

Gender, Ethnic and Age Diversity of the Boards of Large Malaysian Firms and Performance

(Kepelbagaian Jantina, Kumpulan Etnik, dan Umur dalam Lembaga Pengarah Firma Besar di Malaysia dan Prestasi)

Shamsul Nahar Abdullah
(Kulliyah of Economics and Management Sciences,
International Islamic University Malaysia)
Ku Nor Izah Ku Ismail
(College of Business, Universiti Utara Malaysia)

ABSTRACT

Board diversity is important especially in countries which practice a one-tier board system, such as Malaysia. Under the system, board appointments are usually controlled by the firm's substantial shareholders, and as a result, directors are chosen based on "the old-boy" network or "people like us", who are typically middle-aged males and from similar ethnicity which could lead to "group think". Board diversity ensures breadth and depth of the board's judgments. To this end, this study examines board diversity of the top 100 non-financial Malaysian firms, specifically directors' gender, ethnicity and age and their effects on firm performance. Data are collected from the 2007 annual reports of the sample firms. The evidence indicates the lack of diversity of the Malaysian boards of directors. Results from the multivariate analyses reveal that gender diversity is negatively associated with Tobin's q and ROA. Age diversity is found to be negatively related to ROA. Ethnic diversity, on the other hand, is found to be positively associated with ROA. Hence, findings on the effect of board diversity and firm performance are mixed. Nevertheless, this study offers insights to policy makers in enhancing corporate governance in Malaysia where diversity is one of the areas that could strengthen the effectiveness of the board.

Keywords: Board diversity; women directors; ethnicity; age diversity; firm performance

ABSTRAK

Kepelbagaian dalam lembaga pengarah sesebuah firma adalah penting terutamanya dalam negara yang mengamalkan system lembaga pengarah satu peringkat seperti Malaysia. Dalam sistem ini, lantikan ahli lembaga pengarah pada lazimnya dikawal oleh pemegang saham utama dan ahli lembaga pengarah dilantik berdasarkan jaringan 'kawan lama' atau 'orang seperti kita' yang biasanya adalah lelaki pertengahan umur dan daripada kumpulan etnik yang sama yang boleh menjurus kepada 'fikiran kumpulan'. Kepelbagaian lembaga pengarah boleh menjamin yang sesuatu keputusan itu mempunyai ciri kedalaman dan keluasan. Kajian ini meninjau kepelbagaian lembaga pengarah 100 firma bukan kewangan terbaik dan kesannya ke atas prestasi firma. Kepelbagaian yang dikaji adalah dari aspek jantina, kumpulan etnik dan umur ahli lembaga pengarah. Data diperolehi daripada laporan tahunan 2007 firma yang dikaji. Kajian mendapati yang kepelbagaian lembaga pengarah di Malaysia adalah rendah. Keputusan daripada analisis multivariate mendapati yang kepelbagaian jantina mempunyai hubungan yang negatif dengan Tobin's q dan pulangan atas aset (ROA). Kepelbagaian umur menunjukkan hubungan yang negatif dengan ROA. Sebaliknya, kepelbagaian etnik mempunyai hubungan yang positif dengan ROA. Kesimpulannya, kesan kepelbagaian lembaga pengarah ke atas prestasi firma adalah bercampur. Walau bagaimanapun, kajian ini memberi maklumat dan pandangan kepada penggubal dasar dalam usaha untuk menambah baik tadbir urus korporat di Malaysia, yang mana kepelbagaian adalah salah satu bidang yang boleh meningkatkan keberkesanan lembaga pengarah.

Kata kunci: Kepelbagaian lembaga pengarah; pengarah wanita; etnik; kepelbagaian umur; prestasi firma

INTRODUCTION

In recent years, the issue of board diversity has received much attention because the view that a firm should work only in the interests of its shareholders is no longer accepted. A firm also has to co-exist with and take into account other stakeholders; any action taken by a particular stakeholder could affect another, either directly or indirectly. Both firms and stakeholders need

each other to survive and firms explicitly and implicitly have contracts with various social constituents which are expected to be honored (Freeman 1983, 1984; Donaldson & Preston 1995; Jones 1995).

Given the unitary board structure in Malaysia, the board is the highest element of a firm's internal corporate governance system. ACEO usually sits on the board together with other directors who are appointed by the shareholders. It is always the case that the 'old

boys' club' comes into play in board appointments or that the appointees are "cut from the same cloth" (Grady 1999). This approach contrasts with the two-tier board structure, such as that practiced in Germany, the Netherlands, Japan and Indonesia, in which the board of supervisors (Aufsichtsrat) appoints the management board (Vorstand). No one individual can be a member of both boards, which is designed to ensure the independence of the supervisors (i.e., the board) from the supervisees (i.e., the management). Further, the board of supervisors consists of representatives from other stakeholders, in addition to the shareholders' representatives. Thus, the issue of board diversity is more pressing in countries which practice a unitary board structure, where the board's composition is biased towards a particular gender, age or ethnicity. It could be argued that Malaysian companies, which operate in a markedly multi-ethnic environment, need to be more diverse in terms of the ethnic composition of boards of directors than those of other countries which are predominantly populated by one ethnic group, such as the UK, the US or Hong Kong.

The issue of board diversity has also been raised by the National Association of Corporate Directors Blue Ribbon Commission in the US which recommends that racial, age and national diversity be considered when selecting directors (National Association of Corporate Directors 1994). The Teachers Insurance and Annuity Association, College Retirement Equities Fund (TIAA-CREF), one of the largest financial services companies in the US, has adopted a policy statement which requires that the board be composed of qualified individuals reflecting experience, gender, age and racial diversity (TIAA-CREF 1997).

The first issue to address in order to achieve board diversity is that of gender, i.e., the greater participation of women at directorial level. Except for Norway and Spain, where the appointment of women to boards is prescribed by legislation, the number of female directors is very low, even in developed countries such as the UK and the US. In Malaysia, in 2004, the then Prime Minister, Abdullah Badawi, announced a policy which stipulated that 30 percent of the decision makers in all sectors of the economy should be women. The deadline for the 30 percent target to be achieved in the public sector was set as 2010. As a continuation of this policy, in June 2011, Prime Minister Najib Razak announced that listed companies had until 2016 to ensure that at least 30 percent of their board members are women.

