Gender diversity and financial performance of Islamic banks

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Abstract

Purpose – The purpose of this paper is to examine the influence of gender diversity among the board of directors (BOD) and Shariah supervisory board (SSB) members on the financial performance of Islamic banks in Indonesia and Malaysia.

Design/methodology/approach – Data for a sample of 19 Islamic banks for the period 2010–2018 were collected to test the research hypotheses using pooled ordinary least squares estimation method. Generalized least squares estimation method was used to confirm that the results are robust. This study lagged the explanatory variables by one period to control for potential endogeneity.

Findings – The findings suggest that Islamic banks with more gender-diverse BOD and SSB are expected to have better financial performance. In addition, this paper finds that an increase in Islamic banks’ size may undermine the positive impact of gender diversity among SSB members on Islamic banks’ financial performance.

Research limitations/implications – This study was conducted only on Islamic banks in Indonesia and Malaysia owing to data constraints; thus, the results may not be generalizable to Islamic banks in other countries.

Practical implications – Improving financial performance is crucial for banks, especially for Islamic banks, to sustain their fast-growing share globally. Therefore, the findings of this study are expected to provide insight and understanding in the selection and appointment of BOD and SSB members at Islamic banks.

Social implications – By having women represented in the BOD and SSB, Islamic banks will benefit equally from valuable abilities across demographic groups in the society. Furthermore, if the members of the BOD and SSB are properly selected, Islamic banks with more gender-diverse boards can effectively contribute to enhancing social welfare of various segments in the society.

Originality/value – This is the first study, as far as is known to the authors, that provides empirical evidence on the influence of gender diversity among BOD and SSB members on the financial performance of Islamic banks. This paper is expected to be used as a reference by the shareholders and customers of Islamic banks in ensuring that the BOD and SSB have the best optimal composition that maximizes their profits.

Keywords Malaysia, Diversity, Indonesia, Islamic banks, SSB, BOD

Paper type Research paper

1. Introduction

Financial researchers have long been interested in the factors that explain the differences in the financial performance of banks (Akhigbe et al., 2013). An extensive body of literature has focused on the relationship between the board of directors (BOD) and firm performance. Gender diversity among board members has gained increasing attention in recent years among both academics and policymakers (Amaboldi et al., 2020). Since 2008, six European countries have adopted binding quotas to promote gender diversity in corporate boards (Bernile et al., 2018). In the case of Asian countries, the representation of women in corporate boardrooms has remained limited, mainly owing to the cultural differences (Lee-Kuen et al., 2017). However, it is still unclear whether gender diversity improves firm performance. Board gender diversity might sustain improvement if there is evidence that gender diversity brings economic returns (Ali et al., 2014).