

THE REACTION OF MALAYSIAN INVESTORS TO
THE APPOINTMENT OF FEMALE DIRECTORS:
A CASE OF TOP PUBLIC LISTED
COMPANIES IN MALAYSIA

BY

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ABSTRACT

The fifth goal under the Sustainable Development Goals (SDG) is to achieve gender equality, which includes an effort to ensure women's effective participation and equal opportunities for leadership at all levels of decision-making. The present scenario in Malaysia's financial market however raises a question of whether predominant male investors are willing to break the 'glass ceiling' and accept the nomination of women into executive positions in public listed companies. This study examines the market reaction towards the appointment of female directors by utilizing event study analysis on the announcement effects of female directors' appointments. The study found evidence that investors react positively in the first 3 days after the announcement; thus, denying the scepticism of female directors. Also, the speed of price adjustment reestablished evidence of semi-strong form efficiency in the Malaysian stock market. Next, we apply the binomial logistic regression to predict the dichotomous relationship between the positive average abnormal return (AAR) with the specific factors in the announcement (the directorate, age, family relationship and industry), which helps to determine the criteria influencing the affirmative reaction of investors. The analysis found that age is the only significant factor that positively influences the investors' reaction to generating positive abnormal returns. This study contributed to the current research on the market's reaction toward a female board of directors' appointment while indirectly providing general insights on the issue of gender equality in Malaysia. It also provides evidence of a semi-strong form market in Malaysia while acknowledging the significance of age as a decisive factor influencing the positive market reaction.

خلاصة البحث

الهدف الخامس من أهداف التنمية المستدامة هو تحقيق المساواة بين الجنسين، والذي يشمل بذل جهد لضمان المشاركة الفعالة للمرأة وتكافؤ الفرص للقيادة على جميع مستويات صنع القرار. غير أن السيناريو الحالي في السوق المالي لماليزيا يثير تساؤلاً حول ما إذا كان المستثمرون الذكور المهيمنون على استعداد لكسر «السقف الزجاجي» وقبول ترشيح النساء لمناصب تنفيذية في الشركات العامة المدرجة. تبحث هذه الدراسة في رد فعل السوق تجاه تعيين مديرات من خلال استخدام تحليل دراسة الأحداث حول آثار الإعلان عن تعيينات المديرات. ووجدنا دليلاً على أن المستثمرين يتفاعلون بشكل إيجابي في الأيام الثلاثة الأولى بعد الإعلان، وبالتالي ينكرون شكوك المديرات. كما أنه أعادت سرعة تعديل الأسعار إثبات الدليل على كفاءة الشكل شبه القوية في سوق الأوراق المالية الماليزي. وبعد ذلك قمنا بتطبيق الانحدار اللوجستي ذي الحدين للتنبؤ بالعلاقة الثنائية بين متوسط العائد غير الطبيعي الإيجابي مع العوامل المحددة في الإعلان (المديرية، والعمر، والعلاقة الأسرية، والصناعة)، مما يساعد على تحديد المعايير التي تؤثر على رد الفعل الإيجابي للمستثمرين. ووجد التحليل أن العمر هو العامل الوحيد المهم الذي يؤثر بشكل إيجابي على رد فعل المستثمرين لتوليد عوائد إيجابية غير طبيعية. ساهمت هذه الدراسة في البحث الحالي حول رد فعل السوق تجاه تعيين الإناث في مجلس الإدارة مع تقديم رؤية عامة بشكل غير مباشر حول قضية المساواة بين الجنسين في ماليزيا. كما يقدم دليلاً على وجود سوق شبه قوي في ماليزيا مع الاعتراف بأهمية العمر كعامل حاسم يؤثر على رد الفعل الإيجابي للسوق.

APPROVAL PAGE

I certify that I have supervised and read this study and that in my opinion, it conforms to acceptable standards of scholarly presentation and is fully adequate, in scope and quality, as a dissertation the degree of Master of Science (Finance).



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DECLARATION

I hereby declare that this dissertation is the result of my own investigations, except where otherwise stated. I also declare that it has not been previously or concurrently submitted as a whole for any other degrees at IIUM or other institutions.

