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Women Leadership, Bank Conduct and Performance

Study of New Generation Private Banks in India[1]

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12.1. Introduction

Women leadership in business has been for some time now a topic of immense discussion and debate. Despite the celebration of women leadership in many small and large corporations, their presence is still much lower than desired. The UN SSE Market Monitor 2024, a report prepared by the International Finance Corporation (IFC) found that on average, women hold 23% of board seats, 8% of board chair, 5% of CEO and 12% of CFO positions across the G20 markets. Tyrowicz et al. (2020) found from study of more than 20 million public and private firms over two decades, across 41 advanced and emerging European economies that while gender board diversity has increased, women were rare in boards of firms in Europe. Approximately 70% firms have no women directors on their supervisory boards, and 60% have no women directors on management boards. The lack of sufficient representation of women in leadership positions emphasizes the underlying historical prevalence of male domination and gender gap in employment and income in most industry sectors.

As per the statistics of the International Labor Organization, the global banking sector can be considered to be somewhat women dominated with around 55% of tellers and clerks being women. However, the strength of women employees' simply wanes away as their numbers decline sharply to around 23% in executive and leadership positions (Equileap, 2023).

In India, companies in non-banking sectors have begun to embrace gender diversity and as per the Companies Act (2013), depending upon certain criteria of type and size, are required to have at least one woman as director on their board. In response, within one year, the percentage of listed firms without women on board reduced from 53% to less than 10 % (Sahay et al., 2017a). The same, however, does not seem to be the case with banks. Women hold a minority position in boards of many banks and financial institutions. An IMF study (Sahay et al., 2017b) reports that women occupied less than 2% of bank CEOs positions, and less than 20% of the board seats in more than 80% of the observations across banks over time. While several academic literatures point out that women in leadership and board positions positively contribute to a bank's performance, there have been reports of misconduct and governance lapses related to women leaders. Therefore, the relationship between women leadership, bank conduct and performance can be said to be heterogenous and uncertain. A sense of tokenism in having women in leadership positions has been discerned.

This chapter reports findings from a study on the impact of women leadership on bank conduct and performance as observed in a sample of new generation private banks in India. Section 12.2 describes the potential role of women leadership in board and top management in organizations, before looking at banking organ-

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izations, which is the context of the study, in Section 12.3. Subsequent to the framing of the hypotheses, the research design is described in Section 12.4. The results and implications, relating to various board composition factors, particularly women in leadership roles, as determinants of bank conduct and performance are discussed in Section 12.5.

12.2. Women Leadership and Business Performance

Recent literature on gender diversity and women leadership in business suggests that their effects are highly dependent upon context specific factors including national and organizational culture and the nature of the industry sector. For example, in Morikawa's (2016) study on women leadership in Japanese companies, which are typically known for their low level of female engagement in senior positions, it is found that listed and long-established companies, subsidiaries of parent companies, and unionized companies tend not to have female directors. On the other hand, owner-managed companies are likely to have female directors and CEOs and female-led companies do not appoint additional females as directors. Garcia Lara et al. (2017) point out that males and females at UK firms do not differ substantially when performing accounting monitoring roles in highly specialized positions, but discrimination in the access to directorship turns out to be an important factor which explains why female directors are associated with better accounting quality. Perhaps differential access and extra competition ensure that only the best female employees become directors. In a study of 3000 US firms between 2007 and 2014, Conyon and He (2017) discerned that female directors have a significantly larger positive impact in high-performing firms relative to low-performing firms. Chauhan and Dey (2017) examined the effect of female directors on firm performance in India, where the domination of family and patriarchal society may reduce the importance of female directors. They found that the gender diversity was only for token sake and female directors faced more attendance problems and less likely to be participating in monitoring-related committees.

Likewise, there are other studies, such as by Bennouri et al. (2018) who discerned that female directors have attributes that significantly increases return on assets (ROA) and return on equity (ROE), and significantly decreases Tobin's Q. Srinidhi et al. (2020) on the other hand observe that female directors are effective even without possessing a board majority or other sources of symbolic power, such as hierarchical authority and social gravitas. They show that independent female directors, compared to their male counterparts, are more effective at changing board norms (board processes) and improving governance (board outputs). Abbasi et al. (2020) inform from their study of FTSE 350 firms from 2009 to 2017 that the proportion of female directors and female accounting experts (21.8% and 3.5% respectively) on audit committees are positively associated with audit quality. Garcia Lara et al. (2022) observed that imposition of gender quotas on board of directors does not have any sustained positive effects on financial reporting quality. Jun et al. (2023) found that the effect of board gender diversity on the cost of equity is less (more) pronounced when firms are more (less) gender-equal, transparent, and conservative in accounting.

