

The Impact of Diversity of Board Members on the Financial Performance of Lebanese and Syrian Banks: A Comparative Study

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Abstract

This research aims to investigate the relationship between board diversity and the financial performance of banks listed on the Beirut Securities Exchange (BSE) and Damascus Stock Exchange (DSE) in Lebanon and Syria, respectively. The study adopts a quantitative approach, employing hypothesis testing and analyzing secondary data from the banks' annual reports over a ten-year period from 2010 to 2019. The analysis includes descriptive statistics and inferential statistical techniques. Furthermore, panel data regression analysis is employed to examine the influence of board diversity variables, specifically the return on equity (ROE) and return on assets (ROA), on the financial performance of the banks.

This study examines the impact of board diversity on the financial performance of banks listed on the exchanges in Lebanon and Syria. The findings reveal that gender diversity does not significantly affect financial performance, while age diversity has a positive influence. Education diversity positively impacts the financial performance of banks on the Damascus Stock Exchange but not on the Beirut Securities Exchange. Board experience diversity does not have an impact on financial performance in both countries.

Keywords: Board Diversity, Beirut Securities Exchange (BSE), Damascus Stock Exchange (DSE).

1. Introduction:

In recent decades, board diversity has garnered significant attention from academics and policymakers. The board of directors plays a crucial role in overseeing executive management and providing vital resources such as legitimacy, advice, and consultation, making it a central component of corporate governance practices within corporations (Tee & Rassiah, 2019; Gallego-Alvarez & Pucheta-Martinez, 2020). Contemporary organizational theories emphasize the importance of diversity in enhancing the functioning of boards. The presence of diverse perspectives on boards can lead to improved decision-making through increased resources dedicated to problem-solving, the potential for enhanced financial performance, and the public disclosure of firm-specific information (Cook & Glass, 2015; Baker et al., 2020; Katmon et al., 2019; Harjoto & Rossi, 2019).

A wider range of knowledge, information, and perspectives is available on boards with more diversity in terms of human capital, attitudes, cognitive capacities, and values, which may enhance board decision-making (Hillman & Dalziel, 2003). So, diverse boards are more likely to provide their organizations with greater resources, which would ultimately result in higher performance outcomes (Bennouri et al., 2018; Isidro & Sobral, 2015; Carter et al., 2010).

Board diversity has been considered as a crucial element of corporate governance, and authorities in a number of nations (including Norway & Spain) mandate that commercial corporations include a minimum number of female directors when they create their boards (Buchwald & Hottenrott, 2019; Reguera-Alvarado et al., 2017; Adams & Ferreira, 2009).

The benefits of having more diverse decision-makers may give rise to the idea that governments wish to enact board gender quotas, although some of these measures could be driven by public pressure (Buchwald & Hottenrott, 2019; Farrell & Hersch, 2005). Also, the different perspectives that directors bring to boards can be highly valuable for business decision-making (Finkelstein et al., 2009). It is expected of directors from various backgrounds to leverage their pool of specialized knowledge and skills to enhance business performance (Hambrick, 2007). According to Hsu et al. (2013), an individual's educational background represents their cognitive foundation, improves their ability to absorb new concepts, and develops their capacity for information processing. According to (Kolev & McNamara, 2019), a board member's diversity of experiences, specialized skills, ideas, and innovations are likely to have a favorable effect on a company's overall performance. The diverse

viewpoints that directors offer to boards can also be very helpful for business decision-making (Finkelstein et al., 2009). It is expected of directors from various backgrounds to leverage their pool of specialized knowledge and skills to enhance business performance (Hambrick, 2007). A board member's range of experiences, specialized abilities, ideas, and innovations are likely to have a positive impact on a company's overall performance, (claim Kolev & McNamara, 2019). Our study will focus on developing markets, particularly in the Lebanon and Syria markets, where corporate governance systems may manifest differently from those of developed markets (Elamer et al., 2020; Sarhan et al., 2019; Arayssi and Jizi, 2018). This is because these countries have different economic, political, legal, and cultural structures.

Due to their tight interdependence and strong commercial ties, the banking sectors in Lebanon and Syria were considered. The Lebanese banking sector was singled out as being regarded as the country's economic backbone. It was ranked 12th globally in terms of soundness in 2011 (World Economic Forum, 2011-2012), and 29th in 2013. (World Economic Forum, 2013-2014). (El Khoury, 2015). Our study is more specifically interested in how the board makeup of Lebanese and Syrian banks—namely age, gender, nationality, experience, and educational attainment—affects financial performance.

In light of the increasingly competitive and dynamic banking sector, pressure from shareholders to improve financial results is mounting on bank boards. In fact, the issue of board diversity has been at the heart of best corporate governance practices due to its potential impact on corporate performance.

Nevertheless, the link between board diversity and financial performance is a relatively new area of investigation, particularly with limited empirical studies conducted in Lebanon and Syria. Specifically, the existing empirical studies in this context have not yielded conclusive results (Mans-Kemp & Viviers, 2015).

2. Literature and hypotheses development

Various theories, such as the agency theory, resource dependence theory, human capital theory, and managerial theory, have been employed to investigate the connection between board gender diversity and firm performance. However, the literature presents inconsistent and conflicting viewpoints on this relationship, leading many studies to primarily rely on the agency theory, resource dependence theory, and human capital theory (Kilic, 2015; Reguera-Alvarado et al., 2017; Alshirah et al., 2022). Consequently, this study aims to explore the

implications of both agency theory and resource dependence theory within the context of the Lebanese and Syrian environment.

