

**WOMEN ON BOARD: THE IMPACT ON FINANCIAL  
PERFORMANCE OF COMPANIES LISTED ON BURSA  
MALAYSIA**

**BY**

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## ABSTRACT

In recent years, an increasing number of educated women has joined the workforce and held high administrative positions in the corporations they serve. The number of women on board of directors can influence a company performance, and this raises concerns about the optimal proportion of women directors a company should have and how it may impact the financial performance of the company. In 2011, the Malaysian Cabinet permitted a policy that by 2016, the board of directors of all listed companies in Malaysia should be composed of at least 30% women. Following the influence the policy could have, this research examines the relationship between the existence of women on boards and Malaysian listed companies' performance. This is done by applying the theory of resource dependence. Therefore, this research proposes seven hypotheses related to women board participation. This study analyses the annual reports of the top 100 listed firms in Malaysia from 2016 to 2018 after the policy of gender diversification is implemented. This research also examines the qualifications of women directors, women directors on audit committees, women directors as CEOs or Chairman, their age and tenure on boards and women independent directors. All of these features are examined in relation to return on assets (ROA). Multiple regression analysis is utilised to evaluate the association between company performance (ROA) as a dependent variable and women on boards of directors and their characteristics as the independent variables. This study has found that there is a significant negative relationship between women on boards and firms' financial performances. When examining women in audit committees, on the other hand, it was found that there is a significant positive relationship on firm performance. Furthermore, this study found that there is a significant positive relationship between women as CEOs or chairman and firm performance. In contrast, women directors with accounting and finance qualification, tenure, and independence were found to have positive but insignificant relationships with firm performance. The age of women on boards was found to have a negative but insignificant relationship with firm performance. This research contribute to the existing literature on women on boards from the perspective of a developing nation. The results could motivate listed firms in Malaysia to appoint more qualified women as members of the boards in order to not only adhere to the government policy but also gained benefits in term of company performance.

## خلاصة البحث

في السنوات الأخيرة الماضية؛ انضم كثير من النساء المتعلمات إلى القوى العاملة، وأصبحن يشغلن مناصب إدارية مرموقة في شركات عدة، ولا شك في أن لهذه الظاهرة تأثيراً على أداء الشركات عامة، مما يثير أسئلة عدة عن النسبة المثلى للمدبرات في الشركات، وكيفية تأثير ذلك على الأداء المالي، وقد سنت الحكومة الاتحادية الماليزية عام 2011 قانوناً ينص على أنه بحلول عام 2016 ستشغل النساء نسبة 30٪ في المجالس الإدارية للشركات المدرجة في البورصة الماليزية، وبناء على هذا القرار، وعلى مدى تأثير هذه السياسة المتبعة في البورصة الماليزية؛ يتناول هذا البحث العلاقة بين حضور النساء في المجالس الإدارية وأداء الشركات المدرجة في البورصة الماليزية، وذلك من خلال تطبيق نظرية الاعتماد على الموارد؛ إذ يقترح البحث سبع فرضيات عن مشاركة المرأة في المجالس الإدارية، ويتحرى تحليل التقارير السنوية لأكثر مئة شركة مدرجة في البورصة الماليزية ما بين عامي 2016-2018؛ بعد تنفيذ سياسة تقسيم المناصب الإدارية بين الجنسين، ويتناول هذا البحث أيضاً مؤهلات المدبرات في لجان التدقيق، ومن يشغلن وظيفة الرئيس التنفيذي، وأعمارهن، ومدة ولاياتهن في المجالس الإدارية، ومدى استقلالهن إدارياً، ويتوسل البحث تحليل الانحدار المتعدد؛ لتقييم الارتباط بين أداء الشركات من خلال دراسة عمل المرأة في الحقائق الإدارية وعائدات الشركات التي ترأسها النساء ومدى تأثيرها، وقد توصل البحث إلى وجود علاقة إيجابية بين عمل المرأة في الحقائق الإدارية والأداء المالي للشركات، وعلاقة سلبية بين عمل المرأة في لجان التدقيق وأداء الشركات عامة، وعلاقة إيجابية بين عمل المرأة رئيسة تنفيذية وأداء الشركات مجملاً، علاوة عن أن للمدبرات المؤهلات في المحاسبة أو المالية، ويتميزن بالاستقلالية؛ أثراً إيجابياً في الشركات، ولكن؛ ليس لذلك أهمية في تحسين جودة الشركات وأدائها، في حين أن لعمر المرأة أثراً سلبياً طفيفاً على أداء الشركات عامة، ويضيف هذا البحث إلى الدراسات السابقة عن المرأة في المجالس الإدارية من منظور الدول النامية، ومن المؤمل أن تحفز نتائج الشركات المدرجة في البورصة الماليزية على تعيين مزيد من النساء المؤهلات أعضاء في المجالس الإدارية؛ ليس من أجل الالتزام بسياسة الحكومة الاتحادية الماليزية فحسب، وإنما من أجل تحسين جودة الشركات وأدائها.