12.3. Women Leaders and Performance of Banking Organizations

Banking is an industry with a high composition of women, and it is expected that independent women directors on bank boards would be better able to moderate decision-making processes leveraging their gendered attributes, independence and expertise. However, recent studies point out that the findings are mixed and more studies may be required to arrive at robust conclusions on when and how women leadership matters for bank conduct and performance.

Sahay et al. (2017b) found from their study of 800 banks belonging to 72 countries that controlling for relevant bank and country-specific factors, the presence of women as well as a higher composition of women on bank boards (around 20% in 2015) is associated with greater bank stability, as represented by higher z-scores and lower non-performing loan ratios. Agrawal's (2019) study of 34 listed Indian banks for

the period between 2014 and 2018 observed that the presence of female CEOs has positive effects on the performance of banks. Findings of a study by Hoang et al. (2021) on Vietnamese commercial banks suggest that banks with female CEOs tend to be more profitable and more stable than those with male CEOs. However, more women appointed to the management team do not necessarily result in higher profitable or more stable banks. The presence of women on banks' board of directors can lower profitability and vulnerability of banks. Another study by Alharbi et al. (2022) strongly suggests that the presence of women directors on the board is significantly and positively associated with the stock market valuation of banks. Women as independent board members are also positively associated with market value, whereas women being in a chairperson leadership role has no significant association. Accounting and finance qualifications are positively associated with bank market value, whilst women directors with a high level of education and those holding international qualifications or who are foreign, are negatively associated with bank market value.

In contrast to the above findings, Yu et al. (2017) observed that the percentage of women executives and percentage of women directors is positively associated with variability of bank performance measured as standard deviation of monthly stock return in each year. However, the percentage of women on the audit committee and corporate governance committee was negatively related to bank risk. Further, during the financial crisis, banks with at least one female executive had lower risk. A study of microfinance (MFI) companies by Adusei (2019) found that board gender diversity leads to lower technical efficiency. However, when considering the size of the MFIs, it is found that with women on boards the technical efficiency is positive and statistically significant. Larger MFIs are more likely to benefit from board gender diversity in terms of technical efficiency. In the Latin American region, female-led banks were found to be riskier and more profitable than male-led banks (Baselga-Pascual & Vähämaa, 2021). Bouteska and Mili (2022) investigated the effect of the presence of women directors in board of directors and executive positions in several banks of ASEAN countries and found that banks with women leadership in executive roles are riskier and more profitable, while those with women in board positions have the opposite traits.

12.4. Research Design, Sample Choice and Descriptive Statistics

This empirical study attempts to discern whether women leadership in banks have any impact on their conduct or strategic decisions and their performance. Women leadership has been defined in different ways, such as (i) composition of women directors in bank boards (wem_dir), (ii) composition of women as independent directors (wem_ind), (iii) composition of women as wholetime director (wem_whl), (iv) woman as the Managing Director & CEO of the bank (wem_ceo), (v) composition of women in audit, nomination and remuneration and risk committees of the board (wem_aud, wem_nrc, wem_rsk), and (vi) composition of women in top management (wem_top) that includes three management tiers below the MD & CEO. The study also includes the reflection of the organizational context through control variables, such as the (i) total number of directors (nos_dir), (ii) composition of independent directors (ind_dir), (iii) composition of nominee directors (nom_dir), (iv) size of banks' asset (asset), (v) number of branches (nos_brh), (vi) credit to deposit ratio (cd_ratio). (vii) composition of non-interest income in total income (non_inc) and (viii) whether the promoter is also the MD&CEO (prm_ceo).