The second issue is that of the ethnic composition of boards. The ethnicity of the board members in Malaysia is perhaps a more contentious issue because, in the aftermath of the 1969 racial tensions in Malaysia, the government issued the National Economic Policy which, among other matters, included the right of the Malays and other indigenous groups, on the country's economy. It was stipulated that the Malays and other indigenous groups (known collectively as Bumiputras) should control 30 percent of the country's wealth. Hence, implicit in this

policy is that 30 percent of the board members of listed firms should be Bumiputras.

The third type of diversity is that of age diversity. In the UK, it is observed that non-executive directors are predominantly "white males nearing retirement age with previous PLC director experience" (Higgs 2003). They are often described as being "male, pale and stale" (Garatt 2005) or men who are "cut from the same cloth" (Grady 1999). In Malaysia, the situation is expected to be worse than in the UK because the pool of qualified people is small in comparison to about 1,000 listed firms and about 800,000 non-listed SMEs. While the older directors are experienced, younger directors are needed because they are expected to bring new perspectives to the board. According to Robinson and Deschant (1997), the only way to tap the differences in attitudes, cognitive functioning and beliefs is through demographic variables, such as ethnicity, age and gender. However, even though board diversity is seen as important, it is only relevant if it helps to enhance board effectiveness and thus the firm's value; otherwise, board diversity might be regarded as 'tokenism' or be done to comply with societal pressure. Thus, the objective of this paper is to determine whether board diversity as measured by ethnic diversity, gender diversity and age diversity is associated with higher firm performance among large listed firms in Malaysia.

The overall findings of this study indicate a low degree of diversity with respect to gender, ethnicity and age of the directors of the sample firms. Women occupied only about 6.6 percent of board seats and only 25 percent of the boards are considered ethnically diverse. The average age of directors is 58 years with the majority of directors falling within the 50-69 age band. These findings indicate that there is a lack of diversity in Malaysian boards of directors. Results from multivariate analyses reveal that board diversity is associated with firm performance. While ethnic diversity improves return on assets (ROA), gender diversity is associated negatively with both ROA and Tobin's q . Age diversity, on the other hand, is found to be detrimental to a firm's ROA but unrelated to Tobin's q .

The contributions from this paper are as follows. First, to our knowledge, this study is the first which addresses three issues of board diversity simultaneously, i.e. gender, ethnicity and age. Previously, these issues are studied separately. Second, this study provides comprehensive evidence as to the business case for board diversity in Malaysia. Third, the findings will also help to improve the current policy on board diversity in the Malaysian context.

The remainder of the paper is structured as follows. In the next section, the theoretical development of the relationship between board diversity and firm performance is presented. This is followed by the research methodology section. The findings and discussion are presented in the subsequent section and, finally, conclusions are drawn.

WHY BOARD DIVERSITY?

Traditionally, a firm's board is accountable only to its shareholders because it is the latter who appoint board members. However, that expectation has now changed. Nowadays, the board is also accountable to other stakeholders (Finance Committee 1999; Rose 2004), which includes the society at large. Thus, while pursuing the interest of the shareholders, the directors have to take into account the interests of other stakeholders as well. In order to achieve this, board membership needs to be broadened to better represent the society. Board members need to come from diverse backgrounds to enable the board to be balanced. Board diversity is expected to improve the board's decision-making because directors from various backgrounds having different perspectives are involved in the process. Theoretically, the association between board diversity and firm performance can be explained by agency, resource dependence and stakeholder theories. From agency theory perspective, board diversity increases board independence. Thus, the more diverse the board is, the more independent it is from management. This leads to the improvement of the intensity of board monitoring. It is argued that this consequently results in the alignment of the management's and the shareholders' interests (Jensen & Meckling 1976; Fama & Jensen 1983; Mallette & Fowler 1992).

Resource dependence theory, on the other hand, sees the board as an essential link between the firm and the external resources that are essential in maximizing firm performance (Pfeffer 1973; Pfeffer & Salancik 1978). The board is regarded as an important resource for a firm because it provides a link with the external environment (Hillman et al. 2000; Palmer & Barber 2001). It has been argued that the ability of the board to link the firm with significant resources is one of the board's key roles (Zahra & Pearce 1989; Korac-Kakabadse et al. 2001). Stakeholder theory argues that firms explicitly and implicitly have contracts with various social constituents and are expected to honor all those contracts (Freeman 1983, 1984; Donaldson & Preston 1995; Jones 1995). Hence, a firm's shareholders are regarded as one of the many stakeholders whom the board needs to consider in their decision-making process (Clarkson 1995; Donaldson & Preston 1995; Jones 1995; Wood & Jones 1995; Mitchell et al. 1997). The adoption of the stakeholder perspective can effectively "broaden management's vision of its roles and responsibilities beyond the profit maximization functions to include interests and claims of non-stockholding groups" (Mitchell et al. 1997: 855). Thus, to survive, a firm needs to cooperate with its stakeholders (Laan Smith et al. 2005). The support and approval from stakeholders can be obtained through a dialogue (Laan Smith et al. 2005) and through the appointment of various stakeholder groups to the board. Developing good relations with other stakeholders is important because the shareholder value depends largely on the support a firm receives from its stakeholders, principally employees and members of

society such as, environmentalists, customers or regulators. Thus, Jones (1995), adopting transaction cost economics (Williamson 1975), argues that firms which voluntarily pursue socially responsible actions strengthen their standing as a desirable transactional partner. Voluntary initiatives undertaken by a firm to benefit stakeholders not only improve a firm's image and reputation, but also enhance shareholder value.

In addition to the above theories, a number of arguments have been put forward which attempt to justify the need for board diversity. The earlier works by Robinson and Dechant (1997) and Carter, Simkins and Simpson (2003) reiterate that board diversity would enhance better understanding of the marketplace because the board would be made up of individuals of various backgrounds.

GENDER DIVERSITY

Board diversity ensures that there is a broad base of wisdom (Carver 2002) and boards composed of different genders, ages and ethnic groups can take advantage of the differences to make their firms successful (Rutledge 1998 in Andringa & Engstrom 1998). Compared to other attributes of board diversity, gender diversity has received a lot of attention, both in the public and research domains (Erhardt et al. 2003). It is argued that women have "a deep and intimate knowledge of consumer markets and customers" (Stephenson 2004). According to Stephenson (2004), women in North America control 80 percent of the household spending and buy more than 75 percent of all products and services. Carter et al. (2003) further state that diversity would increase creativity and innovation, which in turn would lead to an effective decision making.

