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The causes of gender diversity in Malaysian large firms

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Abstract The issue of women's representation at the decision-making level in Malaysia has received special attention from the Government since 2004, the year in which it adopted a policy requiring that 30 % of the posts at the decision-making level in the public sector be filled by women. In 2011, the policy was extended to the private sector where 30 % of listed firms' board seats are to be allocated to women with 2016 being the deadline for compliance. To this end, this paper aims at examining the factors that determine the appointment of women to the boards of Malaysian large firms. Large firms were chosen in this study because they have the resources and the capacity to adopt the policy more readily than smaller firms. The results reveal that gender diversity is positively associated with board size and the presence of family on the board. That is, the larger the board, the more likely it is that women sit on it. The fact that the presence of women on the board is associated with the presence of one or more family members on the board means that the appointment of women to the board is very much influenced by family ties rather than commercial reasons. The results also reveal a positive association between board independence and the proportion of women directors. Further, it is found that board independence is associated positively with the presence of independent women directors. Finally, the results show that firm performance is negatively associated with gender diversity. That is, firms with low financial performance are more likely to have women on their boards. Hence, taken altogether, the evidence suggests that the appointment of women to the board is very much driven by tokenism and family connection rather than by the business case.

Keywords Women directors · Board independence · Board size · Family directors · Firm performance

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1 Introduction

One of the important issues for the board of a listed firm is its composition. A board is said to be balanced if its members come from various backgrounds which helps it to perform more effectively. The heterogeneity in directors' backgrounds helps the board to have a greater understanding of the needs and wants of the general population. Further, embracing the spirit of diversity reduces the risk of "groupthink", a situation where a poor decision is made by a group as a result of pressure from the group, which leads to a reduced moral judgment and eliminates a reality check (Janis 1972).

Board diversity ensures that there is a broad base of wisdom (Carver 2002) and thus boards that are composed of members with different characteristics and backgrounds, e.g. gender, age and ethnicity, can take advantage of these differences for the success of their firms (Rutledge 1994). According to Robinson and Denchant (1997), the only way to tap differences in attitudes, cognitive functioning and beliefs is through demographic variables such as gender. Additionally, Orlando (2000) finds evidence which shows that racial diversity does impact performance and argues that, within the proper context, diversity could lead to a firm's competitive advantage. The issue of board diversity has also been raised by the US National Association of Corporate Directors Blue Ribbon Commission which recommends that racial, age and national diversities be considered when selecting directors (National Association of Corporate Directors 1994).

Malaysia, being a small developing and Muslim dominated country, introduced in 2004 a policy which stipulated that at least 30 % of decision-making positions in the public sector should be occupied by women to ensure women's participation at the decision-making level. The success of the policy was seen when, in July 2011, the Prime Minister of Malaysia, Mr. Najib Razak announced that the percentage of women occupying decision-making positions in the public sector had increased to 32.3 % in 2011 from 18.8 % in 2004. As a continuation, he announced that the policy was to be expanded to include the private sector, namely public listed firms (i.e. plcs), and that by 2016 all places would be expected to have at least 30 % women on their boards. This is considered a major milestone in the corporate governance of Malaysian listed firms and, in fact, Malaysia is the first country in Asia to have introduced such a measure. To ensure that the initiative is taken seriously, the Securities Commission has incorporated this requirement into the Malaysian Code on Corporate Governance (MCCG) 2012 and companies are required to disclose in their annual reports beginning from the 2012 financial year their policies and achievement with respect to women on their boards (Securities Commission 2012).

Given the assumed importance of the relationship between board diversity and board effectiveness, this study thus aims at investigating the factors that lead to gender diversity among Malaysian large firms by observing whether board independence, board size and the presence of family members on the board are associated with the appointment of women to the board. The study predicts that the appointment of women to the board is associated with the proportion of independent directors on the board. As for board size, the larger the board, the higher is the likelihood of women directors serving on the board. Finally, Malaysian firms are closely held and are usually family-owned (Claessens et al. 2000). As a consequence, family members dominate the board of directors. It is likely that female members of the family are also appointed to the board to protect the interest of the family. Hence, the presence of family directors on the board is associated with the presence of women directors.