Conduct variables included are (i) maintenance of capital adequacy ratio (car), (ii) pursuance of growth (growth), (iii) credit to deposit ratio (cd_ratio), (iv) level of non-interest income and (v) provision coverage ratio (pc_ratio). Performance variables here refers to parameters such as bank stock performance measured as (i) price to book ratio (pb_ratio) and (ii) earnings per share (eps); profitability measured as (iii) return on assets (roa) and (iv) return on equity (roe); (v) asset quality measured as gross non-performing assets (gnpa) and net non-performing asset (nnpa); and (vi) regulatory performance measured as number of penalties

(reg_pen). Besides, the effect of women leadership is also examined on (vii) corporate social responsibility expenditure (csr_exp) and (viiii) level of women employment (wem_emp) in the bank. Descriptive statistics for the variables are reported in Table 12.1.

TABLE 12.1

Descriptive Statistics for Dependent and Independent Variables

Variable	*Description*	*Average*	*Stdev*
	Independent		
num_dir	Number of directors	10.95	1.82
ind_dir	Presence of independent directors in board (%)	56.35	14.65
whl_dir	Presence of whole-time directors in board (%)	20.66	9.11
wem_dir	Presence of women directors in board (%)	14.89	6.98
wem_whl	Presence of women wholetime directors (%)	1.90	4.35
wem_ind	Presence of women independent directors (%)	9.40	6.45
nom_dir	Presence of nominee directors (%)	23.37	18.02
prm_ceo	Promoter as MD&CEO (Yes=1; No=0)	0.28	0.45
wem_ceo	Woman as MD&CEO (Yes=1; No=0)	0.19	0.40
wem_top	Presence of women in top management (%)	6.90	4.62
wem_emp	Presence of women employees in bank (%)	21.52	4.86
wem_atd	At least one-woman director in board meeting (%)	87.03	24.55
wem_aud	Presence of women in Audit Committee (%)	11.73	29.84
wem_nrc	Presence of women in NRC Committee (%)	14.13	15.29
wem_rsk	Presence of women in Risk Committee (%)	15.87	14.30
ast_siz	Size of asset of the bank	6.39	6.18
cd_ratio	Credit to deposit ratio (%)	93.59	15.06
nos_brh	Number of branches of bank	2844.5	1983.9
non_int	Non-interest income as proportion of total income	0.07	0.07
	Dependent		
eps	Earnings per share (%)	39.09	29.12
pb_ratio	Price to book ratio (times multiple)	3.06	1.41
roa	Return on asset (%)	1.38	0.96
gnpa	Gross non-performing assets (%)	2.83	3.15
nnpa	Net non-performing assets (%)	1.31	2.80
reg_pen	Number of penalties levied in a year (number)	1.01	1.13
car	Capital adequacy ratio (%)	16.94	2.10
growth	Annual growth rate of asset (%)	18.34	12.10
pc_ratio	Provision coverage ratio (%)	69.61	10.43
csr_exp	Corporate social responsibility expenditure (%)	80.36	23.87
cd_ratio	Credit to deposit ratio (%)	93.59	15.06

Source: Based on data of six private banks, from Ace Equity.

A set of six new generation private sector banks have been considered for the study. These banks entered the industry at different times following the deregulation in 1990, are now well established with large sizes and advanced management practices leading to enhancement of competitiveness of the banking industry. They have pursued board driven strategies, and accordingly their conduct and performance mostly owe to the decisions taken within the organizations. Data on the conduct, performance and control variables for the thirteen-year period between FY2011-12 to FY2023-24 have been found from the annual reports of the banks. Thus, we had a strongly balanced panel consisting of 78 bank observations, but with fewer data points for variables such as expenditure on corporate social responsibility (csr_exp), composition of women in top management (wem_top) and composition of women employees (wem_emp).

It can be observed that the average composition of women employees in these banks at around 21.5% in the studied banks is much lower than the global average of 55%. Accordingly, the progression of women employees to the higher echelons of the banks are even lower with composition of women in top management being only at 6.9%. Against such a backdrop, a somewhat higher composition of women in bank boards at 14.89% seem to be mismatched.