## 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 (Accounting).

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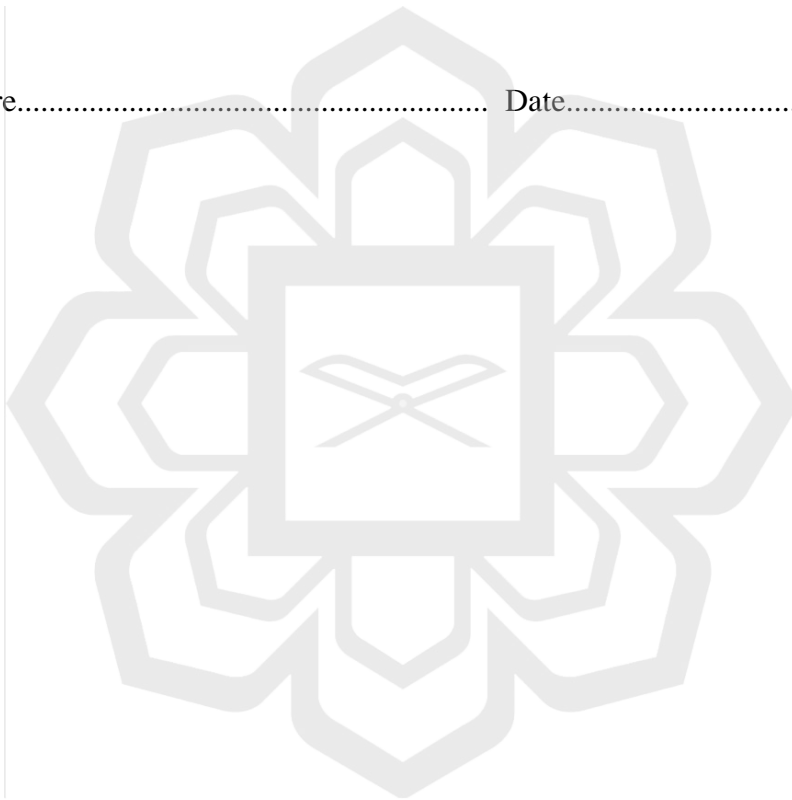
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## DECLARATION