The agency hypothesis, introduced by Fama and Jensen (1983) and Jensen and Meckling (1976), asserts that managers face agency costs when they prioritize their own interests over those of shareholders during decision-making processes. The overarching goal of agency theory is to mitigate conflicts between shareholders and managers (Eisenhardt, 1989; Jensen and Meckling, 1976). According to the agency hypothesis, effective management and monitoring responsibilities of boards are crucial in minimizing these conflicts of interest (Jensen, 1993). Evidence indicates that a diverse board tends to be more independent, thereby enhancing its ability to oversee managers' conduct (Pucheta-Martinez and Gallego-Alvarez, 2020; Aggarwal et al., 2019; Estelyi and Nisar, 2016).

Based on the theory of resource dependency, a firm relies on external factors and is considered an open system. Therefore, the theory suggests that the board should allocate resources, such as gender diversity, to assist management in areas where they lack control over potential uncertainties in the external environment. According to resource dependency theory, having women in top management positions is essential because they contribute significantly to improving the firm's financial performance and overall value (Pfeffer and Salancik, 1978; Adeabah et al., 2019). The inclusion of women brings new skills and credentials to the company, enabling a better understanding of the capital market and enhancing its reputation, particularly in the eyes of stakeholders and shareholders (Loukil et al., 2019). Resource dependency theorists emphasize the importance of women's presence in the boardroom as a means to establish a connection between the firm and its external environment (Lückerath-Rovers, 2013; Ujunwa, 2012).

According to the human capital theory, organizations benefit from harnessing the knowledge, experiences, skills, and other attributes of their staff (Carter et al., 2010). Within the realm of corporate governance, this theory suggests that a more diverse board of directors, encompassing various dimensions such as gender, age, nationality, education, and experience, contributes to greater diversity in the organization's human capital in terms of education, experiences, skills, and innovative thinking (Carter et al., 2010; Dezso & Ross, 2012; Hafsi & Turgut, 2013; Jhunjhunwala & Mishra, 2012; Luckerath-Rovers, 2013; Shukeri et al., 2012; Srinidhi et al., 2011).

In this context, a board composed of diverse members is perceived to possess a wide range of human capital, leading to increased information, improved decision-making capabilities, and a greater ability to generate innovative ideas (Hafsi & Turgut, 2013).

Foreign directors contribute to their companies by bringing a diverse range of perspectives and valuable information to the corporate board. This diversity enables easier market penetration in various international markets and ultimately enhances business success. The practical knowledge and extensive experiences of foreign directors are instrumental in improving decision-making within their companies.

2.1 Hypotheses development

2.1.1 Nationality: The presence of international board members is a crucial and distinguishing asset for companies (Katmon et al., 2019; Ruigrok, 2009). The diversity of nationalities among board directors is an important factor that can impact the decision-making process and overall company performance (Boone et al., 2019; Fernandez-Temprano and Tejerina-Gaite, 2020).

Research findings regarding the relationship between board member nationality and firm performance have been mixed. Some studies have found a positive and significant association between these variables (Katmon et al., 2019; Guest, 2019; Bernile et al., 2018; Arnegger et al., 2014; Tarigan et al., 2019; Charles et al., 2018). Conversely, other studies have reported a negative correlation between firm performance and board nationality diversity (Pitts and Jarry, 2007; Rose et al., 2013; Adnan et al., 2016). However, there are also studies that have found no meaningful connection between the two (Kipkirong Tarus & Aime, 2014).

Given these conflicting findings, it is expected that having individuals from diverse nationalities on corporate boards will bring benefits to the company, improve decision-making, and ultimately enhance financial performance. Consequently, the following claim is examined:

H1. There is a positive relationship between nationality diversity and financial performance.

2.1.2: Gender diversity in boards of directors and top management is gaining global attention among academics and policy makers (Zhao & Lord, 2016; Cambrea et al., 2018; Mori, 2014; Chidiac et al., 2017). Highlights that increased female participation in the boardroom enhances human capital development by bringing valuable experiences and diverse perspectives to decision making. Notably, boards of directors in banks, which hold responsibilities towards shareholders, depositors, and regulators, may have a more

significant role as a governance mechanism compared to non-financial institutions (Pathan & Faff, 2013). Previous studies conducted in developing economies support the positive impact of women on board performance when they contribute diverse perspectives to decision making (Brahma & Boateng, 2020; Jaya, 2020). On the other hand, several studies have found no correlation between gender diversity and firm performance (Mackey et al., 2019; Marinova et al., 2016; Sila, Gonzalez, & Hagendorff, 2016; Dobbin & Jung, 2011; Sun, Liu, & Lin, 2011 ;). Based on the above discussion, we hypothesize that:

H2. There is a positive relationship between gender diversity and financial performance

2.1.3 Educational level: The heterogeneity of expertise is considered the most valuable and difficult-to-replicate resource on the board of directors (Katmon et al., 2019; Crook et al., 2011).

Based on the human capital hypothesis (Becker, 1964), an individual's accumulated stocks, such as their level of education, play a crucial role in enhancing their cognitive and productive capacities, which can benefit organizations. Boards with a diverse range of knowledge and educational backgrounds have the potential to improve financial performance and strategic decision-making (Setiyono and Tarazi, 2018; Roberson et al., 2017; Jordao and Almeida, 2017). Studies have found a positive relationship between education diversity and business success (Haniffa & Cooke, 2002; Harjoto et al., 2019; Wang et al., 2017; Setiyono and Tarazi, 2018; Roberson et al., 2017; Jordao and Almeida, 2017).

Having a diverse set of educational backgrounds on the board of directors can foster discussions on the applicability of corporate strategies, facilitate the generation of a wider range of strategic alternatives, improve the evaluation of potential outcomes, and encourage the generation of more creative solutions (Harjoto et al., 2019). However, other studies have found that education diversity has a negative impact on business performance (Kagzi & Guha, 2018; Mahadeo et al., 2012; Ujunwa, 2012). These findings suggest that investors may perceive diversity in educational backgrounds among board members as a potential source of conflict, leading to a detrimental effect on business performance. Shareholders may not favor boards with high levels of education diversity (Kagzi & Guha, 2018). Conversely, several studies (Engelen, van den Berg, & van der Laan, 2012; Rose, 2007; Tarigan et al., 2019) have shown that diversity in education has no impact on firm performance (Kim & Lim, 2010).

