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BOARD MEMBERS' AGE, GENDER DIVERSITY AND FIRM PERFORMANCE, PROPOSING CONCEPTUAL FRAMEWORK

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ABSTRACT

This paper proposes a conceptual framework to investigate the relationship between board diversity, in terms of gender diversity and members' age, and the firm performance measured by return on assets and Tobin’s Q in shareholding firms listed in Amman stock exchange. Previous studies focused on the importance of board diversity in enhancing and improving the firms' performance by supported the board of directors by younger directors with make balance with older directors. Also, previous studies pointed out that the younger directors have the courage to take bravery decisions. Regarding gender diversity, previous studies argued that the presence of women at board of directors may influence firm performance. Also, the women directors can introduce new skills, new ideas and enhancing the firms' performance.

Keywords: Board of directors, average age, gender diversity and firm performance.

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INTRODUCTION

In recent years, demographic characteristics of boards of director's members have received major attention in corporate governance research. Because the shareholders, investors and stakeholders have pressured firms increasingly to appoint directors with diverse backgrounds in terms of their expertise and professionalism, to ensure that the board is protecting their interests.

Board of directors plays a significant role in monitoring the firm, such as monitor the compensation system and supervises on the firm's wealth. Also, board of directors is a responsible in identifying strategic direction and improving the decision making (Hambrick & Mason, 1984). Jordanian corporate governance code explained that the board's members should possess numerous of demographic characteristics, such as education, experience, and appropriate qualifications to be able to achieve the firm's objectives (JCGC, 2008).

The demographic characteristics divided for numerous categories such, age, gender, education, expertise, nationality and etc. These characteristics called observable qualities. This paper focuses on the directors' average age and gender diversity and their relationship on firm performance.

LITERATURE REVIEW

In previous literature there are limited studies focused on the relationship between directors' demographics characteristics and firms' performance. Most of previous studies focused on the relationship between the top management characteristics and firms' performance.

In 1984, Hambrick and Manson developed upper echelon theory based on an assumption that the top management team accounts for what happens to an organization (Hambrick & Mason, 1984). They argued that top management's characteristics such as (demographic) influence the decisions that they make. It occurs because demographic characteristics (age, education level, expertise and etc.) are associated with many cognitive bases, values and perceptions that influence the decision making of top management (Marimuthu & Kolandaisamy, 2009).

Hambrick and Mason (1984) pointed out that the upper echelon characteristics (including both psychological characteristics such as behaviors and values) and (observable characteristics including age, gender, educational level and number of directorships) affects organization performance. Also, Goll and Rasheed (2005) argued that the demographic characteristics of top management affects organizational performance by affecting the decision process.

According to Williams et al. (2005) this theory is more appropriate with top management team research to study the relationship between management team and organizational outcomes such as employee's commitment, job involvement and firm performance. Where the board of directors considers a part of top management team. So, this theory used widely in corporate governance research (Hambrick & Mason, 1984). So, this theory used widely in corporate governance research (Hambrick & Mason, 1984). Carpenter et al. (2004) pointed out that the directors is responsible in the decision making process, so the directors' demographic characteristics should reflect their behavior, and also can affect in information processing and then effect on the firm performance.

Previous studies mentioned to the effect of directors' demographic characteristics on firm performance. These studies focused on numerous of directors demographic, such as age, level education, gender, tenure, qualifications, expertise and other characteristics.

Regarding to age diversity, Horvath and Spirollari (2012) argued that younger members are probably willing to bear more risk and to undertake major structural changes to improve firm's future prospects. Also, younger managers are more inclined to carry out risky strategies, and firms with young managers will experience higher growth than their counterparts with older managers (Hambrick & Mason, 1984).

Ford (1992) explained that the board of director's members should not be too young because the elder members with several years of experience will perform better than very young and inexperienced candidates and he is recommended that the relevant age of directors be between 30 and 60 years. In contrast, older directors may have less physical and mental stamina. So, they are less able to absorption new ideas and learn new behaviors (Koufopoulos et al., 2008).

