



**THE IMPACT OF WOMEN ON BOARD ON FIRMS'
PERFORMANCE IN MALAYSIAN PUBLIC LISTED
COMPANIES**

BY

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ABSTRACT

Over the years, the number of educated women who join the workforce and hold top executive positions in the organisations they serve has increased rapidly. The representation of women on boards affects the firm's performance, thereby drawing attention to the proportion of women directors seated on the board and how they might influence the firm's performance. In 2011, the Malaysian cabinet approved the policy that all board of directors of companies listed in Malaysia should consist of 30 per cent women members by 2016. This study therefore examines the association between the presence of women on the board and firms' performance following the introduction of the diversity policy and the moderating effect that accounting academic qualifications could have on the association between women on board and firms' performance by applying resource dependence theory. To this end, this study formulates two hypotheses relating to the women board of director members. The analysis used publicly available information of the top 200 Malaysian public listed companies for the financial year 2011 to 2013 in order to determine the early adopters of the diversity policy. This study investigates the effects of different aspects of corporate governance mechanisms involving women participation on boards, board composition including gender diversity, and the academic background of the women directors on boards on firm performance (ROA). The firm characteristics, the ownership type of the firm (family-owned and government-owned firm), board size, firm size, firm industry and year were controlled for. The multiple regressions analysis was used to estimate the relationship between the firm performance (ROA) as the dependent variable and the independent variables. The research concludes that there is a significant relationship between women board representation and firm performance though the direction coefficient is negative. This study contributes to the rising literature on women board member representation in effecting the firm performance of the top 200 listed companies in Malaysia. The findings encourage public listed companies to appoint women as members of the board of directors and to analyse the effects of the diversity policy introduced by the government.

خلاصة البحث

على مر السنين، قد ازداد بسرعة، عدد النساء المتعلمات اللائي انضممن إلى القوة العاملة وأصبحن يشغلن مناصب إدارية عليا في المؤسسات التي يخدمن فيها. إن تمثيل النساء في مجالس إدارة الشركات يؤثر على أداء هذه الشركات وفعاليتها، الأمر الذي يلفت الانتباه إلى نسبة السيدات المديرات اللاتي يجلسن على كرسي رئاسة الشركات، وكيف أنهن يؤثرن على أداء الشركات التي يدرنّها. في عام 2011، وافق مجلس الوزراء الماليزي على سياسة عامة بموجبها يجب أن تضم عضوية كل مجالس إدارات الشركات المدرجة في ماليزيا بحلول عام 2016 نسبة 30٪ من السيدات. هذه الدراسة تفحص العلاقة بين وجود امرأة في مجلس إدارة شركة ما، وأداء تلك الشركة بعد إدخال سياسة التنوع وفعالية الاعتدال. إن المؤهلات الأكاديمية في علم المحاسبة، يمكن أن يكون لها ارتباط بين وجود سيدة في مجلس الإدارة وأداء الشركة وذلك من خلال تطبيق "نظرية الاعتماد على الموارد". تحقيقاً لهذه الغاية، فإن هذه الدراسة تقوم بصياغة فرضيتين اثنتين تتعلقان بالنساء أعضاء مجالس الإدارة. يستخدم التحليل المعلومات المتاحة للجمهور حول أكبر 200 شركة ماليزية مدرجة للسنة المالية 2011-2013 من أجل تحديد الأولويات في استخدام سياسة التنوع. هذه الدراسة تفحص آثار الجوانب المختلفة لآليات حوكمة الشركات التي تنطوي على مشاركة المرأة في مجالس الإدارة، وطريقة تكوين مجالس الإدارة من حيث التنوع بين الجنسين، والمهاد الأكاديمي للسيدات المديرات في مجالس الإدارة وأثر ذلك على أداء الشركات. إن خصائص الشركة، ونوع ملكية الشركة (شركة مملوكة لأسرة أو شركة مملوكة للحكومة)، وحجم الشركة، وحجم مجلس الإدارة، وما إذا كانت شركة صناعية، والسنة التي كانت خاضعة للرقابة. تم استخدام الطريقة الإحصائية في "تحليل الانحدار الخطي المتعدد" لتقدير العلاقة بين أداء الشركات (ROA) بوصفه متغيراً تابعاً والمتغيرات المستقلة. وخلص البحث إلى أن هناك علاقة ذات دلالة إحصائية بين تمثيل النساء في مجالس الإدارة، وأداء الشركات على الرغم من أن معامل الاتجاه سلبي. تسهم هذه الدراسة في الكتابات والأدبيات التي بدأت في الظهور والانتشار حول قضية تمثيل السيدات بوصفهن عضوات في مجالس الإدارة، وتأثير ذلك في إحداث أداء قوي في أكبر 200 شركة مدرجة في ماليزيا. إن نتائج هذه الدراسة، تشجع الشركات الحكومية العامة المدرجة على تعيين نساء بوصفهن عضوات في مجالس الإدارة، وعلى تحليل الآثار المترتبة على سياسة التنوع التي أدخلتها الحكومة.

