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Kasimir Sääksmäki

# THE STRUCTURE OF BOARDS OF DIRECTORS AND FIRM PERFORMANCE IN FINNISH BANKING

– Focus on size and gender diversity



TURUN AMMATTIKORKEAKOULU  
TURKU UNIVERSITY OF APPLIED SCIENCES

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Eija Koivisto

Kasimir Sääksmäki

# THE STRUCTURE OF BOARDS OF DIRECTORS AND FIRM PERFORMANCE IN FINNISH BANKING – FOCUS ON SIZE AND GENDER DIVERSITY

Banking and financial services in general are much regulated industries worldwide and therefore it is important to find out how the composition of boards of directors affects firm performance. Banking and finance sector has a remarkable role in financing other industries and households, which makes it a powerful industry. The recent banking crises have shown the consequences of weak firm performance, which has led to more interest on different factors and predictors behind firm performance in banking.

This present Master's thesis is an empirical study of the boards of Finnish banks and especially of the effects of board size and gender diversity on their performance. I am unaware of similar studies in the Finnish banking industry, which led to the idea to study this field further in order to find out if there is a regression between firm performance and the structure of boards of directors of Finnish banks.

This paper starts with a comprehensive literature review on the topic and after that the empirical results and conclusion of this study are presented. Literature review is mainly based on the discussion of recent studies of Finnish banking industry, corporate governance, bank regulation, organization theory, board structure and firm performance.

It was hypothesised that bigger boards would perform worse than smaller boards. It was also expected that gender diversity would have only a little effect on Finnish banking. This paper uses regression analysis as the empirical method and the results show that both board size and gender diversity had very little impact on firm performance. These results are controversial to the earlier similar studies outside Finland.

The homogeneity in the structure of boards of directors is making size and gender diversity bad predictors of firm performance in Finnish banking. The future studies should include the role of inside and outside directors, as they might be better predictors of firm performance in the Finnish banking industry.

## KEYWORDS:

Boards of directors, bank regulation, board structure, financial services, firm performance

Kasimir Sääksmäki

# HALLITUKSEN RAKENTEEN VAIKUTUS YRITYKSEN SUORITUSKYKYYN SUOMEN PANKKIALALLA

Pankit ja rahoituslaitokset ovat erittäin säänneltyjä toimijoita niin Suomessa kuin kansainvälisestikin. Siksi on tärkeä ymmärtää, miten pankin hallituksen rakenne vaikuttaa sen suorituskykyyn. Finanssipalveluilla on erittäin suuri rooli yritysten ja yksityisten kotitalouksien rahoittamisessa. Viimeaikaiset pankkikriisit ovat osoittaneet, kuinka dramaattisia seurauksia huonolla suorituskyvyllä on maailmanlaajuisesti.

Tämän opinnäytetyön tarkoituksena on tutkia pankkien hallituksen rakenteen vaikutusta niiden suorituskykyyn Suomen pankkialalla. Tässä tutkimuksessa on keskitytty naisten määrän ja hallituksen koon vaikutuksen tutkimiseen. Aihetta ei ole Suomessa ennen tutkittu, ja siitä johtuen pankkien hallitusten rakenteiden mahdollinen suhde niiden suorituskykyyn on tärkeä tutkimuskohde.

Opinnäytetyö alkaa kattavalla teoriaosuudella, joka keskittyy pääasiassa tarkastelemaan aiheeseen liittyvää tutkimusta Suomen pankkialasta, organisaatioteoriasta, sääntelystä, hyvästä hallintotavasta, hallitusrakenteista ja taloudellisen suorituskyvyn mittareista pankkialalla. Ensimmäisenä hypoteesinä oletetaan, ettei naisten määrällä suomalaisten pankkien hallituksissa ole merkittävää vaikutusta niiden suorituskykyyn. Toisen hypoteesin mukaan hallituksen koon kasvaessa sen suorituskyky heikkenee.

Regressioanalyysin tulosten mukaan hallituksen koko ja naisten määrä eivät kumpikaan merkittävästi vaikuta pankkien suorituskykyyn Suomessa. Tutkimustulokset eroavat kansainvälisistä tutkimuksista, joissa suurimmassa osassa on havaittu negatiivinen regressio hallituksen koon kasvun ja yrityksen suorituskyvyn välillä. Tutkimustulosten perusteella voidaan todeta, etteivät hallituksen koko ja naisten määrä hallituksessa ole parhaita mahdollisia selittäjiä suorituskyvyn muutoksille. Suomalaisten pankkien hallitukset ovat rakenteeltaan melko homogeenisiä, mikä osaltaan selittää naisten määrän ja hallituksen koon vaikutuksen heikkoutta. Tulevaisuudessa samanlaisissa tutkimuksissa tulisi tutkia myös yrityksen hallituksessa istuvien omistajien ja ulkopuolisten henkilöiden määrän vaikutusta pankkien suorituskykyyn.

## ASIASANAT:

Hallitukset, pankkien sääntely, hallituksen rakenne, finanssipalvelut, yrityksen suorituskyky

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# 1 INTRODUCTION

## 1.1 The background of the thesis

The banking and finance are strictly regulated industries both in Finland and internationally in general. Corporate governance acts and regulations affect the banking industry probably more than any other business and therefore it is important to understand the role of boards of directors in terms of their capabilities to work in a regulated and unstable environment. (Pathan and Faff 2013, 1573.)

Banks and financial institutions are usually the most important financers of service business companies and therefore this research is very much related to the hospitality industry, too. A well performing banking industry is vital for any business and therefore it is important to study the different contributors to banks' performance. (Pathan and Faff, 1573.)

In board of director literature it is a recurring theme that there is a relation between board composition and firm performance. Researchers have found a relation between the board composition and the economical aspects of organizational performance in international studies. Therefore it is important to research this topic in order to find out whether similar kind of relation can be found in Finland and more precisely in Finnish banking. (Siciliano 1996, 1.)

## 1.2 The research problem, the objectives and limitations of the thesis

This paper was conducted in order to find out how the structure of boards of directors affects firm performance in Finnish banking industry. The idea for this paper came from doctor Pekka Vahtera, who works as a lecturer and researcher at Leeds University Business School in United Kingdom. He has studied similar kinds of topics and the purpose of this paper is to support his continuous research in social relations and strategic management in general. He also supported this paper by acting as an external mentor and advisor.

I am unaware of earlier similar studies in the Finnish banking industry. This paper concentrates on the effects of board size and gender diversity and excludes some other possible structure variables, such as the role of independent and inside members of a board. This paper is similar to the one of Pathan and Faff (2013) who have studied how board structure affected firm performance in large US bank holding companies over the period 1997- 2011.

As there is a lack of existing studies on how gender diversity or board size would effect firm performance in the Finnish banking industry, my hypotheses will be based on earlier non- financial studies and results of studies conducted outside Finland.

