LEADERSHIP AND DIVERSITY SURVEY REPORT 2017

Board Diversity Publicly Listed Companies in Kenya and the Influence on Financial Performance

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Foreword by the Graca Machel Trust

Foreword by the Barclays Bank Kenya

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Executive Summary

Kenya Institute of Management (KIM) has tracked diversity in board rooms especially on the gender composition through the board diversity survey since 2012. Together with other partners including the Nairobi Securities Exchange and The Graca Marcel trust, the 2017 survey is the most comprehensive yet in terms of the focus areas as it measures diversity beyond gender and includes age, education, profession and nationality diversity.

To achieve this, quantitative and qualitative data for the Kenyan companies was collected from both primary sources especially Company Secretaries within listed organizations in Kenya and secondary sources including annual reports, press releases, webpages. Data for comparative analysis from other markets was sought from research elsewhere in the globe by executive search firms like Egon Zehnder and Equillar, audit firms like Deloitte and PWC and research institutions like Catalyst.

High level findings show that gender diversity is still a mirage in many countries globally but there definitely exist concerted efforts to address this. No market among those surveyed or compared with had achieved a 50:50 gender balance in the boardroom-in fact Kenya was a trailblazer in not only developing markets but even in comparison to advance markets.

Age diversity was also far from being achieved with most boardrooms recording average age of 56 years which is 3 years younger than the global average 59 years and compares even better than developed markets like the Americas (US and Canada). Education diversity was also not high with a first degree possession seemingly a requisite for securing board position and a Master's degree for at least half of the board members in review.

In Kenya, when it came to professions, finance based career people were more present in the boardrooms than any other professions with accountants, auditors, bankers, and investment sector professionals taking over 40% of the slots. Legal professionals and business management professionals also had high representation. Science technology engineering and mathematics (STEM) based careers had less than 10% representation in the board room.

Nationality diversity in Kenya was also measured and 62% of the listed companies had at least one non-Kenyan in their board which compares with the 74% global average.

On board diversity influence on corporate performance, gender diversity when female representation is at least 25% was found to have a positive influence on the organizations' compounded annual growth rate of assets and revenues

Introduction

Since 2012, the Kenya Institute of Management (KIM) has tracked diversity in board rooms especially on the gender composition through the board diversity survey.

We have analyzed board composition in corporate Kenya and also the Kenyan public service and compared the same to global trends in a bid to diversity and the role it plays in among other things, financial performance, social impact and investor confidence. As champions of best practice in matters of governance and management, we initially interrogated the gender diversity in the board, then went on to incorporate other diversity variables like age and we have now gone a step further to include education levels, professional background and nationality.

Our 2016/2017 has also gone a step further to explore the extent to which some countries have been able to transform their boards to better represent the society around them, and reveals the continuing challenges in gaining parity in the boardroom. Our 2017 survey is therefore the most comprehensive to date, evaluating board data from 62 publicly listed companies in Kenya.

The survey took about two (2) years to complete mostly because of the challenge in data collection occasioned by non-responsiveness to our efforts to collect primary data from company secretaries and other company representatives. The 2015 board diversity data came from our partners for this initiative New Faces New Voices while the share price data came from NSE.

Methodology

The board composition variables data was collected through both primary and secondary data sources. Primary data collection tools were designed and sent to NSE listed company's representatives including company secretaries, CEO's and human capital departments.

The difficulties in getting these representatives submit board data to us prompted us to seek the same from secondary sources and this was done through content analysis of print media publications and web content analysis of the targeted organizations'. Data was collected on both variables of interest on board composition and financial performance data including profits, turnover, assets and share price performance over a four year period (2013- 2016).

Figure 1: Survey process

At the analysis stage, we conducted various relationship analysis to investigate the association between board diversity variables and financial performance. Independent T-tests were performed to determine whether organizations with broader reflection of gender, age, education and professional background companies have higher performance than their counterparts with limited representation. Then the econometric model was regressed to investigate associations between various diversity indicators including gender, age and education level against performance measured by compound annual growth rate in the four years between 2013 and 2016 the latest year with available financial performance data. The regression approach also helped to determine if there existed a significant relationship between board diversity and performance. The study hypothesized that there is a significant relationship between board diversity and organizational performance.

Findings

Global Perspective

Across the globe, conversation on diversity in the boardroom continues to gather momentum. Data now exists on gender diversity in board rooms but other diversity variables like age, education level and professional background remain largely un-researched.

Gender diversity

Egon Zehnder[1] 2016 survey of 1,491 public companies with market caps exceeding EUR 6bn across 44 countries* shows that gender parity in the boardroom continues on an upward trajectory, with slow but positive progress – in 2016, nearly 19% of seats on the boards of the largest companies globally were held by women, up from about 14% in 2012, with 3% of this growth coming in just the last two years.

According to the report, the biggest improvement in board diversity came from Western Europe. When Egon Zehnder began analyzing board diversity in Western Europe in 2004, just 8% of board directors were female; in 2016, 26% of all board directors in this region were women.

[1] Egon Zehnder (2016). Global Board Diversity Analysis 2016. Egon Zehnder International, Inc. All rights reserved.

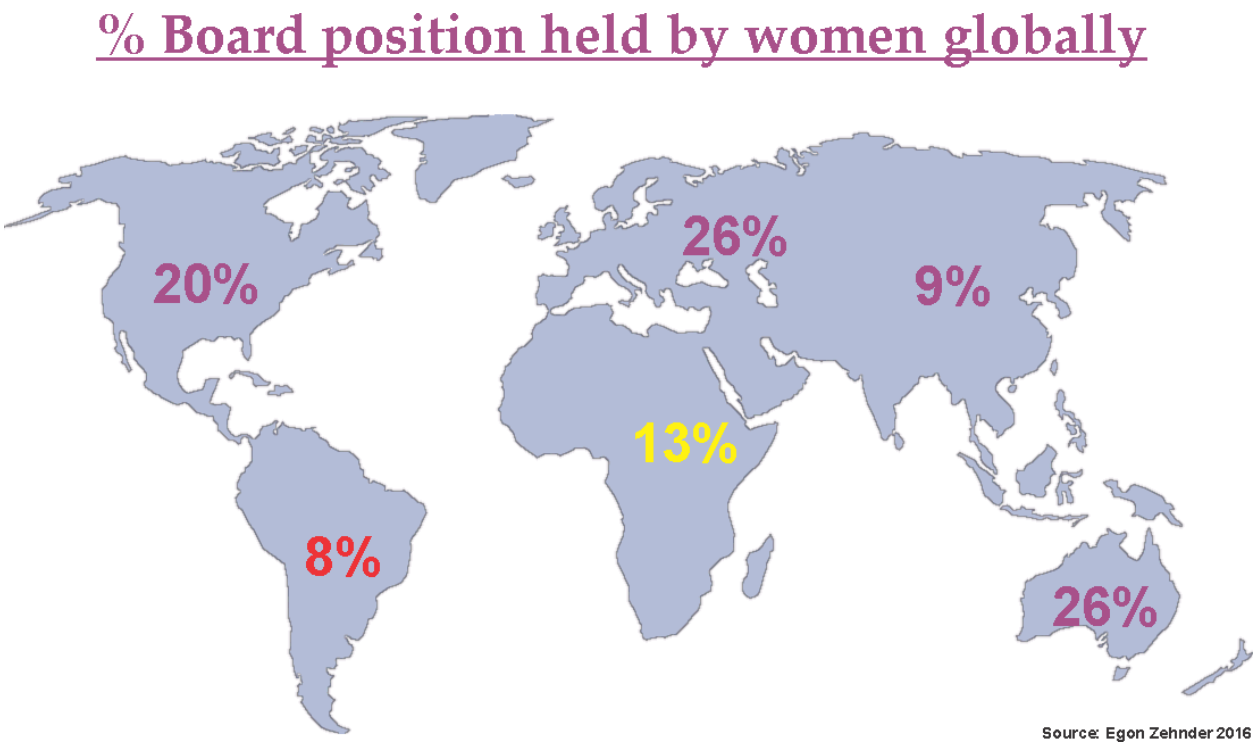


Figure 2: Women representation in the boardroom globally by regions

Over the time period studied, Western Europe accelerated the growth of diversity gains, with a third of this growth occurring in just the last two years. The boards of some countries like Italy and France have been literally transformed: Since government-enforced quotas were passed in 2011, the share of women on the boards in Italy has increased from 8 to 32%, and in France from 21 to 38% in just four years.