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TABLE OF CONTENTS

Abstract	ii
Abstract in Arabic	iii
Approval Page.....	iv
Declaration	v
Copyright Page.....	vi
Acknowledgements.....	vii
Table	of
Contents.....	viivii
i	
List of Tables	x
List of Figures	xii
CHAPTER ONE: INTRODUCTION	1
1.1 Background of the Study	1
1.1.1 Gender Issues in General	1
1.1.2 Women’s Participation Globally	2
1.1.3 Women’s Participation in Malaysia	4
1.1.4 Current Situation in Malaysia	7
1.2 Problem Statement.....	8
1.3 Research Objectives.....	10
1.4 Research Questions.....	10
1.5 Structure of the Study	11
1.6 Significance of the Study.....	12
1.7 Limitation of Study.....	14
1.8 Motivation of the Study	16
CHAPTER TWO: LITERATURE REVIEW.....	17
2.1 Introduction.....	17
2.2 Event Study and Efficient Market Hypothesis	17
2.3 The Positive Effects Surrounding the Appointment of the Female Board of Directors	22
2.3.1 Positive Effects on Financial Performance	26
2.4 The Negative Effects Surrounding the Appointment of the Female Board of Directors	29
2.4.1 Family Relationship as a Determinant of Negative Performance.....	29
2.4.2 Negative Effects on Performance.....	30
2.5 Announcement Effects of Changing the Board of Directors.....	32
2.6 Research Framework	38
2.7 Chapter Summary	41
CHAPTER THREE: RESEARCH METHODOLOGY	44
3.1 Introduction.....	44
3.2 Data and Collection	44
3.3 Methodology.....	48

3.3.1 Event Study of Market Reaction to a Female Director Announcement.....	48
3.3.1.1 Aggregation of Individual Firm.....	51
3.3.1.2 Aggregation of Cross-Sectional Firms at a Period of Time	53
3.3.2 Binary Logistic Regression Model	55
CHAPTER FOUR: RESULTS AND DISCUSSION	63
4.1 Descriptive Analysis.....	63
4.1.1 Female Directors Appointment Announcement by Year.....	63
4.1.2 Female Director's Appointment Announcement by Age.....	65
4.1.3 Female Directors Appointment Announcement by Directorate....	67
4.1.4 Female Director's Appointment Announcement by Sector.....	70
4.2 Results for Aggregation of Individual Firm	73
4.2.1 Cumulative Average Abnormal Return (CAAR).....	74
4.3 Aggregation of Cross-Sectional Firms at Respective Windows.....	79
4.3.1 Average Abnormal Return (AAR).....	79
4.4 Inferential Analysis.....	85
4.4.1 Data Coding	86
4.4.2 Baseline Analysis	88
4.4.3 Model Fit.....	90
4.4.4 Variance Explained	91
4.5 Chapter Summary	97
4.5.1 Cumulative Average Abnormal Return (CAAR).....	97
CHAPTER FIVE: CONCLUSION.....	99
5.1 Introduction.....	99
5.2 Summary of Chapter One to Chapter Three.....	99
5.3 The Market's Reaction toward a Female Board of Director's Appointment	101
5.4 Other Factors that Impacted Investors' Abnormal Response to the Announcement.....	104
5.5 Recommendation for Future Study.....	105
REFERENCES.....	107
APPENDICES.....	118
Appendix A: The Full Information Related to Female Directors Analysed	118
Appendix B: The List of the Top 100 Companies Studied.....	137
Appendix C: The Cumulative Average Returns Across Different Windows for All the 178 Cases.....	139

