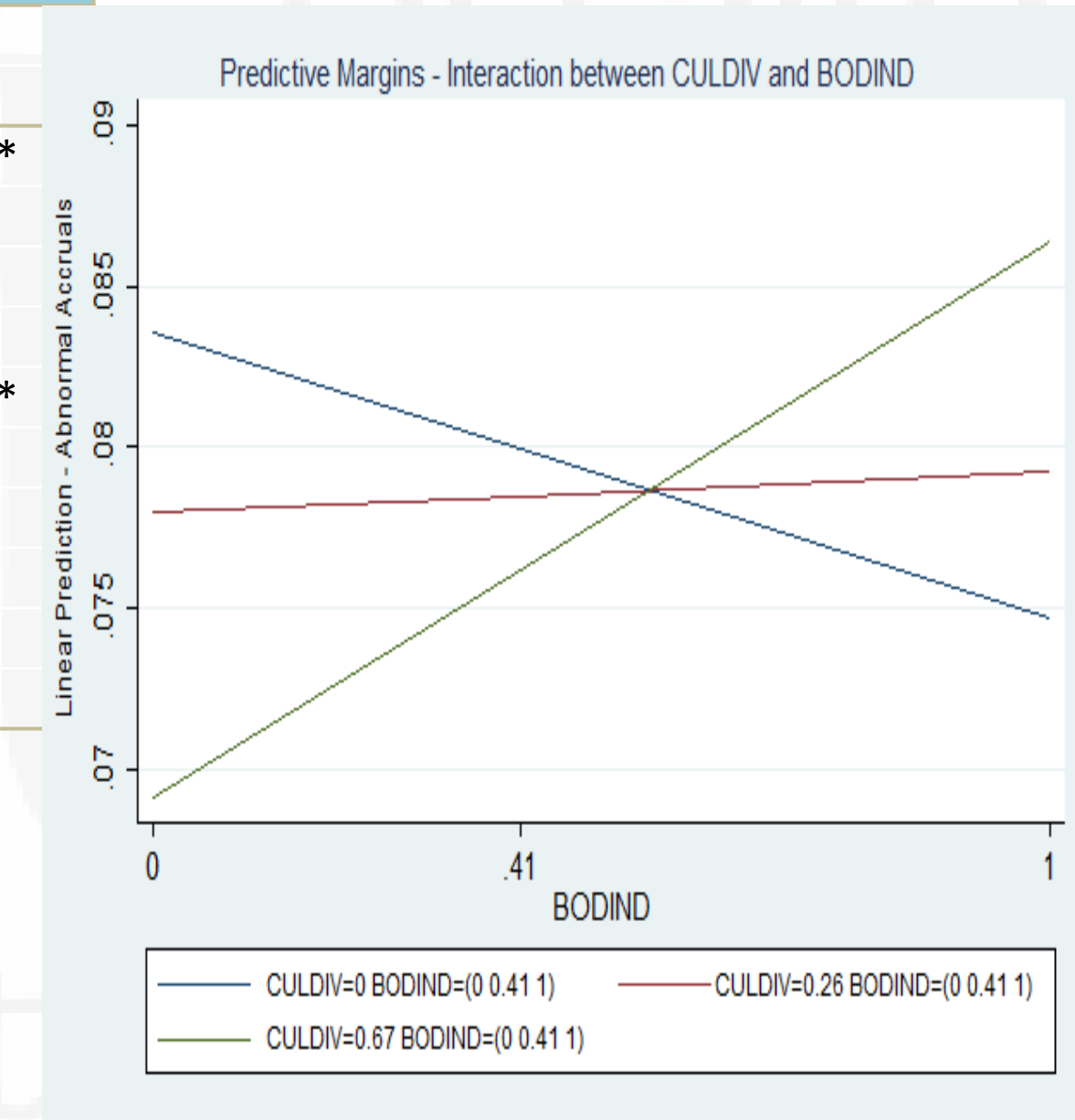
Fixed Effect Panel Regression: Culture and Gender Diversity with Financial Reporting Quality (Absolute Abnormal Accruals)

	1	2	3
	Coeff t stat	Coeff t stat	Coeff t stat
CULDIV	-0.016** (-2.312)		
GENDIV	-0.006 (-0.468)		
NONCAUCASIAN		0.017* (-1.875)	
ANGLO			-0.020* (-1.720)
EURO			-0.035** (-2.498)
ASIAN			-0.013 (-0.812)
FEM		0.001 -0.074	0.003 -0.179

Multivariate Analyses Findings

Fixed Effect Panel Regression: Board Interaction Effects

	Coeff t stat
CULDIV	-0.032*** (-3.39)
GENDIV	-0.001 (-0.017)
BODIND	-0.019*** (-3.05)
CULDIV##BODIND	0.04** -2.32
GENDIV##BODIND	-0.007 (-0.27)



Robustness Tests

- Propensity score matching – results are consistent but more refinement to undertake.
- Used different abnormal accruals estimations– results are broadly similar
- Tested by income-increasing and income-decreasing abnormal accruals and results persist.
- Replaced culture and gender proportions variables with dummy variables (of at least one board member) and results are consistent.

Conclusion

- Our findings show that Culture (rather than Gender) Diversity matters and in particular it lowers abnormal accruals indicating enhanced financial reporting quality.
- The results can be interpreted that culturally diverse boards improves decision making and monitoring. One potential reason for this result is that these boards are more creative and have a broader range of inputs from different perspectives. Minorities on these boards are also concern over their reputation and thus takes on their role seriously.

Contact Details:
Associate Professor Shireenjit Johl
shireenjit.johl@deakin.edu.au
03-925 17360

