

THE IMPACT OF GENDER DIVERSITY ON BANKING SYSTEMS' PROFITABILITY

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ABSTRACT

The main objective of this research is to present the concept of diversity, taking into account the most relevant studies in the field. Considering the fact that gender diversity proved to be a smart strategy business that increasingly more companies are beginning to prioritize to generate higher returns, we will examine the gender diversity in banks' boards of directors to identify the impact on performance.

Thus, through this research, the authors aim to provide answers to the question: Can the top component of the management of an organization (especially in the banking system) affect performance and financial results?

The research methodology used is mainly qualitative, identifying cause-effect connections and differences between women and men in terms of top management. Although progress has been made over time, inequity between women and men still persists, including in the labour market. On average, women from the European Union are being paid less than men.

KEYWORDS: *banking system, corporate culture, diversity, firm performance, human resource.*

1. INTRODUCTION

Over the years, many specialized studies have brought in the foreground the concept of diversity, in this case the impact of gender diversity in the top component of organizational management. The global economic crisis from 2007-2009, which affected the entire economy, but especially the banking system, has led to an increase in the degree of regulation of corporate governance processes and systems in this area.

Not long ago the gender diversity (promoting gender equality) was seen as a social problem inside the administrative board, now is seen more like a "value-driver" in the context of organizational strategy and corporate governance, based on various arguments (Terjesen, 2009).

According to the (European Statistical System, 2009), women represent 51% of the total population of Europe, while the men represent 49%. Also, the country which has the biggest percentage of women compared to men is Latvia with 54% women and 46% men, in contrast with Malta with 49% women and 51% men.

At UE-27 level, the gender gap in employment has diminished compared with 2005, but the employment rate in 2019 was still bigger for men than for women by 11.7%, according to the same source.

From the 51% of the total population, just 11% are on the management boards and only 4% of the richest people in the world.

Questions about the differences between women and men regarding the leadership receive two opposite types of answers: one that supports the existence of some fundamental differences (the most popular opinion) and another that promotes the similarity of leadership styles. Both points of

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view have strong arguments, but by far the first option receives the strongest support from specialists.

2. DIFFERENT PERSPECTIVES ON DIVERSITY

Diversity represents an important element of the organizational cultures` adaptability in volatile environments (Sørensen, 2002). Thus, regarding worldwide geopolitical and macroeconomic context we can say that all capital markets, but especially emerging ones, describe a highly volatile environment.

A big number of concept taxonomies for diversity have been defined to serve research purposes. Jackson et al. (1995) were cataloguing the diversity based on the attributes oriented towards the task or relations, as well as detectable or latent attributes.

Diversity which doesn't have a direct influence on the organizational performance, is oriented towards relations which follow gender, race, ethnicity etc. The diversity oriented towards tasks shows attributes which are related to knowledge, abilities, skills required for the workplace. (activity, occupation, education etc.)

The argument, which underlies the individual results as a consequence of the effects of diversity is the one according to which the similarity of some visible and relative immutable traits influence the feelings of identification.