12.5. Results and Analysis

The dependent variables were regressed against the sets of independent variables. Given the structure of the data - a small number of cross-sectional units (number of banks = 6) and a moderate time dimension (number of years =13), a fixed effects model was thought to be more appropriate. The fixed effects model controls for unobserved time-invariant bank specific characteristics such as their management philosophy, strategic positioning, risk appetite, or historical regulatory compliance. The models are presented in the appendix. The significance of the results is reported as* when $p<0.1$, ** when $p<0.05$ and *** when $p<0.01$ levels.

All the models, except for CSR expenditure (csr_exp), growth and credit deposit ratio (cd_ratio) are found to be statistically significant. The effect of the control variables, such as the business profile of banks, such as the size of assets (ast_siz), number of branches (num_brh), credit to deposit ratio (cd_ratio) and non-interest income (non_int), on banks' conduct and performance seem to be the most dominant.

Asset size positively influences earnings per share (eps), return on assets (roa) and non-interest income (non_int) while lowering the gross non-performing asset (gnpa) and net non-performing assets (nnpa). However, it has an increasing effect on regulatory penalties (reg_pen). Thus, in general, banks of bigger size have higher profit performance but also have more regulatory violations.

Another control variable, the credit-to-deposit ratio (cd_ratio) negatively affects return on assets (roa) as well as capital adequacy (car), but has a positive relationship with the gross non-performing asset (gnpa). In addition, the number of branches positively affects the non-interest income (non_int) and net non-performing assets (nnpa) while negatively affecting the return on asset (roa), provision coverage (pcr) and regulatory penalty (reg_pen).

Looking at the board characteristics, the effect of the number of directors (num_dir) is not found to be significant for any of the conduct or performance variables. Therefore, it seems that the size of the board, as such, may not matter for decisions and performance of banks. However, the composition of independent directors has a negative effect on gross non-performing asset (gnpa) and credit to deposit ratio (cd_ratio). The results also suggest that a higher number of wholetime directors in the board may lead banks to higher growth. With the promoter as MD & CEO (prm_ceo) of a bank, earning per share(eps) may be higher but the gross non-performing assets (gnpa) and net non-performing assets (nnpa) may tend to be lower. On the other hand, higher composition of nominee directors (nom_dir) may lead banks to enforce higher provision coverage ratio (pc_ratio). Accordingly, they have the effect of lowering the return on assets (roa) and number of women employees (wem_emp). Higher proportion of wholetime directors in the board has a negative effect on earnings per share (eps).

Coming to the effects of women leadership, the presence of women independent directors does not have a significant effect on strategy but seems to reduce the return on asset (roa) and price to book ratio (pb_ratio). Women as whole-time directors (wem_whl) also have little effect on strategy but may have influence to reduce the price to book ratio (pb_ratio). Banks with women as their MD&CEOs seem to have higher gross non-performing assets (gnpa) and net non-performing assets (nnpa), lower provisioning (pc_ratio) and higher price to book ratio (pb_ratio). They also seem to have faced a lesser number of regulatory penalties (reg_pen). Higher attendance of women in board meetings seem to be leading to lower gross non-performing assets (gnpa), net non-performing assets (nnpa), and provisioning coverage (pc_ratio).

Higher number of women directors in risk committees (wem_rsk) tends to raise provision coverage ratios (pc_ratio) but affect the price to book ratio (pb_ratio) negatively, while more women directors in audit committees as well as nomination and remuneration committee seem to lower capital adequacy (car). Higher proportion of women in top management (wem_top) seem to be associated with lower number of women employees (wem_emp) in the bank. Interestingly, a higher composition of women employees seems to lower non-interest income (non_int).

With the background of more significant bank specific variables, such as the size of assets, number of branches, and credit to deposit ratio, and several control variables related to other characteristics of the board, the impact of women leadership is less confirmable. The market price multiple of banks seems to be subdued with more women in board or top management positions, but women as MD&CEO of banks seem to elicit more positive response. Women as heads reduce the gross non-performing assets, provision coverage as well as the number of regulatory penalties. There is a lack of discernible effect on the strategy variables, such as growth rate, credit to deposit ratio and non-interest income. Some effects of presence of women in the risk, audit and nomination committees of the board are observed.

12.6. Conclusion

The findings of the study indicate that the effect of women leadership, from their presence as independent directors, wholetime directors, members in board level committees, MD&CEO and as members of top management team are quite varied. This may be partly because the role positions have different degrees of influence and also because the proportion of women in such roles are quite low to have any impact on strategy and performance attributable to them through their voting strength. Further studies may better discern the effect of women in leadership position by looking at bank performance changes occurring during events of change in women leadership and including more number of banks in the study.

