

Board Diversity and Firm Performance: Malaysia Context

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ABSTRACT

The large firms like Enron, WorldCom and Freddie Mac were involved in the crisis and the bankruptcy of corporate frauds and accounting scandals which were lack of effectiveness of their board of directors in those firms. Great board diversity will affect the firm performances in term of return on asset (ROA) and return of equity (ROE). This research used data of 385 samples of annual reports listed companies in Bursa Malaysia for the period of 2014 to 2016 were obtained and examined. The independent variables of board diversities are women in the board, board size, boards' educational level and the boards' experiences and control variables; firm size and firm leverage. After controlling the variables, the research shows only female has negatively significant towards ROE. It is because the number of female in board is very small. It also can be concluded that women have no power in board which the needed of them in making decision is low. For the control variables, firm size has positively significant towards ROA and ROE. Then, the firm financial leverage has a negatively significant towards ROA and ROE. For the future research, researchers are recommended for use other variables for board diversity such as board age and board independent and also use a long period of research such as for 5 to 10 years.

Keywords: board diversity, firm performance, Malaysia

INTRODUCTION

Nowadays, most of countries have been force or encourage with board diversity based on the policy that have been implemented. They have been confused whether that policy is affective for them or not. As we know, Malaysia is one of the countries that have to face this kind of policies. Hence, in today's business entities, employees and top management teams turn out to be more diverse especially in age, ethnicity, and gender, experience, educational background, and socioeconomic status.

The topic of the board diversified is not a new issue especially when scandals happened in the company like Malaysia Airlines and Port Klang Free Zone but it has been discussed and starting to get concerned from various parties. A good structure of the board of director of firms can give the best impact to the company's performance. Besides, many companies are competing with each other to get a good title for their companies.

There are many variables that presence in this research. One of it is the female board members. There are different opinions on the presence of women in the board with the firm performance. Some said that they support the presence of female in the board will give a good impact and some are not. There is a view from Hurst et al. (1989) and Earley and Mosakowski (2000) found that women are well to have "sense" cognitive style that concentrate on harmony and capability to simplify distribution of data. Otherwise, there are perspectives that the presence of female in the board would arise some difficulties to an organization. This can be concluded by looking from some views like Jackson et al (2003) where the larger the diversity, the higher the probability of conflicts would be arising, slow decision-making process (Hambrick et al., 1996), and differences in responding to risks (Jianakoplos and Bernasek, 1998). However, in Malaysia, starting 2011, there also stated that it must be 30% the representatives of women in the board have to be achieved which is better than Singapore due to the lot of work that must be done.

Besides that, there are some debates about the impact of size of board to the performance of firm in Malaysia. Today's era, there is important of corporate boards of director to understand the corporate governance hence they play the roles in the companies. This topic also has been discussed