The overall findings of this study indicate a low degree of diversity with respect to gender. Women occupied only about 6.6 % of board seats. Further, it was found that only 28 % of the boards are ethnically diverse (i.e. as far as the appointment of directors from the minority on the board is concerned). In addition, 68 % of directors fell within the age band of 51–70 years while only three % of directors were less than 40 years old. These findings indicate that there is a lack of diversity in Malaysian boards of directors. Results from the multivariate analyses reveal that board size and the presence of family directors on the board is positively associated with gender diversity. Therefore, board size and the presence of family directors on the board are important determinants of board gender diversity in this context. That is, large board size and the presence of family directors on the board results in a higher likelihood women directors' appointment to the board. However, Tobin's q is negatively associated with gender diversity. Thus, a negative association between firm value and gender diversity could mean that women are appointed to help the firms to improve the firm value.

The remainder of the paper is structured as follows. In the next section, theoretical developments in respect of board gender diversity and its determinants are presented. This is followed by the research methodology section. The findings are presented in the subsequent sections, which is followed by a discussion section. Finally, some conclusions are offered, which include implications for theory and practice.

2 Theory and hypotheses

2.1 The Malaysian context

In Malaysia, and in most East Asian countries, firms are usually controlled either by families, government-owned bodies or individuals. In fact, it has been found that two-thirds of East Asian companies are controlled by a single largest shareholder (Claessens et al. 2000). Claessens et al. (2000) also document that more than two-thirds of Malaysian listed companies are in family hands. Further, they show that 35 % of the top 20 Malaysian listed companies are controlled by families and this rises to 84 % for the smallest 50 listed companies. Also, in an earlier survey, Claessens et al. (1999) found that one-fourth of the Malaysian corporate sector is controlled by 10 families.

The evidence is subsequently supported by Abdullah and Mohd Nasir (2004) who report that, on average, the total top twenty shareholdings of Malaysian listed firms is at 73 %, suggesting that the shares in Malaysian listed firms are less dispersed. In addition to families, listed firms are also controlled by the Government through its investment arm, i.e. Khazanah Nasional, or through government-sponsored institutional fund managers, e.g. Permodalan Nasional Berhad, Pilgrimage Fund or Employees Provident Fund.

The pattern of share ownership entails board composition, i.e. the firm's major shareholder will have the power to appoint board members through their voting rights. The board members whom they have appointed will serve as "nominee" directors and will predictably act in the interest of the major shareholder whom they represent. Consequently, the firm's major shareholder will influence the appointment of the board chairman and the firm's CEO via the board members whom they had appointed. In fact, a report by the Stock Exchange of Hong Kong (SEHK) (1996, p. 21) states that "substantial shareholders are often themselves directors". This practice is also prevalent in Malaysia as the majority of Malaysian listed firms are controlled by Chinese families. Hence, the appointment of directors in family controlled firms is influenced predominantly by ties of prospective directors to the controlling family, and by an expectation that they would support the management in major decisions (Chen and Jaggi 2000). Likewise, the Government also controls the appointment of the directors of listed companies which it owns via various government-owned or government-sponsored bodies. Listed firms which are controlled by these bodies are known as government-linked companies (GLCs) or government-linked investment companies (GLICs). Because the boards are always controlled by the major shareholders, the decisions tend to be biased towards favoring the firm's substantial shareholders at the expense of the firm's minority shareholders.

The Malaysian Code on Corporate Governance, which provides guidelines on the governance matters of firms in Malaysia which was first issued in 2000 by the Malaysian Securities Commission, attempts to address the issue of imbalanced composition on boards by requiring the board of listed firms to be one-third composed of independent directors (Securities Commission 2000). Subsequently, to underline the importance of diversity, the issue of gender diversity is specifically mentioned in the revised 2012 Code. The revised 2012 Code requires that a board must have a formal policy on boardroom diversity to ensure that women candidates are sought as part of its recruitment exercise. Further, the Code requires the board of a listed firm to disclose in the annual report its policies on gender diversity and the measures taken to achieve the targets (Securities Commission 2012).