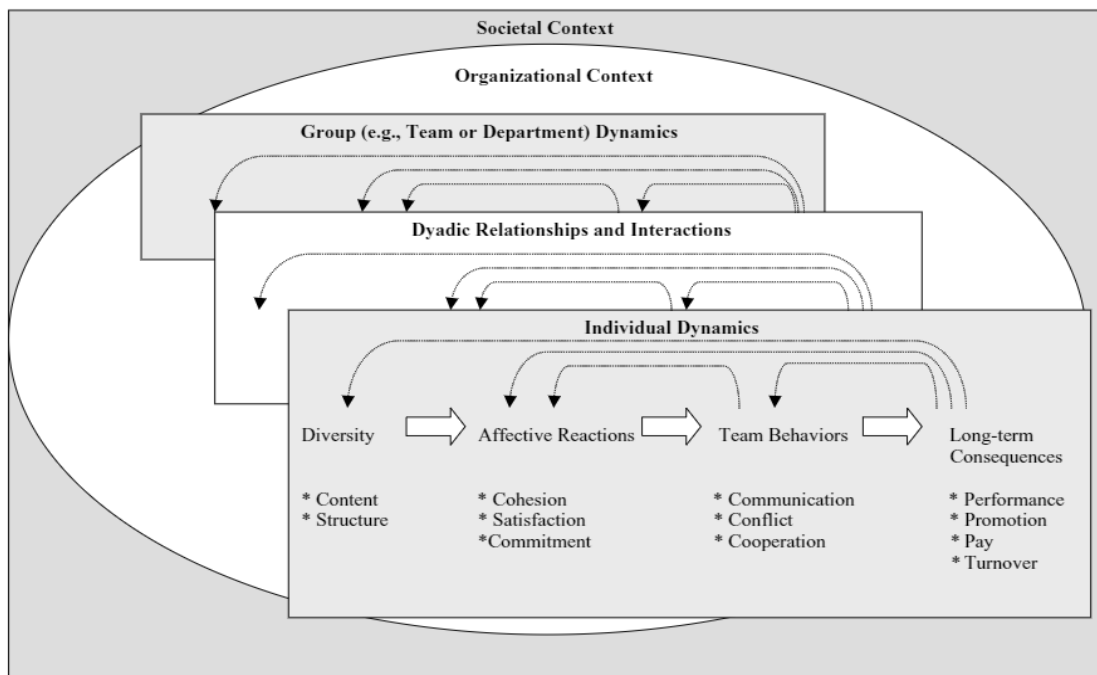


Figure 1. Graphic representation of the dynamics of processes in an organization due to diversity

Source: Jackson et al. (2003)

Extrapolating the logical thread of the attitudinal and behavioral theories at the individual level, scientists have found a strong theoretical reasoning to be able to anticipate how the diversity can have impact on social processes within teams and organizations.

Researchers who study the management teams argue that diversity based on detectable aspects (age, sex, race, ethnicity) reflect the cognitive diversity, which in their turn have a direct impact on the team decision processes and organizational performance.

At the micro-level, Joshi & Roh (2009) have conducted a meta-analysis regarding the links between recorded team performances and contextual factors (age, occupation, gender etc.) on a sample of 8.757 of analysed groups in 39 studies which took place between 1992 – 2008. The research measures team performance (financial and operational) with the help of some indicators like quality/quantity of the product, team innovation, evaluations of the performance/effectiveness of the team and self-assessments by the team members. They have shown that, when considering the relationship between all types of diversity (meaning the destruction of the difference between relations and tasks orientated) and performance, the direct effect of diversity on the performance is essentially zero.

The attributes of diversity oriented towards relations like gender, race, ethnicity, age had very little, although significantly negative effects on team's performance. Although functional diversity had a substantial positive effect, other forms of task-oriented diversity (meaning educations and tenure) also had very small effects on team's performance, Adams & Ferreira (2009) have studied the impact of gender diversity on governance and performance using a sample of 86.714 management boards of 1.939 firms listed by the rating agency of Standard and Poor's in between 1996 to 2003. The research consisted in the fact that in the years in which the firms had women in their boards, the firms were larger (from the standpoint of employees' number), had more business sectors (a more diversified market), had poorer performances regarding Tobin's Q (it can be affected by the speculations – an effect of the discriminations – but can also be affected by the intellectual capital which cannot be measured – knowledge, technology etc), but had better performances in terms of return on investment (ROA), had lower volatility and bigger boards compared with the firms with no women.

They determined the fact that diversity has a positive impact on the company's performance, but has a weak corporate governance style in terms of exposure and resistance to hostile takeovers. The research also determined that some companies which registered weak governance characteristics, but in these cases the shareholding value was decreasing. However, there has not been determined a correlation between the number of women in a firm and the performance of the organizations and those correlations were categorized as complex.

The study conducted by Farrell & Hersch (2005) on a sample of about 309 companies listed in the top Fortune 1000 from 1990 to 1999 determined that the number of women in the management of an organization was constantly growing (1990 – an average of 5.6%; 1999 – an average of 12.26%), as well as the fact that over 85% of the analyzed entities have at least one representative of the female gender in the management structure. Moreover, the authors found that better performing organizations have a higher representation of women in the command structures, but no correlation was found between the variation in the number of women (adding or subtracting them) and the company's performance (ROA). Thus, it was concluded that in the case of the sample studied, gender diversity is not a strategy to improve the financial results of the organization.