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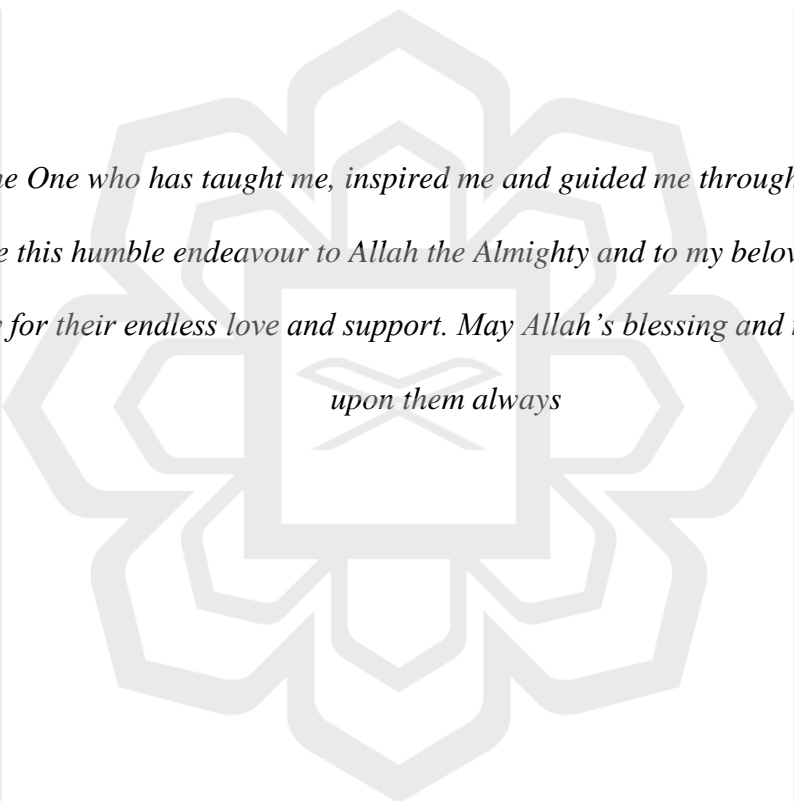
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*To the One who has taught me, inspired me and guided me throughout my life. I dedicate this humble endeavour to Allah the Almighty and to my beloved parents and family for their endless love and support. May Allah's blessing and mercy shower upon them always*

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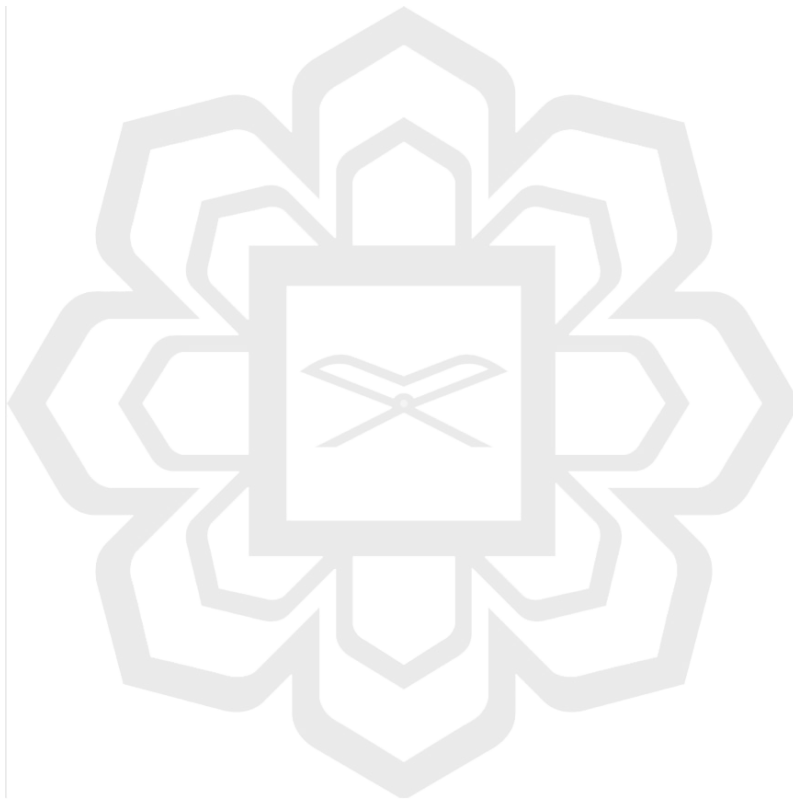
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## LIST OF ABBREVIATIONS