The attitude in Malaysia towards gender is largely shaped by Islam, the religion of the Malays, and Confucianism, the religion of the majority of the Chinese. Islam and Confucianism create a thick 'glass ceiling' and erect formidable barriers for women's progression into senior roles (Tracey 2012; Tunimez 2012). Islam is explicit in discouraging the appointment women to leading managerial positions. As expressed in the Quran: 'Men are the protectors and maintainers of women, because Allah has given the one more (strength) than the other, and because they support them from their means.' (An-Nisa, verse 33). Adida et al. (2012) indicate that

Muslim gender norms inhibit women's progress to a greater degree than non-Muslims norms do. Based on the World Values Survey (WVS), the main distinctive feature that sets the Islam-dominated world apart from the rest of the world is that relating to gender issues (Inglehart 2003). Confucian beliefs are similarly dominated by a deeply rooted reluctance to place women in positions of power, based on a belief that men are better equipped for leadership (Hall and Ames 2000, King and Andrew 2001 Tan 2007). In explaining the fact that King Wu of Zhou had nine male advisers and one female adviser, Confucius states in the Analects that there was plenty of male talent in the society and thus the single female should not really be counted among the King's advisers (Li 2000).

However, the issue of the lack of women directors, as raised by respondents in Burke's (1997) study, should diminish. Due to the intakes of females in the public universities in Malaysia, the number of women professionals is expected to rise and, accordingly, so should the pool of potential women directors. For instance, for the 2012 academic session, female students far outnumbered male students; out of a total of 38,549 new students, 25,372 (66 %) are female students (Anonymous 2012); the percentage of women enrolments was at 35 % in 1980 (Merican 2012). This implies that eventually the pool of potential women's directors will also increase. One of the short term measures taken by the Government to increase the pool of women who can serve on the boards of Malaysian listed firms was seen in the 2012 budget, where the Prime Minister allocated a total of RM10 million (USD3.3 million) for training and to develop a database (Razak 2011). This initiative again underscores the importance of developing a pool of potential women directors in Malaysia.

3 Gender diversity

A balanced and hence diverse board increases diversity of opinions and input in the boardrooms (Catalyst 1995) and thus the quality and the breadth of the decisions, especially on an issue that relates to the stakeholders at large. Burke (1997) argues that to be effective in carrying out their roles, board members need to be aware of a large range of stakeholders. In fact, Siciliano (1996) and Brown (2002) show that there is a positive impact of board diversity in nonprofit organizations in respect of social performance, fund raising and the political aspects of board performance. Norburn (1989) argues that board members who are drawn from known networks lead to board homogeneity, reduce constructive conflict and allow the CEO to pursue his personal goals rather than the shareholders' interest. Empirical evidence in respect of the UK shows that the proportion of female directors in UK FTSE 100 companies was 3.7 % in 1995 but improved to 8.6 % in 2003 (Conyon and Mallin 1997; Vinnicombe and Singh 2003). The proportion increased moderately in 2011 where 9.1 % of women took up the board seats of UK firms (Catalyst 2011). Higgs (2003) reports that non-executive directors in the UK are predominantly white males nearing retirement age with previous PLC director experience (Higgs 2003). Hence, the UK boards are often described as being "male, pale and stale" (Garatt

2005) and populated by men who are cut from the same cloth (Grady 1999), or simply the old boy's club.

Appointing women to the board is seen as one of the efforts to address the issue of board homogeneity. The most important indicator of women's participation in boards is the number of women occupying board seats at a particular time in a sample of listed companies. Another indicator of women's representation is the percentage of listed firms that have at least one woman on their corporate boards at a particular time. In the UK, 78 % of firms had at least one woman on their boards in 2005 (Grosvold et al. 2007). In its report, Catalyst (2011) showed the extent of women on corporate boards in various countries worldwide, some of which are as follows: US (15.7 %), Hong Kong (8.9 %), Singapore (7.3 %) and Japan (0.9 %). Previously, the percentage of female directors in the US was 4.7 % in 1987 but rose to 13.6 % in 2003 (Catalyst 2003). For Muslim-dominated countries, with the exception of Turkey (10.3 %) and Malaysia (6.8 %), women's representation on boards was very low: e.g. Kuwait (2.7 %), Oman (2.3 %) and Bahrain (1 %) (Catalyst 2011).

