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**EVALUATING THE MEDIATING ROLE OF
STRATEGIC CHANGE BETWEEN THE
RELATIONSHIP OF GENDER DIVERSITY IN SENIOR
MANAGEMENT AND FIRM PERFORMANCE IN
PAKISTAN**

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Abstract

Recently in Pakistan, enough women have joined top leadership positions in the different organizations which prove that the gender diversity is at full boom in this non profit organizations. The existing study proposed the concept of gender diversity in the top management of the firms can be helpful in getting strategic change in non financial firms, especially under conditions that the gender diversity at senior management can have significant effects on the firm decisions and also it can be helpful in creating strategic change. The members education background, age, industry experience are also the significant factors. The study has used the pooled OLS model on the basis of diagnostic model i.e. chow test. The findings argued that senior management gender diversity is having positive association with the firm performance. The findings for the senior management gender diversity is having positive relationship with the firm value and argued that when the firm is having higher gender diversity on their senior management level will have positive effects on the firm market value. This gender diversity will transmit positive signals to the market investors and the investors will prefer to invest in the firm having higher gender diversity on their senior management level. The member educational background is having significant relationship with

performance of the firm. The findings suggested that the female member having higher education background will be prefer to include in the board of senior management and this will show positive effects on the firm value.

Keywords: Senior management, gender diversity, performance, non-financial

PAKİSTAN'DA ÜST YÖNETİMDEKİ CİNSİYET ÇEŞİTLİLİĞİ İLE FİRMA PERFORMANSI ARASINDAKİ İLİŞKİDE STRATEJİK DEĞİŞİMİN ARACILIK ROLÜ

Özet

Son zamanlarda Pakistan'da bir çok kadın farklı cinsiyet farklılığı konusunda tam bir patlama yaşayan kar amaçsız örgütlerde liderlik pozisyonlarına gelmişlerdir. Bu çalışma, firmaların üst yönetimlerinde cinsiyet çeşitliliği kavramını ortaya koymak üzere yapılmıştır. Bu sayede, kar amacı gütmeyen, özellikle de üst yönetim kademesinde cinsiyet çeşitliliği olan örgütlerin stratejik değişim yaşamalarına veya bu değişimi ortaya koymalarına yardımcı olunabilir. Çalışmada ayrıca eğitim seviyeleri, yaş, sektör deneyimi önemli değişkenler olarak ele alınmıştır. Çalışmada chow test benzeri diagnostik temelli OLS model kullanılmıştır. Bulgular, üst kademe cinsiyet çeşitliliğinin örgüt performansı ile olumlu bir bağı olduğunu göstermiştir. Ayrıca, üst yönetim kademesindeki cinsiyet çeşitliliği firma değeri ile de olumlu yönde ilişkilidir, bu sonuç üst kademe yönetim seviyesinde cinsiyet çeşitliliğini arttırabilen örgütlerin piyasa değerlerinin de buna paralel şekilde arttığını ortaya koymaktadır. Cinsiyet çeşitliliği pazardaki potansiyel yatırımcılara olumlu sinyaller gönderecekler ve bu yatırımcılar da üst yönetim kademesinde daha fazla cinsiyet çeşitliliği olan firmalara yatırım yapmayı tercih edebileceklerdir. Çalışanların eğitim seviyeleri de örgütün performansı ile olumlu yönde ilişkili olarak görülmüştür. Sonuçlar, yüksek eğitim seviyesinde olan kadın çalışanların üst kademe yönetim seviyesi için tercih edilebileceğini, bu durumun da sonuçta örgütün piyasa değerine olumlu yönde katkı yapabileceğini ortaya koymuştur.

Anahtar Kelimeler: Üst Yönetim, Cinsiyet Çeşitliliği, Performance, Finansal Olmayan

Introduction

Different culture, norms and social values in the society give women different positions and also multiple statuses of authorities. But the concept of male dominancy can be found in all societies and the perception of male for being superiority is a general phenomenon (Adams and Ferreira, 2009). Female ratio is very low in every part of management in the different parts of the world, according to different researcher point of view the women have not being invited to play their role in the decision making process of the firm. Female has been considered as lower level rational and emotional part and are not having high vision and no strategic mind which is essential for surviving in the competitive environment (Hammad et al., 2012).

