

Board of Directors and Firms Performance: Evidence from Malaysian Public Listed Firm

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Abstract. Nowadays the link between corporate governance and firm performance is one of the most important subjects in the entire world especially in Malaysia. This research has two significant objectives. The first objective is to examine the impact of board of directors' characteristics (board meeting, independent non-executive directors) on firm performance. The second objective is to examine the impact of gender diversity on firm performance. A review of prior studies indicates that more studies about the impact of board of director's characteristics and gender diversity have been conducted in developed countries, and there are a few studies in this area from emerging economic countries such as Malaysia. Three (3) hypotheses are tested in this research, and only quantitative method is used for data collection, and all of data is secondary data. Sample of this study consists of 150 public listed Malaysian firms which were listed in the year ending 2008. The year of 2008 has especial importance because of financial crisis of 2008, and this was the main reason for choosing year of 2008 for this research.

Keywords: Corporate governance, Board of Directors' Characteristics, Gender Diversity, Firm Performance.

1. Introduction

Corporate governance has attracted the attention of academic researchers and business world in recent years because of the numbers of critical incidences, namely East Asian financial crisis of 1997, accounting scandals in the high profile firms in the world and financial crisis of 2008.

These events destroyed confidence of investors and led to crucial effects on economic conditions of countries. Malaysian governance made the decision to reconstruct the confidence of shareholders by reforming codes of corporate governance of Malaysia, board of directors is the key and important mechanisms of corporate governance. (Ponnu, 2008). This research wants to investigate about the impact of board of director's characteristics and gender diversity on firm performance of Malaysian public listed companies.

1.1. Problem Statement

Asian financial crisis of 1997 indicate poor corporate governance in Southeast Asian countries- Indonesia, Korea, Malaysia, Thailand and Philippines. Asian crisis leads to crucial effects in different area especially in the area of economic in the mentioned countries.

In the case of Malaysia, Asian financial crisis destroyed the economy of Malaysia. Annual report of Bank Negara reported that GDP in 1996 was 43.5%, in 1997 was 45.5% and in 1998 was 28.1%, which indicates reduction of Malaysia's GDP during financial crisis, and also Bank Negara reported fixing the exchange rate at MYR3.80 to a US dollar which indicates 34% depreciation in value of MYR; decreasing value of MYR had effects on the Kuala Lumpur Stock Exchange (KLSE), and Kuala Lumpur Composite Index (KLCI) which depreciated by 44.8%.

According to the above, destroying confidence of investors is the most important problem created because of poor corporate governance in Malaysia, and the government has tried to restructure the confidence of investors through improving and reforming codes of corporate governance.

1.2. Research Question

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- (1) What is the impact of board of director's characteristics on firm performance of Malaysian public listed companies?
- (2) What is impact of gender diversity on board of directors on firm performance of Malaysian public listed companies?

1.3. Research Objective

- (1) To find the relationship between board of director's characteristics (board meeting, independent non-executive directors) of public listed companies and firm performance.
- (2) To find the impact of gender diversity on board of directors of Malaysian public listed companies on firm performance.

2. Literature Review

2.1. Corporate Governance Environment in Malaysia

After Asian crisis 1997, Asian countries especially Korea, Malaysia, and Thailand have started important restructuring of their corporate governance. Asian financial crisis was because lacking of transparency, lack of publishing annual report and accountability (Mitton, 2002), lack of safety of minority shareholders against management team and large shareholders (Claessens et al, 1999); consequently after Asian crisis 1997, the governments decided to improve their corporate governance practices and codes. Malaysia set up a High Level Finance Committee on March 24, 1998 because of the need to restructure codes of corporate governance and set up a good practice of corporate governance. The Finance Committee on Corporate Governance managed by the Treasury Secretary General and Ministry of Finance.

2.2. Board of Director's Characteristics

According to the different researches and different theories in the relationship between board of director's characteristics and firm performance, there are positive, negative and no relationship between board of director's characteristics and firm performance. Positive link between board meeting and firm performance was explained by (Conger, 1998). Negative relationship between board meeting and firm performance was explained by (Vafeas, 1999; Kyereboah & Coleman, 2007). Generally, the members of board are divided in two categories non-executive directors (NED), executive directors. Positive relationship between non-executive directors (NED) and firm performance was found by (Bhagat and Black, 2000; Kyereboah & Coleman, 2007; Mashayekhi & Bazaz, 2008; Sanda, Garba and Mikailu, 2008; Sunday, 2008; Connell and Cramer, 2010; Uadiale, 2010; Khan, Nemati, Iftikhar, 2011). The negative relationship between non-executive directors (NED) and firm performance was explained by Bhagat and Black (1999). No significant relationship between non-executive directors (NED) and firm performance explained by (Ponnu, 2008; Sanda, Mikailu and Garba, 2008; Rashid, Zoysa, Lodh, Rudkin, 2010).