Norway enacted a law that that required 40 % of directors to be female in 2003 with 2008 being set as the deadline for compliance. As a result, women's representation is 39.5 % (Catalyst 2011). Spain also introduced a law in 2007 which requires the boards of public companies to nominate women to 40–60 % of board seats and the deadline for compliance is 2015 (Adams and Ferreira 2009). However, as it stands, only 9.3 % of the members of the boards of companies in Spain are women (Catalyst 2011), and thus the gap remains huge. The lack of support by public firms in Spain in appointing women to the boards is evident whereby Campbell and Minguez Vera (2010) report that for the period of January 1989 to December 2001, from a total of 4,050 new appointments in Spanish boardrooms, only 105 (2.59 %) involve the appointment of women directors. In addition to Norway and Spain, the lower house of France's parliament approved a new law in 2010 which will force companies to increase the proportion of women on their boards to 40 % by 2016 (Women in Corporate Boardrooms 2011). In other Nordic countries, the representation of women is relatively high, even in the absence of any law enforcing the requirement to appoint a certain proportion of women to the board. For instance, in Sweden and Finland, where there is no prescription in law, the percentage of women on boards is still fairly high, i.e. at 27.3 and 24.5 %, respectively (Catalyst 2011). It does therefore seem that the Nordic countries are very open to appointing women to boards as opposed to other countries including the US and the UK. Moreover, it also appears that the glass ceiling for aspiring women directors in the UK and the US is harder to break as compared to that in the Nordic countries, and it is even harder to break through in Muslim countries and in Japan. The majority of those firms that have appointed women to their boards seem to appoint only one woman and very few have two or more women on their boards. This leads us to believe that the appointment of women is due to tokenism or is to fulfill part of their corporate social responsibility (CSR).

Based on the findings of earlier studies (e.g. Adler 2001; Catalyst 2004), Stephenson (2004) points out the reasons why women in particular should be on boards. First, research shows that boards with women directors are more likely to pay more attention to audit and risk oversight and control. Second, women directors would help companies attract and retain valuable female employees, and promote positive attitudes among female employees who aim for senior executive positions in the company. 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, p. 9) argue that "Women's communication styles tend to be more participative and process-oriented" and thus enhance the decision making and leadership styles of the organization (Rosener 1990). As a result, the board as a whole would tend to be more detailed in their deliberation before making any decisions. Further, the presence of women directors improves the company image with the stakeholder groups (Mattis 2000). Likewise, Robinson and Denchant (1997) and Carter et al. (2003) reiterate that board diversity could bring a better understanding of the marketplace because the board would be made up of individuals of various backgrounds. 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 1994). Board diversity, such as the appointment of women directors, ensures "better" boardroom behaviors (Across the Board 1994). It is argued that the more diverse the board, the better the performance of the board, for example, through higher level of debate and generation of alternatives in the board room (Nielsen and Huse 2010) and they bring in new perspectives (Virtanen 2012). In sum, the presence of women signals a deviation from the typical male-dominated boards that could bring informational and social diversity (Deszo and Ross 2012).

That women do not have the required operational experience is often one of the reasons for not appointing women to the board (Stephenson 2004). Another reason is that in general women are not as ambitious and they do not have the drive to advance to the top (Stephenson 2004). Thus, they are often invisible to male CEOs who are usually responsible for recruiting new board members. A survey by Burke (1997) on Canadian women directors reveals that the main reason there are so few women directors on the board is that the CEOs do not know where to look for women directors. Other reasons given by the Canadian women directors include (in descending order of importance): companies are not looking for women directors; companies perceive that women are not qualified; companies are afraid to take on women who are not already on other boards; and qualified women do not make their interests known. There is also a perception that the presence of women directors could diminish the quality of board's working practices (Phillips et al. 2009). Further, there is a fear that appointing women to the board could result in over-monitoring which reduces the speed of the board's decision making, which, in turn, leads to a lower performance (Adams and Ferreira 2009).