There is a lot of external pressure for companies to add women on the boards for good governance reasons. That is one of the reasons why companies have more gender diversifed boards. Anyway, earlier studies show little relation between gender diversity on boards and firm performance. (eg. Pathan & Faff 2013, 1573.) and (Adams & Ferreira 2009, 291.). Therefore there is not a reason to expect more gender diversifed boards of Finnish banks to perform better. An earlier study in Norway (Where they have women quotas) also found a negative relation between more gender diversifed boards and firm performance (Adams & Ferreira 2009, 292.) which leads to the expectation that there will not be a negative relation between more gender diversifed boards since there are not women quotas in Finland.

H1. There is not any significant relation between gender diversity on boards and firm performance in the Finnish banking industry.

Most of the prior studies concerning the board size and firm performance have found a negative relation between them. In other words, larger boards have been proven to have a negative impact on firm performance. Yermack (1996, 185.) and Eisenberg et. al (1998, 35.) were some of the first researchers who could prove that in non- financial firms and for example Pathan & Faff ( 2013, 1573.) have found similar results in the banking industry. Knowing that decision

making and monitoring gets harder in larger boards, it can be expected that a larger board has a negative impact on firm performance.

H2. Increase in board size has a negative impact on firm performance in the Finnish banking industry

### 1.3 The research method of the thesis

This paper uses regression analysis as a research method. The target of the regression analysis is to find possible causality between variables and present it in a mathematical model. Multiple regression analysis was used as a method in this paper to find out the possible causality between board structure variables (board size and percentage of females) and bank performance measures Net interest margin, Return on average assets and Return on average equity (NIM%, ROAA%, ROAE%).

The fundamental idea of multiple regression analysis is to examine how well a set of variables is able to predict a particular outcome. It also shows which variable within a set of variables is the best predictor of an outcome and whether a particular predictor variable is still able to predict an outcome when the effects of another variable are controlled for. (Pallant 2005, 140.)

There are many different types of regression analyses that can be used but standard multiple regression was used in this paper. In that type of regression analysis all the independent (or predictor) variables are entered into the equation simultaneously. Every independent variable is evaluated in terms of its predictive power, over and above that offered by all the other independent variables. (Pallant 2005, 141.) This type of regression analysis was used in this paper since there are two independent variables (size of a board and the percentage of women on a board) and I wanted to find out how much variance in dependent variables (NIM%, ROAA%, ROAE%) they were able to explain as a group or block. Standard multiple regression also shows how much unique variance in the dependent variable each of the independent variables explains.

#### 1.4 The structure of the thesis

This paper starts with a comprehensive literature review of the topic. First, the recent history and current situation in the Finnish banking industry is reviewed as an introduction to the topic. After that I continue discussing of related subjects, such as organizational theory, corporate governance and regulation in order to give a broader perspective on the topic. The literature review ends with a discussion of recent studies on gender diversity and board size as they are the main items of study in this paper. I have mainly focused on studies and literature related to the finance sector but also included some aspects from non-finance studies and literature in areas where there has been a lack of existing literature in banking and finance. The literature review is followed by chapters of empirical results and conclusion.

## 2 LITERATURE REVIEW

### 2.1 Finnish banking industry

#### 2.1.1 The recent history of the Finnish banking industry

Finland saw the biggest changes in its banking industry after a deep recession and banking crisis in the early 1990s. The crisis resulted in the failure of several major banks and of one bank group. This crisis led to a merger of two major bank groups and also started a reorganization of the markets with the rationalization of local branch networks. (Koponen 2008, 13.)

Information technology advanced rapidly in late 1990s, which also had a big impact on the Finnish banking industry. Remote access technologies changed customer behavior, which led to an increased number of branch closures around the country. Simultaneously the automation of payment systems (from paper-based money transfers to electronic interactions) has had a very positive impact on the productivity of Finnish banks. The development of information technology has had two opposite effects on banking. Decreased level of face-to-face service has made local knowledge and relationships weaker but the development of Internet also has made it much easier for firms and customers to find information. (Koponen 2008, 14-22.)

Saksi (2013,10) argues that there has been a change in the leadership culture of Finnish banks in the last few decades. Authoritarian management culture has changed to a more transparent and democratic way of leadership. He says that there used to be a culture of cronyism in 1980s and 1990s but it has changed through increased transparency and regulation by the state. In the 1990s it was not abnormal that a politician was a member of a board, a customer and a branch manager of a bank at the same time. This would not be possible anymore due to current legislation and control by government.

Finnish banks and insurance companies used their power remarkably in other industries in 1990s as well. This was done through simultaneous board memberships across different industries. A good example of this was a big bank merger that also led to merger in the Finnish forest industry in 1990s. This shows the importance and power of the Finnish finance sector companies during that era. (Saksi 2013, 11.)

Ruuskanen (2009, 69) argues that Finnish banks favoured top management incentive programs that were focused on maintaining and growing balance sheets in the 1980s. He points out that it was one of the major reasons why branch managers were taking risks that ultimately led to the banking crisis. Although it was illegal to link an incentive program to the extent of banking business, it was common practice.

### 2.1.2 Finnish banking industry today

The banking industry has developed a lot during recent decades but banks basically still have three main reasons why they operate. These include the redistribution of resources, decentralisation of risks and the maintenance of functional and reliable payment systems. On an operational level the main duties of banks are payment transfers, borrowing and lending. Successful banking is mainly based on managing different risks, which can be categorized as credit risks, market risks (currency risks, interest risks, liquidity risks) , operative risks (reputation risk, law risks) and strategic risks. (Ruuskanen 2009, 6-7.)

As it was pointed out earlier, cronyism is probably not an important force in Finnish banking industry anymore. Increased control and regulation has made decision making more open and transparent and for example board memberships in many firms of key industries are not common if even possible. In the 21st century Finnish banks have changed their investment strategies to more net income based strategies and the ownership relations in Finnish business do not play that significant role anymore. (Saksi 2013, 11.)

The role of the banking industry is essential in Finnish society. There were four finance sector firms in the top 15 payers of company tax in 2012. (Saksi 2013, 11). Finland is a bank- dominated economy, but the use of new financial instruments and the entry of institutions for corporate finance has occurred. The behaviour of household saving has also changed and customers do not anymore save using the time deposits of banks anymore. Stocks and mutual funds have become popular among customers and this has also forced banks to rethink their strategy. (Koponen 2008, 16.)

Finland is a part of the European Union and Eurozone, which has increased the regulation of Finnish banks but also given them more opportunities in a bigger market. Some Finnish banks have branches in other European countries and some foreign banks have established branches in Finland. All in all, the Finnish banking sector has become more international, which has increased competition. The Common European market is the operational environment of Finnish banks nowadays.

Ruuskanen (2009, 8-10) argues that the European integration development and the internationalization of the financial industry have diversified the business strategies of traditional banks in Finland. Conglomerates and finance industry corporations, such as General Electric Company and Mitsubishi Motors Corporation are an international trend. It is not hard to predict that this kind of development also could occur in Finland through growing internationalization and competition between companies.

