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Regulatory Enforcement, Gender Quotas, and Women on Board: Evolution and Firm Performance

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Introduction

One of Sustainable Development Goals (SDGs) established by the United Nations in 2015 is goal 5 (SDG 5 or global goal 5) concerns gender equality. Target 5.5 (Ensure women's full and effective participation and equal opportunities for leadership at all levels of decision-making in political, economic, and public life) is seen as an important cornerstone of gender equality. Furthermore, indicator 5.5.2 considers the proportion of women in managerial positions as a means towards achieving the global goal 5.

So, there are several questions that deserve answers: Does gender diversity matter? And what are its implications on regulatory environment, and its effects on firm performance? The easiest to answer of these three questions is probably the first, since there is bulk of theoretical arguments and several empirical findings that show that companies that enjoy an acceptable level of board diversity, in terms of women participations on boards, tend to be more efficient and more profitable than those with less diversity. The second question is perhaps the most interesting because it has, recently, spawned rich actions taken by different policymakers and regulators to impose women quotas on boards, mainly for publicly traded companies. The upshot of these actions is to empower women economically, on the ground that women participation in economic activities and decision-making will have a positive impact on the economy at large. What makes this finding interesting is its implications for the third question, since there is no consensus in the literature and empirical evidence on the impact of women on boards on firm performance. As a result, one could conclude that gender diversity, in terms of women participation on boards, or the lack of it is immaterial to firm performance.

In fact, corporate governance can best be interpreted as the set of mechanisms—both institutional and market-based—that induce self-interested managers (controllers of the firm) to make decisions that maximize the value of the firm to its shareholders (owners of the firm). The aim of these mechanisms, of course, is to reduce the agency costs that arise from the principle-agent problem, which could be internal and/or external in nature.

With regard to internal mechanisms, they deal with several issues such as the ownership structure or the degree at which ownership by managers obviates the trade-off between alignment and entrenchment effects. Another important internal mechanism is the composition of the board of directors, such as the distinction between the chief executive officer (CEO) and the chairperson, and the proportion of independent outsiders in the board. Recently, the issue of gender diversity, in terms of the proportion of women on boards, became an important element of internal corporate governance mechanism and it attracts researchers to understand its impact on firm performance.

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External mechanisms, on the other hand, rely among other things on the legal/regulatory system.

In this venue, we find number of actions in form of legal/regulatory enforcements regarding women quotas on boards, which will change the landscape of board composition and the way boards are functioning. The ultimate impact of the corporate governance system on firm performance is subject to debate among scholars. The principle of equality of treatment is the driver behind the desire to achieve proportionate gender representation on boards, which requires comparable situations to be treated in the same manner and prohibits direct and indirect discrimination (Watson, 1995). Equality of treatment refers to either equality of opportunity or equality of outcome (McCoy Family Center for Ethics in Society).

Equality of opportunity requires providing everyone with the same opportunity to attain what they desire (UN, 2016a), while equality of outcome requires every individual to possess an equal share of outcomes such as goods or positions (UN, 2016b). One approach taken by governments/regulators to achieve gender equality on boards is to put in place legislation requiring a set quota of female representation on boards. The quota system is simply what we have illustrated above regarding the concept of equality of outcome approach, which is concerned with the result rather than the means of achieving such a result. Terjesen, et al. (2015) indicate that ten countries have imposed quotas for women representation on board for publicly traded companies and/or state-owned enterprise, ranging from 33 to 50 %. Fifteen other countries have introduced non-binding gender quotas in their corporate governance codes enforcing a comply or explain principle.

They argue that countries that adopt gender quotas tend to have three key institutional factors: Female labor market and gendered welfare state provisions, left-leaning political government coalitions, and path dependent policy initiatives for gender equality, both in the public realm as well as in the corporate domain.

The matter of the fact is that countless other countries are in the process of debating, developing, and approving legislation around gender quotas in boards and this is not limited to developed market, but there are several emerging markets that have done so. Egypt's sustainable development goal 2030 vision targets 30 percent of women in senior management and leadership positions by the year 2030. The financial regulatory authority (FRA)—the single regulator for non-bank financial institutions (NBFIs) 4 in addition to stock exchange—issued a series of decrees to achieve this vision for listed companies as well as NBFIs. In the fourth quarter of 2019, FRA issued two decrees (No. 123 and 124 of 2019) that amend listing and delisting rules to ensure women representation on boards of listed companies. That is besides an amendment to licensing rules and regulations of NBFIs in a way that guarantees female representation on corporate boards. Both decrees impose the rule of at least one woman on board of these companies.