Participation of women in upper level management was an important topic for research in the US firms which indicates no discrimination on the basis of gender in developed economies (Shore et al., 2009; Omanovic, 2009). At the first stage, different researcher suggests to decrease the discrimination of women in the management, upper level management have to increase the representation of women at top level key positions (Koenig et al., 2011; Catalyst, 2014a). Though, the researcher suggests that women participation is mainly at lower level of administration which leads to the lacking the managerial experience and professional positions for them in the firm (Andreas et al., 2016).

Theory in management which is related to strategy and organization called as resource dependence theory. The concept of theory elaborates the corporation is an open system, that is reliant on possibility in the environment (Adams and Kirchmaier, 2015). The previous literature on board of directors and diversity relates with resource dependence theory is a viable system to comprehend and look at sheets. As per Pfeffer and Salancik (2003) proposed that executives carry four advantages to company: (a) important part in the shape of counsel insight, (b) entrance to medium of data among the company and ecological possibilities, (c) particular access to the resource, and (d) authenticity. In light of the different resources they give to a company, Hillman et al., (2000) categorize these four compensations into types of directors, in particular, business specialists, insiders, network influential's, and strengthen authorities.

The existing study was based on agency theory which is based on the association of self interest and incentives; theory states that larger ratio of organization life is based on self interest (Ahern and Dittmar, 2012). The theory suggested that there is an information asymmetry exists among the shareholders and managers; the managers have the responsibility to filter the information and then share it with the shareholders (Bhagat and

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Black, 2002). This type of control over the information leads to the multiple conflicts among the shareholders and managers. In this condition, the board of director play significant role for authentic information to share with the shareholders (Fama and Jensen, 1983).

The most reliable and consistent information flow from board of directors to shareholders sometimes align the manager's behavior which is also in favor of shareholder's interest (Campbell and Mínguez-Vera, 2008). There are some factors which can be used to measure the richness of information issued by the board of director's i.e. total number of board members, the total number of members in the board present the specific ownership, number of meeting conducted, number of subcommittee under the control of board of directors, managers having industrial experience and members having long tenure in the board (Carter et al., 2003).

1. Problem Statement

Previous studies i.e. Ararat et al., (2015); Ntim, (2015); Nguyen et al., (2015) discussed their findings which were conducted on diversity and firm decisions and argued that there is a significant effects explained in the performance and also in the process of decision making due to the gender diversity. Recently, a lot of studies have been conducted for polishing the role of women in the firm's management and their process of taking decision (Maume, 2004). Current studies are showing interest for managing women role in the executive management and majority of the studies have concluded significant and positive outcome. As per the statistics concluded by Catalyst, (2018), female are 44 percent of the employment in the recent organization, and 36 percent of female employees are in the first and mid level managers in the competitive organizations.

Objectives/Questions

The major objective of the study is to evaluate the role of senior management gender diversity in firm performance. The study has also used the strategic change as the mediating variables between the relationship of gender diversity and firm performance. The above stated objectives can be achieved to answer the following questions:

- What is the role of senior management gender diversity in firm financial performance?
- Does strategic change have significant mediating role between the relationship of gender diversity and firm financial performance.

2.Literature Review & Hypotheses

According to Triana et al., (2019), female are now on the senior leadership positions in the firms and they are involved in decisions making process which shows their abilities. Most updated female experts and be found significant for the firm for taking financial decisions and getting higher performance and profitability. The findings argued that strategic alliance formation intensity and also member's education is the factors which can significantly moderating the relationship of gender diversity and strategic change. Carter et al., (2010) argued that gender diversity is the basic factors which can be used by today's firms for getting effectiveness. The study also concluded that the gender diversity in the senior management can be effective in getting strategic change and also suggested that the member education, background, experience and other attributes can be used by the firm in getting on-time and effective decisions. Cohen et al., (2010) shows the mediation show and support the model of association between the gender diversity and strategic change. According to Dobbin and Jung (2011) who examined the concept of corporate gender diversity on the firm's stock performance. The study

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concluded that the board gender diversity is having negative relationship with the firm's performance i.e. firm value, stock return and ROA. Duchin et al., (2010) argued that the investors in the market always prefer to take the shares of those firms which have no female in their board of directors which means that the investors will not purchase other shares of gender diverse firms which lead to decrease the share prices. Duppati et al., (2019) argued that gender diversity can be found as important determinant for measuring the performance. The study also discussed that it is unfortunate that the women role in the board of directors are totally ignored by the developing economies and the gender discrimination become the culture practice in these countries.