2.3. Gender Diversity

Different researchers found different relationship between gender diversity and firm performance, based on different researches and different theory, there are positive, negative and no relationship between gender diversity and firm performance. Positive relationship between percentage of female in board of directors and firm performance was found by (Erhardt, Werbel and Schrader, 2003; Carter, Simkins, and Simpson, 2003; Carter, Souza, Simkins, and Simpson, 2010). No association between percentage of female in board of directors and firm performance was found by (Farrell and Hersch, 2005; Marinova, J.; Plantenga, J.; Remery, C., 2010).

3. Methodology and Research Design

This research utilized previous models and develops new models. There are two models in this research. Model 1 and Model 2 indicate proposed research model in this research. In this research Return on equity (ROE) that is measured by Net income after interest and tax divided by total equity and Return on asset (ROA) that is measured by Net income after interest and tax divided by total asset are considered as dependent variables. Independent variables are board of directors' characteristics (board meeting, independent non-executive directors), gender diversity (percentage of female directors on board,

percentage of female directors on audit committee of board, percentage of female directors on remuneration committee of board). For measuring linkage between independent and dependent variables (ROE, ROA), three control variables which are Ln asset that, Ln asset is described as natural logarithm of total asset. , Leverage Ratios is described as total liability divided by total asset and Listing is described as number of years that firm's stock has been listed on the board.

Model 1:

- $ROE = \beta_0 + \beta_1 BMEETING + \beta_2 BIND + \beta_3 BFEMALE + \beta_4 AFEMALE + \beta_5 RFEMALE + \beta_6 LNASSET + \beta_7 LEV + \beta_8 LISTING$

Model 2:

- $ROA = \beta_0 + \beta_1 BMEETING + \beta_2 BIND + \beta_3 BFEMALE + \beta_4 AFEMALE + \beta_5 RFEMALE + \beta_6 LNASSET + \beta_7 LEV + \beta_8 LISTING$

3.1. Hypothesis Development

- Hypothesis 1: there is a negative relationship between frequency of board meeting and firm performance.
- Hypothesis 2: there is a positive relationship between independent non-executive directors and firm performance.
- Hypothesis 3 (a): There is a positive relationship between percentage of female directors on board and firm performance.
- Hypothesis 3 (b): There is a positive relationship between percentage of female directors on audit committee of board and firm performance.
- Hypothesis 3(c): There is a positive relationship between percentage of female directors on remuneration committee of board and firm performance.

3.2. Data Collection

Sample of this study consists of 150 public listed Malaysian firms which were listed in the year ending 2008. This research used secondary data for finding relationship between board of director's characteristics, gender diversity and firm performance (ROE, ROA), this study uses only quantitative method for data collection. Data of this study includes archival data (i.e. data from annual reports of companies). Data related to board of director's characteristics and gender diversity are collected from corporate governance statement of annual reports, and data related to firm performance is collected from financial statements which are attached to annual reports. Data of this research are analyzed by three methods. First method is Descriptive analysis. It shows general information from dependent, independent and control variables. Second, Pearson correlation, and last method is regression analysis which indicates how independent variables and control variables can affect dependent variables.

4. Empirical Results

Descriptive Statistics of variable indicates. ROE average is 11.56%, with minimum of -5.27 % and Maximum of 49.80 %. Average ROA is 4.54 %, with maximum of 49.80 % and minimum of -22.67%. An average of board meeting is 5.11 times that ranging from 2 times to 23 times. An average of independent non-executive director is 43.89 %, that ranging from 80 %, to 22.22 %. An average of BFEMALE is 8.56 %, that ranging from 50 % to 00 %. An average of AFEMALE is 4.45 %, that ranging from 66.66% to .00. An average of RFEMALE is 6.18 %, that ranging 100 % to .00%. An average of total asset is RM 810000000, that ranging from RM 1700000000 to RM 66200000. An average of Ln asset is 19.55, that ranging from 24 to 16. An average of leverage ratio is 36.44 %, that ranging from 93 % to .00 %. An average of listing is 14.31 years, with maximum of 50 years and minimum of 1 year.