The FRA decrees were based on the ground that achieving equality between women and men in all civil, political, economic, social, and cultural rights is mandated by the state in accordance with the provisions of Article 11 of the Egyptian Constitution of 2014, and the state guarantees females the right to assume public and senior management positions. Two years later, the FRA amended the above-mentioned two decrees and replaced them with decrees (No. 109 and 110 of 2021) stipulating that listed companies as well as NBFIs should have at least 25 percent women on board or two women. But why are policymakers and regulators of developed and emerging markets, alike, engaged in supporting women economic empowerment in general and woman participation on boards in particular? The phenomena of gender diversity in the board suggests that women consider more ethical and social behaviors than men, so having gender diversity in the board will assure better board performance in terms of control and strategic role (Mahmood et al., 2018; Kang et al., 2010). It is also argued that women, by nature, can better understand customers' needs and behaviors, so having them on board might provide more

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insights about the firms' opportunities in meeting their customers' needs (Ahmadi et al. 2018). In addition, gender diversity is expected to lead to support alleviates agency issues and could encourage firm innovation by ensuring effective supervision (Chen et al., 2018). Furthermore, several other academic studies claim that women on boards can improve the diversity of opinions in the boardroom; provide the woman role models, mentors and leadership style; bring strategic input to the board of directors; contribute to reducing the level of conflict of interests; introduce better multi-tasking skills, methods of risk management and communication abilities as compared to their male counterparts; and influence the quality of the decision-making process (Bernardi et al., 2002; Carter et al., 2003; Fehr-Duda et al., 2006; Nielsen and Huse, 2010). Empirically, and despite a relatively large literature examining the impact of women on boards on firm performance, the evidence is not very clear.

Some studies find a positive impact, others a negative one and still others with no impact at all. In a seminal paper, Post and Byron (2014) try to find an answer so as to how to reconcile these conflicting findings. They statistically combined the findings from 140 studies and examined whether the variables in these findings could be attributed to firms' legal/regulatory and socio-cultural contexts. The study finds that women representation on boards is more positively related to accounting returns in countries with stronger shareholder protections.

They argue that shareholder protections might motivate boards to use the different knowledge, experience, and values that each member brings to the board. As for the impact of women on boards on market value of firms, they conclude that the relationship is positive in countries with greater gender parity (and negative in countries with low gender parity), although, on average, the relationship is near-zero. They argue that investors' evaluations of future earnings of firms with more women on boards might be influenced by societal gender differences in human capital.

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Biography

Currently, Mohamed Omran is a Professor of Finance at the Faculty of Management and Technology at the Arab Academy for Science and Technology. He has held the position of Chairman of the Stock Exchange since 2017 till 2022, and he held the position of Vice-President of the Insurance Holding Company for Operations Affairs from October 2010 until September 2011, and he served as Vice-President of the Egyptian Stock Exchange for 4 years, in From 2006 to 2010, he obtained a Doctor of Philosophy in Finance in 1999 from the University of Plymouth in the United Kingdom, and then worked as a visiting professor in many universities and research centers such as the University of Plymouth in the United Kingdom, the University of Oklahoma in the United States, the World Bank, Laville University in Canada and the University of Vasa in Finland.

Dr. Omran spent several years as an economist at the Arab Monetary Fund in Abu Dhabi and the International Monetary Fund in Washington, and worked as an advisor to the Egyptian Minister of Investment and as the acting executive director of the Egyptian Center of Directors. and research awards.

He also received a Fulbright grant and is a Research Fellow at the Economic Research Forum. He has arbitrated for a large number of international refereed journals in the field of economics and finance.

Dr. Omran specializes in financial markets, corporate governance, corporate finance, and privatization with a focus on the Middle East. He has written and participated in nearly 40 scientific papers, and his research has been published in many international journals.

He held the position of Chairman of the Egyptian Stock Exchange from September 2011 until the end of June 2013.