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Appendix

TABLE 12.A1

Results of Panel Data Regression

Dependent	*eps*		*roa*		*car*		*gnpa*		*nnpa*	
Variable	*coefficient*	*t value*	*coefficient*	*t value*	*coefficient*	*t value*	*coefficient*	*t value*	*coefficient*	*t value*
num_dir	3.407	0.95	0.018	0.22	-0.174	-0.89	-0.273	-1.06	-0.068	-0.56
ind_dir	-0.327	-0.78	0.006	0.58	-0.024	-1.05	-0.078**	-2.57	-0.021	-1.50
whl_dir	-1.558*	-1.76	-0.008	-0.40	-0.071	-1.47	-0.038	-0.59	0.012	0.40
wem_whl	0.498	0.3	-0.035	-0.94	-0.035	-0.39	0.035	0.30	0.051	0.91
wem_ind	-0.149	-0.17	-0.047**	-2.40	0.037	0.78	-0.057	-0.91	-0.035	-1.18
nom_dir	-0.038	-0.14	-0.017***	-2.75	-0.005	-0.36	0.009	0.46	-0.006	-0.60
prm_ceo	82.694***	4.05	0.38	0.81	0.004	0.00	-3.137**	-2.13	-1.277*	-1.84
wem_ceo	-25.663	-1.21	0.02	0.04	-1.175	-1.01	3.044*	1.98	2.319***	3.20
wem_top	-1.393	-1.15	0.002	0.08	-0.038	-0.57	-0.02	-0.23	-0.018	-0.44
wem_emp	-2.563	-1.30	-0.064	-1.42	-0.046	-0.43	0.03	0.21	0.005	0.08
wem_atd	0.289	0.73	0.002	0.26	0.022	1.00	-0.065**	-2.28	-0.023*	-1.72
we_aud	-0.088	-0.77	0.001	0.27	-0.016**	-2.63	0.001	0.08	0.001	0.07
wem_nrc	-0.225	-0.65	0.006	0.70	-0.041**	-2.18	-0.014	-0.57	-0.001	-0.12
wem_rsk	0.788*	1.70	-0.003	-0.28	0.001	0.04	-0.031	-0.94	-0.032*	-2.03
ast_siz	5.97*	2.47	0.177***	3.2	0.112	0.85	-0.569***	-3.27	-0.296***	-3.60
cd_ratio	0.122	0.31	-0.048***	-5.33	-0.117***	-5.51	0.054*	1.93	0.013	0.97
nos_brh	-0.023	-1.83	-0.001**	-2.35	0.001	0.30	0.004***	4.03	0.002***	4.57
non_int	-565.101***	-3.19	-9.11**	-2.24	-22.544**	-2.34	11.546	0.90	7.660	1.27
intercept	120.179	1.51	8.58***	4.70	32.264***	7.45	4.91	0.86	0.197	0.07
F-statistic	3.19		7.81		5.08		7.73		4.74	
Significance	0.004		0.001		0.027		0.013		0.003	
R^2	0.153		0.442		0.184		0.333		0.299	

Notes: * When p<0.1, ** when p<0.05 and *** when p<0.01 levels.