According to statistics from 2013, approximately 60% of Finnish banks' funding came from public deposits. Net interest income was still the core of business for Finnish banks but as interest rates had been low, it had forced banks to diversify their operations and they had for example focused more on commission interest. Tightening regulation and new bank tax made profit making even harder for Finnish banks in 2013. There were almost 30 000 people employed in almost 1400 branches in Finnish banking industry in 2013. Nordea Bank Finland was the biggest bank followed by OP Group and Danske

Bank regarding net interest income in 2013. (Federation of Finnish Financial Services 2014, 7.)

## 2.2 Banking sector as a part of the service branch

The Banking industry and more widely spoken financial services are a tertiary part of the service industry. Banks offer monetary services to companies and individuals and therefore have an essential role in the everyday life of individuals and companies. Service development and differentiation are the keys for success in banking industry.

Saksi (2013, 164- 166) points out that banking sector is still often seen as a static industry due to the unchanged principles of the business. Nevertheless, banks are continuously developing new products, multi channel solutions and customer service models in order to serve their customers better and find new ways of profit making.

Finnish banks should involve their customers more in development work for better services. Banks already offer more tailor made solutions for their important customers, but the services that they offer for smaller businesses and individuals are still mostly based on mass production. Although banks are developing new service models continuously, most of the work is still concentrated on product development. Banks could also improve their image and profile by listening to the ideas of their customers. (Saksi 2013, 164- 166.)

Financial services have some specific features among the typical features of services. Usually services are defined as:

- Immaterial
- Production and consumption are simultaneous
- Heterogeneous
- Inability to store
- Properties don't move

There are two identifiable features in financial services. These are the responsible handling of assets of a customer and bidirectional information flow between the customer and the financial company. Responsible handling of assets is linked to the advisory duties and overall liability of assets. Bidirectional information flow is essential because both the customer and a financial firm need information of each other in order to use financial services. (Ylikoski & Järvinen 2011, 17, 19.)

### 2.3 Main concepts of organizational theory

Boards of directors are key parts of any organization and therefore it is important to understand the meaning of organizational theory as directors are simultaneously creating organizational culture and the structure of a board can also be seen as a result of a certain culture. There are lots of different organizational theories but I will concentrate on the core ideas of the modern day organizational theory. (Hatch 1997, 15.)



Figure 1. Five circles model (Hatch 1997, 15.)

In modernist organizational theories, the organizational environment is conceptualized as an entity that lies outside the organization's boundaries. The organization faces uncertainty what the environment demands while it is depending on the elements that comprise its environment. (Hatch 1997, 63.)

Other key parts of organizational theory are the strategy and goals of the company. Through organizational strategy companies try to block or take over competitors' market share without losing their own. In modernist organizational theory, the concept of strategy basically refers to top management's efforts to influence organizational outcomes by managing the company's relationship to its environment. Modern organizations tend to have two distinct types of organizational goals. Official goals are more general while operational goals are more specific. Official goals are often stated by top management while operational goals are delegated from top management to lower levels of the organization as long as every member of the organization has been delegated a share of the overall organizational tasks. (Hatch 1997, 101, 120-121.)

Hatch (1997, 128) defines technology as a part of organizational theory as follows:

- 1) Physical or objects or artifacts including products and the tools and equipment used in their production
- 2) Activities or processes that comprise the methods of production
- 3) The knowledge needed to develop and apply equipment, tools and methods to produce a particular output

The social structure of organizational theory includes job specialization, departmentalization and divisionalization. Furthermore, organizing concepts of span of control, chain of command and centralization / decentralization can be seen as parts of the social structure of an organization. (Linstead et.al 2009, 199.)

Hatch (1997, 243) argues that the physical structure of organization theory includes buildings and their locations, furniture and equipment, decoration and even human bodies. Furthermore, organizational theorists are interested in organizational geography, layout, and design and furniture.

There are lots of definitions of organizational culture. Linstead et.al (2009, 159) point out that the key dimensions are transparency/ opaqueness and simplicity/ complexity. The first dimension relates to whether the culture is easily understood in terms of clarity, whether things are what they seem to be and whether the rules of the culture are immediately accessible or whether they need to be discerned through experience and insight. Simplicity/complexity relates to cultural artefacts, beliefs and assumptions.

All these above mentioned dimensions of organizational theory are parts of the everyday work of a board of directors of a Finnish bank. They are both influenced by the environment for example through regulation and also actively create organizational culture and build the social and physical structures of an organization. The roles of top management and boards of directors are crucial because they are the decision- making units and their contribution to the performance of a firm is usually the highest.

## 2.4 Corporate governance, regulation and banks

### 2.4.1 International view of corporate governance and regulation

Corporate governance can be defined as mechanisms, processes and relations by which corporations are controlled and directed. Corporate governance has started in the USA, where investors demanded more transparency from companies. Furthermore, the owners wanted to have more influence on the bigger decisions of their companies. There were some major abuses found at the same time, which led to an increase in legal regulation by the authorities. (Erma et.al 2010, 19.)

Adams and Mehran (2012, 244) point out that the recent subprime mortgage crisis differs from the previous financial crisis because for the first time bank governance is accorded a lot of the blame. For example, the OECD Steering Group of corporate governance claims that board failures of financial firms are major cause of the crisis. Writers also argue that it is important to understand how banks are usually governed and whether the governance of banks can be compared to unregulated firms.

Sarbanes- Oxley Act (SOX) of 2002 and the listing rules that followed originated because of scandals at non financial firms. Therefore the special features of bank governance were not taken into account. Still, most of the post crisis governance was aimed at financial firms without understanding the special features of the banking industry. SOX mostly concentrates on the independence of the directors. Still, many of the bank directors are some of the best customers of the bank. These directors are not independent and therefore, to comply with SOX, banks need to exclude them from audit committees although there are arguments why having customers on boards may be a good practice. (Adams and Mehran 2012, 244.)

Pathan and Faff (2013, 1573) point out that the board is even more important as a governance mechanism in banks than in other companies. Their fiduciary responsibilities extend far beyond shareholders to depositors and regulators.

Still, policymakers and regulators want to point out the importance of bank board governance.

Pathan & Faff (2013, 1573) suggest that failures in bank governance can create significant costs. These costs occur since banks are special economic units relating to their distinctive roles in financial intermediation. Furthermore, banks can facilitate better firm governance either in their role as creditors or shareholders. Therefore, well governed banks have a positive contribution to the economy in general and vice versa.

Pathan and Skully (2010, 1951) emphasize the remarkable power that regulators have in banking. Regulators set detailed standards of conduct for directors and monitor individual conformity to ensure a safe and sound bank system. The disciplinary actions may include suspension and removal from the board and also a life- long ban from the industry.

#### 2.4.2 Corporate governance and regulation in Finnish banking

Saksi (2013, 77- 78) notes that many directors in the Finnish finance sector call the increased regulation as the "regulation tsunami". It equals to the massive amount of different regulations which increase the work load of boards and other administration remarkably. He also points out that there have been circa 10 000 new regulations annually in recent years which have especially affected on smaller banks.