Based on the findings of earlier studies (e.g., Adler 2001; Catalyst 2004), Stephenson (2004) discusses the reasons why women, in particular, should be on boards. First, research evidence shows that boards that have more women directors pay more attention to audit and risk oversight and control. Second, women directors would help companies attract and retain valuable female employees as well as promote positive attitudes among female employees. Third, women directors not only focus on financial performance measures, but also place an emphasis on non-financial performance measures such as innovation and social responsibilities. In addition, Daily and Dalton (2003) argue that "Women's communication styles tend to be more participative and process-oriented." Similar to Stephenson (2004), they further state that women in the US account for a large percentage of consumer purchases because just over half of the US population is female. Thus, they pose the question: "Who better than a female board member to offer insights on the female customer?" (Daily & Dalton 2003).

ETHNIC DIVERSITY

In addition to the issue of gender diversity, the ethnicity of the directors also reflects board diversity. In Malaysia,

the 2007 statistics (Department of Statistics 2007) reveals that the population of Malaysia comprises predominantly of three main ethnic groups; Malays, Chinese and Indians. While the Malays dominate the country's population and politics, the Chinese on the other hand, control the economy of Malaysia. The inclusion of various ethnic groups in the board is important because every ethnic group is culturally different from other ethnic groups. In fact, having directors from all of the three main ethnic groups can also be beneficial for commercial reasons; i.e. a director from a particular ethnic group understands more about his or her ethnic group. Thus, his or her knowledge would be useful in designing the strategies that the firm should adopt, for example, to attract customers from his or her group. Each ethnic group has its "do's and don'ts" and the failure to understand the sensitivities of each ethnic group could result in the firm being labeled as insensitive and this could invariably affect its bottom line. In addition, appointing directors from the three main ethnic groups in Malaysia will be viewed by the public as 'good practice' and such a firm will be seen as ethnically conscious.

Further, having people from different cultures in a group leads to high quality, more effective and feasible ideas than having people predominantly from the same culture in a group (McLeod, Lobel & Cox 1996). Having board members from different ethnic backgrounds widens the board's perspectives especially when making a decision that touches on issues that are peculiar to a particular ethnic group. Further, unique information held by diverse directors will improve the quality of the information that the board will provide to managers (Carter et al. 2010). Research studies have suggested that directors from a minority group may encourage divergent thinking in the board's decision making process (Westphal & Milton 2000).

AGE

Diversity on the age of directors is another important attribute of a board. If the directors of a board are of the same age group, the leadership and the decision-making styles of the board might be biased towards a particular age segment of the market. This is because the directors may have similar information and experiences. Appointing directors from different age groups will help the board to tap information from directors who understand better the need and the sensitivity of the stakeholders in their age group. The board should reflect society which is, in reality, heterogeneous in composition. Interestingly, Carter et al. (2003) find that younger boards are more likely to include female directors than older boards. Hence, younger directors appear to be more open to new approaches as opposed to old directors who might be interested in maintaining the status quo.

Higgs (2003) reports that UK non-executive directors are notably drawn from a narrow pool. Essentially, directors in the UK are predominantly white males who are 60 years of age or above. Similar evidence is also documented for

Australia's top 100 firms where the majority of directors (78.30%) fall within the 51-70 age band and very few directors (1.98%) are below 40 years old. Thus, there is a lack of diversity with respect to ethnicity and age among boards of Australian firms (Kang et al. 2007).

DOES BOARD DIVERSITY MATTER?

The proportion of female directors in the US, for instance, was 4.7 percent in 1987, rose to 13.6 percent in 2003 (Catalyst 2003) and further improved to 16 percent in 2006 (Spencer Stuart 2006). A similar pattern has also been observed in the UK where the proportion of female directors on the boards of UK FTSE 100 companies has increased from a mere 3.7 percent in 1995 to 8.6 percent in 2003 (Conyon & Mallin 1997; Vinnicombe & Singh 2003). In Australia, the proportion was found to be 10.4 percent in 2003 (Kang et al. 2007) and 8.6 percent in 2004 (Delta Outlooks 2004). Although the data for 2004 indicates that a slightly lower proportion of women directors were on boards than in 2003, this does not necessarily mean women's representation on the boards of Australian firms declined; rather the difference in the finding was likely due to the sampling of companies in the studies. While Kang et al. (2007) examines the top 100 firms in Australia, Delta Outlooks uses a sample comprised of the top 200 companies in Australia.

In Norway, the scenario is considerably different. Since 2003, boards of listed firms have been required under the law to comprise of at least 40 percent women. By December 31, 2007, the proportion of women directors had increased to 37 percent (Oslo 2007). Smith et al. (2006) report that the proportion of women directors in Norway had already increased from 6 percent in 2000 to 22 percent in 2003. Sweden, a neighboring country of Norway, recorded 20 percent female representation on company boards of directors in 2003 (Smith et al. 2006). In Finland, another Nordic country, women directors accounted for 26 percent of the board seats in 2008 (Monnery 2008). In Spain, the government, through the Equity Law issued in 2007, recommended that companies fill 40 percent of their board seats with women by 2015. As a result, in 2008, the percentage of companies in Spain with at least one female director was 55 percent (an increase from 40% in 2006) and the percentage of companies with multiple female directors doubled from 8.7 percent in 2006 to 19.2 percent in 2008 (Cranfield Female FTSE 100 Report 2009).

In Asia, evidence on women directors is very limited. This is because in Asian cultures, women are expected to play supporting roles rather than leading roles. Traditionally, Asian families expect men to be the breadwinners while women do the household chores. Thus, the finding in Japan in 1998 where only 0.2 percent of the board seats were occupied by women is not surprising (Corporate Women Directors International 2009). The findings further report that women hold only 17 out of a total of 1,198 board positions (1.4%) of the top 100 Japanese companies as at June 30, 2009.

In Malaysia, Catalyst (2011) reports that women's representation on boards is 6.8 percent, which is considered high compared to Japan but comparable to Australia. A higher proportion of women directors, however, is revealed in Malaysia by Marimuthu and Kolandaisamy (2009) and Shukeri, Shin and Shaari (2012). They respectively report that women directors occupied 13.5 percent and 9.8 percent of the board seats. While Marimuthu and Kolandaisamy (2009) use data for 2000 until 2006 from top 100 non-financial firms, Shukeri et al. (2012) employ data from 300 randomly selected firms for 2011. The differences in the proportion of women directors in these three studies could be due to the samples that they used. With regard to ethnic diversity, Shukeri et al. (2012) find that about 24 percent of board members in Malaysia are not from the major races. Marimuthu and Kolandaisamy (2009) reveal that the proportion of non-Malay directors on the board is 52 percent.