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 for the degree of Master of Science in Accounting.

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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.

Raja Nur Syazwani bt Raja Kamaruzaman

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To the One who has taught me, inspired me and guided me throughout my life. I dedicate this humble endeavour to Allah the Almighty and to my beloved parents and family for their endless love and support.

May Allah's blessing and mercy shower upon them always.

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LIST OF ABBREVIATIONS

ACCA	Association of Chartered Certified Accountants
BOD	Board of Directors
CEO	Chief Executive Officer
CFO	Chief Financial Officer
CG	Corporate Governance
CIMA	Chartered Institute of Management Accountants
e. g	<i>(exemplification)</i> : for example
EBIT	Earnings Before Interest and Taxes
et al.	<i>(et alia)</i> : and others
etc	<i>(et cetera)</i> : and so forth
IPO	Initial Public Offering
MCCG	Malaysian Code on Corporate Governance
PLCs	Public Listed Companies
RDT	Resource Dependence Theory
ROA	Return on Assets
UK	United Kingdom
US	United States
VIF	Variance Inflation Factor

CHAPTER ONE

INTRODUCTION

1.0 INTRODUCTION

This section presents an overview of the research as a whole and serves as the introductory chapter for the study. This chapter comprises the background of the study, followed by the statement of research problem. The research objective, which is followed by the research questions, motivation and significance of the study are then discussed. Lastly, this chapter presents the methodology and data sources for this study and ends with the organisation of chapters.

1.1 BACKGROUND

Women are growing in their involvement in the education sector as well as employment opportunities. This growth does not limit women to participate as ordinary employees, but offers them the opportunity to join top management. Before this, men had been dominating these sectors and were awarded most opportunities for growth. This situation was particularly apparent in top management whereby men dominated the boards of major firms (Singh & Vinnicombe, 2004).

Certain factors contributed towards the rising of women involvement in these sectors. Women are said to be more patient and tolerant as compared to men, have multi-tasking skills and have high educational levels. According to Swamy et al. (2001), women also tend to be more honest or more risk averse as they are more involved in raising children. Therefore, women tend to practice honesty so that they can teach their children the appropriate values. Furthermore, women compared to men who are physically stronger than women, make laws exist to protect women and thus

women tend to be more willing in following rules. As such, with these characteristics and uniqueness of women may lead them to perform well in organisation that they served and contribute in improving corporate governance practices. As supported by Knorr (2011), women have a different personality compared to men in such a way that women looked at themselves as being extremely positive, high achievers, hard workers, flexible, and risk takers.

Jacob (2013) claimed that women were dominating men at the higher levels of education. This paved the road for the promotion of women to top positions in an organisation. Despite this growth, generally the appointment of women in top management remained restricted (Süssmuth-Dyckerhoff et al., 2012). Hillman et al. (2007) stated that in 2005, only 37 per cent of women participated in the US labour force even though there is a policy that announced an increased in diversity on corporate boards (Blackman, 2004; Singh, 2005). In another study, Marlin (2012) and Dreher et al. (2011) found that women in top positions and executive positions in the boardrooms of public firms are underrepresented compared to men.