Until the early 1990s Finnish banks had historically held a significant power position in the Finnish corporate ownership scene. There were two major banking spheres who also had significant ownerships in other companies. It was also common that the board members of the banking spheres were also board members in other large Finnish firms. This led to an opaqueness which was not disrupted until the Finnish banking crisis in the early 1990s. There occurred some major mergers in the banking industry which reconfigured the balance of power amongst large Finnish firms. Banks' ownership of Finnish companies decreased throughout the 1990s. The banking crisis instigated a

process that moved Finland from the main- bank structure to a system where the stock market has a stronger influence. (Jakobsson & Korkiamäki 2014, 18-20.)

Increased regulation has also influenced the work of the boards of Finnish banks. Committee work has increased which has taken time from the actual strategy work. This has negative consequences since board members should be able to trust professionals in regulation matters and concentrate on strategy planning and supporting the CEOs in their work. (Saksi 2013, 81.)

Almost all corporate governance guidelines concentrate on the composition of a board. Usually a board with both independent and inside directors is considered as the best alternative. For example, the national corporate governance recommendation nr. 17 suggests that "The majority of board members must be independent of the company and at least two members of this majority must be independent of the significant shareholders of the company". (Blumme et. al 2005, 23.)

The most of Finnish corporate governance 2003- recommendations from Confederation of Finnish Industries, OMX Oyj and Finnish Chambers of Commerce are based on principle "Comply or explain". This recommendation is a set of of different guidelines aiming for a more transparent decision making and openness in general. All Finnish publicly held companies should follow these guidelines in full or have justifiable reasons to ignore them. (Blumme et. al 2005, 17.)

Ruuskanen (2009, 163- 164) argues that the major problem of the universal regulation is the attitude towards societies and institutions that act according to their own rules. The other significant problem in the current regulation system is its Europe- centrism. The Basel committee of European Union has become the authority of banking monitoring and supervision although it has less than 30 member states.

A lot of the literature on corporate governance concentrates on the negative aspects of increased regulation. Nevertheless increased regulation has increased transparency in the banking industry. Common European "banking rules" also have created opportunities for Finnish banks to internationalize. The main purpose of the increased regulation is still to avoid the occurrence of new financial crises.

## 2.5 Board structure and firm performance

Composition of the board should be based on the owners' strategy of the future of the company. (Åhman et al 2007, 2006). Erma et al. (2010, 24-26) point out that shareholders are usually interested in capital gain and the assets of the company and the directors of boards should consist of people who are able to execute these expectations. They also claim that diversity in board structure has been highlighted in Finnish companies in recent years. Pathan & Skully (2010, 1592) point out that the two major roles of boards of directors are monitoring and advising. As a monitor of management, boards of directors supervise managers so as to refrain them from any self-serving behaviours. Boards also advise management by giving them advice and opinions in key strategic decisions.

There are several theories and suggestions of an optimal board structure in the management literature. For example, a small number of board members and high number of independent directors are considered to be important contributors to an effective board. While same theoretical framework can be associated to banks, it should be understood that the banking industry has its own special features such as high leverage and regulation which might make the composition of boards different. (Pathan & Skully 2010, 1591.)

Siciliano (1996, 1313) relates resource dependence theory to the assumption that the selection of particular individual directors affects organizational performance. In this framework boards of directors are part of the organization and its environment and by providing information and resources to the organization, boards, they help to cushion it against an unstable environment.

On an individual basis this means that board members bring resources to their organizations as a result of their backgrounds. Siciliano also adds that in addition to this perspective, a second framework claims that board members perform an internal control function and can affect organizational efficiency through administrative efforts. Both theories claim that properly structured boards have the potential to influence organizational outcomes.

As said, studies often concentrate on a few main characteristics of board structure. The common variables used in board composition studies include board size, gender diversity, institutional and regulatory influences and independence of directors.

## 2.6 Gender diversity and firm performance

Gender diversity and female representation in boardrooms have been increasingly in public debate over the recent years. The amount of female directors has increased steadily but slowly. For instance, the average percentage of female directors in US companies increased from 5,6% in 1990 to 15,2% in 2010. Female directors and gender diversity in all have been seen as contributors to firm performance, which has led to a greater female representation on boards. Women directors are considered to be hard working and have better communication skills, which contributes to the improved problem- solving and decision- making ability of the entire board. (Pathan & Faff 2013, 1577.)

Farrell and Hersch (2005, 86) have studied board composition as demand or supply driven activity and found out that board selection is not gender neutral and that the increased number of women on boards is not only a result of increased supply of qualified female candidates. Their results also show that even though there might be inside tastes to add women to boards, there might be outside pressure to add women directors. They also concluded that although better performing companies tend to have more women on the board, they could not find that more women on boards would automatically have influence on firm performance.

Farrel and Hersch (2005, 86) also found out that adding women to the board does not result in value creation or vice versa. Their results show that due to internal preferences or external pressure for greater gender diversity, the demand for female presence has allowed women to self-select better performing firms.

Linstead et. al (2009, 90-91) want to emphasize five different perspectives of management and gender. There is a wide range of organizational literature which insists that gender is taken into account when examining managerial work nowadays. In their studies, they have summarized key perspectives as follows:

Table 1. Perspectives on gender. Adopted from Linstead et. al (2009, 91.)

Perspective	Key concepts
Liberal feminism	<ul style="list-style-type: none"> <li>-Women not naturally inferior to men</li> <li>-Importance of social justice/ equality</li> <li>-Vertical segregation (glass ceiling)</li> <li>-Horizontal segregation</li> <li>-Long agenda of equality of opportunity</li> </ul>
Radical feminism	<ul style="list-style-type: none"> <li>-Women naturally superior to men</li> <li>-Importance of social emancipation / change</li> <li>-Radical reversal/ inversion of contemporary social structures</li> <li>-Separatism</li> </ul>
Diversity	<p>Diversity, including gender difference should be recognized in organizations</p> <ul style="list-style-type: none"> <li>-Individualist focus</li> <li>-Improve productivity through a widening of organizational access and participation</li> <li>-Strong business case</li> </ul>
Gender in management	<ul style="list-style-type: none"> <li>-Management relational</li> <li>-Women and men are socialized differently, manage differently</li> <li>-Male transactional versus female transformational leadership</li> <li>-Transformational leadership most effective in current socioeconomic climate</li> <li>-Globalization of gender</li> </ul>
Gendering management	<ul style="list-style-type: none"> <li>-Interaction of management and gender</li> <li>-Foucauldian- gender identity produced by discourse</li> <li>-Masculist organizational discourse sustains masculine managerial identity</li> <li>-Successful managers (Whether male or female) therefore masculine</li> <li>-Problems of this emphasis on masculinity</li> </ul>

### 2.6.1 Barriers to female board access

There are a few aspects that usually are mentioned as the reasons why women leaders are still a minority on boards of directors. These include stereotypes, access to networks, limited recruitment pool and missing leadership. (Fitzsimmons 2012, 558- 559.)