Also noteworthy from the Egon Zehnder report, is that women have yet to reach the same representation in board leadership roles and presence in executive board seats (usually made up of CEOs and CFOs).

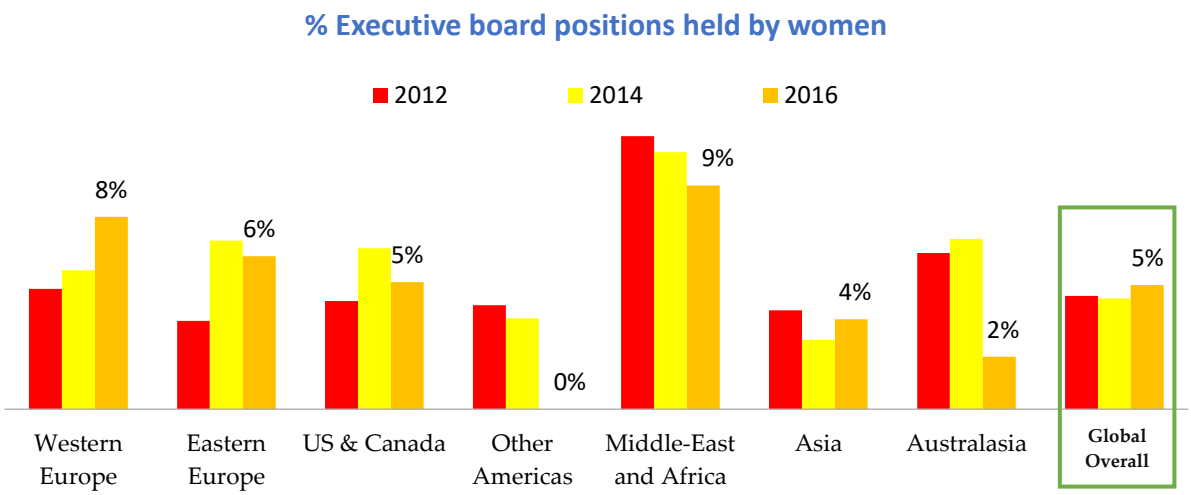


Figure 3: Executive board positions held by women globally by region

Only 5% of executive board roles were held by women, versus 22% of non-executive roles. Yet, women are making progress in board contributions by holding an increasing share of Committee and Committee Chair positions (20% and 16%, respectively).

Another survey by Equilar a leading provider of board intelligence solutions predicts that at the current rate, gender parity would be achieved in 2055.

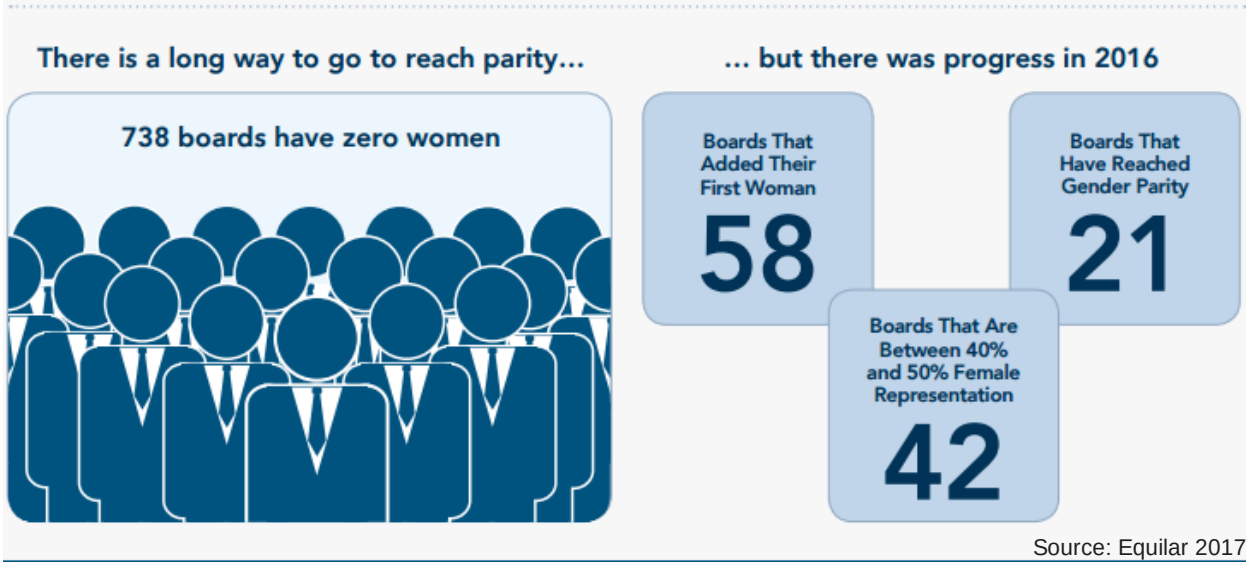


Figure 4: Path to gender parity in the boardroom globally

Age diversity

A number of notable surveys from credible sources (Financial Times, Harvard Business Review, Egon Zehnder, Deloitte et al) concede that age diversity at the top is progressing at a nonagenarian's pace. According to the same report, newly appointed board members are broadening age diversity according to the recent data. Nearly 9% of all new board members appointed since 2015 are under 45, and new female board members are more likely than males to be under 45 – 11% to 8%, respectively. The countries bringing the largest pool of young directors onto boards are those in Western Europe where quotas have been instituted: France, Spain and Italy.

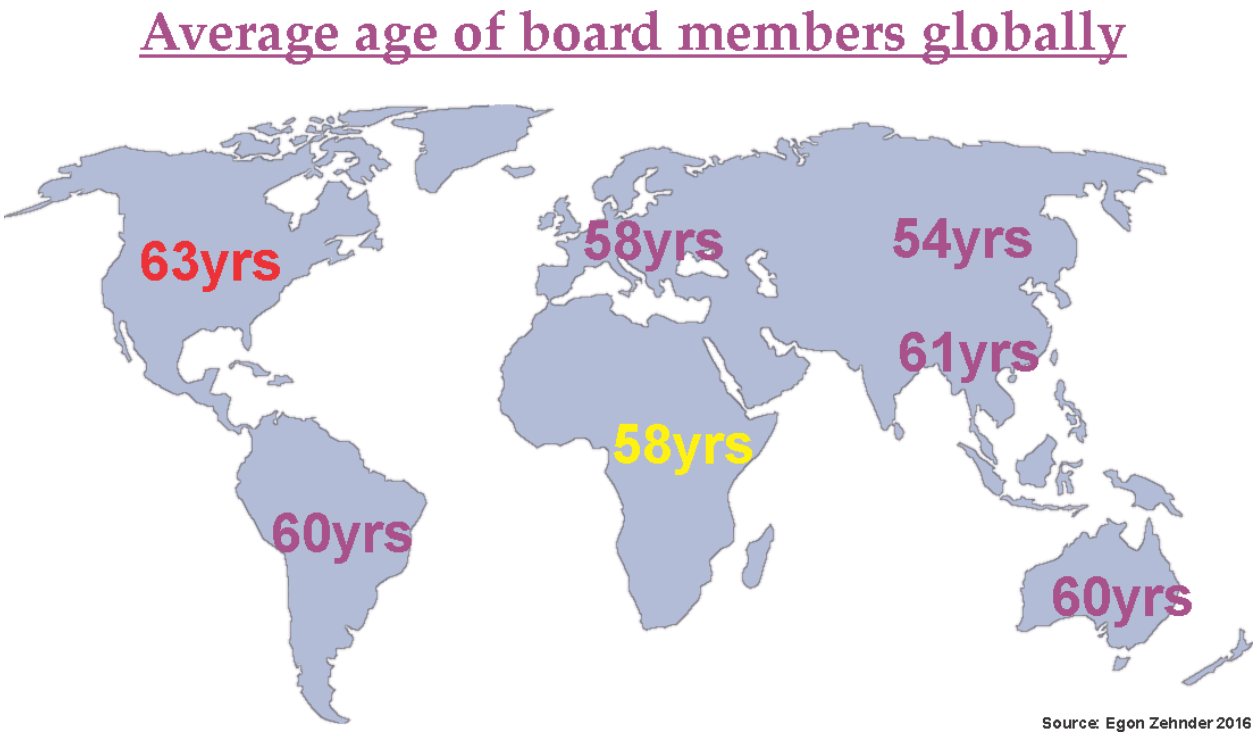


Figure 5: Average age of board directors globally by region

The average entry age into the boardroom averaged 50 years globally. A significant difference in entry age between the genders was noted with female board members entering as 48 years while their male counterpart had to wait until they are 52 years.

