DOI: 10.7763/IPEDR. 2014. V76. 10

Women on Boards and Firm Performance in Malaysia: Preparing to Open the Black Box

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Abstract. Studying the influence of women directors on firm performance is gaining research interest in Malaysia, especially since the Malaysian government has established a goal of 30 percent female board membership. However, corporate boards tend to appear as 'black boxes' because their deliberations are often hidden from research scrutiny. Previous studies seeking a direct link between the demographic characteristics of corporate boards and firm performance have had mixed results. Thus, this paper will fill in the gap by leaning on previous direct approaches but also suggests a more indirect way of opening the black box: by studying the influence of diversity – especially the presence and proportion of women directors – on the group processes of the board and the board's performance of its tasks, and then examining the link between performance of board tasks and SMEs' performance. Three aspects of board processes appear likely to affect the completion of board tasks: cognitive conflict, effort norms, and use of knowledge and skills. The board's completion of its service, monitoring, and networking tasks appears likely to affect firm performance, so these will be used to assess board performance. Firm performance is measured in broad i.e. in terms of customer satisfaction, customer retention, market share, innovation, as well as perceptions of the firm's long and short-term financial performance.

Keywords: Gender, Board Diversity, Board Performance, Firm Performance, Malaysia

1. Introduction

Forbes and Milliken (1999) describe boards of directors as "episodic decision-making groups whose output is largely cognitive in nature." In making strategic decisions, boards are involved in interaction, discussions and face disagreement, conflicts and criticisms. However, some boards of directors merely act like rubber stamps, perfunctorily approving decisions by top management to the detriment of the firm (Zona & Zattoni, 2007). The extent to which the presence of women on boards heightens or alleviates this problem is receiving increased attention worldwide. Nevertheless, and despite interest in how gender and other forms of diversity affect group processes, there has been comparatively little focus on this in studies investigating how boards affect firm performance.

2. Women on Corporate Boards in Malaysia

Women constitute nearly half of the Malaysian population and workforce. While Malaysian women are well educated, with more women than men holding undergraduate degrees (MFWCD, 2011), they are under-represented on their country's corporate boards. Only 6% of board members of Malaysia's financial institutions are women, and the same are found for female membership on corporate boards in the Malaysian insurance industry (7%), Malaysia's 100 largest domestic companies (7.8%), listed companies in Bursa Malaysia (formerly known as the KLSE) (7.6%), and government linked companies (GLC) (8.8%). This rate lags behind Singapore, Australia, China, Thailand and New Zealand (Tuminez, 2012). In an effort to change this situation, and following its success in achieving its 30 per cent quota of women in senior positions in the public sector, the Malaysian government in June 2011 established a goal of 30 per cent female board membership by 2016. Progress towards this goal will be monitored and assessed in 2013 by the Malaysian Securities Commission (SCM, 2011).

3. Women on Boards and Firm Performance

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Research on the relationship between the presence of women on boards and firm performance has produced mixed results. Firm performance can be defined as the extent to which an objective produces results in relation to a target whether financial or non-financial (Ghobdian & O'Regan, 2006). Some studies in developed countries have found positive results from having women represented on boards. For example, Lukerath-Rovers (2011) found that firms in the Netherlands with women directors perform better in terms of ROE than firms without women on their boards. The authors speculated that this may be because board gender diversity allows a greater range of perspectives to be considered, so boards reach better decisions. Similarly, Campbell and Vera (2009) found positive short-term (stock market) impacts and positive long-term impacts (firm value) for Spanish firms whose boards included one or more women. However, Haslam, Ryan, Kulich, Trojanowski and Atkins (2010) found no relationship between the presence of women on the boards of UK firms with the firms' accounting performance measured as ROA and ROE. Meanwhile in the USA, Adams and Ferreira (2009) found a negative average effect of gender diversity on firm performance.