It does appear that board diversity is associated with firm size, profitability, board size, industry sector (Burke 1999; Singh et al. 2001; Carter et al. 2003; Brammer et al. 2007; Grosvold et al. 2007) and the proportion of non-executive directors on the board (Conyon & Mallin 1997; Brammer et al. 2007). Brammer et al. (2007) conclude that a close proximity to the final consumers helps to shape board diversity; they find that there is an above average presence of women directors in the retail, utilities, media and banking sectors. However, they do not find any factors that are associated with ethnicity. Carter et al. (2003), on the other hand, show that the presence of female directors and minorities on the US boards enhances shareholder value. In their subsequent study, Carter et al. (2010) do not find any evidence linking gender diversity and the ROA and Tobin's q . Carter et al. (2010) also fail to show any association between ethnic diversity and the ROA and Tobin's q . Keys et al. (2003) also show the benefits of promoting diversity, as evidenced by significant average cumulative abnormal returns among Fortune "diversity elite" firms. Orlando (2000) provides evidence that racial diversity does affect performance and argues that, within the proper context, it could lead to a firm gaining competitive advantage. Similarly, Erhardt et al. (2003) also show that gender and ethnic diversities are associated positively and significantly with a firm's ROA and return on investment (ROI). Siciliano (1996) and Brown (2002) also provide evidence that there is a positive impact of diversity on the boards of nonprofit organizations in relation to social performance, fundraising and the political aspects of board performance.

Nevertheless, diversity has been found to lead to a lower consensus because more time and effort are required; thus, this leads to a lower group performance (Knight et al. 1999). In fact, Shrader et al. (1997) show a negative association between female directors on boards in the US and two accounting measures (ROA and return on equity (ROE) of 200 Fortune 500 firms. Zahra and Stanton (1988) also offer similar evidence among Fortune 500 companies. Rose (2007), who examines the role of

women on the boards of Danish firms, finds that the effect of women directors on firm performance is insignificant, i.e., there is no association between women directors and firm performance. Adams and Ferreira (2009) also find that, on average, diversity affects firm performance negatively.

In the Malaysian context, Marimuthu and Kolandaisamy (2009) and Shukeri et al. (2012) document that gender diversity is not associated with firm performance, measured by ROE and ROA. However, while Shukeri et al. (2012) show that ethnic diversity is associated positively with ROE, Marimuthu and Kolandaisamy (2009) do not find such evidence.

In sum, evidence, which is primarily from developed countries, on the relationship between gender diversity and firm performance is mixed, i.e. the positive link between women directors and firm performance is not conclusive. Research in this area seems to indicate that there can be no association, negative or positive, between women directors and a firm's financial performance. While Carter et al. (2010) contend that the mixed findings could be due to different circumstances at different times, the pattern could be due to the fact that women's representation on boards is still very low. Since the majority of firms that have women on their boards have only one woman director, it does appear that, in the boardroom, it is like one woman against the rest of the board members. However, in the Malaysian context, the importance of board diversity is clearly stated in the Malaysian Code on Corporate Governance. The Government's initiatives in recent years also underscore the importance of board diversity of the Malaysian boards. Hence, based on the initiatives taken in Malaysia and the theoretical perspectives discussed above, and the argument that diversity would enhance board effectiveness and firm value, we hypothesize the following:

- H₁ Gender diversity is associated positively with firm performance.
- H₂ Ethnic diversity is associated positively with firm performance.
- H₃ Age diversity is associated positively with firm performance.

METHODOLOGY

A total of 100 non-financial firms listed on the Malaysian stock exchange, the Bursa Malaysia, were included in the sample, based on market capitalization. This approach is similar to the approach taken in earlier studies (e.g. Conyon & Mallin 1997; Singh et al. 2001; Grosvold et al. 2007; Kang et al. 2007) which focus on the leading companies in their respective countries. The relevant data were hand collected from the sample firms' 2007 annual reports, which were accessed via the Bursa Malaysia website. The year 2007 was chosen because it was prior to the 2008 global financial crisis. It was also chosen because it was about three years after the policy of attaining 30

percent women participation at decision-making levels was introduced by the Malaysian government. Hence, it is expected that Malaysian firms would by this time have understood the spirit of the policy and would be complying with it more readily.

Board diversity is measured in three ways. First, it is measured by the presence of women on the board (labeled as 'Gender'). Second, board diversity is measured by the presence of the three main ethnic groups in Malaysia on the board (which is labeled as 'Ethnicity'). The main ethnic groups in Malaysia are Malays, Chinese and Indians. This is a dummy variable, where, if a board is comprised of all three main ethnic groups, a value of "1" is given and "0" if otherwise. Third, board diversity is measured by "age diversity". The average age of the directors of each board was first determined. Proponents of the need for age diversity stress that the board should not be primarily composed of those who are almost at retirement age. For example, the Higgs Report (2003) describes the directors in UK public listed companies as being those who are nearing retirement and labels them as "stale". In this study, nearing retirement age is defined as being 60 and above. Thus, if the average age of the board is 60 and above, the board is considered as "stale" and given a value of "0", whereas, if the average age of the board is below 60, it is considered as "non-stale" and given a value of "1".

Firm performance is measured using Tobin's q , which is the sum of the market value of equity and book value of total debts divided by the book value of total assets. The ROA is another measure of performance, which is computed by dividing profit before interest and taxes by the firm's total assets. These two measures have been extensively used in prior research studies that investigate the association between board diversity and firm performance (e.g. Shrader et al. 1997; Erhardt et al. 2003; Rose 2007; Adams & Ferreira 2009). In fact, these measures, especially the ROA, are often used by financial analysts and market when assessing a firm's performance (Erhardt et al. 2003).