LIST OF TABLES

Table 1.1 Malaysia Gender Gap Index (MGGI) Score, 2018-2020	5
Table 1.2 Global Gender Gap Index for Malaysia in 2020 and 2021	6
Table 2.1 Summary of Event Studies Found in the Literature	37
Table 3.1 Categorization of Data from Various Industries in Bursa Malaysia	47
Table 3.2 The Formulae for Cumulative Abnormal Return (CAR) Employed in the Study	52
Table 3.3 Binary Coding for the Cumulative Average Return Used in the Study	56
Table 3.4 Directorate Categories	57
Table 3.5 Coding for the Directorate Factor in the Study	58
Table 3.6 Coding for the Family Factor in the Study	59
Table 3.7 Coding for the Sector Factor in the Study	59
Table 3.8 Coding for the Age Factor in the Study	60
Table 4.1 Year of Appointment of a Female Director in The Top 100 Bursa Malaysia Companies Taken in January 2015 Until August 2020	64
Table 4.2 Age of The Female Director Appointed in The Top 100 Bursa Malaysia Companies Taken in This Study	65
Table 4.3 Age of The Female Director Appointed in The Top 100 Bursa Malaysia Companies Taken in this Study Until August 2020	66
Table 4.4 The Directorate of Female Directors Appointed in Top 100 Bursa Malaysia Companies Taken in this Study Until August 2020	67
Table 4.5 The Directorate and Positions within Each Category	69
Table 4.6 The Sectors of Female Directors Appointed in Top 100 Bursa Malaysia Companies Taken in this Study Until August 2020	70
Table 4.7 The Industries of Female Directors Appointed in Top 100 Bursa Malaysia Companies Taken in this Study Until August 2020	72
Table 4.8 Table Showing the Snapshot of the CAR from Case 1 till Case 178	74
Table 4.9 Summary of CAAR Across Multiple Periods	75
Table 4.10 Results of CAAR Across Multiple Periods	78

Table 4.11 Hypothesis Testing Results Across Various Periods	79
Table 4.12 The Average Abnormal Returns (AAR) and The Cumulative Average Abnormal Returns (CAAR) Over the Period of 60 Days	80
Table 4.13 The Summary of Significant Average Abnormal Returns (AAR) and The Cumulative Average Abnormal Returns (CAAR) Over 60 Days	82
Table 4.14 Case Processing Summary	86
Table 4.15 Dependent Variable Encoding	87
Table 4.16 Categorical Variables Codings	87
Table 4.17 Categorical Variables Codings	88
Table 4.18 Variables in the Equation	89
Table 4.19 Variables not in the Equation	89
Table 4.20 Omnibus Tests of Model Coefficients	90
Table 4.21 Model Summary	91
Table 4.22 Hosmer and Lemeshow Test	92
Table 4.23 Contingency Table for Hosmer and Lemeshow Test	92
Table 4.24 Classification Table A	93
Table 4.25 Variables in the Equation	95
Table 4.26 Casewise List B	96
Table 4.27 Hypothesis Testing Results Summary for CAAR Across Various Periods	97
Table 5.1 Hypothesis Testing Results Summary for CAAR Across Various Periods	102
Table 5.2 Summary for Significant AAR over 60 Days	103

LIST OF FIGURES

Figure 2.1 The Conceptual Framework for Announcement of Female Directors and Investors' Reaction	39
Figure 2.2 The Theoretical Framework for Announcement of Female Directors and Investors' Reaction	40
Figure 3.1 The Snapshot of the Information Related to Female Directors Analysed	48
Figure 4.1 The Year of Appointment of a Female Director in The Top 100 Bursa Malaysia Companies Taken From 2015 Until August 2020	64
Figure 4.2 The Age of The Female Director Appointed in The Top 100 Bursa Malaysia Companies Taken in this Study	66
Figure 4.3 The Directorate of Female Directors Appointed in Top 100 Bursa Malaysia Companies Taken in this Study Until August 2020	68
Figure 4.4 The Sectors of Female Directors Appointed in Top 100 Bursa Malaysia Companies Taken in this Study Until August 2020	71
Figure 4.5 The Industries of Female Directors Appointed in Top 100 Bursa Malaysia Companies Taken in this Study Until August 2020	72
Figure 4.6 Average Abnormal Return (AAR) from Day 0 to Day +30	83
Figure 4.7 Average Abnormal Return (AAR) from Day -29 to Day +30	84
Figure 4.8 Cumulative Average Abnormal Return (CAAR) from Day 0 to Day +30	84
Figure 4.9 Cumulative Average Abnormal Return (CAAR) from Day -29 to Day +30	85

CHAPTER ONE

INTRODUCTION

1.1 BACKGROUND OF THE STUDY

1.1.1 Gender Issues in General

Job seeking is perceived to be more difficult for women globally than for men. When women are employed, they are frequently employed in low-quality employment with vulnerable conditions and a gloomy outlook for improvement. Considering how women were treated in the 1900s, it is evident that a significant paradigm shift has occurred in women's favour. Looking back at how women were perceived, many things have changed regarding women's presence in the workforce. Without this transformation, contemporary society would continue to confine women to domestic responsibilities and deny them the opportunity to work to their full capacity.