Similar mixed results have been found in developing countries. A study in Pakistan (Yasser, 2012) found no significant relationship between board gender diversity and firm performance measured as economic value added. In Malaysia, Abdullah, Ismail and Nachum (2013) found a positive and significant relationship between the presence of women directors and Malaysian firms' accounting performance as measured by ROA. They attributed this to women's distinctive managerial style. However, other studies in Malaysia have found otherwise (e.g., Shukeri, Ong & Shaari, 2012; Marimuthu & Kolandaisamy, 2009a, 2009b). Since the findings are mixed, our first hypothesis is that: **H1: there is a positive and significant relationship between the presence of women on boards and the performance of Malaysian companies.**

Research attention has also focused on the proportion of women on the board, as opposed to whether women are present or not. Critical mass theory suggests that the impact of a subgroup becomes more pronounced when a certain gender threshold is reached. This is because when there is only one woman on a board, she is regarded as a token, and her opinions tend to be regarded as representative of all women (Lukerath-Rovers, 2011). A sole female director is also likely to find it hard to be heard and to convince male directors of her viewpoint. Finally, because issues are often discussed during stereotypically male recreational activities, such as golf, smoking and drinking, women tend to be excluded. A board with more women is more dynamic, supportive, and collaborative, and women feel freer to discuss their views and to socialize together (Konrad, Kramer & Erkut, 2008). Researchers have concluded that a board with three or more women makes better decisions than a board with only one woman. Perceived influence and information-sharing also increase with more women on a board (Elstad & Ladegard, 2010). Furthermore, boards with more women make more use of board power (Pearce & Zahra, 1991). In Norway, Torchia, Calabro and Huse (2011) found a significant and positive relationship with firm innovation only when three or more women were board members. Minguez-Vera and Lopez-Martinez (2010) found for Spanish firms that the positive effect of having women directors increases with their proportion on the board. Similar results have been found in developing countries. A study in Bangladesh found better performance in firms with a higher proportion of women on the board (performance was measured as Tobin's Q and ROA) (Mutakkin, Khan & Subramaniam, 2012). A study in Malaysia by Ahmad Zaluki (2012) found that companies with a higher proportion of female board directors experience 'less underperformance' than those with fewer women.

These results suggest that increasing the number of women on boards both promotes social justice and protects shareholder interests. Women bring a different style to board tasks and better environmental adaptation. However, Lukerath-Rovers (2011), who studied corporate boards in the Netherlands, found few companies appoint a greater proportion of women than men to corporate boards. In Sri Lanka, women directors are typically silent directors, and are thus seen as tokens whose presence makes little impact (Wellalage & Locke, 2012). This may explain why these authors did not find a significant relationship with firm value measured as Tobin's Q. Matlala (2011), studying boards in South Africa, defines gender diversity as existing on boards that comprise 25 percent or more female directors, but nevertheless found no significant relationship between board gender diversity and financial performance measured as ROE and ROA. Given these mixed results, we hypothesize for Malaysia that: **H2: there is a positive and significant relationship between a higher number of women on boards with firm performance.**

4. Women on Boards, Board Processes, Board and Firm Performance

Using agency and resource dependency theory, women directors constitute a source of competitive advantage because their presence improves the board's monitoring and advisory roles (Konrad, Kramer & Erkut, 2008). Virtanen (2012) found that female directors took more active roles on boards and used board power more than male directors. In board meetings, women are said to listen more openly to other speakers, attend more assiduously to others' needs, offer respect and consideration more often, and do more to help the group identify mutually satisfactory compromises to solve delicate problems. This is said to be due to women's cooperative, polite, sympathetic, and empathetic characteristics (Konrad, Kramer & Erkut, 2008). Huse, Nielsen and Hagen (2008), studying Norwegian publicly listed companies, found a positive and significant relationship between the ratio of women on boards and performance of the board behaviour control task. In contrast, however, Tacheva and Huse (2006) found a negative impact of women directors on the financial control and service tasks. They attributed this to the different tasks performed in SME companies in Norway. These perceptions and findings about the effects women have on board task performance suggest we need to examine possible links between the board's group processes and the board's performance of its tasks.

Following Zona & Zattoni (2007), we define board processes as "the socio-psychological processes pertaining to critical discussion, group participation and interaction and the exchange of information". Three board processes are identified as crucial because of their likely influence on board performance: the level of cognitive conflict between members, the board's effort norms, and board members' use of knowledge and skills. Cognitive conflict refers to task-oriented differences in judgement or issue-related disagreement among directors. Effort norms refer to the board's shared beliefs on the level of effort each director is expected to put towards a task. Finally, use of knowledge and skills refers to the process by which directors' contributions are coordinated via clear division of labour, delegation of tasks, and smooth flow of information. Also following Zona & Zattoni (2007), we define board performance as the board's ability to execute its service, monitoring, and networking tasks. Board service performance is defined as the extent to which the board actively participates in strategic decision making and the quality of its contribution to the CEO. Board monitoring performance is defined as the degree to which the board exerts a control function on the firm's activities and on the CEO's behaviour. Board networking performance is defined as the degree to which the board helps strengthen contacts with relevant stakeholders and legitimizes the company in its environment.