The diverse educational backgrounds of the board of directors may contribute to implementing strategies that lead to the greatest improvement in financial performance. Therefore, we propose that:

H3. There is a positive relationship between educational level diversity and financial performance.

2.1.4 Age: The impact of age diversity on firm performance can vary, with both positive and negative effects. Age diversity on boards may bring enhanced abilities, resources, knowledge, experience, and connections, leading to improved business success. However, age diversity can also be associated with cognitive challenges and difficulties in cooperation, which can have a negative impact on firm performance.

Several studies have demonstrated that age-diverse boards contribute to better financial performance of companies (Ali & French, 2019; Ararat et al., 2017; Charles et al., 2018; Mahadeo et al., 2012). Conversely, other research has found a negative relationship between age diversity and firm performance (Hafsi & Turgut, 2013; Kunze, Boehm, & Bruch, 2011; Talavera, Yin, & Zhang, 2018; Tahtamouni et al., 2020; Arquisola et al., 2018). However, one study (Randøy, Thomsen, & Oxelheim, 2006) did not find a significant connection between age diversity and firm performance. Based on these findings, we propose the following hypothesis:

H4: There is a significant relationship between age diversity and firm performance.

2.1.5 Experience: The impact of experience diversity on firm performance can yield both positive and negative outcomes. Experience diversity has the potential to enhance the abilities, connections, and resources of the board, thereby positively influencing company performance. Certain studies have found that experience diversity contributes to improved company success (Saleh et al., 2020). Conversely, other research suggests that experience diversity may have a negative effect on firm effectiveness (Kilic, 2015). However,

some studies have indicated that experience diversity has minimal impact on company performance (Kutum, 2015). In light of these findings, we propose the following:

Hypothesis: The presence of experience diversity in the board has a significant relationship with firm performance.

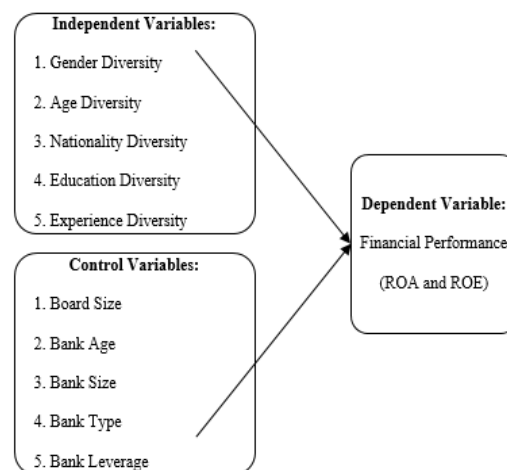


Figure (1.1): Conceptual Model of study

Source: Prepared by the researchers based on the study of (Kutum, 2015, Tahtamouni et al., 2020, Tejerina-Gaite, 2020).

3. Data and methodology

3.1 Sample

the population of the study consists of all banks that are listed on any of the above-mentioned exchanges during the 10-year period from 2010-2019. This period is specifically selected since it is the longest time series after the 2008 global financial crisis for which data are available. In this context, it is worth saying that Beirut Securities Exchange (BSE), has 6 banks with a total of 60 observations, Damascus Stock Exchange (DSE), has 14 banks with a total of 140 observations

3.2 Variables

Table (1): Variables and Their Measurement

Variable	Measurement	Reference
Dependent variable (Financial performance)		
ROA	% of net income to total assets	Kilic (2015)
ROE	% of net income to total equity	Kilic (2015)
Independent variables (Board diversity)		
Gender diversity	% of female members to total members	Gordini & Rancati (2017)
Age diversity	Standard deviation of ages of board members	Jhunjhunwala& Mishra (2012)
Nationality diversity	% of foreign members to total members	Jhunjhunwala& Mishra (2012)
Education diversity	% of high education members to total members	Jhunjhunwala& Mishra (2012)

Experience diversity	Std. dev. of board members' years of experience	Jhunhunwala& Mishra (2012)
Control variables (Bank-specific characteristics)		
Board size	Total number of board members	Gordini & Rancati(2017)
Bank age	Total number of years since incorporation	Charles et al. (2018)
Bank size	Natural log of total assets	Alia et al. (2020)
Bank type	0 if commercial bank, 1 if Islamic bank	Elnahass et al. (2020)
Bank leverage	% of total liabilities to total assets	Gordini & Rancati (2017)

3.3 Statistical Analysis Techniques

It aims to describe the study variables and use econometric methods to test the study hypotheses. The following statistical methods were used:

- 1- Descriptive statistical indicators for the dependent and independent variables of the study, which are represented by mean, median, standard deviation, the maximum value and the minimum value.
- 2- Linear Correlation Coefficient (Pearson)
- 3- Unit root test to check the stability of time series using Levin, Lin, Chu (LLC) test.
- 4- Tests of selection the appropriate model to study the relationship between the independent variables and the dependent variable, the Chow test and the Hausman test.
- 5- Studying the relationship between the study variables using appropriate models for cross-sectional data with time series (Panel Data), which are the common effect model, and the fixed or random effect model, based on the results of the appropriate model selection tests.

3.4 Unit Root Test

To examine this problem, the Levin, Lin, Chu (LLC) test is usually applied in the case of cross-sectional time-series data, and the hypotheses of this test are as follows:

H0: the data contains a unit root ($p > 0.05$)

H1: The data does not have a unit root ($p < 0.05$)

3.5 Research Model

Panel data sets comprise both time series and cross-sectional data. Take 100 observations from 10 years of data spread across 2 countries as an example. Hence, estimating the model as a panel rather than a time series or cross section would be sufficient.