As of 2020, the female labour force participation rate (LFPR) globally for individuals aged 15 and above was only 45.92%, far less than the male LFPR, which stood at 71.298%.¹ Additionally, there is a pay differential between males and females of more than 40% of employees in comparable positions and roughly 50% of the income disparity in the overall ratio of female gross pay income to male gross pay income (Schwab et al., 2019). Furthermore, in many nations, women still face substantial barriers to financing themselves, land, and monetary products, limiting their ability to establish a business or earn a livelihood by managing assets. Ironically, despite the fact that young females in Organisation for Economic Co-operation and Development (OECD) nations receive more years of education than young males, women are less likely to end up working compared to males.² It is suggested that as motherhood comes into the picture, the age-related disparities become more pronounced since motherhood often has a detrimental effect on gender pay disparities and job progression.³ Being first popularized in the 1980s by Gay Bryant, who attributed the reason female employees cannot seem to break the invisible barrier and get to a higher management position is because of a phenomenon called the "glass ceiling" (Boyd, 2008). The "glass ceiling"

¹ International Labour Organization, ILOSTAT database. Data was retrieved on February 8, 2022.

² OECD (2017), *The Pursuit of Gender Equality: An Uphill Battle*, OECD Publishing, Paris,

³ Ibid.

does not only impede women from making it to the top of corporate hierarchies, but it is also impacting minorities as well. The “glass ceiling” is frequently used as a metaphor in the popular business/management works to explain the lack of women in leadership positions. It also appears frequently in the scientific literature when referring to ‘invisible or artificial barriers’ that prevent women (and people of colour) from getting a career advancement (Benschop & Brouns, 2009). However, the fact remains that female employees do make contributions to firms, sometimes more than males in certain roles and industries.

1.1.2 Women’s Participation Globally

On the contrary, it may be anticipated that this underrepresentation of females in the workforce in Western countries will not be a problem owing to the shared earning/shared parenting marriage, an ideology which is often promoted in Western nations. However, a similar pattern of involvement of female directors is indicated. In the United States, female participation in the board of directors is slowly increasing; yet, the percentage is unfortunately still less than half. Female board of directors’ participation in S&P 500 corporations grew to 30%, from 28% in 2021 and 16% a decade earlier.⁴ In another industrialized Western country, the United Kingdom, the relatively low percentage of females in the board of directors is illustrated as women only representing 36% of board positions in the top 150 firms in 2021.⁵

Truthfully, the world has yet to attain gender parity in the business world’s higher tiers, executive positions, and boardrooms. Moreover, the bigger the organization, the less likely we will see women in leadership positions. Thus, there has been a serious lack of gender representation of females on the board of directors in comparison to their male counterparts.

Globally, the estimated length to achieve parity between these two genders is 68%, a reduction from 2020 (-0.6 percentage points)⁶. The report asserts that these findings are mostly the result of a decline in the performance of the world’s largest

⁴ U.S. Spencer Stuart Board Index 2021, <https://www.spencerstuart.com/research-and-insight/us-board-index>

⁵ UK Spencer Stuart Board Index 2021, <https://www.spencerstuart.com/research-and-insight/uk-board-index/diversityboard>

⁶ The Global Gender Gap Report 2021. World Economic Forum 2021. <https://www.weforum.org/reports/global-gender-gap-report-2021>.

economies.⁷ In the world's largest economies, the gender gap in Political Empowerment is too distinct while having further widened with few women placed in parliament seats, causing counterbalanced progress in the positive trends from other smaller countries. According to the present trend, it will take 135.6 years to close the global gender gap in the workforce.⁸ Despite the fact that the score has dropped only slightly in the past year, the duration required to narrow the gap has improved massively since the cumulative improvement recorded between 2006 and 2021 is taken to compute the pace of growth over a 15-year time period.⁹

Due to this, a worldwide public outcry has been raised over the lack of female representation on the board of directors relative to their male counterparts. Economically, gender diversity on boards of directors is pertinent because it may help the boards to function more effectively, which contributes to a positive impact on the firm's performance. The relatively low number of females on the board of directors is actually affecting both ethical and economic grounds. Alongside the claim made in the World Development Report (World Bank, 2012), gender equality benefits both men and women as it enhances economic growth and crisis resistance.¹⁰ Denying gender in terms of laws and legislation is potentially restricting a country from achieving its fullest potential. Closing the gender gap is a vital strategy in countries and corporations as this will assist toward a more inclusive society and economy.