However, Miller & Triana (2009) which analyzes 326 firms listed in the top "Fortune 500" between 2002 and 2005 observe that the gender diversity but also the racial diversity are positively related to innovation in terms of research and development spending. Furthermore, they have determined that innovation is a mediator between racial diversity at the management level and the company's performance. Therefore, they conclude with a theory that gender and racial diversity (proxy for decision-making capacity) have a direct impact on innovation, but also that racial diversity has a positive correlation with the company's reputation.

It was found, using the method *Caeteris paribus*, that a company generates on average by a percentage more economic value (or over 40 million US dollar) if it has at least one woman in the board, than if it had no female representation, but also the fact that these organizations have a better accounting performance. These findings were made by Dezs & Ross (2012) who studied 1.500 firms listed by the American rating agency Standard and Poor's between 1992 to 2006, Herring (2009) conducted a study whose results supported the working hypothesis according to which the

diversity is associated with increased revenues from sales, more clients, higher market shares and higher relative profits.

In the research, Joy et al. (2004) on a sample of 350 companies from the top 500 Forbes is being pointed out the importance of gender diversity in companies. Specifically, after the analysis of financial indicators of the firms and the level of gender diversity, the researchers have determined that there is a link between the level of diversity (number of women from the management board) and the financial results of the firm, between companies which register the lowest rate respectively the highest rate of gender diversity. There is thus a difference of more than 35 percentage points in the rate of return on equity (ROE), as well as a difference of 34 percentage points in the case of total return (TRS), diversity being a factor in the growth of the main indicators.

Making a deduction based on previous studies we can say that diversity an increasingly central concept in organizational policies and strategies after 1990, with the development of the concept of globalization. Studies have not yet been able to establish empirically the direct effects of increasing diversity in organizations, but as in most theories, two clusters can be distinguished – adherents of theory and conservatives.

3. THE PLACE OF GENDER DIVERSITY IN THE STRATEGY OF BANKING INSTITUTIONS

Taking into account the main economic objective of an organization – the creation of profit – the present study aims to analyze the impact of gender diversity on banks that have the important role of facilitating good governance on the firm level, as a creditor but as shareholder also (Caprio & Levine, 2002).

The lack of gender diversity in banking institutions is a constant problem that will not improve significantly without modern and sustained policies.

Therefore, gender diversity has become a topic of great importance worldwide in recent years, being supported by much research and study. Diversity forms values, and in turn, over time, they determine the future. Good governance is often a guarantee for strong organizational evolution, and a gender-balanced company is more likely to perform, to have a deep understanding of the risks in order to reduce them and increase profitability. A diverse team will help make better decisions and ultimately better financial results.

As a result of the global economic crisis, there has been a significant increase in the level of harmonization and regulation of corporate governance processes and systems, at the level of banking companies. Therefore, banks can contribute not only to ensuring the proper functioning of non-financial companies, but also to promoting a policy of efficient allocation of financial resources in all sectors of the economy.

Continuing the analysis of the literature, we can conclude that by promoting a policy regarding the development and growth of diversity within an organization, an advantage is gained in the perspective of developing and approach of some areas unknown to leaders. It has been shown by Smith et al. (2003) that diversity is a long-term gain. Moreover, the promotion of diversity in an organization directly leads to a decrease in the level of discrimination, so implicitly prevents the occurrence of prejudices, while limiting stereotypes.



Figure 2. The share of women in management positions in the central banks of the European Union countries in 2019 (%)

Source: European Institute for Gender Equality

According to this analysis based on data published by the European Institute for Gender Equality (EIGE), the highest weights are recorded in Spain (60%), followed by Bulgaria (56%) and then France (45%). The EU28 average is 26%. Romania has a lower value than the European average, so that only 11% of the management positions of the National Bank of Romania are held by women. One of the reasons why women are underrepresented can be determined by the fact that they have a predisposition to develop in areas where soft skills are predominantly used, while men have more practical, more technical features, tending to occupations that require a high degree of accuracy. However, gender diversity in the banking field is also supported by the NBR Regulation no. 5/2013 on prudential requirements for credit institutions specifying that credit institutions must establish a policy to promote this type of diversity within the governing body.

In the following we will perform an analysis of the eight most important banking institutions in Romania (depending on the volume of assets) to determine the links between gender diversity and the financial results of the entities studied.