Models for panel data look at the random and/or fixed effects of time, subject, or individual. The function of dummy variables plays a key role in distinguishing fixed effect models from random effect models. If dummies are taken into account as a component of the intercept, this model is a fixed effect one. The dummies serve as an error term in a model of random effects. Given that all entities or subjects have the same slopes and the same variance, a fixed group

effect model analyses group differences in intercepts. LSDV and within effect estimating techniques are used with fixed effect models. In actuality, dummy-regressions using the ordinary least squares (OLS) method are fixed effect models (Baltagi, 2008).

$$Y_{it} = \sum D_{it}\beta_i + \beta_i X_{it} + u_{it}$$

Random Effects Analysis The fixed effects model presupposes that y has a non-stochastic group-specific component for each group (firm). Dummy variables can be used to account for unobservable effects on y . But these undetectable impacts can be random (i.e. random). The Random Effects Model seeks to cope with this:

$$Y_{it} = \beta_0 + \beta_1 X_{it} + V_i + \epsilon_{it}$$

Here the unobservable component, v_i , is treated as a component of the random error term. v_i is the element of the error which varies between groups but not within groups. ϵ_{it} is the element of the error which varies over group and time.

3.6 Model Selection

Many tests are used to choose the best estimation model to estimate the panel data, such as:

Chow Test

To determine whether Common Effect (CE) or Fixed Effect (FE) should be utilized to estimate panel data, the Chow test is used.

If Results:

H0: CE is most appropriate in estimating ($p > 0.05$)

H1: FE is most appropriate in estimating ($p < 0.05$)

Hausman Test

Hausman test is used to check whether Random Effect (RE) or Fixed Effect (FE) is most appropriate in estimating panel data.

H0: RE is most appropriate in estimating ($p > 0.05$)

H1: FE is most appropriate in estimating ($p < 0.05$).

Descriptive Statistics of Variables for Banks in Lebanon

Table (2) shows the results of financial performance of banks in Lebanon indicate that the mean value of return on equity (ROE) is 0.113. This means that every dollar of equity

yields, on average, a profit of \$0.113. This mean value ranges between a minimum value of 0.018 and a maximum value of 0.174.

Regarding return on assets (ROA), the results indicate that it has a mean value of 0.009. This means that every dollar of investment in assets achieves, on average, a profit of \$0.009. This mean value ranges between a minimum value of -0.014 and a maximum value of (0.016).

With respect to gender diversity, the results indicate that the mean value of female members to total members in boards is nearly 4 percent, ranging between a minimum value of 0 and a maximum value of 15 percent.

Moreover, the mean value of the dispersion in the ages of board members is approximately 11 years, with a minimum value of roughly 9 years and a maximum value of nearly 19 years. In addition, the results indicate that foreign members on the boards represent, on average, nearly 16 percent of total board members, with a minimum value of 0 percent and a maximum value of (46%).

Furthermore, the mean value of the dispersion in the years of experience of board members is 5.497 years, with a minimum value of 0.850 years and a maximum value of 9.23 years. The results also indicate that nearly 46 percent of board members hold high education degrees, with a minimum value of (11%) and a maximum value of (87%).

According to the findings, there are an average of roughly 11 board members on Lebanese banks' boards, with a minimum value of 8 and a maximum value of (15).

Additionally, the results indicate that the average age of banks in Lebanon is nearly 48 years, with a minimum value of 14 years and a maximum value of 68 years. Moreover, the average size of the assets of Lebanese banks is \$19,900 million, ranging between a minimum value of nearly \$23 million and a maximum value of \$120,000 million. Finally, the average financial leverage of Lebanese banks is roughly 89 percent, ranging between a minimum value of (75%) and a maximum value of (92%).

Table (2): Descriptive Statistics of Variables for Banks in Lebanon

Variable	Minimum	Maximum	Mean	Std. Dev.
Dependent variable (Financial performance)				
ROE	0.018	0.174	0.113	0.037
ROA	-0.014	0.016	0.009	0.004
Independent variables (Board diversity)				
Gender diversity	0.000	0.150	0.041	0.058
Age diversity	8.690	18.650	11.392	2.617
Nationality diversity	0.000	0.46	0.157	4.278
Experience diversity	0.850	9.230	5.497	3.100
Education diversity	0.110	0.870	0.467	0.205
Control variables (Bank-specific variables)				
Board size	8.000	15.000	10.559	1.590
Bank age	14.000	68.000	48.051	20.849
Bank size (\$million)	23.047	121,000.000	19,900.000	32,500.000
Bank type	NA	NA	NA	NA
Bank leverage	0.750	0.920	0.886	0.038

Descriptive Statistics of Variables for Banks in Syria

Table (3): Descriptive Statistics of Variables for Banks in Syria

Variable	Minimum	Maximum	Mean	Std. Dev.
Dependent variable (Financial performance)				
ROE	-2.066	0.557	0.086	0.293
ROA	-0.126	0.640	0.031	0.088
Independent variables (Board diversity)				
Gender diversity	0.000	0.330	0.038	0.065
Age diversity	4.630	19.180	10.311	3.534
Nationality diversity	0.000	0.625	0.371	3.690

Experience diversity	0.000	5.070	2.636	1.438
Education diversity	0.110	0.750	0.381	0.137
Control variables (Bank-specific variables)				
Board size	6.000	10.000	8.464	0.963
Bank age	10.000	16.000	12.857	2.207
Bank size (\$million)	5,080.000	684,000.000	94,000.000	91,500.000
Bank type	NA	NA	NA	NA
Bank leverage	0.007	0.990	0.758	0.198

Table (3) shows the results of financial performance of banks in Syria indicate that the mean value of return on equity (ROE) is 0.086. This means that every dollar of equity yields, on average, a profit of \$0.086. This mean value ranges between a minimum value of -2.066 and a maximum value of (0.557).