In 2021, the European Commission attempted to resolve a legislative conflict that has existed since 2012, which makes 40% a mandatory percentage of non-executive board members of listed companies. The President of the European Commission will make a renewed drive to increase women's participation on corporate boards. According to the survey, France presently has the most female presence in the boardrooms of the largest public traded firms, at 45%, compared to a 30% average across the EU.

Aside from the obvious mandatory board gender-balancing tool, there are some other social policies that have been put in place in the hope of increasing female representation on the board of directors. Numerous international agreements, notably

⁷ Ibid.

⁸ Ibid.

⁹ Ibid.

¹⁰ "World Bank. 2012. World Development Report 2012: Gender Equality and Development. World Bank. World Bank. <https://openknowledge.worldbank.org/handle/10986/4391> License: CC BY 3.0 IGO."

the Beijing Platform for Action in 1995, the Convention on the Elimination of All Forms of Discrimination Against Women adopted in 1979, and a series of International Labour Organization accords on gender equality, all encourage women's economic empowerment.¹¹

Likewise, most corporations are now promoting diversity and inclusion in the workforce by accommodating and acknowledging the needs of female employees. Extended maternity leave has been introduced in some countries, showing the rising inclusivity of female employees in the workforce. In addition, it is noteworthy to highlight that the progress toward female representation in companies is generally stagnant and shown to be much slower for women in leadership roles. Hence, gender representation has become a much-debated issue and continues to be a priority for organizations worldwide.

1.1.3 Women's Participation in Malaysia

The movement to support gender equality issues has been championed by the United Nations (UN) since 2015. It is encompassed as part of the 17 Sustainable Development Goals (SDG), designed as a blueprint for a sustainable future. The fight for gender equality aims to achieve several targets, including females' participation in leadership and decision-making. However, in developing countries such as Malaysia, the acceptance of female leadership into higher-level positions remains a conundrum. From Table 1.1, it is shown that The Department of Statistics Malaysia (DOSM) issued Statistics on Women Empowerment in Selected Domains in Malaysia, in 2021, quoting that overall gender equality increased to 71.4% in 2020 from 70.9% in 2019.¹² This number is primarily contributed by the large percentage of women's participation in the Educational Attainment sub-index. Greater emphasis on attaining gender equality has expanded women's opportunities in postsecondary education. Women outperformed males in the Educational Attainment sub-index, scoring 1.059. The sub-index for Health and Survival had a score of 0.956, followed by Economic Participation and Opportunity with 0.738. Refer to Table 1.1.

¹¹ "Economic empowerment". <https://www.unwomen.org/en/what-we-do/economic-empowerment>

¹² Department of Statistics Malaysia Official Portal, 2021 https://www.dosm.gov.my/v1/index.php?r=column%2FcthemByCat&cat=444&bul_id=eHMrcHQ4V1Irc0IRN0ZwM09TWDJvQT09&menu_id=L0pheU43NWJwRWVSZklWdzQ4TlhUUT09

Table 1.1 Malaysia Gender Gap Index (MGGI) Score, 2018-2020

Source: (Department of Statistics Malaysia Official Portal (DOSM, 2021))

Sub-index	2016	2017	2018	2019	2020
Economic participation and opportunity	0.659	0.726	0.727	0.717	0.738
Educational attainment	1.092	1.04	1.054	1.053	1.059
Health and Survival	0.957	0.961	0.958	0.958	0.956
Political empowerment	0.061	0.061	0.106	0.108	0.1
MGGI Score	0.692	0.697	0.711	0.709	0.714

As shown in the table, Malaysia has also seen a dramatic demographic shift in its workforce pattern, with increased female involvement in the labour market. From its Malaysia Gender Gap Index (MGGI) score, Malaysia was rated 74th out of 156 nations participating simultaneously. Malaysia retained its eighth place in East Asia and the Pacific, surpassing Thailand, Vietnam, Indonesia, China, and Brunei Darussalam in 2020. Nonetheless, Malaysia is still behind New Zealand, the Philippines, Australia, and Singapore.