An article appearing in the *Huffington Post* in May 2017 notes that, "The lack of Millennials in the boardroom poses a real risk, not just to businesses, but to society as a whole. Millennials - aged 18-35 - make up the world's biggest demographic group and are expected to make up 50% of the workforce by 2020. They are unknowingly dictating the direction of change - be it in the context of technology or business strategy and models - and so it is essential for us to take their experiences, knowledge and expectations into account when making decisions on the direction of our own businesses."

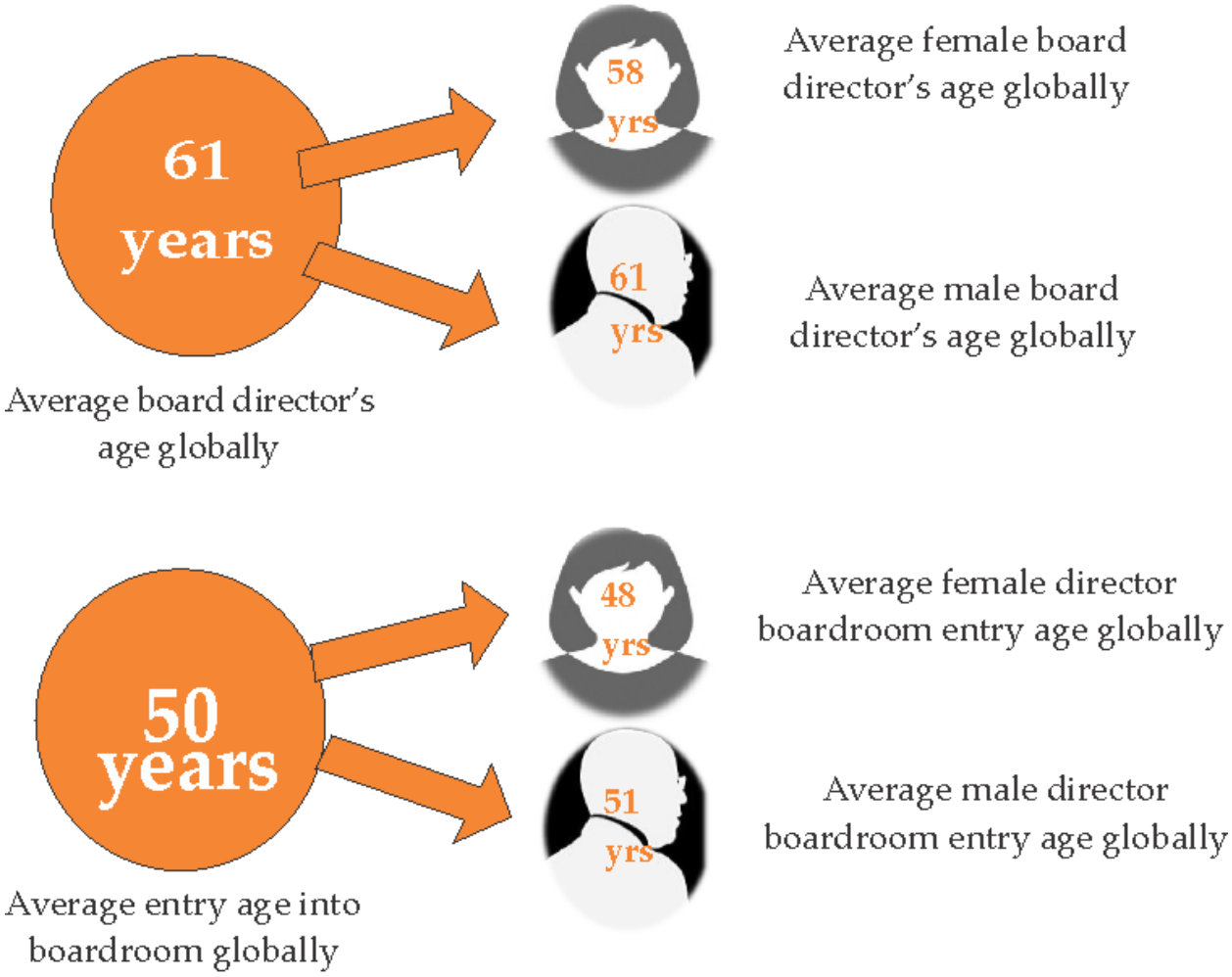


Figure 6: Average debut age into the boardroom globally by gender

Financial Times (2017) also notes that, "Age does get neglected; almost everything other than gender equality on boards can get a bit overlooked." It's also instructive to note that the early entry age of women in the boardroom is characterized by appointments to company executive positions.

Professional and educational background diversity

No data was found elsewhere in the globe on the distribution of various professions and education level in the board room making the research in Kenya one of a kind.

Nationality diversity

Further according to the EZ report, diversity of nationality is also trending as expansive viewpoints, experience and knowledge gained from working across cultures and geographies increase in importance. Globally, international representation is less common than gender diversity. Seventy percent of companies studied have at least one non-national director, compared with 84% that have at least one female director. Yet, 25% of the director seats we surveyed were held by non-nationals, compared with 19% held by women. While no country has more than 40% of its director seats held by women, there are 13 countries where more than 40% of the director seats are held by non-nationals like the UK, United Arab Emirates and Hong Kong.