Regarding return on assets (ROA), the results indicate that it has a mean value of (0.031). This means that every dollar of investment in assets achieves, on average, a profit of \$0.031. This mean value ranges between a minimum value of -0.126 and a maximum value of (0.640).

With respect to gender diversity, the results indicate that the mean value of female members to total members in boards is 3.8 percent, ranging between a minimum value of 0 and a maximum value of (33%).

Moreover, the mean value of the dispersion in the ages of board members is approximately 10 years, with a minimum value of roughly 5 years and a maximum value of nearly 19 years. In addition, the results indicate that foreign members on the boards represent, on average, nearly (37%) of total board members, with a

minimum value of 0 percent and a maximum value of nearly (63%).

Furthermore, the mean value of the dispersion in the years of experience of board members is 2.636 years, with a minimum value of 0 years and a maximum value of 5.070 years. The results also indicate that nearly (38%) of board members hold high education degrees, with a minimum value of 11 percent and a maximum value of (75%)

The findings also show that there are, on average, almost 8 board members on the boards of Syrian banks, with a minimum value of 6 and a maximum value of 10.

Additionally, the results show that banks in Syria have an average age of about 13 years, with a minimum value of 10 years and a maximum value of 16 years. Moreover, the assets of Syrian banks have an average size of \$94,000 million, with a minimum value of \$5,080 million and a maximum value of \$684,000 million. Last but not least, the financial leverage of Syrian banks ranges from a minimum of less than 1% to a maximum of (99 %), with an average value of about (76 %).

Linear correlation matrix (Pearson)

Table (4): Linear correlation matrix between study variables

	Lebanon		Syria	
	ROA	ROE	ROA	ROE
ROE		1.000		1.000
ROA	1.000	0.439	1.000	0.976
National Diversity	0.137	-0.100	0.041	-0.012
Gender Diversity	-0.050	0.193	-0.166	-0.106
Experience Diversity	0.107	-0.069	0.364	-0.044
Education Diversity	0.245	0.150	0.044	0.236
Bank Size	-0.007	0.187	-0.299	0.026
Board Size	0.027	0.286	0.155	-0.295
Bank Age	-0.095	-0.009	0.392	0.011
Bank Leverage	0.118	-0.059	0.181	0.032
Age Diversity	-0.052	-0.423	-0.275	-0.115

Table (4) shows that the value of the Pearson correlation coefficient is not high enough to show the relationship between the control and dependent variables and the dependent variables. This is due to the fact that the variables that represent the characteristics of board members in banks do not interact with this test enough to

clarify the relationship. Therefore, study models will be applied.

Table (5): Testing the stability of the time series of variables

Table (5) shows the results of the Unit Root Test for the study variables to ensure the stability of the time series, as the data being free from the

unit root problem means that the data is stable over time, which will limit the problem of false regression for the study variables. The results show that the probability test < 0.05 for all variables, this leads to the rejection of the null

hypothesis with the presence of a unit root, and this means that the study variables are free from the unit root problem, that is, the time series of the studied variables are stable, which can be used in the study models.

Table (5): Results of the unit root test for the study variables

Country	Variables	P-value	Result
Lebanon	ROA	0.00000	No unit root
	ROE	0.0014	No unit root
	B_LEVERAGE	0.00000	No unit root
	BSIZE	0.02040	No unit root
Syria	ROA	0.0000	No unit root
	ROE	0.0000	No unit root
	B_LEVERAGE	0.0000	No unit root
	BSIZE	0.0000	No unit root

Research models

This research aims to examine the impact of board diversity on the financial performance of banks based on the data with cross-sectional time series collected for banks in four countries, where the relationship was studied for all countries by building two models, and then studied according to each country. These models were as follows:

ROA Models:

ROA:

$$\text{Lebanon} = \alpha + \beta_1 \text{GD} + \beta_2 \text{AD} + \beta_3 \text{ND} + \beta_4 \text{ED} + \beta_5 \text{ExpD} + \beta_6 \text{Bo_Size} + \beta_7 \text{BAge} + \beta_8 \text{BSize} + \beta_9 \text{B_Leverage} + u$$

$$\text{ROA Syria} = \alpha + \beta_1 \text{GD} + \beta_2 \text{AD} + \beta_3 \text{ND} + \beta_4 \text{ED} + \beta_5 \text{ExpD} + \beta_6 \text{Bo_Size} + \beta_7 \text{BAge} + \beta_8 \text{BSize} + \beta_9 \text{Type} + \beta_{10} \text{B_Leverage} + u$$

ROE Models:

$$\text{ROE Lebanon} = \alpha + \beta_1 \text{GD} + \beta_2 \text{AD} + \beta_3 \text{ND} + \beta_4 \text{ED} + \beta_5 \text{ExpD} + \beta_6 \text{Bo_Size} + \beta_7 \text{BAge} + \beta_8 \text{BSize} + \beta_9 \text{B_Leverage} + u$$

$$\text{ROE Syria} = \alpha + \beta_1 \text{GD} + \beta_2 \text{AD} + \beta_3 \text{ND} + \beta_4 \text{ED} + \beta_5 \text{ExpD} + \beta_6 \text{Bo_Size} + \beta_7 \text{BAge} + \beta_8 \text{BSize} + \beta_9 \text{Type} + \beta_{10} \text{B_Leverage} + u$$

α : Constant

GD: Gender Diversity

AD: Age Diversity

ND: National Diversity

ED: Education Diversity

ExpD: Experience Diversity

Bo_size: Board Size

BAge: Bank Age

Bsize: Bank Size

Btype: Bank Type

B_Leverage: Bank Leverage

DJ: Dummy variable (1 if Jordan, 0 for others)

Dleb: Dummy variable (1 if Lebanon, 0 for others)

DSyr: Dummy variable (1 if Syria, 0 for others)

u: Error term

Results of choosing the best estimation model

Table (4) indicates the results of the tests used to determine the best model for each of the general estimation model which includes all countries, and estimation models according to the nature of each country. Hausman test and Chow test were applied to select the best model. When applying Hausman's test, it was found that the random effect model cannot built except for ROA Lebanon model, which called for rejecting the null hypothesis which states that the random effect model is the best. Then the Chow test was applied to determine the best model between the common regression model and the fixed effect model, and the test probability value was > 0.05 for all models except ROA for Lebanon, which leads to accepting the null hypothesis which states that the common effect model is the best to test the study hypotheses except ROA of Lebanon which needs FE model.

