CEO GENDER AND FIRM PERFORMANCE IN MALAYSIA

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ABSTRACT

This study aims to examine the link between CEO gender and company performance in Malaysia Using 30 companies for the period from 2018 to 2022 and a panel data analysis, the findings show that gender, firm age, and the number of directors have no effect on a company's performance. Contrarily, firm size significantly enhances the performance of the firm. The study has major implications to investors, businesses, and policy makers.

Keywords: Malaysia, CEO gender, firm size, firm age, number of directors, firm performance

INTRODUCTION

CEO leadership is viewed as a crucial element in the regeneration of entities (Tichy & Devanna, 1986). In the study of behavioral finance, a significant phenomenon is explained by the upper echelons theory (UET). According to the hypothesis, executive background characteristics or features influence organizational outcomes, potential courses of action, and performance levels (Hambrick & Mason, 1984). It implies that senior managers' personal traits, such as gender, age, and degree of education, are more crucial the more difficult a choice is to make, such a strategic move (Kaur & Singh, 2018). According to the theory's premise, CEOs' various personality qualities have an effect on organizational structure and strategy, which in turn has an effect on the firm's strategic plans and organizational performance (Nielsen, 2010).

Does having a diverse mix of genders on the board of directors or in senior management result in value creation? There have been various investigations into this issue in the past, with slightly conflicting outcomes (Solakoglu & Demir, 2016). Even though there is a global drive for gender equality, businesses throughout the world are still unwilling to contemplate hiring women as CEOs unless there is strong proof that doing so will be advantageous to the company (Baloyi & Ngwakwe, 2017). Although women have been steadily advancing to corporate leadership roles such as boards of directors and senior executives, their progression to the CEO level has been more modest (Daily, Certo, & Dalton, 1999; Dezsö & Ross, 2012; Helfat, Harris, & Wolfson, 2006).

Sunil (2023) reported that women hold around 40% of senior management positions in Malaysia now, which is the same percentage as in 2022. Working methods have had a "significant impact" on the proportion of women in senior management, according to Grant Thornton's 2023 International Business Report (IBR). It specifically mentioned that 45% of enterprises in Malaysia are currently solely office-based, 52% have a hybrid and flexible strategy, and 3% are home-based. From a regional perspective, "some strong performances at a regional level" serve as the foundation for the overall growth of women in these jobs. It was noted that all areas had for the first time reached the 30% mark for female senior management. The largest increase among the regions was seen in ASEAN, rising from 37% to 40% (Sunil, 2023).

The issue of CEO gender and firm performance has attracted academics, investors, policymakers because CEO plays a vital role for firm performance. CEOs are obvious research targets since they are frequently the most powerful and prominent executives in a company. There are many studies looking at the connection between executives and business performance that focus solely on one executive feature, particularly gender. Gender is one of the executive traits that is most studied. The previous corporate finance research generally suggests that variances depending on a person's gender may have an impact on their effectiveness at work.

Most studies generally show that having more women in management enhances corporate governance and business performance. A published empirical finding stated that businesses run by women may perform better than those managed by men (Peni, 2012). A study carried out by Khan & Vieto (2013) found that gender has a positive and significant influence on firm performance. The study used ROA as a proxy to measure the company's performance. If a female CEO leads the company instead of a male CEO, ROA rises significantly more. This is supported by an empirical study conducted by Peni (2012) that claimed executive's gender significantly positively influences the firm performance. The findings revealed that companies with female CEOs typically outperform companies with male leadership.

This is contrary to findings by Ernestine & Setyaningrum (2019) that stated gender does not affect the firm performance. Both male and female CEOs can achieve higher business performance, but both genders are also capable of producing low performance firms. Another study also showed that gender has a positive association with firm performance but it is not statistically significant. There is no proof that having a female CEO and at least one female director significantly improves a company's success (Lam et.al., 2013). Amran (2011) demonstrated that male CEOs were shown to increase the business worth more than female CEOs. Another research has found no correlation between having a female CEO and the value of the company (Amran, Yusof, Ishak, & Aripin, 2014; Vintilă, Onofrei, & Gherghina, 2015).

Based on the previous discussion on previous studies on CEO gender and firm performance, the findings are varying and not consistent (Lam et.al., 2013). Thus, it is difficult for us to believe whether selection for CEO gender matters on firm performance. Besides, the studies on this topic is limited and still open for inquiry. Most of the studies focus on advanced countries such as the US, India and China. For instance, Peni (2012) and Khan & Vieto (2013) conducted studies in the US, Lam et.al., (2013) investigated the relationship of CEO and firm performance in China and Jadiyappa et.al., (2019) conducted these studies in India. There is no specific research that studies this topic in Malaysia. Based on the observation, we found that there are more male CEOs compared to female CEOs in which we assume that it signals lack of gender equality practices in the corporate board. We also found that female groups are competitive as they manage to position themself in a top management but rarely as CEO of the company. Therefore, the objective of the study is to investigate the relationship between CEO gender and firm performance in Malaysia. The study shall uncover the truth on the relationship between CEO gender and firm performance in developing countries of Malaysia. This study shall shed some light on this issue particularly in the context of Malaysia.

LITERATURE REVIEW

Khan & Vieito (2013) revealed that gender is a factor that affects firm performance on average. They also find the results in firms with female CEOs, the risk level is lower than in firms with male CEOs. Moreover, boards do not take into account the risk aversion differences between male