The lack of women serving on boards could also be attributed to the current practice of identifying nominees; i.e. whenever there are board seat vacancies, the nomination committees will search for potential candidates and one of the inputs that the committee receives is from the CEO of the company. The process of identifying potential directors relies heavily on networks. Hence, since women are not in the directors' or CEOs' networks, their chances of being identified are very small if not remote. In fact, Burke (1997) notes the main sources of women directors' nomination to the board: recommendation from a board member of the company, recommendation from the CEO and recommendation from someone who knew the CEO or the board member.

In terms of financial performance, the link between women directors and firm performance is not conclusive. However, it is worth noting that it is impossible to observe a consistent and strong link between women directors and firm performance due to the fact that the majority firms that appoint women to their boards have only one woman director. Thus, women's direct influence on firm performance is very small, as argued by critical mass theory (Konrad et al. 2008). Further, the job of ensuring a firm's financial performance lies with the firm's top management and the board as a whole. Several studies have found a positive association between women directors and firm performance. For instance, Keys et al. (2003) show that there are significantly higher average cumulative abnormal returns among Fortune firms that have women directors. Similarly, Erhardt et al. (2003) also show that gender diversity is associated positively and significantly with a firm's return on assets (ROA) and return on investment (ROI). Recently, Campbell and Minguez Vera (2010) reveal that the stock market responds positively on the announcement of women appointments to the boards of Spanish firms. They also find that the presence of women is associated positively with the firm's Tobin's q. Kang et al. (2010) also offer the same evidence in the Singaporean context. Nevertheless, 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 outside the US. Similarly, Adams and Ferreira (2009) find that, on average, diversity affects firm performance negatively. In addition, in Malaysia, Abdullah et al. (2012) document a negative association between women on the board and firm performance (i.e. ROA and Tobin's q). Rose (2007) finds that the presence of female directors does not influence the performance of Danish firms. On the other hand, Carter et al. (2010) do not find any evidence linking gender diversity and a firm's performance in terms of ROA and Tobin's q in the US.

The need for gender diversity on boards can also be explained by agency, resource dependency and stakeholder theories. From an agency theory perspective, board gender diversity and board independence are related; thus, the more independent the board, the less likely it is to be dominated by management (Fama and Jensen 1983; Jensen and Meckling 1976). This theory argues that gender diversity is important because it leads to an increase in board independence and as a result, the alignment of management and shareholders' interests is achieved (Mallette and Fowler 1992).

Resource dependency theory, on the other hand, sees the board as an essential link between the firm and external resources, which is crucial for maximizing firm performance (Pfeffer 1973; Pfeffer and Salancik 1978). The board is regarded as an important resource for a firm because it provides a link with the external environment (Hillman, Canella and Paetzold 2000; Palmer and 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 (Korac-Kakabadse et al. 2001; Zahra and Pearce 1989).

Stakeholder theory argues that firms explicitly and implicitly have contracts with various social constituents and are expected to honor all the contracts (Freeman 1983, 1984; Donaldson and Preston 1995; Jones 1995). A firm's shareholders are regarded as one of the many stakeholders that managers need to consider in their decision-making process (Clarkson 1995; Donaldson and Preston 1995; Jones 1995; Wood and Jones 1995; Mitchell et al. 1997). However, fulfilling only the objectives of the shareholders is not seen as sufficient to justify a firm's existence. Being part of the constituents in society, other stakeholders could place certain demands on the firm to legitimize its existence. Thus, to survive, a firm needs to cooperate with its stakeholders (Laan et al. 2005). The support and approval from the stakeholders can be obtained through a dialogue (Laan et al. 2005) and through the appointments of various stakeholder groups to the board. Developing good relations with other stakeholders, including women stakeholders, is important because the shareholder value depends largely on the support a firm receives from the stakeholders, principally employees and members of society who can be environmentalists, customers and regulators.