Although gender diversity becoming an emerging issue in the corporate world, but till now women representation on the board of directors is generally low (Julizaermaa & Sori, 2012). Previous literature explained the importance

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of the presence of women members on the firm's board of directors. Because the diversity among men and women in the board of directors may lead to a diversified team of professionals and experiences and helping the board to fulfilling its responsibilities in representing shareholders' interests(Yasser, 2012).

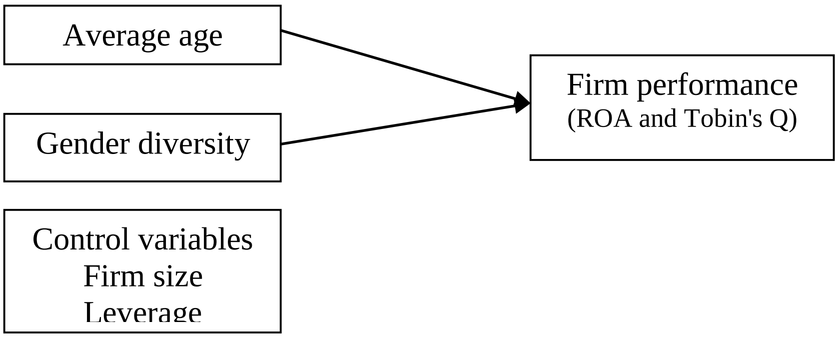
Carter et al. (2002) argued that board diversity may increase the independence of the board as women have more tendencies to ask questions that would not be asked by men directors. Adams and Ferreira (2009) found a significant positive relation between gender diversity and return on assets, which is consistent with the univariate test result that higher gender diversity in top management is positively associated with higher levels of firm performance. Women directors can introduce new skills and new ideas and contribute positively to the firm(Singh & Vinnicombe, 2003). Also, presence of women in firm's director's board can contribute in enhancing and improvement the firm's performance (Campbell & Mínguez-Vera, 2008; Julizaermaa & Sori, 2012).

Smith et al. (2006) argued that the women directors have better understand the market conditions, and this achieves greater of creativity and quality when the decision making. And existence of women in the board may create a better general picture, and this is reflected on the firm's performance.

CONCEPTUAL FRAMEWORK AND HYPOTHESES

This study aimed to investigate in the relationship between the board of director's diversity (age and gender) and firm performance. Figure 1 explains the proposing relationship between board of director's diversity and its effect on firms' performance.

Figure 1 the relationship between board of director's diversity and firm performance



AVERAGE AGE AND FIRM PERFORMANCE

Since a long time, researchers have interested in studying the effect of directors' age on firm performance. Older managers are more likely to avoid risky decisions(Child, 1974; Vroom & Pahl, 1971). Hambrick and Mason (1984) argued that young managers are more inclined to carry out risky strategies, and firms with young managers will experience higher growth than their counterparts with older managers.

In China, Chenga et al. (2010) pointed out that the older chairmen have significant impacts on some performance measures, namely ROA, cumulative returns, and abnormal returns. In Turkish firms the age hasn't significant impact on Tobin’s q, but has sugnificant influence on return on equity (ROE) (Ararat et al., 2010).

Nakano and Nguyen (2011) examined the effect of board age on firm performance in Japanese firms. They found a significant negative relationship, but after using firm size as a controlling variable they found that the age is more significant, consistent with the notion that older directors are more likely to retain their positions in strongly performing firms. Using a sample of 169 of Indonesian listed firms, Darmadi (2011) found that the proportion of

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young members is positively related to firm performance, also, the study provided evidence that young people in the boardrooms are associated with improved firm performance.