TABLE 12.A2

Results of Panel Data Regression

Dependent	*pc_ratio*		*reg_pen*		*csr_exp*		*growth*		*pb_ratio*	
Variable	*coefficient*	*t value*	*coefficient*	*t value*	*coefficient*	*t value*	*coefficient*	*t value*	*coefficient*	*t value*
num_dir	-0.884	-0.88	0.064	0.39	1.602	0.38	-0.552	-0.54	-0.078	-0.69
ind_dir	0.098	0.84	-0.016	-0.87	0.644	0.87	0.028	0.23	0.011	0.81
whl_dir	-0.25	-1.01	-0.052	-1.30	0.924	1.01	0.591**	2.33	0.019	0.69
wem_whl	0.162	0.35	-0.002	-0.03	1.205	0.43	0.013	0.03	-0.108**	-2.11
wem_ind	0.346	1.44	-0.038	-0.98	0.816	0.72	-0.295	-1.20	-0.062**	-2.28
nom_dir	0.19**	2.51	0.001	0.09	0.167	0.45	-0.143*	-1.85	-0.014	-1.68
prm_ceo	-0.713	-0.13	-0.908	-0.98	73.183	0.73	-3.058	-0.52	-0.12	-0.19
wem_ceo	-12.721**	-2.14	-2.662***	-2.76	-15.255	-0.67	1.487	0.24	1.315*	1.97
wem_top	0.072	0.21	0.052	0.94	-0.069	-0.04	-0.12	-0.34	-0.013	-0.34
wem_emp	0.77	1.40	-0.05	-0.56	0.862	0.13	-0.961*	-1.7	-0.052	-0.84
wem_atd	-0.199*	-1.80	0.026	1.44	-0.31	-0.38	-0.048	-0.42	0.003	0.25
we_aud	0.011	0.33	0.003	0.67	-0.28	-0.56	-0.049	-1.49	0.001	0.15
wem_nrc	-0.112	-1.15	-0.021	-1.35	0.102	0.25	0.104	1.05	0.004	0.34
wem_rsk	0.527***	4.08	0.025	1.18	-0.013	-0.03	0.077	0.58	-0.033**	-2.26
ast_siz	0.982	1.45	0.207*	1.89	-2.138	-0.61	2.973***	4.29	0.003	0.04
cd_ratio	-0.121	-1.11	-0.01	-0.57	0.949	1.17	-0.46***	-4.1	0.001	-0.02
nos_brh	-0.007*	-1.96	-0.001*	-1.93	0.006	0.30	-0.01***	-2.75	0.001	-0.22
non_int	73.262	1.48	-22.292***	-2.78	-782.328	-0.90	-16.354	-0.32	1.97	0.35
cons	88.934***	4.00	5.638	1.56	-64.600	-0.39	91.36***	4.00	5.119**	2.05
F-statistic	3.12		1.70		1.06		4.40		2.70	
Significance	0.017		0.048		0.389		0.248		0.000	
R^2	0.2981		0.1252		0		0.6063		0.0151	

Notes: * When p<0.1, ** when p<0.05 and *** when p<0.01 levels.

TABLE 12.A3

Results of Panel Data Regression

Dependent	*cd_ratio*		*non_int*		*wem_emp*	
Variable	*coefficient*	*t value*	*coefficient*	*t value*	*coefficient*	*t value*
num_dir	-2.032	-1.32	-0.005	-1.45	0.221	0.71
ind_dir	-0.439**	-2.61	0	-0.76	-0.018	-0.50
whl_dir	-0.253	-0.66	0	-0.52	0.059	0.77
wem_whl	-0.349	-0.49	-0.001	-0.68	-0.054	-0.38
wem_ind	-0.168	-0.45	-0.001	-0.84	-0.09	-1.22
nom_dir	0.127	1.09	0	-1.36	-0.042*	-1.86
prm_ceo	-11.289	-1.29	0.016	0.82	-1.401	-0.80
wem_ceo	3.562	0.38	-0.016	-0.76	-1.245	-0.68
wem_top	0.795	1.54	-0.001	-0.80	-0.297***	-3.2
wem_emp	1.172	1.40	-0.004**	-2.07	-	-
wem_atd	0.239	1.42	0	0.74	0.021	0.62
we_aud	0.003	0.06	0	0.02	0.001	0.11
wem_nrc	-0.132	-0.88	0	-0.82	0.017	0.57
wem_rsk	0.243	1.23	0	-1.08	-0.035	-0.87
ast_siz	-0.316	-0.30	0.005**	2.30	0.38*	1.90
cd_ratio	-	-	0	0.71	0.046	1.40
nos_brh	0.002	0.35	0**	-2.26	0.001	-0.25
non_int	54.798	0.71	-	-	-30.109**	-2.07
cons	82.726**	2.59	0.240***	3.7	16.974**	2.70
F-statistic	2.81		3.41		6.28	
Significance	0.974		0.081		0.000	
R^2	0.5293		0.7558		0.2965	

Notes: * When p<0.1, ** when p<0.05 and *** when p<0.01 levels.