Table (6): Results of tests to determine the best model for estimating ROA

Country	Test	P-value	Result
Lebanon	Chow Test	0.0442	Fixed effect model
	Hausman Test	0.0203	Fixed effect model
Syria	Chow Test	0.4136	Common effect model is most appropriated

	Hausman Test	Unable	Fixed effect model
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Table (7): Results of tests to determine the best model for estimating ROE

Country	Test	P-value	Result
Lebanon	Chow Test	0.5123	Common effect model is most appropriated
	Hausman Test	0.4997	Random effect model
Syria	Chow Test	0.4037	Common effect model is most appropriated
	Hausman Test	Unable	Fixed effect model

Panel Data Regression Models

This section focuses on hypothesis testing using panel data regression models. The analysis includes two countries, with each hypothesis examined separately. Two models are estimated for the combined analysis of all countries. In each country, one model uses return on equity (ROE) as an indicator of financial performance, while the other model utilizes return on assets (ROA). The regression analysis enables a thorough evaluation of the connections between board diversity and financial performance.

Regression Model for Lebanese Banks Using ROE

The results of the panel regression model for Lebanese banks using return on equity (ROE) as a dependent variable are shown in Table 4.10. The model includes five diversity variables as independent variables and five bank-specific variables as control variables. The value of R2 (= 0.474) indicates that all of the variables included in the regression model explain approximately 47% of the variation in the dependent variable (i.e. ROE). Moreover, the value of F-statistic (< 0.05) indicates that the regression model as a whole is significant.

Table (8): Regression Results for Lebanese Banks Using ROE

Constant & Variables	Coefficient	Std. Error	t-Statistic	Sig.
Constant	-0.52246	0.246576	-2.118858	0.0392
Gender diversity	0.091875	0.100328	0.915748	0.3643
Age diversity	-0.009148	0.002347	-3.897426	0.0003*
Nationality diversity	-0.001085	0.000996	-1.089176	0.2814
Education diversity	0.025625	0.021776	1.176767	0.2450
Experience diversity	0.002849	0.002381	-1.196439	0.2373
Board size	0.003419	0.003117	1.097095	0.2780
Bank age	0.000311	0.000369	0.842693	0.4035
Bank size	7.40E-13	3.86E-13	1.916108	0.0612
Bank leverage	0.76126	0.276214	2.756056	0.0082*
R2	0.474395			
F-Statistic	0.000105			
* Significant at the 0.05 level.				

Regression Model for Lebanese Banks Using ROA

The results of the panel regression model for Lebanese banks using return on assets (ROA) as a dependent variable are shown in Table 9. The model includes five diversity variables as independent variables and five bank-specific

variables as control variables. The value of R2 (= 0.524) indicates that all of the variables included in the regression model explain approximately 52% of the variation in the dependent variable (i.e. ROA). Moreover, the value of F-statistic (< 0.05) indicates that the regression model as a whole is significant.

Table (9): Regression Results for Lebanese Banks Using ROA

Constant & Variables	Coefficient	Std. Error	t-Statistic	Sig.
Constant	0.040829	0.033825	1.207071	0.2345
Gender diversity	0.02098	0.015095	1.389858	0.1723

Age diversity	-0.000133	0.00035	-0.37898	0.0007*
Nationality diversity	1.60E-06	0.00014	0.011398	0.9910
Education diversity	0.00464	0.003575	1.297916	0.2018
Experience diversity	0.00036	0.000334	1.07805	0.2875
Board size	0.000416	0.00041	1.013286	0.3170
Bank age	9.04E-05	5.37E-05	1.684845	0.0998
Bank size	-4.29E-14	5.21E-14	-0.82319	0.4153
Bank leverage	-0.048274	0.039469	-1.22311	0.2284
R2	0.524386			
F-Statistic	0.009190			
* Significant at the 0.05 level.				

Regression Model for Syrian Banks Using ROE
The results of the panel regression model for Syrian banks using return on equity (ROE) as a dependent variable are shown in Table 10. The model includes five diversity variables as independent variables and five bank-specific variables as control variables. The value of R2 (=

0.236) indicates that all of the variables included in the regression model explain approximately 24% of the variation in the dependent variable (i.e. ROE). Moreover, the value of F-statistic (< 0.05) indicates that the regression model as a whole is significant.

Table (10): Regression Results for Syrian Banks Using ROE

Constant & Variables	Coefficient	Std. Error	t-Statistic	Sig.
Constant	0.907429	6.875648	0.131977	0.8952
Gender diversity	10.10638	7.53508	1.341244	0.1822
Age diversity	0.098378	0.160447	0.61315	0.5409
Nationality diversity	0.01703	0.115823	0.147037	0.8833
Education diversity	10.83388	4.401019	-2.461676	0.0151*
Experience diversity	0.168092	0.335766	0.500624	0.6175
Board size	-0.729192	0.564954	-1.29071	0.1991
Bank type	0.442347	0.282965	1.56326	0.1204
Bank age	1.43E-11	5.93E-12	-2.405893	0.0176*
Bank size	5.671291	1.58159	3.585816	0.0005*
Bank leverage	4.064833	2.773658	1.465513	0.1452
R2	0.236081			
F-Statistic	0.000000			
* Significant at the 0.05 level.				