Letting et al. (2012) examined the relationship between Board diversity and financial performance of firms listed in the Nairobi Stock Exchange the study covered 40 firms and the questionnaire is developed. By using the Ordinary Least Squares (OLS) regression, the study found that there is a significant positive relationship exists between ROA and age of director's members. Mahadeo et al. (2012) examined the key elements of board diversity and its influence on financial performance in an emerging economy; they found a positive association between age different age groups on board and company performance.

By used a sample of 90 Nigerian firms in period 2010-2012, Akpan and Amran (2014) examined the relationship between board characteristics and company performance measured by turnover. They found that there is no relationship between board age and firm performance. Eulerich et al. (2014) they studied the relationship between diversity within management boards and firm performance in the German firms, this study included 149 firms for the period of 2009-2011. They found negative effects for the relationship between the age and firm performance. Due to large age differences which may alleviate decision-making processes. According to the above discussion. The researchers develop the following hypothesis:

H1: There is a positive relationship between age diversity of the board members and firm performance.

GENDER DIVERSITY AND FIRM PERFORMANCE

Gender diversity has fast becoming an emerging issue in the corporate world (Julizaermaa & Sori, 2012). Omar and Davidson (2001) argued that the dramatic increase in number of women pursuing managerial careers, but women representation on the board of directors is generally low. According to Carter et al. (2002) argued that board diversity may increase the independence of the board as women have more tendencies to ask questions that would not be asked by men directors.

Singh and Vinnicombe (2003) Women directors can introduce new skills and new ideas and contribute positively to the firm. Also, presence of women in firm's director's board can contribute in enhancing and improvement the firm's performance (Campbell & Mínguez-Vera, 2008; Julizaermaa & Sori, 2012). Also, Agrawal and Knoeber (2000) pointed out that the women directors with board positions leads to bring different advantages and benefits, such as collaborative skills.

Adams and Ferreira (2009) found a significant positive relation between gender diversity and return on assets, which is consistent with the univariate test result that higher gender diversity in top management is positively associated with higher levels of firm performance. According to Ararat et al. (2010) they focus on the relationship between board diversity and the board’s monitoring intensity, on the one hand, and monitoring intensity and Turkish firm performance. they found a positive relationship between gender diversity and firm performance.

Lu¨ckerath-Rovers (2011) studied the financial performance of Dutch firms both with and without women on their boards; the study included 99 Dutch firms. The study found that firms with women directors perform better than those without women on their boards. Another study to Lu¨ckerath-Rovers in 2010, this study included France, Germany, Spain, the Netherlands and the United Kingdom. In Pakistan firms there is no significant relationship between board gender diversity and firm performance measured as economic value added (Yasser, 2012) .

In Malaysia, the government has established a goal of 30 percent female board membership (Azmi & Barrett, 2014). Abdullah et al. (2012) argued that women have a distinctive managerial style. Thus, there is a positive and significant relationship between the presence of women directors and Malaysian firms’ performance as measured by ROA. Dobbin and Jung (2011) they examined whether the existence of women directors in the Board affects firm's performance. They found that firms with more women in the board of directors don't affect on the firm's profits or losses.

According to the above discussion, the researchers develop the following hypothesis:

H2: There is a positive relationship between gender diversity of the board members and firm performance.

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CONCLUSION

The effects of board diversity on firms' performance are not well clear till now, but several of previous studies begins with the assumption that board diversity should effect on firms' performance. This paper proposed two of board's diversity forms namely, boards of director's members' age and gender diversity.

This paper aimed to review the previous studies that examined the relationship between directors' age, gender diversity and firms' performance. Also, the paper sought for proposed a model to study these relationships in Jordanian firms. The directors' age diversity plays an important role in determine its relationship with firm performance. Younger members are probably willing to bear more risk and to undertake major structural changes to improve firm's future prospects. Also, younger managers are more inclined to carry out risky strategies, and firms with young managers will experience higher growth than their counterparts with older managers.

The previous results between presences of women in board of directors and firms' performance still mixed and interested to study, where women directors can introduce new skills, new ideas and enhancing the firms' performance.

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