The study of Rose (2007) conducted on the female presentation in the board of directors in the firms listed in Danish market and argued that no significant affiliation among the firm value and with the diversity (gender basis). However, the same evaluation has different results when Campbell and Vera (2008) discussed their study in the Spanish market and concluded that there is a positive and significant association among the firm value and diversity on gender basis. While the study in Germany by Joecks et al., (2013) have also got positive relationship of female role in board with the firm value. The findings conclude with the positive connection among the diversity at senior management and firm value among the listed firms as mentioned by Nguyen et al., (2015).

Low et al., (2015) evaluated the association of the firm performance with the female in the directorship among the firms in Singapore, Hong Kong, Malaysia and South Korea. The study has collected the data for the selected period of time for the listed firms and argued that the increasing ratio of women directors can lead to have positive effects on the performance. Duppati et al., (2019a); the attitude of male towards the female job moderates the association among the firm performance and diversity. Abdullah et al., (2016) argued that gender diversity can be

found significant for the firm performance among the listed firm in Malaysia market. The findings of this study concluded that the board gender diversity has received positive relationship with the firm performance but it has negative relationship with the market performance. Erhardt et al., (2003) has taken the ownership type as moderating variable and the findings argued that the government ownership is having negative moderating while the family ownership type is showing positive moderating.

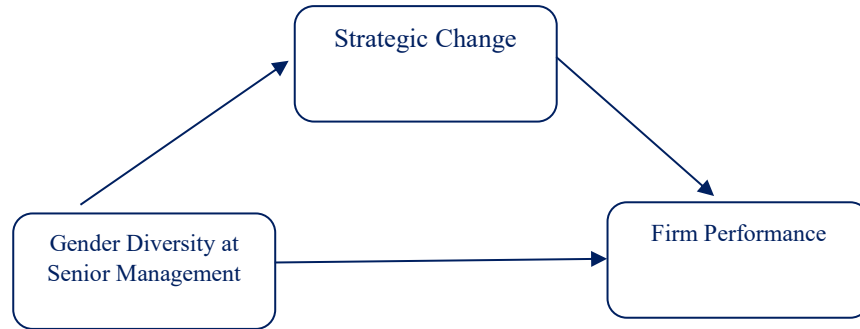
H₁: Gender diversity is having positive relationship with the firm performance

The study of Perrault (2015) argued and examined the female role in the board in US firms and argued that they are showing positive effectiveness by increasing the number of female directors. Fauzi and Locke (2012) argued that female enhance the moral legitimacy, board performance, perception for the board instrument and performance as well. The female in board enhances the confidence of the shareholders on the board which lead to increase the share prices.

H₂: Strategic change is having significant mediating role between the gender diversity and firm performance

Conceptual Framework

Triana et al., (2019) argued that strategic alliance formation intensity and also member's education is the factors which can significantly moderating the relationship of gender diversity and strategic change. Carter et al., (2010) argued that gender diversity is the basic factors which can be used by today's firms for getting effectiveness. The study concluded that gender diversity at senior management can be effective in getting strategic change and also suggested that the member education, background, experience and other attributes can be used by the firm in getting on-time and effective decisions.



3 Methodology

The present study was conducted in the non financial sector of Pakistan in evaluating the role of gender diversity in the firm performance. The study has included those firms who have female member in their management or board. In Pakistan from last few years, female are now becoming the prominent positions in the management of the firm and this shows that the change is now going towards the inclusion of female members in the firm important decision makers. The study has been limited to the non financial firms but by checking the firm's capitalization, the firms were taken in the study, so it was limited to PSX-100 index. The non financial firms in PSX 100 index were included in the study and data has been collected for these firms from 2010 to 2018.

3.1 Measurement

3.1.1 Dependent Variable

3.1.1.1 Firm Performance

Tobin's can be used to measure the firm performance and this factor can be used in the place of dependent variable. The study will take the Tobin's q as the performance proxy due to the fact that tobin's q showing the firm value which shows the intangible minimum workforce diversity. The Tobin's q has been measured by taking the ratio of firm's market value to the book value of debts divided by the firm's total assets (Triana et al., 2019; Chung and Pruitt, 1994).