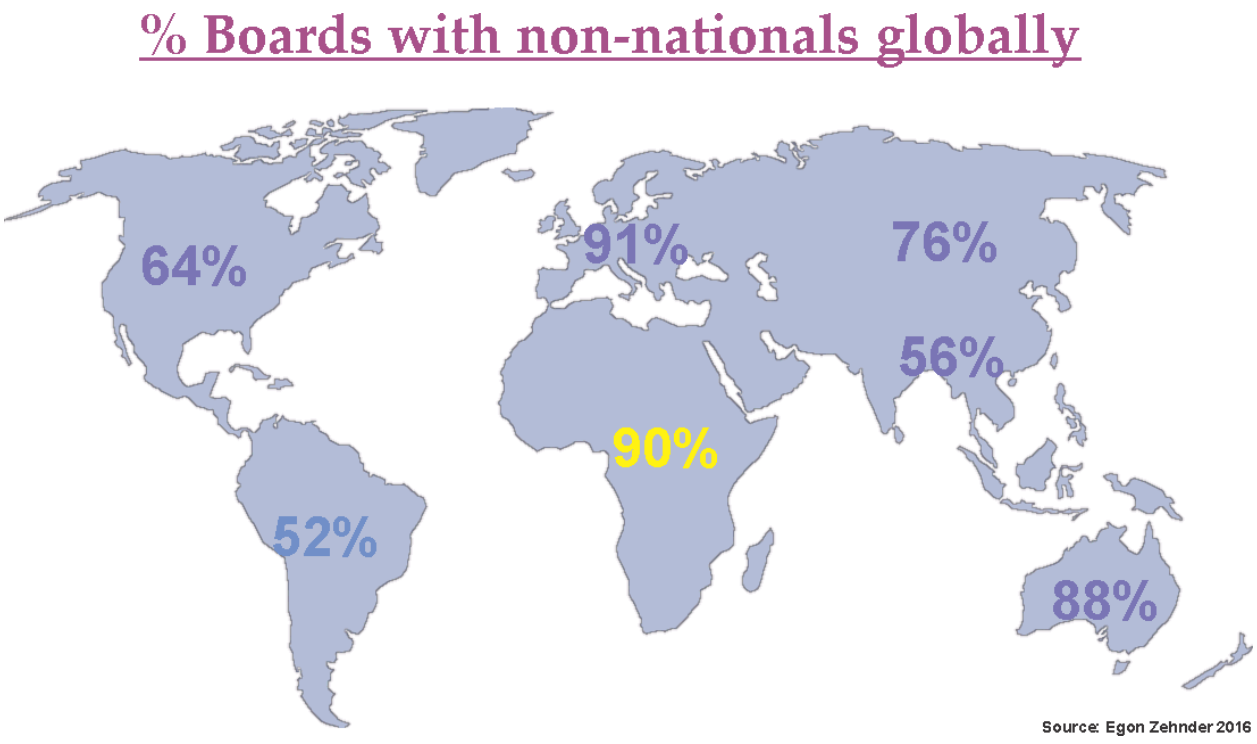


Figure 7: Non-nationals representation in boardrooms globally by regions

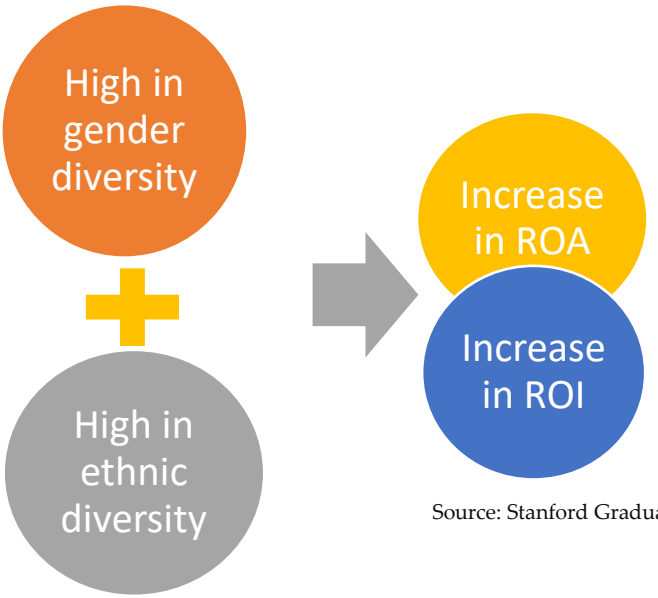
International diversity is often a by-product of other factors like local geography. U.S. boards are drawn from relatively insular networks with 11% non-nationals compared to the global average of 25%. On the other hand, Western Europe has a high level of non-national directors as do the Middle East and Africa due to the fluidity of cross-border labor markets making it easier to move jobs from one country to another.

Board diversity influence on financial performance

Globally, the Corporate Governance Research Initiative of the Stanford Graduate School of Business has comprehensively reviewed board diversity influence on a number of corporate outcomes in and below are the highlights;

They first note that, research evidence on board diversity and corporate outcomes is highly mixed. Further they cite, Erhardt, Werbel, and Shrader (2003) examination of the relationship between diverse boards and firm performance through a Sample of 112 companies in the Fortune 1000, 1993 and 1998.

They measured operating performance (ROA and ROI) at five-year intervals to determine whether an increase in board diversity (gender and ethnicity) is associated with an improvement in operating results. They found a positive association between diversity and performance and concluded that *diverse boards improve corporate performance* as illustrated below;



Source: Stanford Graduate School of Business

Figure 8: Sample of 112 Fortune 1000 companies in the in the years 1993 and 1998.

Another study by Ahern and Dittmar (2012) in Norway on the impact of gender quotas on governance quality and performance sampled 248 companies in between 2001-2009. A 2003 law required 40% of Norwegian directors to be female (up from 9% prior). They found that: board composition changed dramatically in terms of gender representation and also age, education, and experience with the law coming into effect, new female directors were younger and less experienced and the quota associated with significant decreases in firm value (Tobin's Q). They concluded that diversity quotas harm governance quality and firm value.

Figure 9: Sample of 248 companies in the years, 1998-2002 in Norway

Yet another study by Wang and Clift (2009) in Australia examined the relationship between diverse boards and firm performance in an international setting. A sample of 243 large Australian companies, in the years 2003-2006. Gender and ethnic diversity were tested separately. The relationship between boardroom diversity and subsequent operating performance (ROA, ROE, and total shareholder returns) were measured. They found no association between gender diversity and performance and no association between ethnic diversity and performance. Conclusion: *diversity has no impact on corporate performance.*

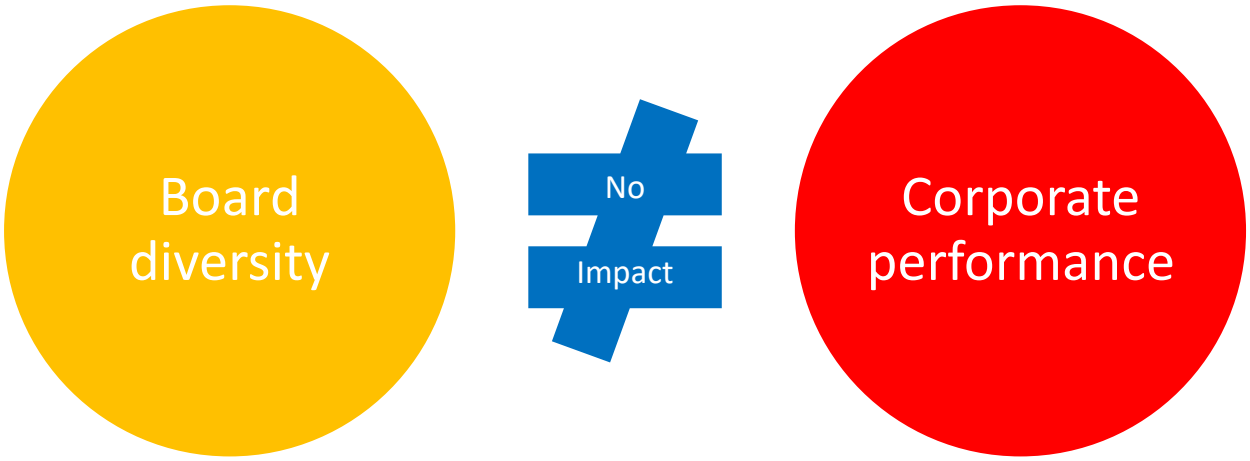


Figure 10: Sample of 243 large Australian companies, in the years 2003-2006.

The Stanford review of the relationship between boardroom diversity and corporate performance concludes that it's not conclusive. Research evidence is highly mixed, some studies have found positive, others neutral, and yet others negative effects. They note that "Diversity for the sake of diversity" tends to harm governance quality, primarily when it leads to forced turnover and the appointment of less experienced directors. They conclude that, "efforts to increase boardroom diversity are best addressed through concerted efforts to recruit qualified professionals rather than quotas."

Local Perspective from our Research Findings

The efforts culminating into this report took about two years mostly because of challenges experienced during the data collection stage. Coupled with un-responsive respondents and unfulfilled promises to revert back from the targeted company representatives, the data collection meant new strategies were adopted midway to

aggregate the data from secondary sources including financial reports, company webpages, press releases and even third party websites.

After all these efforts were combined, we managed to collect data from 52 out of the targeted 62 publicly listed companies in Kenya which translated to 84% response rate.

Gender diversity; Kenya

Women representation in listed companies' board room stand at 21% in 2017 up from 14% in 2012 and 18% in 2015.

Figure 11: Gender representation in NSE listed companies' boardrooms

While at 21% women representation in the board room Kenyan compares poorly with best practice markets like Norway and Finland, the growth towards parity is remarkable with representation going up by 50% in less than 5 years 2012-2017.