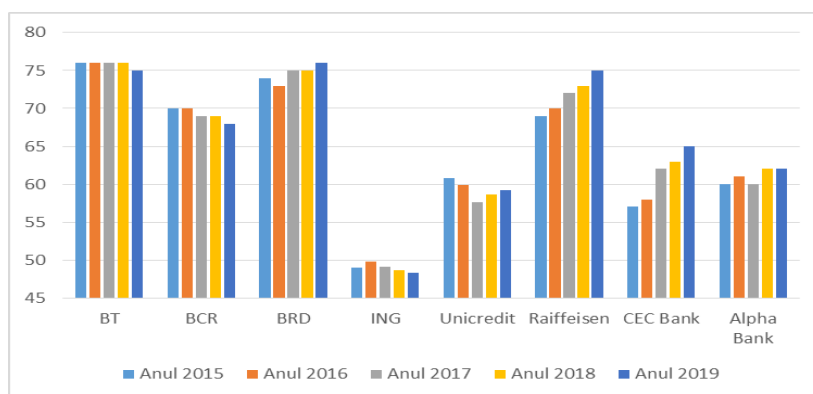


Figure 3. The evolution of women in the total number of employees in the largest banking institutions in Romania in the period 2015-2019 (%)

Source: own processing

From the analysis of figure 3 we can see that in 2019 the highest value was reported by BRD which reached the threshold of 76% women in total employees. In previous years the highest values were reported by BT having the same value of 76%. In this sense, we can determine that BRD has one of the largest increases in terms of reported annual profit (an increase of over 340% between 2015 and

2019), but also in the case of the net cost of risk (a decrease in net risk of more than 65% in the same temporary spread).

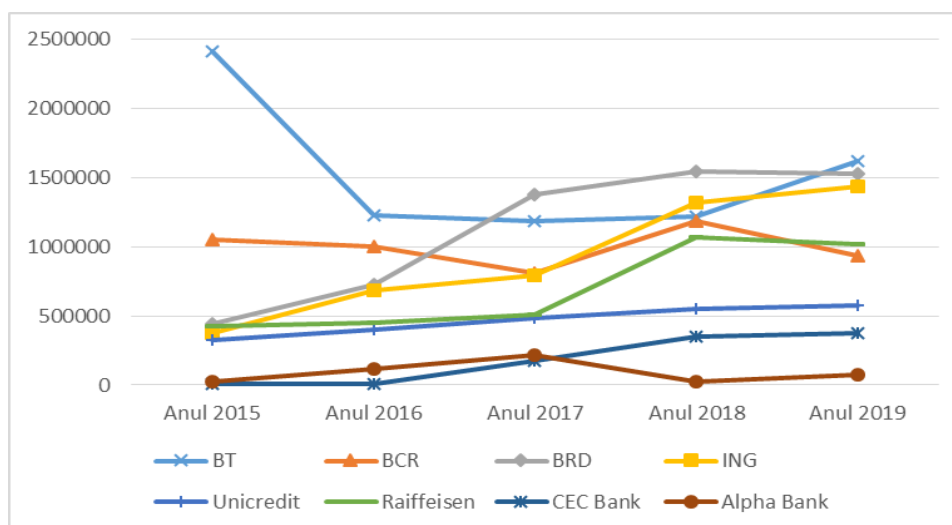


Figure 4. Evolution of the annual profit of the largest banking institutions in Romania in the period 2015-2019 (thousand RON)
 Source: own processing

In the following we have drawn a parallel between the relative increases of the reported annual profit and the net cost of risk for all 8 banking institutions. Thus, we determined that after BRD, the next bank that performed very well is ING. At the end of 2019, it reported a profit higher by approximately 380% compared to the value reported in 2015 and in the case of the net cost of risk it decreased by over 58% compared to the value reported in 2015.