BOD	Board of Directors
WOB	Women on Board
GD	Gender Diversity
CEO	Chief Executive Officer
CFO	Chief Financial Officer
CG	Corporate Governance
E.g.	(Exemplification): For example
Et al.	(ET alia): and Others
Etc.	(Et cetera): 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
SDG	Sustainability Development Goals
UK	The United Kingdom
UN	The United Nation
US	United States of America
VIF	Variance Inflation Factor
MCCG	Malaysian Code of Corporate Governance

# **CHAPTER ONE**

## **INTRODUCTION**

### **1.1 INTRODUCTION**

This chapter presents the introduction of this research. It also includes the background of the research, followed by problem statements. It then discusses the objectives of the research and research questions followed by motivation and significance of the study.

This chapter also briefly introduces the research method, data collection, and organization of each chapter and ends with a chapter summary.

### **1.2 BACKGROUND OF THE STUDY**

The topic of women on boards of directors has become a common subject of debate and is a recent area of research. There are numerous campaigns around the world advocating for the increase of women on boards. For example, there is campaign entitled ‘Woman on Boards in 2020’ in the United States of America (USA). The ‘women on board’ movement can also be seen in Australia and the United Kingdom (UK). Many countries have even implemented the laws on minimum numbers of women directors a board should have. For instance, in 2003 Norway became the first country to mandate the minimum number of women on boards of listed companies, with a quota of 40% (Moreno-Gómez & Calleja-Blanco, 2018). France and Spain also require 40% of women directors on boards of listed companies in their countries. Other countries set quotas of different magnitudes such as in 2016, Italy and the Netherlands required 30% of women representatives to be on boards (Moreno-Gómez et al., 2018).

The women involvement in top management has attracted the attention of academia and policy makers. Women are said to be more tolerant, open-minded, better

at multitask and more highly educated than men (Ahmad, Raja Kamaruzaman, Hamdan, & Annuar, 2019). Women are also found to be more hardworking supervisors, which helps enhance the quality of boards' decisions and the legality of companies (Lim, Lye, Yuen, & Teoh, 2019). Having these characteristics enable them to perform well, which in turn serves to improve companies' performance. Hence, women on boards of directors have become the subject of widespread research due to their potential in maximizing company performance (Ahmad et al., 2019).

According to Gomez et al. (2018) women are more involved in raising children and they are usually more honest or more willing to take risks. In fact, women uphold honesty so that they can impart suitable values to their children. It is also acknowledged that women are also more prepared to obey instructions than men. Thus, having these characteristics and individuality of women can make them perform well in the companies they serve and help improve company performance.

In the board literature, there are many debates on gender diversity which clarifies the various functions of gender diversity on boards. Gender-diversified boards are more effective in monitoring and ensuring that companies comply with ethical values, thereby reducing the misuse of shareholder funds (Mukarram, Ajmal, & Saeed, 2018). Moreover, gender diversified boards can create a more skilled and more efficient work environment in terms of dealing with company challenges and addressing the concerns and requirements of various shareholders (Jizi & Nehme, 2017).

Previous studies on gender diversity and decision-making have shown that a more diversified board can enhance the quality of decisions made by presenting new viewpoints and broadening the information accessible to the group by increasing divisiveness and encounters (Alazzani, Hassanein, & Aljanadi, 2017). This is possible because men and women have diverse management styles and women directors are said

to be more involved and independent than men (Alazzani et al., 2017). Gender-diversified boards also shows that the company has sufficient conditions to understand the commercial setting and the requirements of diverse markets. For example, women directors are said to have an improved ability to link the company with women consumers, workers and women in society as their life skills and opinions are different (Liu et al., 2013). In addition, increasing the number of women directors on boards can improve innovation by introducing new viewpoints, qualifications, and talents to the board (Kılıç & Kuzey, 2016).