On the contrary, the World Economic Forum has rated Malaysia 104th out of 156 nations in the 2020 Global Gender Gap Index. Despite the abrupt drop to 112th place in 2021, the worldwide gender gap index score only changed a little as a result of the decline in the sub-indices of economic participation and opportunity, health and survival, and political empowerment. The sub-index of educational achievement indicates that there is little difference in educational attainment between the sexes, as the number approached parity of 1.00 at 0.994 in 2021. Table 1.2 shows the Global Gender Gap Index for Malaysia in 2020 and 2021. The Global Gender Gap Index by World Economic Forum reported different data compared to the Malaysia Gender Gap Index (MGGI) score, released by the Department of Statistics Malaysia. A different

calculation appears to have been used within the similar dimensions being examined since MGGI is reported to focus on eleven primary areas. Refer to Table 1.2.

Table 1.2 Global Gender Gap Index for Malaysia in 2020 and 2021

Source: (Global Gender Gap Report 2020 and 2021 by World Economic Forum)

	2006		2020		2021	
	Rank	Score	Rank	Score	Rank	Score
Global Gender Gap Index	72	0.651	104	0.677	112	0.676
Economic participation and opportunity	68	0.592	97	0.639	104	0.638
Educational attainment	63	0.985	86	0.989	704	0.994
Health and survival	80	0.97	84	0.974	74	0.972
Political empowerment	90	0.056	117	0.108	128	0.102

Women's labour force participation rate (LFPR) in Malaysia remained low in 2020, at 55.3%, compared to comparable Southeast Asian nations such as Singapore (69.7%) and Thailand (69.8%). More women are educating themselves but do not choose to enter the workforce for various reasons. Globally, women's maternity issues and reproductive rights are considered major disputes among female employees. Despite an increasing gender equality score in Malaysia in recent years, women in the workforce are still susceptible to discrimination. Here, 56% of Malaysian women had encountered at least one kind of workplace harassment.¹³ The discrimination women receive at the workplace based on the survey includes remarks or queries about their marital status or intentions to establish a family, passed over for advancement in favour of less qualified colleagues. They are being asked to undertake activities that male

¹³ Women's Aid Organisation's (WAO), 2020, <https://wao.org.my/more-than-50-of-malaysian-women-experienced-gender-discrimination-in-the-workplace/>

colleagues are not requested to do, such as making coffee and providing snacks. In addition to discrimination and harassment, the low participation rate in Malaysia can also be explained as women suffer from an increased burden of unpaid care duties.

In an industrialized nation, women's LFPR is often more than 60%; therefore, Malaysia is still behind compared to other developed nations. Globally, numerous nations have enacted gender boardroom quotas, requiring businesses to recruit a particular number of females to their boards of directors. The introduction of such policies is incredibly promising; it shows that nations, including Malaysia, are paying close attention to the narrow gender gap, primarily caused by women's obstacles to the workforce.

1.1.4 Current Situation in Malaysia

Similarly, the Malaysian government implemented a policy in 2011 mandating at least 30% female representation on business boards of directors. In accordance with this, The Malaysian Chapter of the 30% Club was established four years later in May 2015 with the goal of increasing diversity on company boards and senior management in Malaysia. From its activities, 30% Club Malaysia aspires to increase women's representation on corporate boards of directors by working to improve in diversity, equity, and inclusion, thereby fostering sustainable corporate growth.¹⁴ However, as of 2021, only 25.5% of the top 100 Malaysian public listed companies (PLCs') boards comprises of women.¹⁵ The percentage is still 4.5% points away from the 30% mark, implying that Malaysia is still lagging in gender equality in the workforce.