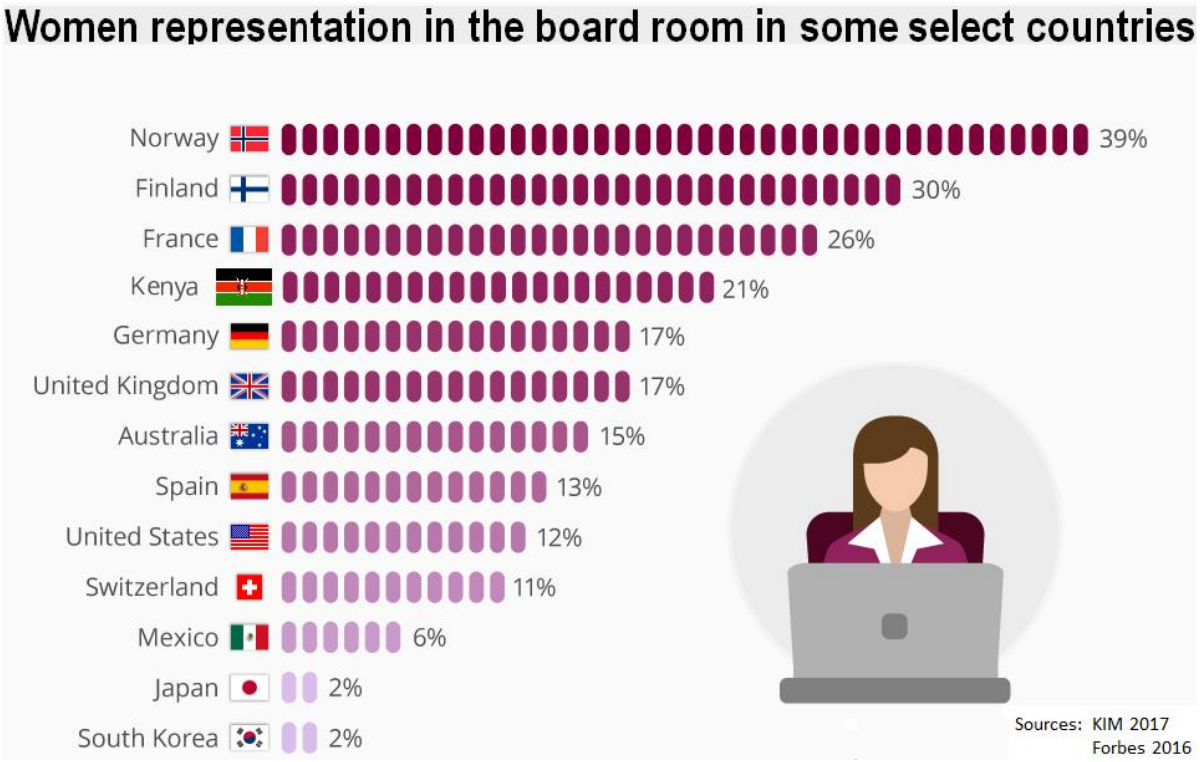


Figure 12: Kenya vs other countries in women boardroom representation

At current growth rates, gender parity in Kenya's corporate boardroom representation could be achieved in 10-12 years i.e. by the year 2030.

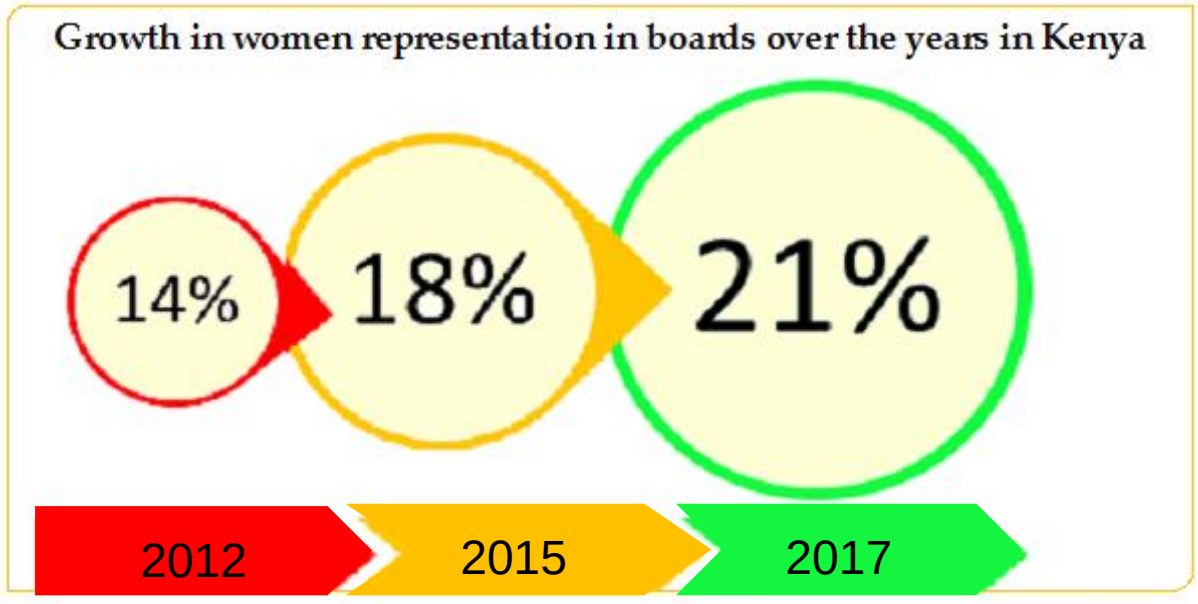


Figure 13: Growth in women representation in NSE listed companies' boardrooms

Retail had the highest representation of female directors but only constituted >2% of the total directors of the 52 sampled companies. Banking sector which had over 20% of the total directors had 24% female directors' representation.

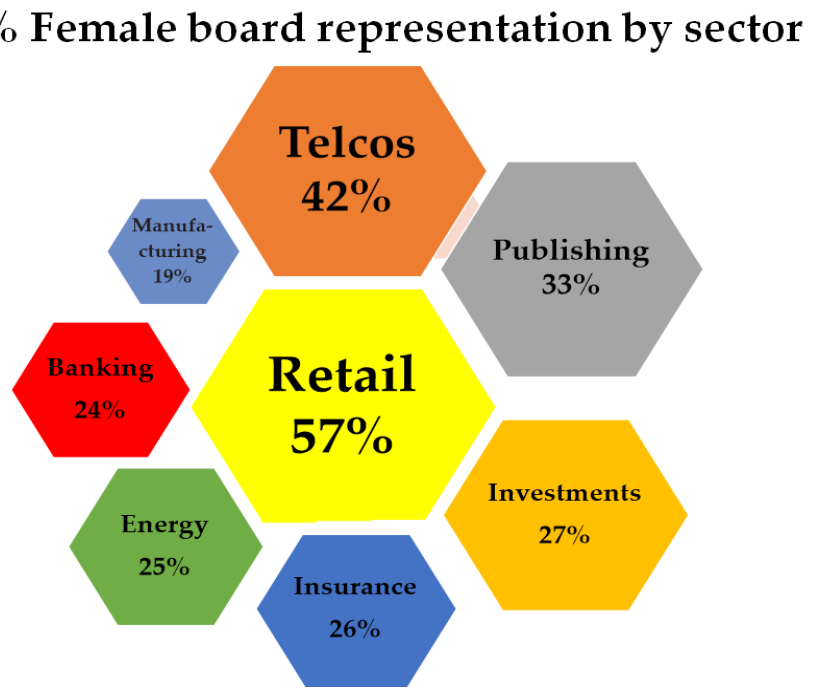


Figure 14: Representation of female board members by sector

Sectors with the lowest female representation included Agriculture (9%), Media (8%). Tourism and Hospitality (8%).

Board chair positions by gender

Board chairperson's positions are also heavily skewed towards the male gender with women chair at 7.7%; only 4 companies out of the 52 had female chairpersons. This however compares better to the global average of 4% and also other advanced markets like the US, Canada and Europe both Eastern and Western. In fact, Kenya is trailblazing here

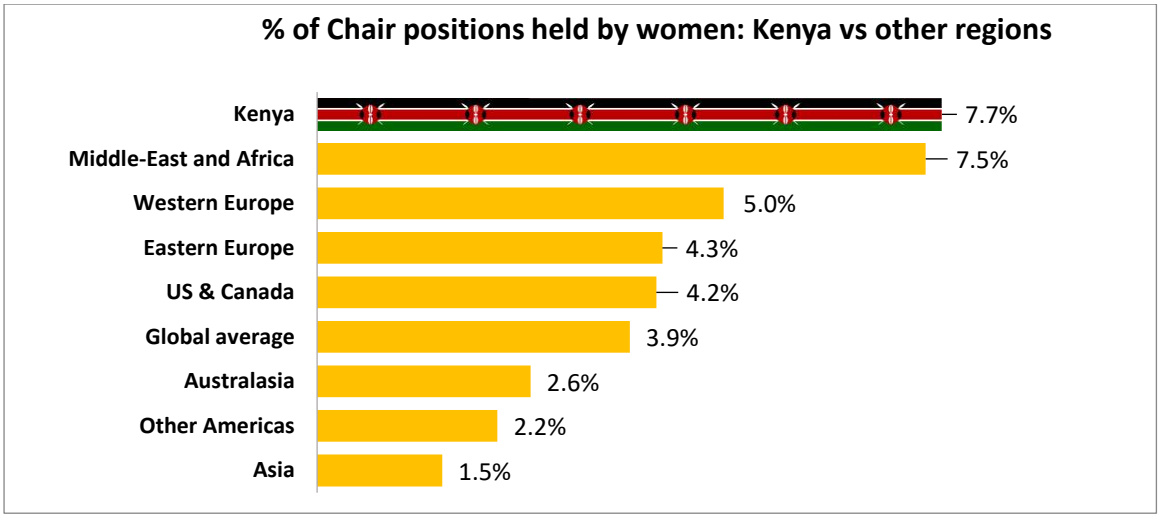


Figure 15: Women representation in chairperson's positions; Kenya Vs othe regions globally

This is unchanged between 2012, 2015 and 2017 where in these 3 intervening periods, female chair representation stood at ≈8%.