3.1.2 Independent Variables

3.1.2.1 Senior Management Gender Diversity

The senior management gender diversity has been taken as independent variable. The senior management gender diversity has been measured as categorical variable i.e dummy variable and this variable has been measured as taking 0 and 1. The firm having female member in their management was shown by 1 and other wise 0.

3.1.3 Mediator

3.1.3.1 Strategic Change

The strategic change can be described by the extent of change by the firm in their resource allocation in the different strategic dimensions (Zhang, 2006). The present study has followed the study of Zhang (2006), Finkelstein and Hambrick (1990) who have used the advertising intensity (total adv expenses/total sales); R & D intensity (expenses for R & D/total sales). The existing study has used the advertising intensity as the proxy to measure the strategic change.

3.1.4 Control Variables

The study has also used some other variables which was used to control the significant effect of the variables in case of any issue to the data i.e. multicollinearity or heteroskedasticity. The firm size has been taken as the control variables and it was measured by taking the log of firm's total assets. Firm age is the another control variable and it has been used to measure by taking the years of operations of the firm in the market. The firm age has been used to check the maturity of the firm while working in the existing market. The TMT education background has also been checked to evaluate the role of executive's education in their position in the management and its effects on the firm performance. The TMT age is the last factor which has been used in the study for the controlling purpose and it was measured by estimating the age of the senior member to check its role in the firm performance.

4. Results& Discussions

Table 1: Descriptive and correlation of the variables.

| Variables | Mean | SD | 1 | 2 | 3 | 4 | 5 | 6 |
|-----------------------------|-------|-------|-------|-------|------|------|------|------|
| Firm size | 10.19 | 0.431 | 1 | | | | | |
| Firm age | 26 | 0.018 | -0.21 | 1 | | | | |
| TMT educational background | 4 | 0.001 | 0.19 | -0.41 | 1 | | | |
| TMT age | 39 | 0.018 | 0.27 | 0.32 | 0.18 | 1 | | |
| Senior Mgt gender diversity | 0.910 | 0.013 | 0.41 | 0.23 | 0.33 | 0.39 | 1 | |
| Strategic Change | 0.221 | 0.192 | 0.37 | 0.10 | 0.01 | 0.21 | 0.09 | 1 |
| Performance | 0.381 | 0.190 | 0.41 | 0.12 | 0.04 | 0.16 | 0.11 | 0.23 |

The table shows the mean values of the factors which have been selected as independent and dependent variables. The correlation value for TMT educational background and performance has been found .04 which shows that they are 4 percent positively associated with each other. The statistics for TMT age and performance has been found .16 positively associated with each other. These factors are 16 percent positively related to each other. The findings argued that the performance is positively associated to the senior management gender diversity which shows that they can be positively enhancing each other and the value has been received .11 percent. The findings also suggested that the strategic change can also be found significant and positive with the performance of the firm. The value of correlation for strategic change and performance is .23 which means that these factors are 23 percent related to each other.

Pooled OLS Model

Table 2: Findings of pooled OLS Model

| Variables | Model 1 | Model 2 | Model 3 |
|------------------------------------------------|-------------------|-------------------|-------------------|
| Firm size | -0.12** (.00) | -0.15*** (.00) | -0.09** (.00) |
| Firm age | -0.26** (.00) | -0.19* (.00) | -0.29** (.00) |
| TMT educational background | 0.21** (.00) | 0.30*** (.00) | 0.39** (.00) |
| TMT age | -0.41*** (.00) | 0.57** (.00) | -0.31*** (.00) |
| Senior Mgt gender diversity | 0.39*** (.00) | 0.25** (.00) | 0.58*** (.00) |
| Strategic Change | | | 0.26*** (.00) |
| Senior mgt gender diversity x strategic change | | | 0.41*** (.00) |
| Constant | 0.29 (.07) | 0.32** (.00) | 0.30** (.05) |
| R-square (p-value) | .561 (.00) | .359 (.00) | .690 (.00) |
| F-value (p-value) | 15.12 (.00) | 13.59 (.00) | 16.90 (.00) |