Without a doubt, the unfulfilled objective after ten years has increased concern about the treatment of male and female board members in Malaysian public listed companies. The government has proposed several initiatives to strengthen female directorship to address this issue, including mandating all large-cap companies to have at least one female director by September 2022 and all other public traded companies

¹⁴ Welcome to the Malaysia Chapter, <https://30percentclub.org/chapters/malaysia/>

¹⁵ New Straits Time, on 25 March 2021. The article can be found in (<https://www.nst.com.my/news/nation/2021/03/676870/malaysias-top-100-plcs-have-258-cent-women-their-board-directors>)

to have at least one female director by January 2023, in the current Malaysian Budget 2022.

While the Malaysian government is cogitating a progressive shift in leadership with more women involved in the position of boards of directors, several things are left to ponder. Obviously, the financial implications of employing women leaders must be one of the important considerations. But perhaps more importantly, how would the Malaysians react to these changes? If more women assume executive roles in companies mainly due to the policy, are Malaysian investors willing to embrace female leaders? Or would this create a stigma on the leadership ability of female directors? Is Malaysia developing toward being a developed country, or are they demonstrating otherwise? The current situation in Malaysia raises questions about investors' acceptance of the appointment of female leadership in public listed firms. With this as the motivation for conducting the research, this study aims to examine the market reaction toward the employment of female directors appointments of public listed companies in Malaysia. Also, this study aims to identify the factors in the announcement of female directors' appointments of top listed companies in Malaysia that can influence the reaction of investors.

1.2 PROBLEM STATEMENT

As mentioned earlier, Global Gender Gap Report 2020 predicted that achieving gender equality would take another 135.6 years in the workforce current pace of advancement (Schwab et al., 2019). This forecast has been frequently used to compel governments, non-profit organizations (NGOs), organizations, investors, and businesses to take action. Women have already faced several pressures from their community, religions and households, with their roles as caregivers and mothers; hence, they should not be challenged more at the workplace. From an economic standpoint, closing the gender inequalities in labour force participation may significantly enhance global GDP. Many affluent nations would also witness a rise in average annual GDP growth, considered during a period of near-zero economic growth.

Taking prior studies into consideration, it is also important to note that the announcement of a female board of directors of a corporation is likely to result in unpredictable stock market responses. While some studies show positive results of

investors welcoming the appointment of female directors, some other studies reflect otherwise. The abnormal returns observed based on the positive stock market reactions to the announcement of a female director entering a corporate board suggest that investors on average believe that female directors add value to the company (Campbell & Vera, 2010; Kang et al., 2010; Kubo & Nguyen., 2021; Sudeck & Iatridis, 2014). On the other hand, the appointment of a female director may also trigger the stock returns negatively from the previous studies (Lee & James, 2007; Rossi & Cebula, 2015; Sanford & Tremblay-Boire, 2019; Smith et al., 2021). Despite the negative and positive reaction evidence from the previous studies, some studies found an inconclusive association between the appointment (Brinkhuis & Scholtens, 2018; Farrell & Hersch, 2005).

This study aims to examine the potential of gender discrimination among market participants by examining their reactions toward the appointment of a female director. In an ideal society, women would be able to seize new opportunities and no longer face discrimination compared to their male counterparts. In a world without discrimination, women leaders would no longer be scrutinized and perceived differently than males. Not only should more women be nominated to boards of directors, but investors must also be supportive of their appointment. However, in the real world, there is no covenant of such a reaction. The appointments are often regarded with scepticism and pessimism seen from the results of previous studies in some countries, which may implicitly reflect the issue of gender discrimination. If women are seen as having leadership traits on par with males, the market may not have reacted unfavourably to the announcement. With the hope of providing a better understanding of the market reaction in Malaysia via the lens of short-term financial consequences, this study tries to close the gap in the literature on the short-term effect seen by Malaysian investors through the announcement of a female board of directors. The findings of this study will not only reveal the market reaction to the news, but indirectly, will reflect the state of gender discrimination, specifically towards women's leadership in Malaysia's top listed companies.

Furthermore, to ensure validity and robustness, this study also tries to identify if the investors are sensitive to certain information about the announcement and whether these factors significantly impact on a firm's stock prices. The findings are expected to provide profound details on the root of the market reaction. Concomitantly, this will

further explain the possible factor behind gender discrimination in the financial market. Addressing these issues will not only contribute to the body of literature, but it could also provide a practical understanding of society which would open the path toward the fight for equal gender treatment.