There is an effect called similarity bias, which means that people are psychologically driven to like others similar to themselves. Similarity bias could be the reason why male board members tend to search for board members who act, think and look like they do. There has been a change since the 1970s, when researchers found out that men actually evaluated equally qualified men higher than women. In recent studies it has been found out that male recruiters evaluate female candidates higher than male candidates now, but this does not lead to more job offers for female candidates. Although similarity bias seems to be fading over time, it still remains as an obstacle to women who wish to achieve board positions. Recent studies show that men actually evaluate women more positively than men but for the wrong reasons: based on stereotypes about women's role as decorative additions to corporate boards. (Fitzsimmons 2012, 558- 559.) There also are gender stereotypes as job suitability, competence and socially appropriate role assignments that tend to benefit male job candidates seeking to fill positions historically dominated by men. (Skaggs et. al 2012, 937.)

Women still lack access to the same old boys' networks that men have access to. This is one of the reasons why female representation on boards is still low. This remains as a significant problem for women leaders because so much depends on access to informal networks. Board member nominations are still mostly based on recommendations from existing directors. The majority of directors are men and therefore women's lack of access to informal networks is clearly a barrier to their inclusion on corporate boards. (Fitzsimmons 2012, 558-559.)

A limited recruitment pool is often seen as a barrier for women to climb up the corporate ladder to top management positions. Board members are usually recruited from a small limited pool of directors, that lacks women. This is an advantage for women that are already directors. For example, Norway has a legislation which requires at least 40% female representation on boards. Anyway, only a handful of women collected 25 or more director positions after this quota came into effect. (Fitzsimmons 2012, 558- 559.)

Skaggs et. al (2012, 937) point out that as the amount of women in higher director positions rise, they are likely to create social networks, mentoring relationships and political alliances which could help other women to get more director opportunities, too. There is a general assumption that even a few women in higher- level positions are likely to benefit women throughout the organization. Therefore there has been an increasing interest among researchers to find out possible ways for women to break through the "glass ceiling".

#### 2.6.2 Positive circumstances for female board access

According to Fitzsimmons (2012, 562) boards of directors are especially well suited to benefit from increased gender diversity because their tasks are complex and strategic and their problems involve a wide range of stakeholders. She also points out that for instance financial institutions with diverse workforces have higher performance than those with a lower degree of diversity, but only when combined with business strategies that value diversity as a strategic advantage.

There can be considered to be three reasons why organizations diversify:

- 1) Access and legitimacy – diversifying because the organization needs to represent its stakeholders in order to gain access to markets;
- 2) Discrimination and fairness – diversifying because restricting board access to certain demographic groups is unfair;
- 3) Integration and learning – The organization wants to learn from new perspectives and integrate them into its business core.

(Fitzsimmons 2012, 562.)

According to Averill (2009, 10) There are six steps to a more diverse board:

- 1) Make board diversity your public policy
- 2) Collect information to make decisions
- 3) Set measurable goals
- 4) Recruit for diversity
- 5) Accommodate diversity on your board
- 6) Report on progress

### 2.6.3 Quotas for women

There has been an increasing interest in choosing female directors for external pressure and governance reasons. A few countries have already set quotas for female directors. Sweden has threatened to make legal requirements if at least 25% of companies' board seats are not reserved for women. In Norway at least 40% of directors must be women or companies face dissolution. Spain has also enacted a law requiring companies to have at least 40% female directors in Spanish companies by 2015. (Adams & Ferreira 2009, 292.)

Although many countries have passed quota legislation, Finland has not done it at least yet. According to a report by the Finland Chamber of Commerce (2012, 4- 6. ) the amount of female directors in Finnish listed companies is already satisfactory and quotas for women are not needed. The Finnish government set a target of at least 40% of female directors in state- owned companies in 2004.

This target was reached in spring 2006. In Finland the business sector has assumed an active role in promoting women's number on corporate boards. The number of female directors in Finnish listed companies has increased steadily from 7% in 2003 to 22% in 2012. This has happened without quota legislation and therefore quotas have not been seen as necessary in Finland.

According to Fitzsimmons (2012, 560- 561) quotas for women have had a negative influence on firm performance. For example in Norway, after 40% quota for women in listed companies was introduced, there was an average of 2,6% drop in company value the year companies appointed female directors to comply with the law. This was not only for the gender reasons, but for the fact that new female directors lacked the experience and the usual requirements for board membership. Without quotas companies can hire the most qualified applicants based on their skills, experience and perspective instead of gender. Quotas can also affect the internal dynamics of a board. If a woman has been appointed on a board based on her gender, she is more likely to be ignored than somebody who has been selected for personal skills and other qualities.

## 2.7 Board size and firm performance

The actual amount of board members of a company has decreased universally recently. Finnish legislation requires companies to have at least three board members while the maximum size of a board is not restricted. The size of a board depends on the role of the board. Some boards might have a more service oriented role, while a bigger board consisting of specialists and stakeholders should operate better. By growing the size of a board, companies tend to get in favour of many stakeholders at the same time. (Haapanen et. al 2002, 146.)

There is not a single answer to what is a perfect amount of board members in a financial company. Bigger boards function the same way as bigger groups in general. A very big board is not efficient and it is very hard to deeply estimate the directorship problems of a company. If the board is big, it usually leads to a situation where a core group of the board is actually making all of the decisions. (Haapanen et. al 2002, 147.)

It is easy to predict that in bigger boards the personal responsibility of each individual gets smaller. It is also common that bigger boards create insider groups and parts which increases inner conflicts and makes decision making harder. According to Haapanen et al. ( 2002, 147.) a board that has more than five members is not justifiable if the company does not lose critical skills or perspective by increasing the number of board members. In bigger boards it is easier for a member to trust another member to take care of a problematic dilemma.

Owners and shareholders decide the size and the actual members of a board in shareholder's meetings. There are many circumstances that affect these decisions. These include the willingness of owners to sit on the board, different skills and perspectives needed in the business and the company and the role of the board in general. (Erma et. al 2010, 24.)

A negative relation between board size and performance is a common finding in non- financial sector studies. Directors might have problems expressing their opinions in meetings of a larger board. A single director's incentive to monitor management and acquire information is low in larger boards, which might make them easier to control for CEOs. Anyway, some studies argue that the relation between the size of a board and firm performance depends upon firm's economic environment. Companies with higher advising needs (diversified and heavily dept- financed companies) might even benefit from larger boards. (Pathan & Faff 2013, 1575.) The effect of board size on bank value might also be a trade- off between advantages (monitoring and advising) and disadvantages (control, coordination and decision making problems) as De Andreas and Vallelado argue (2008, 2571- 2572.)

The results of studies of banks' board size and performance are mixed. Studies present positive relation, concave relation and no relation between board size and firm performance. Pathan & Faff (2013, 1575) think that larger bank boards reflect their complex organisational structures and merger & acquisitions activities. They also think that a bank board could also grow by incorporating directors from subsidiaries to facilitate information flow and to accommodate additional directors from acquired or merged banks.