Figure 16: Women outnumbered 11 to 1 in board chairperson positions

While it may seem Kenya is leading the pack globally in women presence in board chair positions, it's far from attaining gender parity in the same area. In fact the situation has not improved in the last 5 years since 2012.

Gender diversity in senior management position: Kenya

We also made attempts to gather data on senior management of the listed companies especially on gender and age but the response rate were again low and efforts in getting this data from secondary sources only yielded from 44 companies out of the targeted 62 representing a 71% representation.

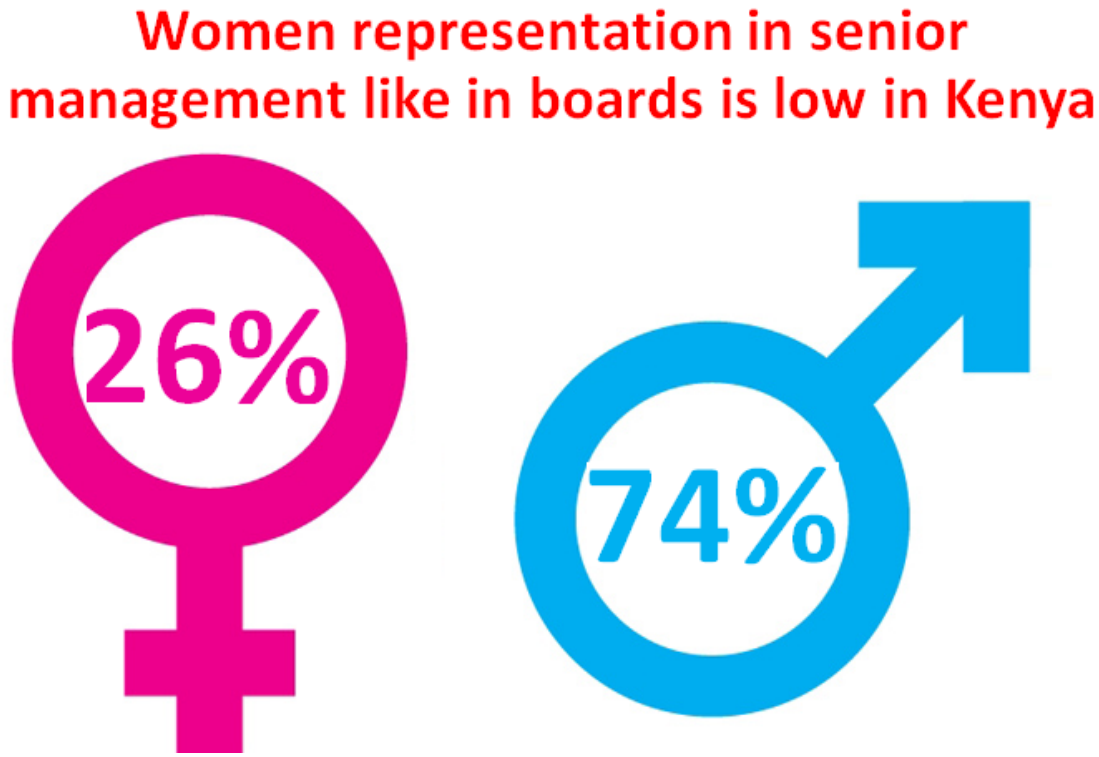


Figure 17: Women representation in senior management positions in Kenya's listed companies

Like in the boardroom, women representation in senior management was a quarter meaning the 1 woman for every three men in the senior management teams. In fact 4 organizations of the 44 had no single woman in the team.

Age diversity: Kenya

52.5% of the board members are in the age bracket of 45-49 years. Averagely, Kenyan board has an average of 55.8 years. This indicates that Kenya has lower board average age as compared to global average of 60.6 years.

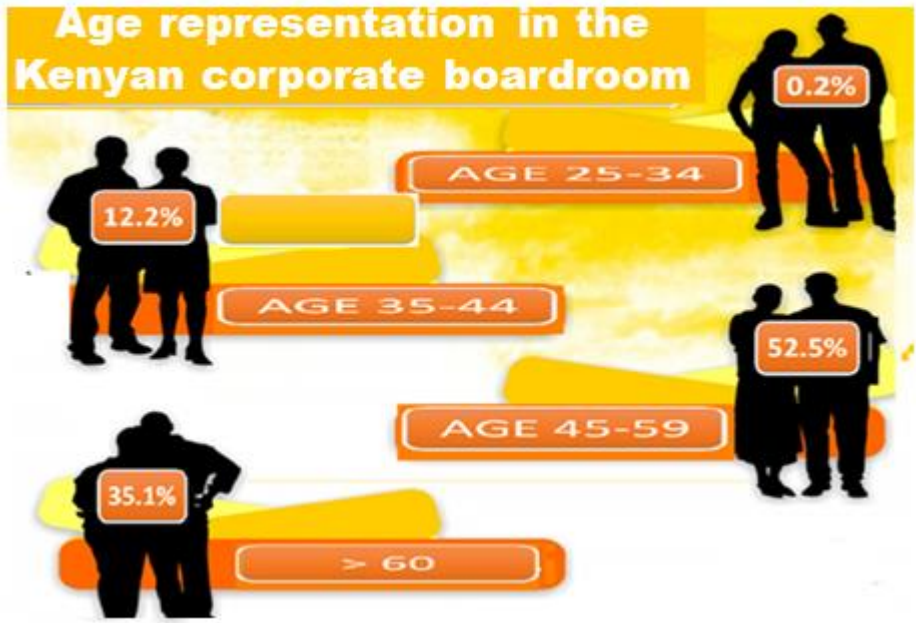


Figure 18: Age distribution of board directors in Kenya

Sixty-one percent of the female directors are in 45-59years bracket, compared with fifty percent male directors in the same age bracket. The average age of the women in the board 52.1 years compared to the global board's age 57.8 years. Men in the board had average age of 56.8years compared with the global perspective average age of 61.2 years.