Board independence and board size are included in this model as the control variables. Board independence is measured as the proportion of independent directors to the total number of board members. Firm size is measured by the natural log of total assets. The multiple regression analysis is used to test the hypotheses:

$$FPerf_i = \alpha + \beta_1 Gender_i + \beta_2 Ethnicity_i + \beta_3 Age_i + \beta_4 Bind_i + \beta_5 LnAssets_i + \varepsilon$$

where:

$Fperf_i$ = performance of firm i , either Tobin's q or ROA,
 Gender = gender diversity, a dummy variable; "1" if at least one female director on the board, and "0" otherwise,

Ethnicity = ethnic diversity, a dummy variable; "1" if all three main ethnic groups are represented on the board, and "0" otherwise,

Age = age diversity, a dummy variable; "1" if the average age of the board of directors less than 60 years, and "0" otherwise,

Bind = board independence, measured as the proportion of independent directors to the board size,

Ln Assets = size of a firm measured by the natural log of total assets, and

ε = error term.

FINDINGS

A total of 851 board seats are available in all the top 100 non-financial firms for the 2007 financial year, indicating that, on average, the boards of large Malaysian firms consist of 8.5 directors. Out of the 851 board seats, only 54 seats are occupied by women, representing only 6.3 percent of the total board seats, which is lower than that reported by Marimuthu and Kolandaisamay (2009) and Shukeri et al. (2012). However, our evidence is consistent with Catalyst (2011). Overall, a total of 39 firms (39%) have at least one female director on their boards. This is far behind the UK, where, in 2005, 78 percent of UK boards have at least one female director (Gros vold et al. 2007). Out of these 39 large firms, only 12 percent have more than one female director. This evidence is generally consistent with that found in Australia (13.5%) (Equal Opportunity for Women in the Workplace Agency 2006), but is behind those in the Europe (28% as reported by European Professional Women's Network (2004)) and the US (25% as reported by Adams & Ferreira (2009)). Out of the 54 board seats occupied by female directors; 16 are executive directors, 24 are non-executive, non-independent directors, and 14 are independent directors. Further, only a total of 39 women occupied these 54 board seats; 27 women hold only one directorship, 10 hold two directorships, 1 holds three and another holds four directorships. At a rate of 6.3 percent, the representation of women on the boards of large Malaysian firms is about one-third of the rate of women directors on the boards of the US firms and about half of the rate of women directors on the boards of the UK and Australian firms (Vinnicombe & Singh 2003; Kang et al. 2007; Spencer Stuart 2007). The rate in large Malaysian firms is, nevertheless encouraging because it is much higher than that in Japan where women only occupy 0.2 percent of the board seats (Corporate Women Directors International 2009). On average, in Malaysia, there is 0.54 women representation on the board or approximately one women director for every two boards, which is similar to the findings by Brammer et al. (2007), in which the average female representation on the UK boards is 0.5 with an average board size of 8.8. Table 1 presents the descriptive statistics for the sample firms.

TABLE 1. Descriptive statistics for sample firms

Variable	Min	Max	Mean	Std. Deviation	Skewness	Kurtosis
Tobin's <i>q</i>	0.33	27.23	1.898	2.907	7.046	59.21
ROA	-0.04	1.42	0.11	0.16	5.76	42.15
Average age of directors	49.37	68.33	57.74	4.02	0.42	0.26
Female directors	0	4	0.54	0.797	1.64	3.08
Proportion of female directors	0	0.40	0.06	0.09	1.64	2.62
Malay/indigenous directors	0	10	3.91	2.45	0.28	-0.98
Chinese directors	0	10	3.58	2.55	0.19	-1.13
Indian directors	0	3	0.33	0.59		
Total assets (RM million)	216	67,000	6,549	10,442	3.29	13.06
Board independence	0.22	0.71	0.42	0.10	0.54	-0.10

With respect to ethnic diversity, we found that the "Malays and other indigenous" group occupy 391 board seats (i.e. 46 percent); the "Chinese" group occupies 358 board seats (42%), while the "Indian" group sit on 33 board seats (4%). The boards are dominated by the Malays/indigenous and the Chinese. On average, the Malays/indigenous occupy about 46 percent (3.91/8.51) of the board membership and the Chinese, who occupy 42 percent (3.58/8.51) of the board seats. Table 2 presents the ethnic diversity and age diversity for the sample firms.

TABLE 2. Ethnic and age diversity

Panel A. Ethnic diversity	Frequency (%)	
Presence of Malays	Yes	97
	No	3
Presence of Chinese	Yes	93
	No	7
Presence of Indians	Yes	28
	No	72
One ethnic group		4
One ethnic group with foreigner		2
Two ethnic groups		46
Two ethnic groups with foreigner		23
Three ethnic groups		17
Three ethnic groups with foreigner		8
Panel B. Age diversity		
Below 40		0
40 to 49		2
50 to 59		75
60 to 69		23
70 and above		0

The Malays and other indigenous group and the Chinese group sit on almost all the boards, as shown in Panel A of Table 2. The majority of the boards have directors from these two main ethnic groups (i.e. 68%) and only 4 percent of the firms have appointed members of only one ethnic group to their boards. Only 25 firms (25%) have directors from all three of the main ethnic groups, which is consistent with Shukeri et al. (2012). The

remaining 75 firms (75%) of the firms appoint directors from only one or two of the three main ethnic groups. The Indians sit on only 28 boards.

With respect to age diversity, three quarters of the boards have an average age that falls within the 50-59 age band, as shown in Panel B of Table 2. About one quarter falls within the 60-69 age band. This finding is consistent with the evidence found on Australian boards (Kang et al. 2007). A closer look at the data reveals that 52 percent of the firms in Malaysia have directors with an average age of between 55 to 60 years old. This mirrors the typical age of UK directors, who they are middle aged (Higgs Report 2003). Operationalizing age diversity into 'stale' or 'non-stale', 22 percent of the firms have directors whose average age is more than 60 years of age (i.e. 'stale'), while the remaining 78 percent of the directors are less than 60 years of age (i.e. 'non-stale'). Table 3 shows the results on board diversity according to industry sectors, as classified by the Bursa Malaysia.

As discussed above, 39 of the firms have women representatives on their boards. Among these 39 firms, 16 (i.e. 41percent) are trading/services companies. However, in terms of the presence of female directors on the board, firms in the property sector appear to be the most supportive of gender equality; 70 percent of the firms in this sector appoint at least one female director to their boards. In fact, in terms of the proportion of women directors, the property sector also has the highest proportion of women on the board, that is 12 percent. This is followed by the trading/ services sector, where the average proportion of women on the board is 7 percent. The findings are quite consistent with those by Brammer et al. (2007) for the UK, where the retail sector has a higher rate of women directors than other sectors. Firms in the retail and trading/services sector are more likely to appoint women directors because these firms are more likely to be dominated by women. On the other hand, plantation and consumer products firms in Malaysia appear to be less willing to appoint female directors. Being a male-dominated industry, the boards of the plantation firms are more likely to appoint men rather than women.