For model 1 Pearson Correlation indicates board meeting and leverage ratio positively correlated with leverage ratio at 1% significant level. Independent non-executive directors positively correlated with Ln asset at 5% significant level. Also, independent non-executive directors positively correlated with listing at 5% significant level. Female on board has positive relationship with female in audit committee and remuneration committee at 1% significant level, and female in audit committee has positive relationship with female in

remuneration committee at 1% significant level. Finally, Ln asset positively associated with listing at 5% significant level. For model 2 Pearson Correlation indicates board meeting and Ln asset positively correlated with leverage ratio at 1% significant level. Independent non-executive directors positively correlated with listing at 5% significant level. Female on board has positive relationship with female in audit committee and remuneration committee at 1% significant level, and female in audit committee has positive relationship with female in remuneration committee at 1% significant level.

Regression analysis indicates that R square is 67.6 % for Model 1, and 24.8% for Model 2. Regression analysis for model 1 (ROE) indicates, the coefficient for (BMEETING) is significant at one (1) % level of significance ($p=.000$), and ($\beta=-3.55$). (BIND) is significant at ten (10) % level of significance ($p=.000$), and (BIND) is negatively related with ROE ($\beta=-.33$). The coefficient for (BFEMALE) is significant at one (1) % level of significance ($p=.000$), and ($\beta=.31$). The effect of (AFEMALE) on ROE is not significant at conventional level ($P=.215$). The effect of (RFEMALE) on ROE is not significant at conventional level ($P=.187$). In terms of control variables, the coefficient for (LNASSET) is significant at one (1) % level of significance ($p=.000$), and direction is positive as expected sign ($\beta=6.029$). The coefficient for (LEV) is significant at one (1) % level of significance ($p=.000$), and ($\beta=-.229$), The effect of (LISTING) on ROE is not significant at conventional level ($P=.697$).

Regression analysis for model 1 (ROA) indicates the coefficient for (BMEETING) is significant at five (5) % level of significance ($p=.017$), and ($\beta=-.53$). The effect of (BIND) on ROA is not significant at conventional level ($p=.299$). The effect of (BFEMALE) on ROA is not significant at conventional level ($P=.183$). The effect of (AFEMALE) on ROA is not significant at conventional level ($P=.206$). The effect of (RFEMALE) on ROA is not significant at conventional level ($P=.618$).

In terms of control variables, the coefficient for (LNASSET) is significant at one (1) % level of significance ($p=.000$), and direction is positive as expected sign ($\beta=1.316$). Consistent with expected sign (LEV) is significant at one (1) % level of significance ($p=.000$), and direction is negative as expected sign ($\beta=-.121$). The effect of (LISTING) on ROA is not significant at conventional level ($P=.747$).

5. Discussion of Findings

Descriptive analysis, correlation and regression analysis was used in this research for testing the mentioned hypotheses, and now it discusses which of hypothesis was accepted and which of them was rejected. The results of study indicate that ROE is influenced by frequency of board meeting, independent non-executive directors, and percentage of female directors on board of directors. Results of study suggest that high frequency of board meeting, high percentage of independent non-executive directors decrease amount of ROE, high percentage of female directors on board of directors increase ROE. Therefore, hypothesis (1) and hypothesis 3(a) are accepted for model (1) and hypothesis (2), 3(b) and 3(c) are rejected for model (1). Three control variables are selected in this study; two (2) out of three (3) control variables have effect on ROE. Results of study suggest that ROE is influenced by Ln asset and leverage ratio. High amount of Ln asset increase ROE, and high amount of leverage ratio decreases ROE. Listing is last control variable, and ROE isn't influenced by Listing. For model (2), one (1) out of three (3) hypotheses are supported by results of study. The results of study suggest that ROA is influenced by frequency of board meeting and high frequency of board meeting decrease ROA, then hypothesis (1) is accepted for model (2), hypothesis (2) and (3) are rejected. For ROA model, two (2) out of three (3) control variables have effect on ROA. High Ln asset increases ROA. Results of study suggest that ROA is influenced by leverage ratio and high leverage ratio decreases ROA.

6. Conclusion

Results of this study, impact of board of director's characteristics and gender diversity on firm performance are useful for policy makers of corporate governance in Malaysia. Finally, the relationship between corporate governance variables (board of director's characteristics and gender diversity) and firm performance is found for sample of Malaysian firms, therefore these results add new information to prior literatures which were done in the field of corporate governance and firm performance.

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