Government in countries like the US, Australia and China have passed laws or policies regarding quota or percentages for women on boards. In Norway, a legislation was passed in 2003 that require all public companies to have 40 per cent women representation on their boards of directors. Since then, the percentage of women board members in Norway has increase from 6 per cent to 37 per cent (Becker-Blease et al., 2009).

The introduction on women on board policy in developed countries has attracted many studies and most of the findings show a positive relationship between the presence of women on boards and firm performance (Fagan et al., 2012). Studies in the US provided evidence of a close association between gender diversity and firm

performance (Carter et al., 2003; Erhard et al., 2003). However, a study by Carter et al. (2010) concluded that board gender diversity had no significant relationship with firm performance. A study by Ferrell and Hersch (2005) also provided empirical evidence that women appointment on board have no impact on market reaction. Research on UK firms during their financial downturn showed that English firms took the initiative to appoint women directors that resulted in increase of the share price as reported by Ryan and Haslam (2005).

Furthermore, Gavius et al. (2012) stated that firms with a higher women representation on board may improve the corporate governance in such a way that it may leads to improve the firms' performance. This is supported by Abdullah et al. (2012) whereby women's presence on board positively affects the firms' performance. Therefore, the gender of directors has value implications; specifically, there is a positive relation between the proportion of women directors and the firm's value.

Since there are many studies in the developed countries that show positive relationship between the presence of women in top management and firm financial performance, this has created awareness in the Malaysian government of the positive effects of this policy. The policy on women on boards was then introduced by the Malaysian government in 2011 whereby women employed must comprise a minimum of 30 per cent in decision making positions by 2016.

To date, there still remains a shortage of women in top positions. Therefore, it is important to conduct further studies on the effect of women on boards and firm financial performance. The role played by the boards is fundamental to the corporate governance arrangements as it is one of the factors that influence efficiency and effectiveness of business operations. The board needs to justify the best criteria in the appointment of women on the board, in order to have a good quality board member.

Carter and Zamora (2009) stated that the relationship between firm performance and directors' abilities (e.g. academic background, skills and experiences) will motivate the board of directors to achieve their firms' target. As a result, the board must be extra careful in making decisions concerning directors' appointment. As stated by Singh et al., (2008), companies must ensure that, to be considered for appointment, the board members must have a successful academic background and related experience to manage and monitor their business operations. Additionally, companies should examine its strategy and objectives before recruiting any new directors. For example, a company looking to expand the business internationally may want someone that has experience and expertise abroad. For board size, the number of board members should be limited to the size of the organisation and the type of industry that they are in. Too little or too many directors on the board may cause problems for valuable decision making.

1.2 STATEMENT OF RESEARCH PROBLEM

Recently, research efforts have shifted towards examining the impact of board diversity (Campbell & Mínguez-Vera, 2008), which has been defined group inherent in the board's composition, on corporate performance (Carter, D'Souza, Simkins, & Simpson, 2010). This group has been surrogated by previous studies on a number of dimensions: gender, age, ethnicity, nationality, educational background, industrial experience and organizational membership (e.g., Campbell & Mínguez-Vera, 2008; Carter et al., 2010; Johanne, Stephen & Bruce, 2007). Meanwhile, issue of board gender diversity has attracted growing research interest in recent years, most empirical results are based developed market (Carter et al., 2010; Erhardt, Werbel, & Shrader, 2003; Johanne et al., 2007) due to level of education, societal orientation and

demographic composition among other in those countries (Gallego-Álvarez, García-Sánchez, & Rodríguez-Dominguez, 2010; Pletzer, Nikolova, Kedzior, & Voelpel, 2015).

Consequently, it is important to have a well-structured board membership in order to achieve the companies' target and objectives which normally aim at stability and growth. However, the appointment of women on boards is still in a worrying state. Boards are still dominated by men even though there are many studies concluding the positive effect of women directors on corporate performance. The involvement of women on boards in listed companies also has not been explored and researched in-depth, particularly in developing markets.

