Chapter 17
Bahraini Women's Voices in the Boardroom:
The Effect of Gender Diversity on Firm Performance

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ABSTRACT

Why should boards appoint members who are women? Do women contribute positively to the effectiveness of the board? Or, are they just appointed to boost the firm's image of fulfilling their quota? In recent years, board gender diversity has become an important issue around the world, where studies show that the inclusion of female directors is positively related to their financial performance of firms, their organizational effectiveness, and corporate governance. By applying gender perspectives to the boardrooms, new dimensions, knowledge, abilities, and experience are brought to the table. This chapter offers a contribution to the literature review by extending the studies on corporate governance and gender diversity as well as shedding the light on this relationship in the context of a non-western country, Bahrain, where women must abide by the traditional roles they play in the society. However, contradictory to expectations, the results indicate the number of females on the board has a negative relationship with firm performance, especially with return on assets (ROA).

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INTRODUCTION

No nation can progress without the joint efforts of men and women. In recent years, board gender diversity has become an important issue around the world, where studies show that the inclusion of female directors is positively related to financial performance, organizational effectiveness, and corporate governance (Al-Sartawi, 2018a).

On the International Women's Day, i.e. on 8^{th} of March 2014, Grant Thornton released a report stating that only 24 percent of senior management roles were globally held by women. Russia had the highest proportion of women in senior management at 43 percent, followed by Eastern European countries at 37 percent, and South-East Asian countries at 35 percent. On the other hand, developed countries who are major proponents of women management, had an average of 21 percent of women in senior management positions. With regards to the Middle East, Grant Thornton found that women did not usually get appointed as senior managers due to the traditional patriarchal societies in which males predominate in roles of management, authority and leadership. In fact, according to a 2014 Catalyst report, Saudi Arabia ranked at the very bottom of the list with 0.1 percent of board seats held by women (Hill et al., 2015).

Organizations are under mounting pressure to increase the numbers of women in leadership positions. This pressure is manifested in stronger legislative requirements and higher internal and external stakeholder expectations. Based on Adam & Ferreria (2009), countries like Sweden, Spain and Norway have imposed legal requirements to employ female directors. These legal initiatives were imposed by the law for several reasons, mainly due to the fact that gender diversity brings new talent, skills, expertise and knowledge to the board. Moreover, female directors can enhance the concept of director's independence which in return has a positive impact on a firm's governance. There is a general phenomenon internationally, where females have less opportunities for higher positions as they have double roles to play in their lives; the role of being a working women and the role of being a full-time mother or housewife. In many countries, especially in the Middle East, women often face high pressure when fulfilling these two roles as they are responsible to do so by many norms and cultural standards. In return, these cultural norms lead to other social stereotyping where men have higher opportunities to be involved in social or professional networks and promotional positions (Low, et al, 2015).

Over the past several years, gender diversity has been empirically investigated in depth with regards to firm performance and earnings quality. A study by Post & Byron (2015) found that female board representation is positively related to financial performance, whereby this relationship is more significant in countries with stronger shareholder protections. While several studies have investigated the importance of gender diversity and its impact on the financial performance of western firms, this research aims to examine this relationship in a non-western context, Bahrain, where women need to abide by the traditional roles they play.

Based on Gunter (2017), women have more MBAs than men around the world, and women are as prominent as men among university graduates. Yet, despite their high qualifications and the strong pressure for gender equality in the business market, there is still a lack of government intervention in Bahrain to hire more female directors who should have equal opportunities to fulfill positions on the board of directors of publicly-listed companies. Gender diversity and equal appointments of female directors is still relatively low in Bahrain where there is a lack of awareness of the importance of board gender diversity as a corporate governance tool to enhance financial performance of firms. In many business settings, females are still perceived as less experienced and talented than males. However, this situation is changing. Currently, many organizations around the world look for diversifying the composition of their

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