Adams and Mehran (2011, 246) have studied banks' board structure and performance and suggest that large boards may add value to banks. They argue that one of the reasons is that larger boards have members who also sit on subsidiary boards. Banking companies tend to have complex activities and Adams and Mehran found out that when complexity increases, firm performance improves when banks have their directors sitting on subsidiary boards. They also suggest that although they could not identify a causal effect of board size on performance, the advantages of larger boards outweigh their costs in the banking industry.

Eisenberg et. al (1998, 53) have studied the relation between board size and firm performance in small and medium-sized Finnish companies and results show that the negative relation between board size and profitability extends to small firms with small boards in Finland. They have found out that the board-size effects can exist even when there is less separation of ownership and control than in large firms.

## 3 EMPIRICAL RESULTS

### 3.1 Sampling procedure and coverage

There were 291 credit institutions operating in Finland at the end of 2014. These institutions include deposit banks as well as non deposit- taking institutions such as finance houses, credit card companies, mortgage credit banks and Municipality Fund Plc. (Federation of Finnish Financial Services 2015, 3.)

The data used in this paper was obtained from the BANKSCOPE database in summer 2015. A total of 49 active financial institutions with relevant data were found. 6 financial institutions had to be excluded from this study because of missing information. The final 43 financial institutions used in this paper include both deposit banks and non deposit- taking institutions that are operating and active in Finnish market. I obtained information of board (size), board members (gender) as well as key performance indicators such as net interest rate, return on assets and return on average equity. Information on each financial institution is from latest available year (2012- 2014). The data of 43 financial institutions was coded in SPSS data editor for further analyzing.

### 3.2 Descriptive statistics

#### 3.2.1 Board structure variables

I have chosen two board structure variables to be used in this paper. These are board size (pax) and gender (the percentage of females on a board). These are commonly used variables in similar studies (Pathan & Faff 2012.) (Siciliano 1996.) Some researchers have added the percentage of independent directors (persons who are not owners of a company) as one of the board structure variables but I have excluded that for its irrelevance concerning this paper.

### 3.2.2 Descriptive statistics of board size

Table 2 shows that most of the banks (51,2%) have 6 or 7 members and only 5 banks have more than 10 members on the board.

Table 2. Frequencies of board size

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid 3	2	4.7	4.7	4.7
4	1	2.3	2.3	7.0
5	5	11.6	11.6	18.6
6	11	25.6	25.6	44.2
7	11	25.6	25.6	69.8
8	3	7.0	7.0	76.7
9	3	7.0	7.0	83.7
10	2	4.7	4.7	88.4
11	3	7.0	7.0	95.3
12	1	2.3	2.3	97.7
13	1	2.3	2.3	100.0
Total	43	100.0	100.0	

The descriptive statistics of board size are presented in tables 2 and 3. The mean is 7,14 and median 7. Minimum board size of the sample is 3 and maximum is 13. Standard deviation is 2,253%.

Table 3. Descriptives of board size

N	Valid	43
	Missing	0
Mean		7.14
Median		7.00
Std. Deviation		2.253
Minimum		3
Maximum		13

### 3.2.3 Descriptive statistics of gender diversity

Table 4 shows that 10 banks (23,3%) don't have any female members on the board and only 4 banks (9,3%) have 50% or more women on the board.

Table 4. Frequencies of the percentage of females on board

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	0.00%	10	23.3	23.3	23.3
	9.09%	1	2.3	2.3	25.6
	11.11%	1	2.3	2.3	27.9
	14.28%	5	11.6	11.6	39.5
	16.66%	4	9.3	9.3	48.8
	18.18%	1	2.3	2.3	51.2
	20.00%	2	4.7	4.7	55.8
	22.00%	1	2.3	2.3	58.1
	27.27%	1	2.3	2.3	60.5
	28.57%	3	7.0	7.0	67.4
	30.00%	1	2.3	2.3	69.8
	33.00%	3	7.0	7.0	76.7
	37.50%	1	2.3	2.3	79.1
	40.00%	2	4.7	4.7	83.7
	42.85%	2	4.7	4.7	88.4
	44.44%	1	2.3	2.3	90.7
	50.00%	3	7.0	7.0	97.7
	60.00%	1	2.3	2.3	100.0
	Total	43	100.0	100.0	

Tables 4 and 5 show that the mean of the percentage of females on board is 21,81% and median is 18,18%. Minimum is 0,00% and maximum is 60,00%. Standard deviation is 17,04%

Table 5. Descriptives of the percentage of females on board

N	Valid	43
	Missing	0
Mean		21.8149%
Median		18.1800%
Std. Deviation		17.04333%
Minimum		0.00%
Maximum		60.00%

### 3.2.4 Descriptive statistics of bank performance measures

There are different indicators to measure bank performance. I have used three indicators that have often been used in studies concerning the relation between board structure and firm performance in banking. These indicators are ROAA (Return on average assets), ROAE (Return on average equity) and NIM (Net interest margin). They are commonly used indicators in measuring bank performance.

ROAA is an indicator of how profitable company is relative to its total assets. It gives an idea how efficiently management is using its assets to generate earnings. It is calculated by dividing the company's net income by its average total assets and presented as a percentage. ROAA is similar to ROA (Return on assets) but also takes into consideration the changes during the examined period. (Collin 1991, 207.)

ROAE is an adjusted version of ROE (Return on equity). Return on equity is calculated by dividing the company's net income by its shareholder's equity. ROAE also takes into account the changes on equity per fiscal year. If there have not been changes in shareholder's equity, ROE and ROAE are identical. ROAE is presented as a percentage. (Collin 1991, 84.)

NIM is an indicator that shows how successful banks' investment decisions are compared to its debt situations. If the value is negative, the bank has not made optimal decisions because interest expenses were larger than the amount of returns generated by investments. NIM is presented as a percentage and is calculated as:

$$\text{NIM} = (\text{Investment returns} - \text{investment expenses}) / \text{Average earning assets}$$
 (Collin 1991, 125.)

Table 6. Descriptive statistics of NIM%, ROAA%, ROAE%

		NIM%	ROAA %	ROAE%
N	Valid	43	43	43
	Missing	0	0	0
Mean		1.2521	.8242	5.7735
Median		1.1800	.4100	4.7400
Std. Deviation		.79027	1.81248	6.35764
Minimum		-.22	-3.25	-6.98
Maximum		4.01	8.64	29.73

The mean of net interest margin 1,25% while median is 1,18%. Standard deviation is 0,79. Minimum is -0,22% and maximum is 4,01%. The mean of ROAA is 0,82% and median is 0,41%. Standard deviation of ROAA is 1,81. Minimum is -3,25% while maximum is 8,64%. The mean of ROAE is 5,77% and median is 4,74%. Standard deviation is 6,36. Minimum is -6,98% and the maximum of ROAA is 29,73%.

### 3.3 Scatterplots and Correlation matrixes

A scatterplot analysis was made in order to estimate the linearity between variables and the results are shown in table 7.