However, since the gender is not issue concerning with the developed nations only, it is pertinent to extend the frontier of knowledge on this phenomenon to emerging market which are characterized with cultural and religion believe regarding women. More importantly, the present study examines link between the gender diversity of the board and firm financial performance in Malaysia, a country which historically has had minimal women member in the board room (Ahmad-Zaluki, 2012) and the issue of gender equality has risen up the political agenda in recent years.

In order to address this gender composition, the Malaysian federal cabinet has recently approved the decision to appoint a minimum of 30 per cent of women in decision-making positions in the corporate sector by 2016 for greater gender equality (Ahmad-Zaluki, 2012). This policy was considered to increase the involvement of women on boards among Malaysian companies based on the belief that women's presence on boards positively affects management practices and creates economic value (Abdullah et al., 2012). As supported by Terjesen and Singh (2008), women are

significantly positive in bringing the diversity into the boardroom to positively influenced firm performance.

Though, based on social and ethic premises, it may be assumed that a balanced presence of both genders on boards, it is generally believed that gender diversity does not necessarily result into better corporate performance. Prior study has actually produced mixed results, given that the link between gender diversity and financial performance in a firm is both theoretically and empirically complex (Carter et al., 2010; Gallego-Álvarez et al., 2010; Pletzer et al., 2015). In order to determine the significance or otherwise of the new policy of Malaysian government concerning percentages of women composition in board room, this study focuses on the influence of women directorship and its quality on the financial performance of public listed companies in Malaysia.

Since the implementation of the policy is only effective in 2016, the early adopters of the policy can be identified and examined. It is hoped that the listed companies may increase their concern regarding the appointment of women board of directors of their respective organisations since the Malaysian government had approved the policy related to percentages of women composition. Problem arises as how to evaluate the effects of the policy and whether it is necessary to be imposed, as most firms have not fulfilled the requirement. For this reason, women on boards have become a subject of extensive research due to its potential on firm performance (Abdullah et al., 2012; Ahmad-Zaluki, 2012).

1.3 RESEARCH OBJECTIVES

The core objective for this study is to examine the influence of women board member representation and their academic background on the financial performance of the top 200 Malaysian public listed companies. Specifically, this study aims to accomplish the following objectives:

- 1- To examine the association between the presence of women on the board and firms' performance following the introduction of the diversity policy.
- 2- To examine the moderating effect that academic qualifications could have on the association between women on board and firms' performance.

This study extends the literature by including board members with an accounting background (e.g. Diploma, Bachelor, Master, professional qualifications and etc.) in developing the hypotheses related to women board members' quality and its impact on firm performance. In relation to that, the study assumes that women board of directors have the ability and potential to improve the firm's financial performance.

The other rationale of this study is that the trend and impact of women policy on board and company performance over a three-year period (2011-2013) can be examined. It is believed that the company's performance will improve when the company supports and follows the gender policy approved by the government. In addition, as mentioned earlier, the early adopters of the diversity policy can also be determined since the implementation of the policy is only effective in 2016.

Other than that, the study seeks to ascertain whether a number of variables such as (1) the representation of women on the board, (2) academic qualification of women on board; (women directors with accounting background - as a moderating variable) affects the firm performance in the early adopters of the diversity policy. The

control variables were also included (e.g. firm ownership type; family-owned and government-owned, board size, firm size, firm industry and year).

The other objective of this study is to provide additional support to the policy makers in terms of providing evidence since the exposure or literature regarding women board of directors has not been widely discussed by researchers and academicians in Malaysia. This can help relate the importance of having women board members in improving the firm performance in Malaysian public listed companies. This is an ongoing issue that is becoming more controversial. It is hoped that this study will provide more evidence that women are important for a company to drive its management towards better performance.

1.4 RESEARCH QUESTIONS

In order to attain the research objectives, the following research questions need to be answered. The research questions of this study are:

1. Does the presence of women on board be associated with high firms' performance?
2. Does the accounting academic qualifications of women board of directors have any moderating effect on a firms' performance?