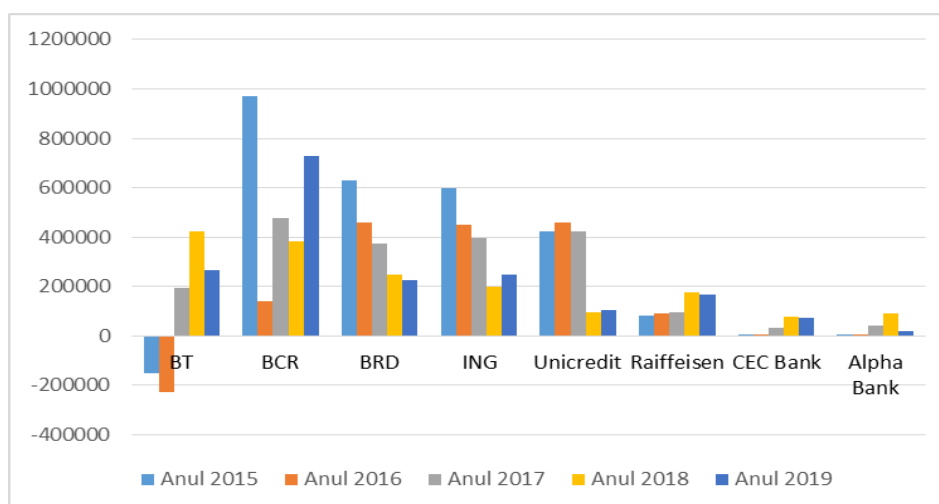


Figure 5. Evolution of the net cost of risk of the largest banking institutions in Romania in the period 2015-2019 (thousand RON)
 Source: own processing

The changes were also felt in Romania, where more and more women take the lead every year and manage to maintain a healthy balance between professional and personal life. A study conducted by Andrieş et al. (2017) on the banking industry, taking into account 122 commercial banks from 17 countries in Central and Eastern Europe, analyzed in the period 2005-2012 and a total of 56 factors highlights the fact that the presence of women in the management

structures of banks has a positive impact on both cost reduction and technical efficiency - a measure that describes how capable a bank is of turning its resources into financial results. At the level of the studied countries, the average showed a presence of 14% of women in the management commissions of the banks.

Given that diversity can generate both positive and harmful elements at the micro level (internal fights, misunderstandings, tension), inside the organization all the effects of diversity can become a boost regarding the development and increase of the entity's capacity to cope with possible changes in the market. Tiliuță & Diaconu (2020) are pointing out the fact that in order to generate a correct approach to decisions in the management of an organization in order to increase the results obtained, it is essential to adapt and develop information communication skills (market and internal), but also to analysis and assimilation of these in a right way. Therefore, diversity within banking organizations has an important role not only for the fruition of financial premises but also for insurance and sufficient allocation of resources in areas of need.

The quick changes in the spheres of influence of the organization that characterize the period of transition between the era of technology and the era of information in combination with the lack of reaction regarding the terms of awareness by decision makers of the importance of this change / adaptation of the organizational culture place a special emphasis on the need to determine some models to follow in order to facilitate the management activities and to optimize / maximize the results related to the coordinated entities.

3. CONCLUSIONS

The involvement of women in the highest levels of management should be considered an accomplishment regardless the company, its size, or the sector of activity. Having a voice that matters, as a woman, in a business environment changes the dynamics, reshapes the conversation and paves the way for a better and stronger world.

In order to answer the research question, a series of specific activities were carried out, so we can state that the top management of a firm can generate positive changes not only in internal performance but also to final results of this entity. Gender diversity has proved to be the defining element that can generate a fast change of vision and orientation of organizational culture at managing level. Thus, through the application of soft practices determined through a hard type approach – changing the board and introducing within it one or more female members, the organization might get stronger valances to ensure its development and a sustainable growth on the economic and financial market.

Following the analysis conducted on the eight largest banking institutions in Romania in the period 2015 – 2019 we can conclude that gender diversity within these entities is still growing and is supported by the National Bank of Romania. Moreover, there is an improvement in financial results for banks with the highest share of employed women.

Thus, by promoting gender diversity in the Romanian banking system, the gap between the European average and the values achieved so far by our country can be reduced, taking into account especially the fact that we have a history with a broad feminist inclination determined by involvement and determination. The first lady of Romania in social, economic and academic life in the pre-December era.

The lack of gender diversity in the financial institutions is a constant problem which will not improve significantly without modern and sustained policies. In this context, we can recall the urging of the President of the European Central Bank (ECB), Christine Lagarde, a representative female voice at European level: “Do you want a stronger economy? Give women more opportunities!”

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