TABLE 3. Diversity and sectors (n = 100)

Sector	Gender diversity		Age diversity		Ethnic diversity		
	Proportion to board size	Yes	No	Yes	No	Yes	No
Consumer product (n = 13)	0.03	3 (17%)	10 (83%)	8 (61%)	5 (39%)	4 (31%)	9 (69%)
Industrial product (n = 14)	0.06	5 (36%)	9 (64%)	12 (86%)	2 (14%)	3 (21%)	11 (79%)
Construction (n = 9)	0.04	3 (33%)	6 (67%)	9 (100%)	0 (0%)	3 (33%)	6 (67%)
Trading/services (n = 36)	0.07	16 (44%)	20 (56%)	29 (81%)	7 (19%)	10 (28%)	26 (72%)
Infrastructure (n = 4)	0.06	2 (50%)	2 (50%)	4 (100%)	0 (0%)	1 (25%)	3 (75%)
Properties (n = 10)	0.12	7 (70%)	3 (30%)	7 (70%)	3 (30%)	2 (20%)	8 (80%)
Plantation (n = 13)	0.04	3 (23%)	10 (77%)	8 (62%)	5 (38%)	1 (8%)	12 (92%)
Technology (n = 1)	0	0 (0%)	1 (100%)	1 (100%)	0 (0%)	0 (0%)	1 (100%)
Total	0.06	39 (39%)	61 (61%)	78 (78%)	22 (22%)	24 (24%)	76 (76%)

With respect to age diversity, the directors in the plantation and consumer products sectors seem to be older compared to the directors in other sectors. Perhaps this is due to the fact that these sectors have been in existence much longer than the other sectors. In terms of ethnic diversity, the construction and consumer products sectors seem to be more prepared to engage directors from the three main ethnic groups compared to firms in other sectors. Table 4 presents the results from Pearson correlation analyses.

The association between gender diversity and firm performance is negative, suggesting that firms with women on the board tend to perform poorly. Hence, taking all the evidence together, board diversity in gender, ethnicity and age have mixed consequences on firm performance.

Both the market and accounting performance appear to either react negatively or being indifferent. However, all in all, diversity appears to be counter-productive to firm performance. This evidence is thus far consistent with the study in the US by Shrader et al. (1997) and Zahra and Stanton (1988) and Rose (2007) in Denmark.

Table 5 presents the results from the multiple regression analyses. Panel A of Table 5 shows the results when female representation is treated as a dummy variable. Panel B, on the other hand, presents the results when female representation is treated as a continuous variable, measured as the proportion of females on the board. To reduce the problem of non-normality of Tobin's q and ROA, these variables were normalized using the Van der Waerden procedure available in SPSS.

TABLE 4. Correlation analyses

Variable	Tobin's q^{\S}	ROA [§]	Gender	Age	Ethnicity	Blnd
Tobin's q^{\S}	1.000					
ROA [§]	0.566***	1.000				
Gender	-0.247**	-0.205**	1.000			
Age	-0.087	-0.187*	0.039	1.000		
Ethnicity	-0.025	0.056	0.094	0.139	1.000	
Bind	0.038	-0.054	0.016	-0.080	0.151	1.000
LnAssets	-0.464***	-0.348***	0.183*	-0.018	0.200**	0.050

Notes: *significant at 10 percent (2-tailed); **significant at five percent (2-tailed); ***significant at one percent (2-tailed). N = 100.

[§]Tobin's q and ROA were normalized using the Van der Waerden procedure.

TABLE 5. Results from multiple regression analyses

Panel A. Female representation as dummy variable

Variable	Tobin's q^{\S}			ROA [§]		
	coeff.	std. error	VIF	coeff.	std. error	VIF
Constant	7.768***	1.586		6.751***	1.631	
Gender	-0.323**	0.179	1.048	-0.299*	0.185	1.048
Age	-0.233	0.209	1.033	-0.514**	0.216	1.033
Ethnicity	0.205	0.206	1.097	0.415**	0.213	1.097
Board independence	0.311	0.861	1.037	-0.829	0.888	1.037
Ln Assets	-0.351***	0.071	1.079	-0.275***	0.073	1.079
Adjusted R square	0.220			0.17		
F-statistics	6.576***			5.051***		

*significant at 10 percent level; **significant at 5 percent level; ***significant at 1 percent level.

[§] Tobin's q and ROA were normalized using the Van der Waerden procedure.

Panel B. Female representation as a continuous variable

Variable	Tobin's q^{\S}			ROA [§]		
	coeff.	std. error	VIF	coeff.	std. error	VIF
Constant	7.833***	1.561		6.885***	1.621	
Gender	-1.966**	0.907	1.048	-1.704**	0.946	1.027
Age	-0.202	0.208	1.039	-0.490**	0.216	1.039
Ethnicity	0.134	0.205	1.101	0.354**	0.212	1.101
Board independence	0.634	0.858	1.050	-0.557	0.891	1.050
Ln Assets	-0.362***	0.069	1.050	-0.286***	0.072	1.050
Adjusted R square	0.236			0.175		
F-statistics	7.101***			5.203***		

*significant at 10 percent level; **significant at 5 percent level; ***significant at 1 percent level.

[§] Tobin's q and ROA were normalized using the Van der Waerden procedure.