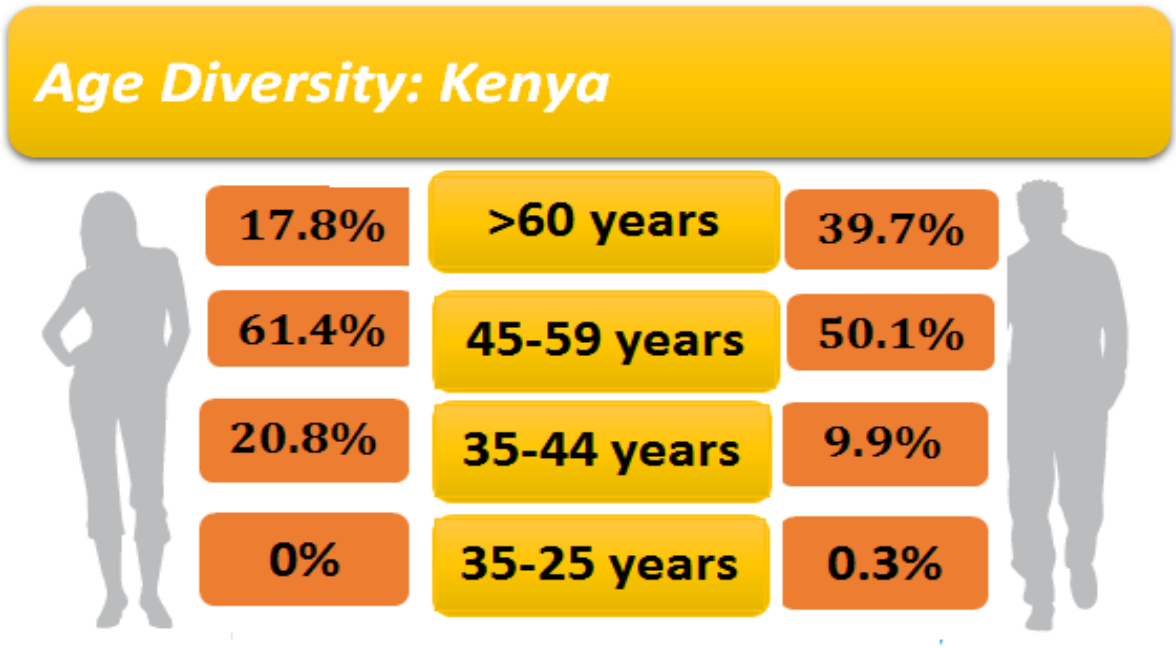


Figure 19: Age distribution by gender of board directors in Kenya

Generally, female board members tend to be younger as compared to their male counterpart.

Education diversity: Kenya

On academic qualifications, 48% of the board members have degree and this represent the majority. 38% have Post Graduate Diplomas.

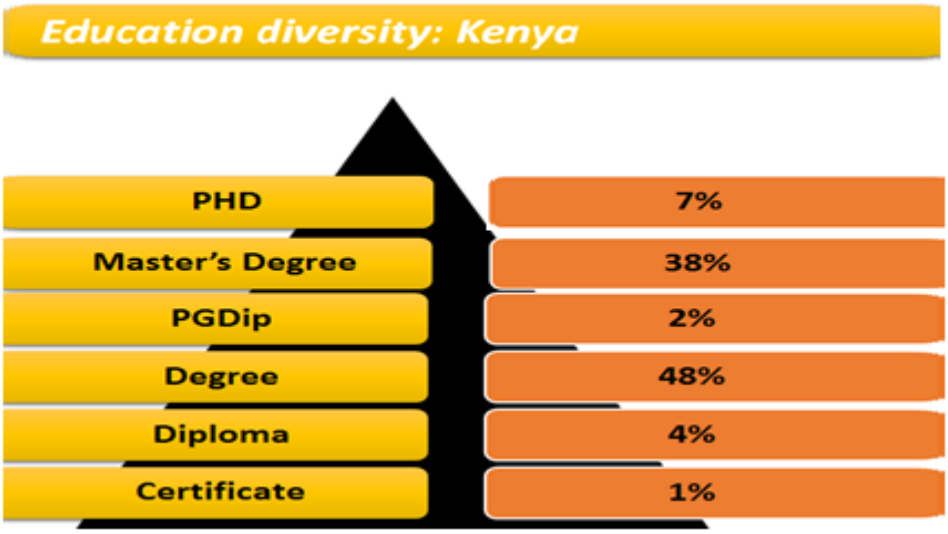


Figure 20: Education diversity Kenya

Comparing the board qualifications, women tend to be more educated than men with 54% of them having master and above compared to 43% men having Master and above.

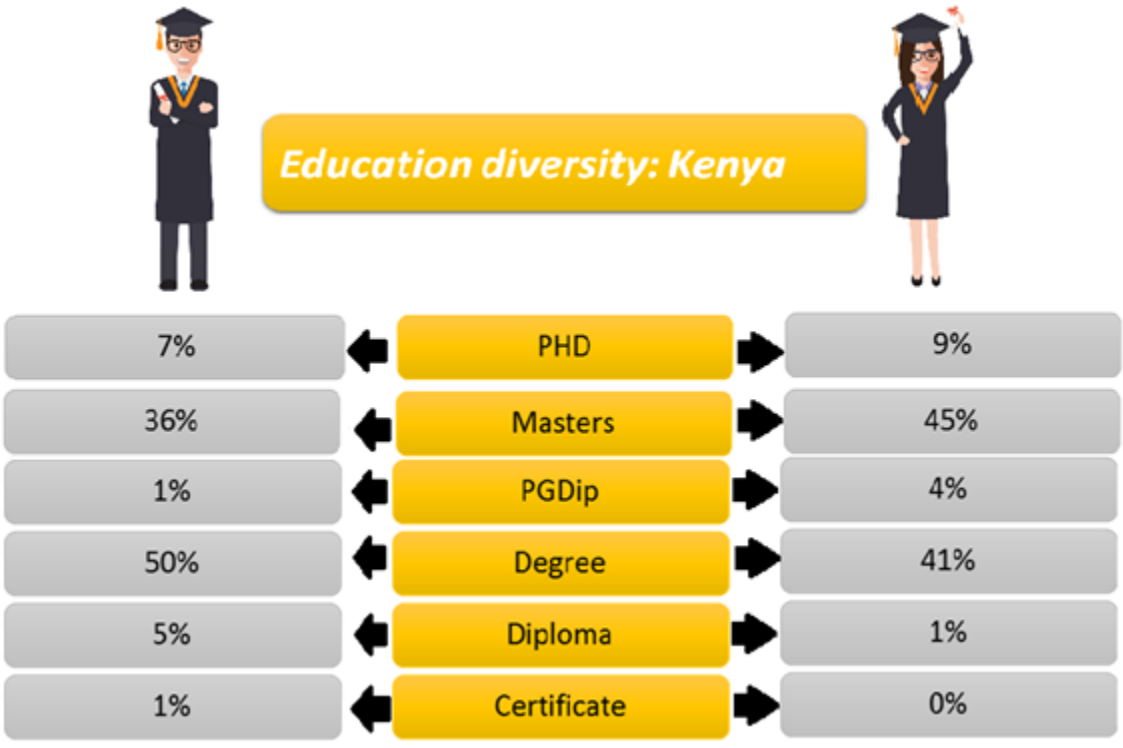


Figure 21: Education diversity in Kenya's corporate boardroom

Only 1% of women have diploma and below compared to 6% men with diploma and below. Women are therefore required to have more qualification to sit in a board compared to men.

Professional diversity: Kenya

Finance based professions accounted for about 50% of the board room careers with accountants/auditors, bankers and investment professionals leading the pack.

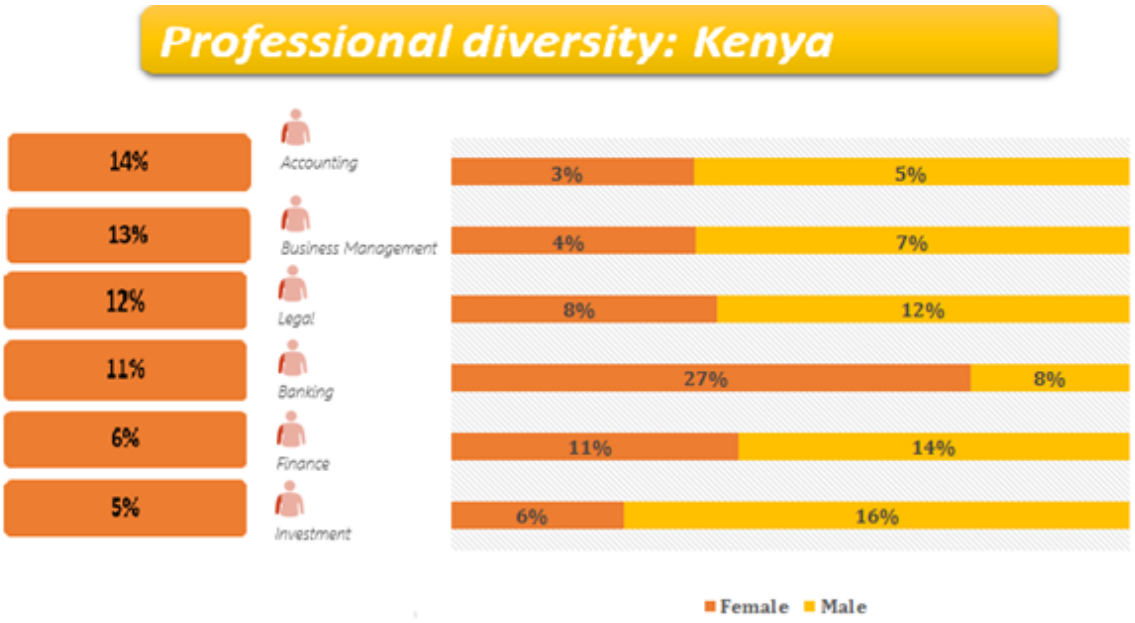


Figure 22: Professional diversity in Kenya's corporate boardrooms

Majority of the board members have accounting background presented by 14%. Most women board members have banking background resented by 27% and while majority of men board men have investment background (16%).