Regression Model for Syrian Banks Using ROA
The results of the panel regression model for Syrian banks using return on assets (ROA) as a dependent variable are shown in Table 11. The model includes five diversity variables as independent variables and five bank-specific variables as control variables. The value of

R2 (= 0.236) indicates that all of the variables included in the regression model explain approximately 24% of the variation in the dependent variable (i.e. ROA). Moreover, the value of F-statistic (< 0.05) indicates that the regression model as a whole is significant.

Table (11): Regression Results for Syrian Banks Using ROA

Constant & Variables	Coefficient	Std. Error	t-Statistic	Sig.
Constant	0.24128	1.006009	0.239839	0.8108
Gender diversity	1.648319	1.102494	1.495082	0.1373
Age diversity	0.011862	0.023476	0.505297	0.6142
Nationality diversity	0.00235	0.016947	0.138698	0.8899
Education diversity	1.528622	0.643934	-2.37388	0.0191*
Experience diversity	0.02208	0.049128	0.449451	0.6539
Board size	-0.108339	0.082661	-1.31064	0.1923
Bank type	0.066342	0.041402	1.602393	0.1115

Bank age	2.46E-12	8.67E-13	-2.83859	0.0053
Bank size	0.881576	0.23141	3.809583	0.0002
Bank leverage	0.507391	0.405827	1.250264	0.2135
R2	0.236081			
F-Statistic	0.000000			
* Significant at the 0.05 level.				

Hypotheses Testing

Having developed the panel data regression models, it is time to test the five hypotheses that are developed in Chapter One.

Test of Hypothesis 1

H1: Gender diversity has a significant positive impact on the financial performance of banks listed in the Lebanon and Syria Exchanges.

Test of Hypothesis 1 in Lebanese Banks

The results of Table 8 confirm that gender diversity of board members has no significant effect on return on equity (ROE) in the Lebanese banks, since the p-value ($=0.3643$) is higher than the 0.05 level of significance. This means that Lebanese banks having more diverse boards in terms of gender do not achieve higher return on equity (ROE) compared with banks having less diverse boards.

Similarly, the results of Table 9 confirm that gender diversity of board members has no significant effect on return on assets (ROA) in the Lebanese banks since the p-value ($=0.1723$) is higher than the 0.05 level of significance. This means that Lebanese banks having more diverse boards in terms of gender do not achieve higher return on assets (ROA) compared with banks having less diverse boards.

Test of Hypothesis 1 in Syrian Banks

The results of Table 10 confirm that gender diversity of board members has no significant effect on return on equity (ROE) in the Syrian banks since the p-value ($=0.1822$) is higher than the 0.05 level of significance. This means that Syrian banks having more diverse boards in terms of gender do not achieve higher return on equity (ROE) compared with banks having less diverse boards.

Similarly, the results of Table 11 confirm that gender diversity of board members has no significant effect on return on assets (ROA) in the Syrian banks since the p-value ($=0.1373$) is higher than the 0.05 level of significance. This means that Syrian banks having more diverse boards in terms of gender do not achieve higher return on assets (ROA) compared with banks having less diverse boards.

Test of Hypothesis 2:

H2: Age diversity has a significant positive impact on the financial performance of the banks listed in the Lebanon and Syria Exchanges.

Test of Hypothesis 2 in Lebanese Banks

The results of Table 8 confirm that age diversity of board members has a significant negative effect on return on equity (ROE) in the Lebanese banks since the p-value ($=0.0003$) is less than the 0.05 level of significance. This means that Lebanese banks having more diverse boards in terms of age achieve lower return on equity (ROE) compared with banks having less diverse boards.

Similarly, the results of Table 9 confirm that age diversity of board members has a significant negative effect on return on assets (ROA) in the Lebanese banks since the p-value ($=0.0007$) is less than the 0.05 level of significance. This means that Lebanese banks having more diverse boards in terms of age achieve lower return on assets (ROA) compared with banks having less diverse boards.

Test of Hypothesis 2 in Syrian Banks

The results of Table 10 confirm that age diversity of board members has no significant effect on return on equity (ROE) in the Syrian banks since the p-value ($=0.5409$) is higher than the 0.05 level of significance. This means that Syrian banks having more diverse boards in terms of age do not achieve higher return on equity (ROE) compared with banks having less diverse boards.

Similarly, the results of Table 11 confirm that age diversity of board members has no significant effect on return on assets (ROA) in the Syrian banks since the p-value ($=0.6142$) is higher than the 0.05 level of significance. This means that Syrian banks having more diverse boards in terms of age do not achieve higher return on assets (ROA) compared with banks having less diverse boards.

Test of Hypothesis 3

H3: Nationality diversity has a significant positive impact on the financial performance of banks listed in the Lebanon and Syria Exchanges.

Test of Hypothesis 3 in Lebanese Banks

The results of Table 8 confirm that nationality diversity of board members has no significant effect on return on equity (ROE) in the Lebanese banks since the p-value ($=0.2814$) is higher than

the 0.05 level of significance. This means that Lebanese banks having more diverse boards in terms of nationality do not achieve higher return on equity (ROE) compared with banks having less diverse boards.

Similarly, the results of Table 9 confirm that nationality diversity of board members has no significant effect on return on assets (ROA) in the Lebanese banks since the p-value ($=0.9910$) is higher than the 0.05 level of significance. This means that Lebanese banks having more diverse boards in terms of nationality do not achieve higher return on assets (ROA) compared with banks having less diverse boards.

Test of Hypothesis 3 in Syrian Banks

The results of Table 10 confirm that nationality diversity of board members has no significant effect on return on equity (ROE) in the Syrian banks since the p-value ($=0.8833$) is higher than the 0.05 level of significance. This means that Syrian banks having more diverse boards in terms of nationality do not achieve higher return on equity (ROE) compared with banks having less diverse boards.