These questions are important for examining the women board of directors' influences and their accounting background on firm performance.

1.5 MOTIVATION OF THE STUDY

The motivations for examining these issues are numerous. First, there is an increasing awareness regarding women leadership abilities and potentials that offer positive values to firms. Furthermore, in June 2011, the Malaysian government approved its 30

per cent women decision making gender policy. This motivates the researcher to study this area as this study will enable the public listed companies and regulators in Malaysia to observe the impact of appointing women directors on firm performance.

Participation of women on boards has become an issue of discussion among shareholders as well as stakeholders, media, academicians and policymakers. It is crucial for regulators as well as academicians to understand the appointment of women on boards and how they may affect firm's financial performance. Consistent with women participation and qualification, resource dependence theory may provide a suitable underlying theory to investigate the issue above.

1.6 SIGNIFICANCE OF THE STUDY

The first significance of this study is its concentration on a new context whereby the case of Malaysia is examined as opposed to the commonly investigated nations such as Australia, the UK and US. The results of the study will provide some insights towards the financial perspective of women appointment as board members in Malaysian public listed companies. It is hoped that this study will create public awareness on the importance of having women as board of directors in regard to their influences on the firm financial performance, hence encouraging more firms to appoint women employees on the board of directors.

Secondly, as a lesson from the previous research, the positive results on impact of women involvement on boards on firm performance support the gender policy approved by the government that aims to encourage women's appointment on board. This study may extend the literature supporting the early adopters of gender policy.

Thirdly, firms can reflect on key characteristics before the appointment of board of directors that require prerequisites such as their qualifications and academic

backgrounds in order to gain the features of the financial experts thus increasing the quality of financial statements.

Lastly, the study observes the effect of the government policy on firms' appointment of women directors. It investigates whether the gender policy has some impact in the growth of women on boards thereby helping the Malaysian government to identify the policy's shortcomings.

1.7 METHODOLOGY AND DATA SOURCES

The scope of this study is the 200 companies listed on Bursa Malaysia based on market capitalisation. Secondary data were collected from the annual reports of the public listed companies published in 2011, 2012 and 2013. The annual reports were downloaded directly from the Bursa Malaysia website (www.bursamalaysia.com). This sample was chosen to provide evidence concerning how the governance structure affects the firm performance of the top 200 companies in Malaysia.

This study used return on assets (ROA) to measure the firms' financial performance as the dependent variable while the independent variables are women presence on board (proportion). Women members with an accounting background will be the moderating variable. Additionally, this study used firm ownership (e.g. family and non-family owned; government and non-government owned), board size, firm size, firm industry and year, as control variables.

1.8 ORGANISATION OF CHAPTERS

This study is organised into six chapters. The first chapter comprises the background of the study, the problem statement, the research objectives, the research questions followed by the methodology and the data sources for this study. It also outlines the

motivation and significance for this research and ends with a discussion of the structure of the study.

The second chapter reviews the literature on women as board members, women on board and performance internationally and in Malaysia and the impact of women directors with accounting qualifications on firm performance. This is followed by the gap in the literature. The aim for this chapter is to clear the gap in women board of directors' research and rationalise the research questions for the study.

The third chapter articulates the theoretical framework from which the research hypotheses are examined. The first section utilises the resource dependence theory to explain women board of directors' influence on the firm financial performance. The next section highlights the research framework followed by hypotheses development of the study.

The fourth chapter discusses the research design adopted in the study and the applied methodology. It explains the methodologies which include sample selection, data collection and its procedure, and the sample size. In addition, the chapter provides data definitions and how the data are measured. It also discusses the regression models used to analyse the data.

The fifth chapter shows the outcome of the data analysis and presents the findings of the research. The representation of the results consists of descriptive statistics, correlations analysis, and multiple regressions. All the results are shown in table structure for easy understanding and to provide a clear explanation of the research results.

The sixth and final chapter presents the conclusions, limitations and recommendations. This chapter sums up all the results of the study as well as the implications of the study involving the top 200 public listed companies in Malaysia.