The existence of women on boards may reflect that the firm's senior management is well-managed. Some scholars hold the notion that women directors are more transparent and effective in supervising organization activities, thereby improving the quality of decision-making (Vathunyoo et al., 2016). In fact, women on boards will bring various life experiences, opinions, skills and shareholder networks, and offer a better platform for reasonable control and excellent decisions (Gupta et al., 2017). The presence of women directors generates an advantageous and more detailed decision-making procedure for firms because women are normally found to work harder than men (Dang et al., 2013).

Adams and Ferreira (2009) stated that women directors are more likely to be actively participating in boards' procedures by joining more board's conferences, linking boards' sub-committees, and even increasing male board's involvement. Adams and Ferreira (2009) further concluded that the existence of women on boards improves efficiency because women directors are more energetic than that of male directors. In another study, Konrad et al. (2008) recognized that the inquiries posed by women directors during board meetings were more difficult than those posed by their male counterparts. Whereas, Dang et al. (2013) observed that the attendance rate of women

directors is higher than that of male directors. Based on the above findings, it can be said that the presence of woman directors has positive impacts and promotes higher and more effective boards.

It is important to note that the studies on corporate governance and women on boards were undertaken with specific agendas in mind. First, the primary goal of a company is to maximize profits. Diversifying the workforce by including more women on boards could be a way to do just this. Therefore, it is in a company's interest to implement gender-sensitive guidelines at the board level. From this viewpoint, being more accepted of women board members is not necessarily in the name of social fairness or confidence, but the name of utilitarianism, unorganized production and risk controlling logic (Tremblay, Gendron, & Malsch, 2016).

Prior researchers on gender diversity and company performance have emphasized the positive influence of having women directors on firm performance (Luckerath Rovers, 2013). Women directors are more traditional and can avoid risks better than their male counterparts. Subsequently, their involvement on boards of directors is associated with higher income quality, higher current asset levels and higher equity capital (Jizi & Nehme, 2017). Furthermore, Palvia et al. (2015) found that companies with women on boards are less volatile and have lower failure rates, especially during times of financial pressure. Liu et al. (2014) points out that a board with three or more women directors has a better influence on firm performance than a board with fewer women directors. Moreover, Strøm et al. (2014) expressed that the existence of women on boards has optimized company performance.

Due to changes in team dynamics throughout board meetings, gender diversity should have a positive influence on firm performance (Usman, Farooq, Zhang, Dong, & Makki, 2019). This is because gender differences can improve problem-solving skills

by introducing diverse viewpoints in board meetings. In this regard, diverse viewpoints can provide more choices for decision makers, and these alternatives can be considered more carefully. Therefore, board members with different experience, cultural circumstances and genders can offer planned wealth to improve company performance (Kılıç & Kuzey, 2016).

Correspondingly, Tyson (2003) summarized that variety in board members can also improve a firm's performance, largely due to different viewpoints. Therefore, most studies show that heterogeneous teams make greater quality decisions, produce more advanced solutions over intellectual clashes, and impact the company's planned direction (Reguera-Alvarado, de Fuentes, & Laffarga, 2017). In this regard, various prior studies, such as Bonn et al. (2004), have demonstrated that increasing the number of women on boards of directors significantly advances the firm's economic outcomes. Thus, it can be deduced that there is a positive relationship between the existence of women on boards and firm performance.

Last but not least, it is important to highlight that women play a vital role in all United Nation's (UN) Sustainable Development Goals (SDGs), and this is reflected in its Objective Five that is to achieve gender equality and empower all women and girls. Promoting women's full and effective participation and equal opportunities at all levels of decision making in political and economic activities are among the main goals of the UN SDGs. As an active country member of the UN, Malaysia has introduced the women on board's policy for listed companies to follow in 2011 to be effectively implemented in 2016. Therefore, this study is conducted among others, to provide evidence as to whether Malaysia has achieved its targeted number of women in decision making positions in support of the UN SDGs initiative.