Similarly, the results of Table 11 confirm that nationality diversity of board members has no significant effect on return on assets (ROA) in the Syrian banks since the p-value ($=0.8899$) is higher than the 0.05 level of significance. This means that Syrian banks having more diverse boards in terms of nationality do not achieve higher return on assets (ROA) compared with banks having less diverse boards.

Test of Hypothesis 4

H4: Education diversity has a significant positive impact on the financial performance of banks listed in the Lebanon and Syria Exchanges.

Test of Hypothesis 4 in Lebanese Banks

The results of Table 8 confirm that education diversity of board members has no significant effect on return on equity (ROE) in the Lebanese banks since the p-value ($=0.2450$) is higher than the 0.05 level of significance. This means that Lebanese banks having more diverse boards in terms of education do not achieve higher return on equity (ROE) compared with banks having less diverse boards.

Similarly, the results of Table 9 confirm that education diversity of board members has no significant effect on return on assets (ROA) in the Lebanese banks since the p-value ($=0.2018$) is higher than the 0.05 level of significance. This means that Lebanese banks having more diverse boards in terms of education do not achieve higher return on assets (ROA) compared with banks having less diverse boards.

Test of Hypothesis 4 in Syrian Banks

The results of Table 10 confirm that education diversity of board members has a significant positive effect on return on equity (ROE) in the Syrian banks since the p-value ($=0.0151$) is less than the 0.05 level of significance. This means that Syrian banks having more diverse boards in terms of education achieve higher return on equity (ROE) compared with banks having less diverse boards.

Similarly, the results of Table 11 confirm that education diversity of board members has a significant positive effect on return on assets (ROA) in the Syrian banks since the p-value ($=0.0191$) is less than the 0.05 level of significance. This means that Syrian banks having more diverse boards in terms of education achieve higher return on assets (ROA) compared with banks having less diverse boards. The presence of board members with academic credentials improves the performance of the bank since, in the researchers' opinion, Syrian banks are more recent in creation than Lebanese banks.

Test of Hypothesis 5

H5: Experience diversity has a significant positive impact on the financial performance of banks listed in the Lebanon and Syria Exchanges.

Test of Hypothesis 5 in Lebanese Banks

The results of Table 8 confirm that experience diversity of board members has no significant effect on return on equity (ROE) in the Lebanese banks since the p-value ($=0.2373$) is higher than the 0.05 level of significance. This means that Lebanese banks having more diverse boards in terms of experience do not achieve higher return on equity (ROE) compared with banks having less diverse boards.

Similarly, the results of Table 9 confirm that experience diversity of board members has no significant effect on return on assets (ROA) in the Lebanese banks since the p-value ($=0.2875$) is higher than the 0.05 level of significance. This means that Lebanese banks having more diverse boards in terms of experience do not achieve higher return on assets (ROA) compared with banks having less diverse boards.

Test of Hypothesis 5 in Syrian Banks

The results of Table 10 confirm that experience diversity of board members has no significant effect on return on equity (ROE) in the Syrian banks since the p-value ($=0.6175$) is higher than the 0.05 level of significance. This means that Syrian banks having more diverse boards in terms of experience do not achieve higher return on equity (ROE) compared with banks having less diverse boards.

Similarly, the results of Table 11 confirm that experience diversity of board members has no significant effect on return on assets (ROA) in the Syrian banks since the p-value ($=0.6539$) is higher than the 0.05 level of significance. This means that Syrian banks having more diverse boards in terms of experience do not achieve higher return on assets (ROA) compared with banks having less diverse boards.

Conclusion:

This study investigates the influence of board diversity on the financial performance of banks in Syria and Lebanon. The findings suggest similarities in the performance and board diversity of banks in both countries, supporting the idea that diverse boards contribute to better business performance. The study collected data from banks listed on the Damascus Securities Exchange (DSE) and Beirut Stock Exchange (BSE), covering a period from 2009 to 2019. Results indicate that board age diversity positively affects performance on the BSE, while it has no significant impact on the DSE. Board education diversity positively influences the financial performance of banks on the DSE but not on the BSE. The study suggests that qualified board members enhance bank performance. Future research could explore the effects of the COVID-19 pandemic on corporate governance.

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أثر تنوع أعضاء مجلس الإدارة على الأداء المالي للمصارف اللبنانية والسورية: دراسة مقارنة

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المخلص:

يدرس هذا البحث العلاقة بين تنوع مجالس الإدارة، والأداء المالي للبنوك المدرجة في بورصة بيروت للأوراق المالية (BSE)، وسوق دمشق للأوراق المالية (DSE) في لبنان وسوريا، على التوالي. وتعتمد الدراسة المنهج الكمي، حيث تقوم باختبار الفرضيات، وتحليل البيانات الثانوية من التقارير السنوية للبنوك على مدى السنوات العشر من (2010) إلى (2019). ويتضمن التحليل الإحصاء الوصفي، والتقنيات الإحصائية الاستدلالية. ويتم أيضاً استخدام تحليل انحدار بيانات اللوحة؛ لدراسة تأثير متغيرات تنوع مجلس الإدارة، وتحديدًا العائد على حقوق الملكية (ROE)، والعائد على الأصول (ROA)، على الأداء المالي للبنوك. كما تتناول هذه الدراسة تأثير تنوع مجالس الإدارة على الأداء المالي للبنوك المدرجة في بورصات لبنان وسوريا. وتكشف النتائج أن التنوع بين الجنسين لا يؤثر بشكل كبير على الأداء المالي، في حين أن التنوع العمري له تأثير إيجابي. كما يؤثر التنوع التعليمي بشكل إيجابي على الأداء المالي للبنوك في بورصة دمشق، ولكن ليس في بورصة بيروت، حيث إن تنوع خبرات مجلس الإدارة ليس له أي تأثير على الأداء المالي في كلا البلدين.

الكلمات المفتاحية: تنوع مجلس الإدارة، سوق بيروت للأوراق المالية، سوق دمشق للأوراق المالية.