Nationality diversity: Kenya

Globally, 24.8% of the board members are non-national and non-national women board members are represented by 25.6%. In the survey, 13% and 22% are non-national women and men respectively. This is quite small nationality representation of men and women as compared to global figures.

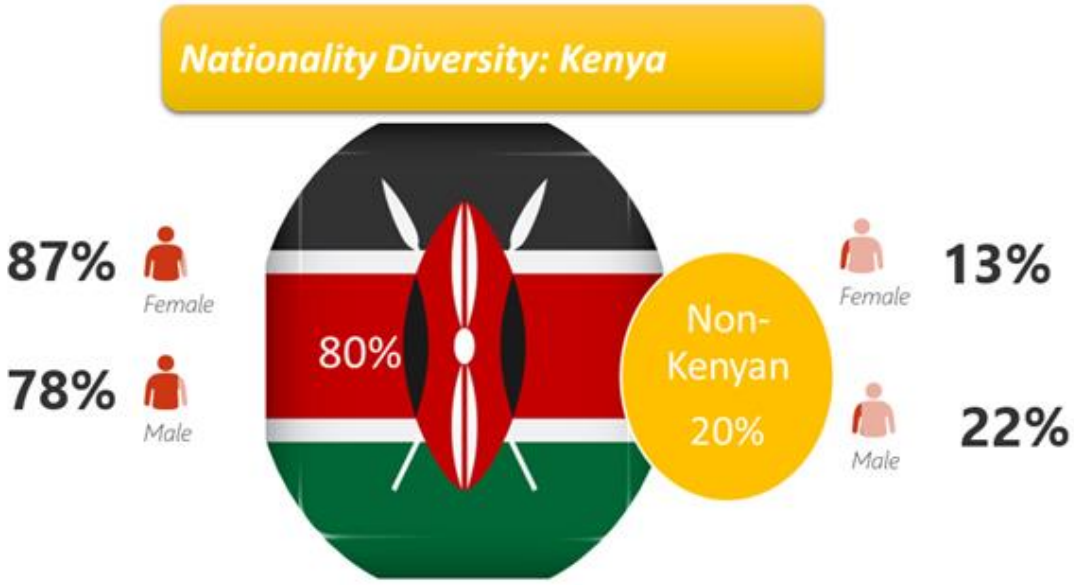


Figure 23: Non-Kenyan representation in Kenya's corporate boardrooms

Further only 62% of the 52 listed companies reviewed had non-nationals compared to the global average of 79% in listed companies elsewhere.

Board diversity influence on financial performance

The econometric model was regressed to investigate associations between various diversity indicators including gender, age and education level against performance measured by compound annual growth rate in the four years between 2013 when the two thirds gender rule was first passed in Kenya and 2016 the latest year with

available financial performance data. The regression approach would also help show if there is a significant relationship between board diversity and performance.

Influence of Gender on Organization Performance

Compounded annual growth rate (CAGR) using assets revenues and profits as a measure of financial performance were calculated over a 4 year period between 2013 and 2016. Difference in gender representation was split between those organizations that had attained at least 25% of female representation and those that had not since the average female representation was 25% of the 30 organizations with complete data. The table below presents group statistics analysis of significance of variation of change.

Table 1: Means of financial performance by gender representation

	One quarter rule compliant	*N*	*Mean*	*Std. Deviation*	*Std. Error Mean*
CAGR; Assets	No	19	0.066297	0.1225366	0.02811182
	Yes	11	0.209637	0.22701105	0.06844641
CAGR; Profits	No	19	0.058527	0.6523378	0.1496565
	Yes	11	0.176386	0.2853635	0.0860403
CAGR; Revenue	No	19	0.066298	0.1225366	0.0281118
	Yes	11	0.227857	0.2499115	0.0753511

Further, an independent t-test of the above indicators was done and the results are as illustrated below;

Table 2: Results of test of means difference between performance of one-quarter gender rule compliance and non-compliance

Independent Samples Test					
	t-test for Equality of Means			**95% Confidence Interval of the Difference**	
	t	**df**	**Sig. (2-tailed)**		
				Lower	**Upper**

CAGR Assets	**Equal variances assumed**	-2.259	28	0.032	-0.27334	-0.01334
	Equal variances not assumed	-1.937	13.446	0.074	-0.30266	0.01598
CAGR Profits	**Equal variances assumed**	-0.565	28	0.576	-0.54480	0.30909
	Equal variances not assumed	-0.683	26.629	0.501	-0.47229	0.23657
CAGR Revenue	**Equal variances assumed**	-2.385	28	0.024	-0.30030	-0.02282
	Equal variances not assumed	-2.009	12.839	0.066	-0.33553	0.01241

Results from the above analysis show that cumulative annual growth rate by assets and revenue over the four year period are significantly different between companies that are compliant to at least one-quarter gender rule and those that are not (*P Value = 0.032 for CAGR calculated by total assets and P-Value = 0.024 < 0.*05 for CAGR calculated by revenue). This means that there is significant difference on financial performance amongst companies that have at least 25% representation of women compared to those that are not meaning we reject the null hypothesis.

Influence of Age on Organization Performance

The diversity of age in board membership was measured using a measure of dispersion in the shape of variance and standard deviation and the sample split into two by the average of the variance age (36 years) while performance was measured using compounded annual growth rate as indicated by assets, profits and revenue. The results were as shown below;

Table 3: Means of financial performance by age dispersion

Group Statistics					
	Age variance 36 years	**N**	**Mean**	**Std. Deviation**	**Std. Error Mean**
Assets CAGR	No	17	0.102951	0.097749	0.023708
	Yes	13	0.139653	0.252645	0.070071
Profits CAGR	No	17	0.036351	0.600410	0.145621
	Yes	13	0.187253	0.468622	0.129972

Revenue CAGR	No	17	0.102951	0.097749	0.023708
	Yes	13	0.15507	0.274437	0.076115

Further, an independent t-test of the above indicators was done and the results are as illustrated below;

Table 4: Results of test of means difference between performance of age dispersion

Independent Samples Test						
		t-test for Equality of Means			**95% CI of the Difference**	
		t	**df**	**Sig. (2-tailed)**	**Lower**	**Upper**
CAGR Assets	**Equal variances assumed**	-0.55	28	0.587	-0.1734	0.1000
	Equal variances not assumed	-0.496	14.76	0.627	-0.1946	0.1212
CAGR Profits	**Equal variances assumed**	-0.748	28	0.461	-0.5644	0.2625
	Equal variances not assumed	-0.773	27.975	0.446	-0.5507	0.2489
CAGR Revenue	**Equal variances assumed**	-0.728	28	0.473	-0.1987	0.0945
	Equal variances not assumed	-0.654	14.34	0.524	-0.2227	0.1185

The analysis of difference in financial performance between age dispersion above and below the average of the variance age (36 years) did not yield any significant results *(All P-Values>0.05)*. We therefore cannot reject the null hypothesis that age diversity of board members has no effect on a firm's financial performance.

Highest education level diversity like age diversity of board members was similarly found to have no significant effect *(All P-Values>0.05)* on financial performance.

Conclusion

The study has revealed the extent to which certain demographic characteristic of board members can influence certain attributes of organizational performance amongst the organizations surveyed. Differences are noted when it comes to assets and revenue growth when board members of one gender do not exceed a certain percentage. Age diversity as measured by dispersion with variance and education level as also measured using variance, did not reveal any significant effect on financial performance. It can therefore be concluded that gender diversity when female representation is at least 25% has had a positive influence on the organizations' compounded annual growth rate of assets and revenues.

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