We now present the relationships between board processes and board task performance to be tested in Malaysian SMEs. *Cognitive conflict* Cognitive conflict will tend to increase with increasing diversity of the board. The board will also face higher complexity in making strategic decisions because of disagreements resulting from diverse opinions and suggestions. However, board performance will increase as the decisions made will be of higher quality because all points and suggestions will be considered (Zona & Zattoni, 2007). Thus, we hypothesize that: **H3: the higher the level of cognitive conflict faced by women directors, the higher the performance levels of the board service task, the monitoring task, and the networking task.**

Effort norms Directors, including women directors, are busy people. Thus, a high effort norm is needed to ensure that high quality decisions are reached (Zona & Zattoni, 2007). Thus we hypothesize that: **H4: the higher the effort norm exerted by women directors, the higher the level of the board's performance of its service, monitoring and networking tasks.**

Use of knowledge and skills The more directors use their knowledge and skills, the higher the board performance will be (Zona & Zattoni, 2007). As noted earlier, Malaysian women are well educated and bring the value of this to their board activities. Moreover, the Women Director Programme (WDP) in Malaysia has introduced programs to heighten women directors' skills and give them some exposure to directorship tasks. Thus, we hypothesize that: **H5: the higher use of knowledge and skills of women board directors, the higher the level of the board's performance of its service, monitoring and networking tasks.**

5. Methodology

A questionnaire currently being used in Australia to test other aspects of gender diversity on corporate boards was adapted to include these additional hypotheses. Data for the three mediating variables, board service, monitoring and networking performance, will be gathered using a 5 point Likert scale. Board service performance will be measured via board members' perceptions of the extent to which the board takes long-term strategic decisions, contributes to the implementation of strategic decisions, and how much the board's suggestions improve strategic decisions. Board monitoring performance will be measured via members' perceptions of how well the board monitors the firm's financial position, ensures that the firm's activities are adequately controlled, monitors the CEO, and controls plans and budgets. Finally, board networking performance will be measured via members' perceptions of how well the board provides contacts with relevant stakeholders and helps legitimize the company (Zona & Zattoni, 2007). Measures for firm performance, the dependent variable, will be via board members' perceptions of customer satisfaction, customer retention, market share, innovation, and long and short term financial performance. These will also be gathered using a 5 point Likert scale (O'Regan, 2000).

Data for the independent variables, level of cognitive conflict, board members' effort norms, and their use of knowledge and skills, will also be gathered using a 5 point Likert scale. Cognitive conflict will be measured in terms of how frequently there are conflicts and disagreements among directors on decisions to be taken, on how the board should work, and on how to pursue the firm's goals. Effort norms will be measured via the extent to which directors perceive themselves as using their skills and knowledge to fulfil board tasks, being available when needed, devoting the time needed to complete the task assigned, and participating actively during meetings. Use of knowledge and skills will be measured by the extent to which task delegation on the board is perceived as representing a good match between knowledge and responsibilities, the extent to which there is a clear division of labour among directors, and the extent to which information flows quickly among board members (Zona & Zattoni, 2007). Some other variables such as board size, outsider ratio, CEO ownership, firm size and age, industry type, and level of technology will be controlled for in order to screen out their influence on board task performance and firm performance (Azmi & Barrett, 2013; Zona & Zattoni, 2007).

The Australian questionnaire with these adaptations has been replicated in Malay language. Five people with linguistic and business competence have pre-tested the survey to ensure the questions have the same implications in Malay language as in English. The questionnaire and an invitation to complete it are being made available to female and male board directors in Malaysia via the websites of various government and non-government business networking organizations.

6. Conclusion

Women on boards are, at least potentially, leaders who make strategic directions with major effects on companies. Nevertheless, the extent of their participation on boards is still comparatively low, and their contribution to boards – the 'black boxes' of company decision-making – is still under-researched. This study, which is in its early stages, will help open the 'black box' of women directors' influence and contributions to the board and to the firm as a whole.

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