### **1.3 PROBLEM STATEMENT**

The lack of gender diversity on boards has been an area of concern for many parties, including administrations, industries, academicians and the public. This concern has received public attention due to news reports, shareholder suggestions from support teams and strategy statements from main institutional stakeholders (Carter et al., 2003). Business scandals such as those within WorldCom, Enron, Parmalat and Tyco, have also sparked interest in the influence of gender variety on company values and financial performance. Following these incidents, many experts have called for increased efforts to diversify boards (Kılıç & Kuzey, 2016).

As a Muslim majority country with 61% of the population being Muslim (Lim et al., 2019), traditionally, women are underrepresented on the board. The Malaysian government has attempted to address this situation through corporate governance and legislative reforms. They are aware of the obstacles women face in certain key positions in the corporate governance structure. In 2004, the government introduced a policy in which a minimum of 30% of decision-making positions in the public sector must be held by women. As an outcome of this active gender policy, more than 30% of women filled senior positions in the public sector in 2010; an increase from 19% in 2004 (The Star, 2011). In 2011, the Malaysian Cabinet has extended the policy to Malaysian public listed companies (PLCs), whereby at least 30% of decision-making positions must be held by women by the year 2016 (The Star, 2011). These implementations have demonstrated that the Malaysian government is supportive of the empowerment of women and encourages them to become decision makers in businesses, and this promotes greater professional development (Nor et al., 2014). However, as of 2016, the targeted 30% has yet to be achieved, reaching only 11.5%. (Lim et al., 2019, the Star, 2016). In July 2017, the Malaysian Prime Minister has given an ultimatum that set

the year 2020 as the dateline which all PLCs must have at least 30% women at the board level (The Star, 2017).

Prior to 2011, Malaysia seemed to lack a position to encourage gender variety as seen in Malaysian (PLCs). From 2005 to 2007, the proportion of women on boards was declining, dropping from 10.2% to 7.6% and 5.3%. Nevertheless, this percentage increased slightly in 2008 to 7.41% (Julizaerma & Sori, 2012). In 2010, the number of women directors in PLCs also increased slightly to 8.3% (Amran et al. 2014) and dropped at 7.7% when the 30% women policy was announced in 2011.

The issue of lack women in board of directors, especially in Malaysia has become a major concern for government, decision makers, media and researchers. The proportion of women in senior management is inconsistent with the rise in the proportion of women in the work-force. The importance of women in senior management and the value they bring to the company are some things that cannot be ignored (Amran et al., 2014).

The absence of women from the board can be due to various factors. According to Julizaerma & Sori (2012), one cause is the different culturally and socially accepted working attitudes toward men and women. The stereotypical ideas regarding gender roles tend to limit available roles for women. One such role is an administrative position, where it is believed that women fulfil better due to their capacity to empathize with people's feelings since they are considered to be emotional, meticulous and critical. Should women rise to decision-making levels, there still exists the glass ceiling effect that holds them back and results in the under representation of women. In addition, some hold the notion that women employees may turn down promotions or prefer to avoid work and life pressures and imbalances. Another cause lies on the limitation of women

expertise in a specific arena of business that consequently limit women' chances to move up the ladder (Julizaerma & Sori, 2012).

Thus, it is fundamental for boards to review their interests in representation in order to achieve the organizational goals and targets which are continually aimed at efficiency and improvement. Despite the fact that there are various observations calling for an increase in women directors, boards are as yet still dominated by male directors. Apparently, there is still doubt over a woman's ability to perform at the board level. The involvement of women on boards of directors in organizations has not been explored in detail, particularly in developing markets (Ahmad-zaluki, 2012).

The environment in Malaysia is mainly motivating because some of its unique characteristics can influence the level of women managerial positions. Firstly, Malaysia is a Muslim country with a diverse collection of ethnicities that have cultural and religious custom exclusive to them. Kennedy (2002) believes that cultural beliefs challenge efforts to increase involvement in decision-making and eliminate obstacles that hinder women involvement. Hence, Malaysia's governance style may be different from other nations. Secondly, Malaysians pay special attention to collective welfare which shows strong humanistic coordination in a society that esteems differences in hierarchy (Kennedy, 2002). This element will affect an organization's management style. In Malaysia, employment regulations offer equivalent protection for men and women. However, this does not deter managers from compensating women with lower pay for equivalent labour (Ahmad-zaluki, 2012).

