The Effect of Board Structure and Presence of Female Directors on Corporate Risk Taking in the UK

Thesis submitted in accordance with the requirements of the University of Liverpool for the degree of Doctor in Philosophy

By
Buthiena Kharabsheh

The University of Liverpool Management School

2015
Abstract

This study investigates the effects of board structure and the presence of female directors on corporate risk-taking behaviour of UK public firms. The research employs a sample of 589 firms from the non-financial sector and 276 firms from the financial sector listed in the FTSE All-Share Index on the London Stock Exchange over the period 2003-2012. The main objective of this research is thus to examine the effect of board structure characteristics and the presence of female directors on corporate risk taking in UK publicly listed companies. After controlling for three types of endogeneity, i.e. simultaneity, unobserved heterogeneity and dynamic endogeneity, through the application and use of a dynamic panel estimator system GMM, this study finds that board structure and female directors are important determinants of corporate risk taking in the UK.

Board independence and CEO/Chairperson duality are negatively related to corporate risk taking in both the financial and non-financial companies. In addition, the findings indicate that larger boards in the non-financial sector result in lower corporate risk taking whereas no impact of board size was found in the financial sector. While analysing the percentage number of female directors on corporate risk taking, it was revealed that the presence of female directors on corporate boards in the non-financial sector increases the corporate risk taking and thus works in line with shareholders’ interests and expectations. Moreover, the study finds that this positive significant effect has a quadratic concave effect on corporate risk taking. However, in the financial sector no significant effect on risk taking is shown by the presence of female directors.

After considering the effect of financial crisis, it was found that the non-executive directors work in line with shareholders’ interests and support more risky investments in the pre-crisis period in the non-financial companies. However, the non-executive directors in the financial sector behave in a more conservative way, and negatively affect corporate risk taking in both the pre-crisis and post-crisis periods. Moreover, in both sectors duality is found to be negatively related to corporate risk taking during the crisis period only, with no significant effect found for duality in the pre- and post-crisis periods. Further, the positive effect of female
directors in the non-financial companies appears only in the pre-crisis period. Overall, the findings of this research would be important for the regulators and policymakers responsible for establishing corporate governance regulations for both the financial and non-financial sectors in the UK.