The results in Panel A and Panel B of Table 5 are qualitatively similar. When Tobin's q is used as the measure for firm performance, only gender diversity is found to be significant and the direction is negative. However, when ROA is used as the measure for firm performance, gender, age and ethnic diversities are significant; nevertheless, only the direction between ethnic diversity and ROA is positive. It is also found that gender diversity is consistently negatively associated with firm performance, be it Tobin's q or ROA. These findings are consistent with that of Darmadi (2012) on top female executives in Indonesia but inconsistent with those of Marimuthu and Kolandaisamy (2009) and Shukeri et al. (2001). Both of the latter studies find no association between gender diversity and firm performance in Malaysia. Thus, the representation of women on the board results in lower performance, a finding consistent with studies carried out in the US and other developed countries (Zahra & Stanton 1988; Shrader et al. 1997; Adams & Ferreira 2009). However, the evidence is inconsistent with the evidence in some other studies of the situation in the US (Carter et al. 2003, 2010; Erhardt et al. 2003; Keys et al. 2003). Mixed results are documented for ethnic and age diversity. While the market performance is unaffected by ethnic and gender diversity, the accounting-based performance does

increase, which is consistent with Shukeri et al. (2012). However, the evidence is not consistent with Carter et al. (2010) who find that minorities on the board is neither associated with the ROA nor Tobin's q . As for age diversity, the market appears to be indifferent as to the issue of age diversity. However, the accounting return suffers if the directors of the board tend to be young. In other words, the accounting performance of a firm is better if its board is dominated by old directors.

The findings of this study could be interpreted to mean that the appointment of women to the board does not lead to better firm performance because their appointment could be due to tokenism or lack of a critical mass (Kramer, Konrad & Erkut 2008). In fact, in Table 4, it is found that the appointment of women to the board is associated positively with firm size. Hence, the larger a firm is, the more likely it is to appoint women to the board. Perhaps appointing women to the board is seen as an avenue through which to discharge the firm's social responsibility, which goes beyond the need to maximize shareholder value because it involves the ethical treatment of the firm's stakeholders (Keasey et al. 1997). As suggested by Adams and Ferreira (2009), appointing women to the board could result in over-monitoring. They found that over-monitoring by the board reduces the speed of the

board's decision making, which, in turn, leads to a lower performance.

This study finds that age diversity is negatively associated with the ROA, which means that the older the average age of the board members, the better it is the performance of the firm with respect to the accounting returns. Further tests were carried out on both the ROA and Tobin's q by using the average age of directors as a continuous variable rather than a dummy variable. The findings are qualitatively similar to the findings in Table 5. Thus, as the results indicate, it is better for firms to appoint older individuals to the board rather than younger individuals. Older directors are more experienced and their experience appears to be useful in guiding their firms, especially during the 2008 global financial crisis. However, it could also be argued that older directors might be more conservative in choosing the firm's strategies. Hence, due to the shorter service horizon, they might tend to prefer business activities that yield current year's profits to business projects that yield future profits. The younger directors who are perhaps more dynamic and forward looking might be more willing to take risks and more prepared to defer current year profits to the future. Interestingly, the market-based performance measure is not affected by the age of directors of the board. Thus, the market appears to be indifferent to the age diversity of the board.

Ethnic diversity is also found to be positively and significantly related to the ROA. Hence, boards which consist of directors from the three main ethnic groups perform better in the accounting-based performance measure than firms which comprise of directors predominantly from one or two ethnic groups. This result is generally consistent with the evidence in the US. For instance, Carter et al. (2003) and Erhardt et al. (2003) find that the presence of minorities on the board positively influences firm performance.

Board independence is not related to the performance measures. This finding confirms the earlier findings for Malaysia by Abdullah (2004; 2006) and the results of the present study add to the existing mixed findings on this issue (e.g., Dalton et al. 1998; Wagner et al. 1998; Rhoades et al. 2000; Heracleous 2001; Bhagat & Black 2002; McCabe & Nowak 2008). Firm size, on the other hand, is negatively associated with both performance measures. In the US, Carter et al. (2003) and Erhardt et al. (2003) find an insignificant association between firm size and Tobin's q in their studies on board diversity. The findings presented here indicate that smaller firms, as measured by total assets, perform better than larger firms. One explanation is that smaller firms have, perhaps, concentrated on the 'niche' market segments as opposed to larger firms which serve a wider market. Thus the smaller firms are able to make more profits because of less competition. As opposed to large firms, these smaller firms may have been more able to absorb the crisis which started in late 2007 which originated in the US because their markets are largely domestic.

Additional analyses were carried out to look into further issues involving tokenism, ethnicity, age dispersion and the effect of industry sector. In Model 1, gender diversity is recoded so that a board having two or more women directors is given a value of '1', and '0' otherwise. This is because having only one woman on the board is considered evidence of tokenism (Bourez 2005; Branson 2006; Adams & Ferreira 2009). Second, the ethnic diversity variable is changed into an ordinal type to capture the effect of ethnicity better. For this variable, the board with only one ethnic group is given a value of '1'. A board that has two ethnic groups is given a value of '2'. A value of '3' is given to boards which consist of all three main ethnic groups. Further, age diversity is reclassified according to age bands where a value of '1' is given to board members who are less than 40 years old, a value of '2' to those who are 40-50 years old, a value of '3' to those who are 51-60 years old and a value of '4' to those who are above 60 years old and above.

In Model 2, the effect of industry on the association between gender and performance is examined. In particular, the trading and consumer products sectors are scrutinized. These two sectors were focused on because of women's proximity to consumers and their intimate knowledge of consumer markets and consumers, as suggested by Stephenson (2004). To this end, dummy variables are used to determine the effect of industry, i.e. trading and consumer products. For the trading sector variable, a value of '1' is given if a firm is classified in the trading sector, and '0' otherwise. For the consumer sector variable, a value of '1' is given if a firm is in the consumer sector, and '0' otherwise.

TABLE 6. Additional multiple regression analyses

Variable	Tobin's q		ROA	
	Model 1 (coeff.)	Model 2 (coeff.)	Model 1 (coeff.)	Model 2 (coeff.)
Constant	8.193***	7.669***	6.877***	6.794***
Gender	0.026	-3.458***	-0.311	-2.845**
Gender x Trading	-	3.496*	-	2.630
Gender x Consumer	-	-6.644**	-	-2.417
Age	-0.242	-0.237	-0.485	-0.515
Ethnicity	0.181	0.030	0.347*	0.291
Board independence	0.396	0.602	-0.784	-0.544
Ln Assets	-0.375***	-0.348***	-0.285***	-0.280***
Adjusted R square	0.193	0.311	0.158	0.191
F-statistics	5.728***	7.382***	4.703***	4.333***

*significant at 10 percent level; **significant at 5 percent level; ***significant at 1 percent level.

§ Tobin's q and ROA were normalized using the Van der Waerden procedure.