The Labour Statistics in 2017 reported that women labour force in Malaysia sit just over 54% (NST Business, 2019). This is evident that women talent is not lacking. Perhaps, what is lacking is the opportunities for women to rise in the upper management level of an organization. Kennedy, (2002) reported that Malaysian directors believe that

gender equality has developed to an acceptable level, and there are hardly any provisions for more modifications. He believes that women will remain to face obstacles in high-ranking positions. The fact that Malaysian firms generally prefer men to hold positions of authority further supports this situation (Ahmad-zaluki, 2012). Lastly, Malaysia is governed by public law, and welfare regulations on achieving work-life balance is not widespread which could also result in lower women on boards cases (Ahmad-zaluki, 2012).

The recommendation on women involvement has been highlighted in Malaysian Code of Corporate Governance (MCCG) (2012) and emphasised in the revised MCCG (2017), in which the nomination committee should formulate policies to actively assist women as directors, assist top managers in establishing business networks, and encourage them to join the boards as part of their career development and address cultural barriers to prevent women from holding top management and board positions. The nomination committee was also recommended to have measurable goals for achieving gender diversity and to evaluate its policies and results on annual basis in determining its effectiveness.

Against this backdrop, it is then imperative to examine the impact of women on boards of Malaysian PLCs. As stated earlier, the Malaysian government introduced a policy requiring PLCs to have a minimum of 30% of decision-making positions to be held by women by the year 2016 which were then extended to 2020. Since many studies have shown that gender diversity on boards brings value in terms of improved performance (Liu et al., 2014; Reguera-Alvarado et al., 2017; Usman et al., 2019). Hence, this study is timely as to see the effect of the policy on the performance of Malaysian listed companies.

## **1.4 RESEARCH OBJECTIVES**

The main objective of the research is to examine the impact of women on boards of directors on the financial performance of the top 100 Malaysian PLCs by market capitalisation using data from 2016 to 2018. In 2016, the top 100 PLCs represent a market capitalisation of 82% (The Star, 2016). In particular, the study intends to examine:

1. The relationship between the proportion of women on boards and financial performance.
2. The relationship between accounting and finance qualifications of women on boards and financial performance.
3. The relationship between women directors on audit committees and financial performance.
4. The relationship between women directors as CEOs or Chairman and financial performance.
5. The relationship between the age of women on boards and financial performance.
6. The relationship between tenure of women on boards and financial performance.
7. The relationship between women independent directors and financial performance.

## **1.5 RESEARCH QUESTIONS**

In order to accomplish the above research objectives, the following research questions are formulated:

1. What is the relationship between the proportion of women on boards and financial performance?
2. What is the relationship between the accounting and finance qualifications of women on boards and financial performance?
3. What is the relationship between women directors on audit committees and financial performance?
4. What is the relationship between women directors as CEOs or Chairman and financial performance?
5. What is the relationship between age of women on boards and financial performance?
6. What the relationship between tenure of women on boards and financial performance?
7. What the relationship between women independent directors and financial performance?

## **1.6 MOTIVATION OF THE STUDY**

The motivation for investigating the proposed objectives are twofold. First, there is an increase perception in regards to whether the capacities and abilities of women directors can positively benefit firms. This has inspired the study to investigate this area as this investigation will allow Malaysian PLCs to discover if there is a connection between women on boards and better financial performance. Second, the study is motivated to examine the influence of women on boards on firm performance due to the policy requiring more women to be on boards of PLCs. This policy was introduced by the Malaysian government in 2011 that became compulsory in 2016 which has been extended to the year 2020. The participation of women on boards of directors has