Agency theory explains the need to appoint independent directors to the board. Independent directors are seen as: strict monitors (Beasley 1996; Weisbach 1988), professional referees (Fama 1980), experts in decisions and control (Fama and Jensen 1983) and providers of advice to corporate boards on strategic decisions (Fama 1980). These independent directors need to include women among their number to carry out the monitoring role more effectively. This is because, as stated earlier, research shows that boards with more women are more likely to pay more attention to audit and risk oversight and control (Stephenson 2004). The background of women directors is also very important in helping the firm's independent directors to perform their duties more effectively. For instance, Singh et al. (2009) note that almost 50 % of newly appointed women directors in the UK have previous experience in financial institutions. Burke (1997) reveals that the professional backgrounds of women directors are in accounting, legal or medical professions. Further, women directors are largely outside directors (Daily et al. 1999) and they are more likely to be independent directors (Kesner 1988). In fact, the market reacts more positively to the announcement of the appointment of women directors when they are appointed as independent directors than as CEOs (Kang et al. 2010). Hence,

H_1 Board independence is positively associated with gender diversity.

A large board is expected to be more able to accommodate the appointment of female directors as opposed to a smaller board as predicted. As boards of directors are still controlled by male directors, it is not easy to appoint a female director to the board unless the size of the board is large. Luckerath-Rovers (2011) provides evidence that among Dutch companies, firms that have women on their boards tend to be larger in size by 48 % than those that do not. In fact, Bilimora (2000) documents that when a woman director is appointed to a board, she is appointed as an additional director rather than as a replacement director. It is argued that because gender diversity is still considered by society as something that is voluntary and a gesture of goodwill, only large boards can afford to have more diversity among their directors (Klein 2002; Luoma and Goodstein 1999). Nevertheless, Kang et al.

(2007) do not find an association between board size and gender diversity in Australia's top 100 firms. The insignificant association, they argue, is attributable to the small number of female directors in their sample. This argument is consistent with critical mass theory where the impact of a subgroup is only observed when a certain threshold is achieved (i.e. a critical mass) (Konrad et al. 2008). However, this present study maintains that large board size leads to the appointment of women directors because large board size is more accommodative in appointing female directors as opposed to small board size. Hence,

H_2 Board size is positively associated with gender diversity.

As previously mentioned, being a typical Asian country, family ownership is the predominant ownership structure in Malaysia and firms are predominantly controlled by families (Claessens et al. 1999; Claessens et al. 2000; Lemmon and Lins 2003). In family-owned firms, board members are usually selected from a narrow pool of candidates that include family members (Anderson and Reeb 2003). In addition, as the business in Malaysia is controlled by the Malaysian Chinese, the corporate governance mechanisms are shaped by the personal networking system (*guanxi*) and thus the family ownership concentration in firms and the appointment of family members to the board are common (Claessens et al. 2000; Mok et al. 1992) Women directors are often appointed to the board based on their family connection to the owners. Such firms are likely to nominate women family members to their boards because they want to control the firm and also as a source of employment for the family members. In fact, a report by the Stock Exchange of Hong Kong (1996, p. 21) states that "substantial shareholders are often themselves directors." The appointment of directors in family-controlled firms is likely to be influenced more by the ties of prospective directors to the controlling family, and by the expectation that they will support the management in major decisions (Chen and Jaggi 2000). Hence,

H_3 The presence of family directors on the board is positively associated with gender diversity.

4 Methodology

A total of 100 non-financial firms listed on the Malaysian Stock Exchange, i.e. the Bursa Malaysia, in 2007 were included in the sample. Financial firms are excluded to avoid confounding effects because they have different sets of requirements which are imposed by the Central Banks. Data were 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. Gender diversity is first measured by the presence of women on the board, which is treated as a dummy variable with the value of "1" being given to a firm that has at least one female director on the board and "0" otherwise. Secondly, gender diversity is also measured as a proportion of women directors to board size, which is measured by the number of women directors on a board divided by the board size. Board independence is measured by the proportion of independent directors on the board. Bursa Malaysia though Practice Note No. 13 defines independent directors are those who are "… independent of management and free from any business or other relationship which could interfere with the exercise of independent judgment or the ability to act in the best interest of an applicant or a listed issuer" (Bursa Malaysia 2002). Board size is measured by the number of directors on the board. Finally, family directors on the board are measured by the presence of at least one family member of the controlling shareholder on the board with a value of "1" being given if there is a family director on the board and a value of "0" otherwise.