Table 7. Scatterplot analysis between variables

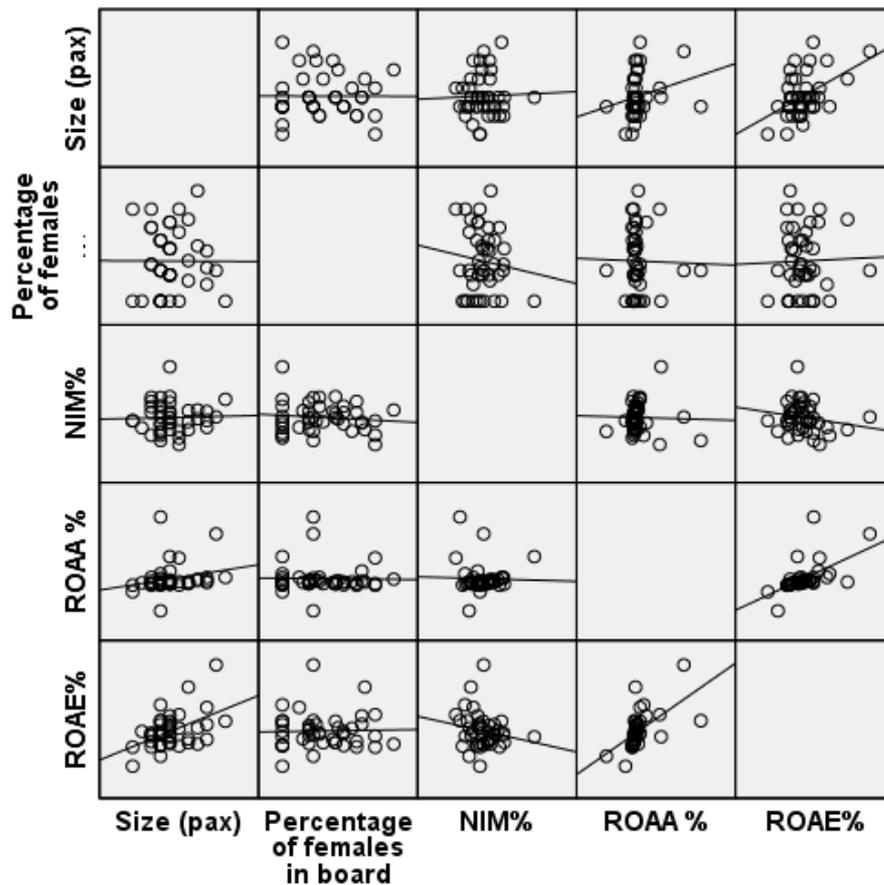


Table 7 shows the relationship between continuous variables of the data and the fit line at total has been added to see positive and negative linearity between variables. There is a linear relationship between variables but relationships are not strong. There is no indication of curvilinear relationships and therefore it is appropriate to calculate Pearson product moment correlation between the variables.

Table 8. Sample correlations

		Size (pax)	Percentage of females in board	NIM%	ROAA%	ROAE%
Size (pax)	Pearson	1	-0.004	.034	.234	.483**
	Correlation					
	Sig. (2-tailed)					
	N					
Percentage of females in board	Pearson	-0.004	1	-.113	-0.020	.028
	Correlation					
	Sig. (2-tailed)					
	N					
NIM%	Pearson	.034	-.113	1	-0.029	-.187
	Correlation					
	Sig. (2-tailed)					
	N					
ROAA%	Pearson	.234	-0.020	-0.029	1	.575**
	Correlation					
	Sig. (2-tailed)					
	N					
ROAE%	Pearson	.483**	.028	-.187	.575**	1
	Correlation					
	Sig. (2-tailed)					
	N					

\*\* . Correlation is significant at the 0.01 level (2-tailed).

Table 8 shows Pearson pairs- wise correlations of the sample. The correlation between board size and bank performance measures is positive, but only the correlation between board size and ROAE% is significant. The correlation between the percentage of females and bank performance measures NIM% and ROAA% is negative but not significant. There is a significant correlation between ROAE% and ROAA%.

These results suggest that increase in board size has a positive impact on bank performance regarding return on average equity. Results also suggest that there is not any significant relation between bank performance and the percentage of females on a board in Finnish banking.

### 3.4 The results of multiple regression analyses

#### 3.4.1 Net Interest Margin

In tables 9, 10 and 11 are shown the results of regression analysis when Net interest margin (NIM%) was used as a dependent variable and size and percentage of females as independent variables.

Table 9. Model summary (Dependent variable NIM%)

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.118 <sup>a</sup>	.014	-.035	.80415

Predictors: (Constant), Percentage of females in board, Size (pax)

Dependent Variable: NIM%

The R Square column in table 9 shows that size of a board and the percentage of females have little or any relation to NIM%. R Square value is .014 which means that the model (including size and percentage of females) explains 1,4% of the variance in Net interest margin.

Table 10. ANOVA (Dependent variable NIM%)

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.364	2	.182	.281	.756 <sup>b</sup>
	Residual	25.866	40	.647		
	Total	26.230	42			

Dependent Variable: NIM%

Predictors: (Constant), Percentage of females in board, Size (pax)

There is not a statistical significance in this result which can be seen from table 10, where Sig= .756, i.e  $p > .0005$ .

Table 11. Coefficients (Dependent variable NIM%)

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	1.283	.442		2.904	.006
Size (pax)	.012	.055	.033	.211	.834
Percentage of females in board	-.005	.007	-.113	-.719	.476

Dependent Variable: NIM%

By looking at standardized coefficients in table 11 it can be concluded that the percentage of females on the board makes a slightly stronger contribution to NIM% but this variable is not making a significant unique contribution since Sig is  $> .05$ .

### 3.4.2 Return on average assets

In this chapter I introduce the results of multiple regression analysis when Return on average assets (ROAA%) was used as a dependent variable and size and percentage of females as independent variables.

Table 12. Model summary (Dependent variable ROAA%)

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.235 <sup>a</sup>	.055	.008	1.80536

Predictors: (Constant), Percentage of females in board, Size (pax)

Dependent Variable: ROAA %

The R Square in table 12 is .055, i.e size and percentage of females explains 5,5% of the variation in Return on average assets.

Table 13. ANOVA (Dependent variable ROAA%)

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	7.601	2	3.801	1.166	.322 <sup>b</sup>
	Residual	130.373	40	3.259		
	Total	137.974	42			

a. Dependent Variable: ROAA %

b. Predictors: (Constant), Percentage of females in board, Size (pax)

The result is not statistically significant since Sig. in table 13 is greater than .0005. The size of a board makes a stronger contribution to ROAA but this unique contribution is not significant since Sig > .05. This is shown in table 14.

Table 14. Coefficients (Dependent variable ROAA%)

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	-.476	.992		-.480	.634
Size (pax)	.188	.124	.234	1.522	.136
Percentage of females in board	-.002	.016	-.019	-.122	.904

a. Dependent Variable: ROAA %

### 3.4.3 Return on average equity

This chapter shows the empirical results of regression analysis when Return on average equity (ROAE) was used as a dependent variable and size and percentage of females as independent variables.

