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*Short Communication*

# Short communication on gender, ethnicity and stock liquidity: Evidence from South Africa

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**In their paper, Nguyen and Muniandy examine the impact of gender and ethnicity of corporate boards on stock liquidity in the context of South Africa. Using a sample of listed South African firms from 2009 to 2013, they find that firms with more female or black directors on corporate boards are associated with a higher level of stock liquidity. Interestingly, the interaction between gender and ethnic diversity on corporate boards has a negative impact on stock liquidity. This commentary highlights and discusses board diversity issues touched on and implicated by the Nguyen and Muniandy study.**

**Key words:** Gender; Ethnicity; Corporate boards; Stock liquidity

## DESCRIPTION

In the aftermath of unprecedented governance failures, corporate board diversity has attracted substantial attention from regulators, academics and media (Nguyen et al., 2021, Ararat et al., 2015). Several countries such as Belgium, Brazil, Iceland, Italy, Malaysia, Netherlands and Norway have adopted binding quotas to promote gender diversity on corporate boards while several others have introduced non-binding quotas or are considering legislation (Bernile et al., 2018). Thus, numerous studies have examined the impact of board gender diversity on a narrow set of corporate outcomes, typically focusing on firm performance in developed countries like US, UK, Australia and Denmark (Sarhan et al., 2019). However, there is little research investigating emerging markets in general or South Africa in particular. Additionally, it is argued that no study in South Africa can be conducted without examination of ethnicity (Gyapong et al., 2016). Consequently, unlike most prior studies with the focus only on gender diversity of corporate boards, Nguyen et al., 2021 conduct a study to examine the effect of both gender and ethnic diversity of corporate boards on stock liquidity in the South African setting. South Africa is an interesting setting for examining the impact of corporate board diversity as boards in South Africa remained structurally homogeneous with the long-standing racial segregation continuing after the demise of the apartheid policy (Swartz, 2005). In recent years, there has been an influx of regulatory reforms in South Africa encouraging diversity in the boardroom (Gyapong et al., 2016).

After analysing a sample of 530 firm-year observations in South Africa from 2009 to 2013, Nguyen et al., 2021, 2021 find that firms with a stronger level of female or black directorship on their boards experience higher levels of stock liquidity. However, Carpenter et al., 2004 suggest that corporate directors should be considered as a “bundle of attributes” in order to examine the interaction between different board diversity dimensions, leading to a better understanding regarding cumulative effects of board diversity on organisational outcomes. Critically therefore, Nguyen et al., 2021 extend their investigation to the interaction effect between gender and ethnic diversity. They show that the interaction between gender and ethnic diversity has a negative impact on stock liquidity. While the majority of prior studies have investigated an impact of board diversity on corporate outcomes, findings in the study of Nguyen et al., 2021 indicate that different facets of board diversity can jointly affect corporate outcomes. In fact, diversity can be beneficial or detrimental to corporate outcomes, depending on how it is manifested. This may provide another explanation for why a chosen board composition does not lead to higher board effectiveness. Thus, decisions about board diversity may best be influenced not only by moral values. They could reflect cost-benefit considerations of what diversity on the corporate board could bring to the firm. Due to the potential concurrent existence

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of various forms of board diversity, it is necessary for managers to consider board dynamics in the appointment process of a new director. If board diversity is not well established, the growth and the competitive conditions of a firm can be hampered.

Although Nguyen, 2021 focus on only the business case for diversity, the normative case based on equity and fairness is strong enough to promote diversity in South Africa's economic engagement. The notion of equal opportunities for women and racial-ethnic minorities to participate in economic decision-making is aligned with calls to change the social identity of the corporate boards whose decisions affect society at large. Further, results reflecting the South African context in the study of Nguyen et al., 2021 may provide more relevant and interesting conclusions for emerging markets, where implementation or enforcement of company laws is weak (Mangena et al., 2012). Although board diversity has increased in South Africa over the past ten years, the change is happening slowly. Thus, governments could issue regulations and recommendations in line with international corporate governance best practice to address the weak representation of women and blacks on corporate boards. However, when regulators design minimum requirements for board diversity, they should be aware of likely negative consequences of such constraints on corporate outcomes.

One limitation in the study of Nguyen, 2021 is the small sample size in a single-country context, which was necessitated by manual data collection and the importance of controlling for differences in institutional factors in the research design. This may affect the ability to generalize their findings to other countries with different institutional contexts. Future research might therefore extend work to other jurisdictions with longitudinal and broader forms of data so as to provide more powerful analyses than hitherto available.

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