1.3 RESEARCH OBJECTIVES

Based on the details identified in the problem statement, the research objectives were developed as the cornerstone of the investigation and broken into general and specific research objectives. The general objective is as follows:

1. To examine the reaction of Malaysians towards the appointment of a female board of directors on public listed companies (PLCs).

The specific objectives are as follows:

1. To examine the market reaction to the announcement of a female director's appointment.
2. To influence the factors pertaining to each announcement case of the recently appointed female directors that influence the response to the announcement.

1.4 RESEARCH QUESTIONS

With the purpose of fulfilling the research objectives stated above, two research questions are addressed.

1. How would Malaysian investors respond to the announcement of female directors' appointments?
2. What are the factors of the appointment that will trigger the response?

1.5 STRUCTURE OF THE STUDY

This dissertation is divided into five major chapters, with the following components:

- 1- Chapter One (Introduction),
- 2- Chapter Two (Literature Review),
- 3- Chapter Three (Research Methodology),
- 4- Chapter Four (Results and Discussions),
- 5- Chapter Five (Conclusions).

Chapter One starts with the background of the study. The discussion covers issues related to female participation in economics both globally and locally by highlighting the gender issues faced in Malaysia. Subsequently, the background of the study explores female participation in the workforce and highlights a few relevant statistics regarding this. The background of the study brings the readers to question the investors' acceptance of the appointment of female leadership in public listed firms. Following that, the problem statement and the motivation for the research are described in further depth. The following section underlines several research objectives and research questions of the study. In this chapter, the significance of the study to the various stakeholders is discussed. Then, limitations and recommendations for improvement for further research are also discussed in this chapter. Chapter One ends with the motivation of the study.

Chapter Two provides a concise explanation of the review of prior literature. The event study approach as well as its relevance to the Efficient Market Hypothesis (EMH), are introduced in the first section of this chapter. Previous studies on EMH in Malaysia are researched and presented here. In this chapter, a more in-depth evaluation of earlier research associated with the appointment of a female director is studied. Furthermore, this chapter examines previous research works on the positive impact of female directors' involvement in the performance of the firms and the negative impact of female directors' participation on the performance of firms. In addition to financial performance, the performance of companies in other aspects also described and taken into consideration. Additionally, this chapter also explores prior studies in different settings on the announcement effect of the female board of directors. Overall, this chapter presents a comprehensive summary of the present state of knowledge,

describing a wide range of approaches and outcomes while highlighting the literature's additional findings.

Furthermore, according to the theory presented, hypotheses are formed, together with relevant arguments obtained from previous studies. Following that, Chapter Three illustrates how a new dataset has been derived from records of female appointments in Bursa Malaysia from the period of 2015 – 2020. The dataset is utilized to do an event study in order to configure the investors' responses. Chapter Three discusses the methodology used in the journey of completing this dissertation. This chapter aims to discuss the data collection process as well as the sample selected from the announcements. The chapter describes the different methodology and techniques used, specifically the event study methodology. Furthermore, this chapter also discusses how the other factors that influence the abnormal returns in the company performance are examined through inferential analysis. The inferential analysis called the logistic binary regression is explained briefly in this chapter. Overall, this section should provide a brief overview of the methods employed during the study.

A variety of tests were carried out to find the conclusion in the making of Chapter Four. The results and analysis of the data are discussed in depth in Chapter Four where the most important findings are highlighted. The results from the event study analysis are presented in this chapter. The results of the logistic binary regression are also illustrated in this chapter. This chapter is the core chapter, with all the relevant tables and charts presented. Finally, Chapter Five presents a concise review of the results and conclusions reached in this dissertation. This chapter will summarise the whole study and, most importantly, answer all the questions regarding the objectives and hypotheses formed.

1.6 SIGNIFICANCE OF THE STUDY

The Sustainable Development Goals (SDGs) are a set of global goals aimed at bringing people together to improve people's lives. One of the 17 SDG goals, specifically SDG 5, calls on the global to “achieve gender equality and empower all women and girls.” Evidently, gender equality is a global challenge faced by nations around the world. The study is significant as it will help to address various core causes of discrimination that continue to limit women's rights in the workplace. This study not only reassesses