The results in Table 6 indicate that the relationship between female directorships and ROA remains negative. In fact, the negative association is stronger than it is

in Table 5. Thus, even when there are more women on the board, they appear to adversely affect the firm's accounting-based performance. However, the association becomes insignificant when the market-based performance measure is used. Thus, when a firm appoints more women to the board the market views this positively because the relation changes from negative to zero. Age dispersion does not have any impact on performance, be it ROA or Tobin's q . Hence, the results in Tables 5 and 6 suggest that older directors, who are considered 'stale', are better because the accounting-based performance is better. Finally, mixed findings are revealed with respect to industry type. While industry type does not seem to have any interaction with female directors on ROA, different results are found for Tobin's q . For the trading sector, the presence of women on the board has a positive impact on Tobin's q ; but a negative influence is recorded for women directors in the consumer sector. Thus, the appointment of women in the consumer sector is viewed negatively by the market. Perhaps this is because the market dislikes the over-monitoring approach taken by women directors which could result in delays in the introduction of new products in response to fast-changing consumer tastes.

CONCLUSION

Board diversity has been the subject of debate for some time and it has been argued that it can enhance board effectiveness because it increases board independence and board decision-making perspectives. The focus of research has been on gender, ethnic and age diversities in boards. Among these three issues, gender diversity has been extensively researched and the subject of political attention in some countries. For instance, in Norway, the proportion of female appointments to boards was enshrined in law in 2003. In 2004, the Malaysian government adopted a policy to appoint at least 30 percent of women to decision-making levels in the public and private sectors. Subsequently, in 2011, the Prime Minister expanded the scope of this policy to require listed firms to have at least 30 percent female representation on their boards by 2016.

The findings of this study show that gender, ethnic and age diversities among Malaysian firms are still very low. Only about 6 percent of the available board seats are occupied by women and only 39 percent of the boards have women on them. In terms of ethnic diversity, only 25 percent of the firms are considered ethnically diverse with representatives from all three main ethnic groups. Clearly, the boards of large Malaysian firms are predominantly occupied by Malay and Chinese males. As for age diversity, the average age of the directors is 58 years old. More than half of the sample firms have an average board age of 50 to 59 years. Taking all these board patterns into account, the boards of large Malaysian firms lack diversity. They are similar to UK boards whose directors are nearing retirement and are predominantly white males.

However, our findings generally indicate that the appointment of women to the board does not result in higher firm financial performance; rather, their appointment to the board leads to a lower firm financial performance. When we looked at the issue of tokenism in our analysis, by focusing on firms with two or more women directors on the board, we found that the detrimental effects of women on the board persist. However, our further analyses do indicate that market-based performance improves with the appointment of women on the board of firms in the trading and services sector. One possible reason for this finding is that women, who are generally more caring, might, as directors, be more inclined toward improving a firm's social as opposed to its financial performance. Perhaps the appointment of women to the boards might be driven by the need to support the policy adopted by the Malaysian government in 2004 which requires 30 percent women participation at the decision-making level across all sectors. As more women are appointed to hold key posts in the public sector, the private sector is responding by appointing more women to their boards.

Ethnic diversity does have a positive impact on accounting-based performance measure. Boards which comprise of representatives from all of the three main ethnic groups perform better compared to boards which are predominantly comprised of one or two ethnic groups. Hence, appointing directors from the three main ethnic groups is helpful in improving firm performance. Perhaps having directors from various ethnic backgrounds helps the boards to understand customers' needs better.

The effect of age diversity on firm performance is insignificant. While it is found that it is negatively associated with the accounting-based performance measure, it is not associated with the market-based measure. While older directors are associated with higher accounting-based performance, the market seems to be indifferent to the age of the directors. Perhaps the older directors provide wisdom and counsel to the executive directors as opposed to the younger directors who might be dynamic and rich with ideas but might lack experience. In addition, the more experienced, 'entrenched' directors provide the connection between the firm and the government. These entrenched directors are generally well known both in business and government circles.

In conclusion, despite the fact that Malaysia is a developing country, the appointment of women to the board does not lag far behind that in developed countries. Although the appointment of women to the board is not yet widely practiced in Malaysia, there has been significant progress. It may well be that the impact of female appointments on firms' performance is negative because the existence and participation of women on the board is still in its infancy. The boards in Malaysia are still very much 'men's clubs' and thus breaking their dominance is not an easy task. In fact, in board meetings, there may be just one woman director, outnumbered by around eight to ten male directors on the board. Similarly,

ethnic diversity in the boards should be pursued because it leads to positive results for firms. The boards of Malaysian firms should reflect the composition of the Malaysian population. Each ethnic group is different in social, cultural and economic terms. Greater diversity could minimize the risk of 'group think' or of making decisions which are biased toward particular groups of the stakeholders. Moreover, embracing gender and ethnic diversity is not only a 'good practice', but it can also be an effective business strategy.

In light of the findings, there are a few implications for academic and practitioners. For academic, the issue of board diversity, especially gender diversity remains unsettled as the findings are not as the theories had expected. Perhaps, gender and ethnic diversity is best measured by non-financial performance rather than financial performance. Undoubtedly, board diversity adds value to the firm; but the value may not be reflected in the monetary term. Perhaps, the need for women and minority directors is situational, i.e. contingent on the circumstances faced by a firm. Hence, one size may not fit all. Thus, future research on board diversity should focus more on these issues rather than on the business case for diversity. For practitioners, the implications are as follow. First, board diversity, while it is important, requires time to be fully effective. What is more important is the readiness of the firms to embrace the culture of 'inclusiveness' in their boardrooms rather than the culture of compliance. Even though the Government has come up with a policy on women appointment to the board, but it is the firms themselves which need to reap the benefits from having women on the board. Second, women need to equip themselves and be ready to assume the directors' roles. The women who are already holding the top posts need to promote those women who are currently in the middle level to be ready for top posts. Third, ethnic diversity should be encouraged because the stakeholders, and more importantly the consumers, are from various ethnic groups. Finally, including a few young directors on the board is vital because this should be part of the firm's succession plan.

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- Shamsul Nahar Abdullah (corresponding author)
Kulliyah of Economics and Management Sciences
International Islamic University Malaysia
P.O Box 10, 53100 Kuala Lumpur
E-Mail: shamsulnahr@iiu.edu.my
- Ku Nor Izah Ku Ismail
School of Business Management
College of Business, Universiti Utara Malaysia
06010 Sintok, Kedah, Malaysia
E-Mail: norizah@uum.edu.my