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The above table shows the findings of Pooled OLS model which has been used to check the effect of senior management gender diversity and firm performance. The regression model was used in the study to check the effect of senior management gender diversity and firm performance. The findings of the table show that the model 1 (gender diversity and firm performance) is explained 56 percent variance as mentioned in the R-square value. In model 2, the variance explained by the gender diversity in the strategic change is about 35 percent i.e. R^2 .35. The mediating role of strategic change between the gender diversity and firm performance has been explained in model 3 which explains 69 percent effects in the mediating role of strategic change. The higher R^2 value in model 3 shows that the strategic change is having significant mediating role between senior management gender diversity and firm performance. The table show the findings and argued that the firm age is showing

negative relationship between the senior management gender diversity and firm performance which has been concluded that in the Pakistani market the mature firms are not in favor of getting female on board due to the factor of getting higher firm value while the new start up in the market always supports the involvement of female in the senior management to get higher performance. The member educational background is having positive association with the firm performance. The findings suggested that the female member having higher education background will be prefer to include in the board of senior management and this will show positive effects on the firm value. According to Singh et al., (2008) who argued that the majority of the female directors in the UK market having MBA degree and also having international experience are always encourage to involve in the management. These findings are inverse to the findings and actual facts in the developing markets where female directors are not encourage to involve in the decision making. In Pakistani market, this has been argued that the female members having higher education will be easily entering in the senior management and this will have positive effects on the firm value. Hammad et al., (2012) argued that in this market, the female workers are trying to be limited to inferior positions and not encouraging to involve in the decision making. Due to the family responsibilities, home tasks etc are the factors which restrict the female to reach the higher and senior managerial positions. The findings for the senior management gender diversity is having positive relationship with the firm value and argued that when the firm is having higher gender diversity on their senior management level will have positive effects on the firm market value. This gender diversity will transmit positive signals to the market investors and the investors will prefer to invest in the firm having higher gender diversity on their senior management level.

The findings can be found consistent with the different studies who also concluded a positive relationship between the gender diversity and firm performance and they supports the involvement of female can be found effective for the performance and decision making process but also it can be significant for adopting the strategic change i.e. Olsen and Martin (2014). According to Triana et al., (2019) who argued that female are now in the senior leadership positions in the firms and they are involved in the decisions making process which shows that their abilities are now most updated which can use by the firm in getting higher performance and profitability as well. The study shows that the gender diversity is the basic factors which can be used by today's firms for getting effectiveness. The study also concluded that the gender diversity in the senior management can be effective in getting strategic change and also suggested that the member education, background, experience and other attributes can be used by the firm in getting on-time and effective decisions. The findings of the study argued that the strategic alliance formation intensity and also the member education is the factors which can significantly moderating between the relationship of gender diversity and strategic change. The findings for the mediation show and support the model of association between the gender diversity and strategic change. Studies examined the gender diversity and firm performance have examined the female role management and also their involvement in the board i.e. Roost and Osterloh (2010) and Carter et al., (2010). Results show that the female directors in board can be significant for the financial performance. Previous studies i.e. Ararat et al., (2015); Ntim, (2015); Nguyen et al., (2015) examined the association among the firm's decision making process with the gender diversity and argued that there found a positive association among the process of decision making and board. From a few years, a lot of studies have been conducted about polishing the role of women in the firm's management and their decision

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making process (Maume, 2004). Recently, researcher are showing interest for managing the women role in the executive management and majority of the studies have concluded significant and positive outcome.

Conclusion

The study goes beyond the naïve approach in relating the role among the firm performance and of diversity on the basis by adopting more sophisticated approach; the study has evaluated the gender diversity at the senior management, the strategic change and also the education background of the members. The existing study was conducted to check the mediating role of strategic change between the relationship of the firm performance and gender diversity in the non financial firms in Pakistan. The study argued that the senior management member's education is having significant relationship with the firm value, these findings are inverse to the findings and actual facts in the developing markets where female directors are not encourage to involve in the decision making. In Pakistani market, this has been argued that the female members having higher education will be easily entering in the senior management and this will have positive effects on the firm value. The results show that the person working in the gender divers working environment can be more effective as compared to the other individuals and will have positive effects on the performance. The results show that the gender diversity in the firm always supports the strategic change which enhance the organization learning and lead to have positive and rich organization culture.

Limitations/Future Directions

The existing study is limited to the non financial sector of Pakistan. Findings of the study are limited to those firms who have female members in their board. The results cannot be generalized outside the above stated scope. In future, the study can be conducted by taking the

comparative benchmark i.e. comparing the gender diversity at board level and firm performance among the financial and non financial sector. It can be significant by evaluating the concept of gender diversity and firm performance by adopting qualitative approach i.e. interview schedule with the senior managers.

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