Table 15. Model summary (Dependent variable ROAE%)

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.484 <sup>a</sup>	.234	.196	5.70200

Predictors: (Constant), Percentage of females in board, Size (pax)

Dependent Variable: ROAE%

Table 15 shows that the percentage of females and size of a board explain 23,4% of the variance in ROAE%.

Table 16. ANOVA (Dependent variable ROAE%)

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	397.110	2	198.555	6.107	.005 <sup>b</sup>
	Residual	1300.514	40	32.513		
	Total	1697.624	42			

Dependent Variable: ROAE%

Predictors: (Constant), Percentage of females in board, Size (pax)

The result can be considered statistically significant since Sig = .005 in table 16. By comparing standardized coefficients in table 17 it can be concluded that size has a significant unique contribution to ROAE%. This suggests that increase in board size has a positive relation to ROAE% in the Finnish banking industry.

Table 17. Coefficients (Dependent variable ROAE%)

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	-4.198	3.134		-1.340	.188
Size (pax)	1.363	.391	.483	3.489	.001
Percentage of females in board	.011	.052	.030	.216	.830

Dependent Variable: ROAE%

### 3.5 Discussion of empirical results

The results of the regression analyses show that variation in board size or the percentage of females on a board predict firm performance badly in Finnish banking. In other words, it can't be expected that bigger boards would perform better or vice versa. Although there is a statistically significant relation between board size and ROAE%, it is hard to conclude that an increase in board size would definitely lead to better firm performance since no statistically significant relation between board size and NIM% or ROAA% was found. The results of regression analyses also suggest that gender diversity doesn't have impact on firm performance in Finnish banking.

Adams and Mehran (2011, 266) have found a positive relation between the increase in board size and firm performance and the results of this thesis support that. Adams and Mehran suggest that their results are based on the fact that bigger boards have more directors with subsidiary directorships. These directors may be well suited to deal with organizational complexity.

It was hypothesised that there is not a significant relation between the amount of women and firm performance in Finnish banking. The empirical results support this hypothesis because the regression analyses results clearly show that there is very little if any relation between the percentage of women on a

board and firm performance. The hypothesis was made based on earlier studies on the topic and are presented in chapter 1.2.

The other hypothesis suggesting that increase in board size would have negative impacts on firm performance is false since the results show that there is not any statistically significant negative relation between board size and firm performance. Actually, it was found out that an increase in board size would rather have a positive impact on performance indicators. The theoretical background of this hypothesis is presented in chapter 1.2.

There are a few conclusions that can be drawn based on the results of this study. Unsurprisingly, the amount of women on a board has very little effect on firm performance in Finnish banking. The average amount of women on a board was 21,8% in the sample and it can be considered to be relatively high when we compare it to 15,2% in listed US companies in 2010.

The amount of women directors is steadily growing in Finnish companies and according to the results of this paper it does not have any significant negative impact on firm performance. This could give a positive signal to the supporters of women quotas, but as there were less than 10% of banks that had 50% or more women on boards in my data, it is hard to conclude that a big number of women on boards would actually lead to a better firm performance.

It seems that the current development where the amount of women on boards increases steadily but not heavily is the natural and right way. Board selection is based on individual skills and as the amount of qualified women grows, the boards also diversify naturally and not by regulators and legislators who tend to have other purposes than firm performance. Anyway, it would be important to compare the results of firm performance and gender diversity over a longer period as it would give a better understanding of the development. This is one of the limitations of my paper since I have not included a longer timeline which could help to draw better conclusions of the relation between gender diversity on boards and firm performance in Finnish banking.

It is positive to note that there is a neutral relation between firm performance and gender diversity of boards in Finnish banking. This gives little space for extreme masculinist thoughts that men would be better performing directors and women somehow naturally inferior to men.

Fitzsimmons (2012, 558- 559) lists stereotypes, access to networks, limited recruitment pool and missing leadership as the barriers for female board access. The results of this paper suggest that these barriers should be fading away because gender diversity of the board does not have a significant impact on firm performance in Finnish banking industry.

The results of the relation between board size and firm performance in the Finnish banking industry are surprising as they differ from most of the earlier studies. More than half of the boards in the sample had 6 or 7 members, which can be considered as small boards. The variation on board size in Finnish banks was from 3 to 13 members and therefore even the biggest boards in Finnish banks can not be considered as very big boards. The variation of board size is small and it is hard to expect that a board with 13 members would face a lot of free riding and complexity problems in decision making. Some earlier studies, that have found a negative relation between board size and firm performance (e.g Pathan and Faff 2013) have had a much bigger variation in board size which might have had a significant contribution to their results.

It would be interesting to see the results of similar studies in other Nordic states where the banking business can be considered similar to Finnish banking industry. It would be especially interesting to see the results from Norway, where they have women quotas and compare them to the results of other Nordic countries.

### 3.6 The validity and reliability of the results

The boards of directors of Finnish banks tend to be homogeneous in size and gender diversity and therefore these variables could not be considered as especially well fit predictors of firm performance in Finnish banking. This is one of the limitations of this paper and future studies on the topic should include the impact of inside and outside directors on firm performance, too. Anyway, the variables used in this paper are often used in similar studies, e.g (Pathan and Faff 2013.), (Eisenberg et. al 1998.), (Adams and Ferreira 2009.) and can therefore be considered as the best possible variables in studies concerning the relation between the board structure and firm performance.

I included 43 active financial institutions in this paper. The total amount of active financial institutions in the Finnish market was 291 in 2014. (Federation of Finnish Financial Services 2015, 3.). The data used in this paper represents 14,7% of the financial institutions in the Finnish market and consists of different types of banks. There are big banks and smaller ones and the sample consists of both Finnish and international banks. Therefore these results are valid and the sample is the best one that is available.

I have used regression analysis as the research method in this thesis and it is an established method in similar studies. The multiple regression analysis is suitable for this research as it is designed to find the possible causality between variables. I also have made the correlation and scatterplot checks and presented the statistical significance of the results.

## 4 CONCLUSION

The banking and finance industry has an enormous impact on all businesses and therefore it is important to study the relation between board structure and firm performance. The findings of studies can be used as strategic management tools for nominating committees as well as giving information to bank regulators in order to maintain a sound regulation policy that would lead to better performing banks.

This current thesis has introduced the essential theories linked to board structure and firm performance. I have first introduced different aspects of governance, regulation and the history of the Finnish banking as they have been partially creating more pressure to add more women on boards in Finnish banking. I also have introduced the recent literature of gender diversity and board size as the results of earlier studies on these topics were essentially leading to the expectations that I have presented in my hypotheses.

The results of this study support the ideology that board memberships should be based on individual skills rather than gender. This result is a message to bank regulators and supporters of women quotas. As it was earlier pointed out, the governance and regulation of banks is increasing continuously. The regulation and governance acts should be based on other aspects than gender diversity because the amount of women seems to be increasing naturally and the gender diversity of the boards has very little impact on firm performance. I found a significant positive relation between board size and return on average equity in Finnish banking, which is an important result because most of the earlier similar studies have only shown a negative relation between board size and firm performance.

## SOURCE MATERIAL

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