Going against the traditional male world is not something that a listed company would readily do. Thus, not all companies are willing to appoint women directors. Firm performance and firm size are included as control variables. To this end, two measurements of firm performance are utilized, i.e. ROA and Tobin's *q*. The ROA is computed by dividing profit before interest and taxes by the firm's total assets. Tobin's *q*, on the other hand, is the sum of the market value of equity and book value of total debts divided by the book value of 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. Adams and Ferreira 2009; Erhardt et al. 2003; Rose 2007; Shrader et al. 1997). In fact, these measures, especially the ROA, are often used by financial analysts and the market when assessing a firm's performance (Erhardt et al. 2003). Firm size is measured by the natural log of total assets. Logistic regression analysis is used to test the hypotheses.

5 Results

The evidence reveals that a total of 851 board seats were available in all the top 100 non-financial firms for the 2007 financial year; thus, on average, the corporate boards have either eight or nine board members. Further scrutiny reveals that out of these 851 board seats, only 54 seats are allocated to women, i.e. 6.3 % of the total board seats; thus, the overall allocation is lower by 31 seats compared to the Australian top 100 firms (Kang et al. 2007). In addition, it is found that only a total of 39 Malaysian firms (i.e. 39 %) have female directors on their boards. Out of these 39 large firms, only 12 % have more than one female director, which is slightly lower than found in Australia at 13.5 % (Equal Opportunity for Women in the Workplace Agency 2006). However, it is behind Europe and the US, where the proportion of firms that have more than one woman director is 28 % (European Professional Women's Network 2004) and 25 % (Adams and Ferreira 2009), respectively. Out of the 54 board seats allocated to women in Malaysian large firms, 16 are executive director positions, another 24 are non-executive director positions, and the remaining 14 are independent director posts. About 75 % of these women directors are related to the controlling shareholders and are appointed either as executive or non-executive directors. The evidence also shows that only a total of 39 women occupy these 54 board seats. Further, it is noted that 10 women hold two directorships and two women hold three directorships. The remaining women directors (i.e. 27) serve only on one board.

Table 1 Descriptive statistics for sample firms

Variable	Min	Max	Mean	SD	Skewness	Kurtosis
Gender	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
Board independence	0.22	0.71	0.42	0.10	0.54	−0.10
Board size	4	15	8.51	0.485	0.606	0.627
Family on the board	0	1	0.370	0.485	0.547	−1.736
ROA	−0.04	1.42	0.11	0.16	5.76	42.15
Tobin's *q*	0.33	27.23	1.898	2.907	7.046	59.21
Total assets (in RM million)	216	67,000	6,549	10,442	3.29	13.06

Table 1 presents the descriptive statistics for the sampled firms.

Results in Table 1 show that the average size of a Malaysian firm's board is 8.51, which is slightly higher than in Australia by 0.32 (Kang et al. 2007), but is within the range of seven to eight directors as recommended by Jensen (1993). Further scrutiny found that the size of the boards of 31 firms is below eight; while another 22 firms have a board size of 10 or above. Results in Table 1 indicate that almost 40 % of the sample firms have family directors on their boards. The results also show that 113 family directors serve on the boards of the sample firms, or an average of 2.8 family directors on each of these 40 firms.

Table 2 presents the results from the correlation analyses. The results above the diagonal are from Pearson correlation analysis, while the results below the diagonal are from Spearman correlation analysis.

Generally, the results from the two analyses are similar. The association between gender diversity and board size is positive and significant, indicating that women directors are more likely to be found in a large board. On the other hand, the association between gender diversity and board independence is not significant. Likewise, the association between gender diversity and the presence of family directors is also insignificant. The association between gender diversity and firm performance is negative and significant.

Table 2 Correlation analyses (n = 100)

Variable	Gender	BDIND	BDSIZE	FAMBD	ROA	Tobin's *q*	Assets
Gender	1.000	−0.077	0.325#	0.152	−0.226*	−0.217*	0.168^
BDIND	−0.034	1.000	−0.322#	−0.208*	0.021	0.038	0.074
BDSIZE	0.300#	−0.299#	1.000	0.110	−0.129	−0.090	0.263#
FAMBD	0.152	−0.178^	0.049	1.000	−0.051	0.049	−0.015
ROA	−0.205*	−0.054	−0.072	−0.036	1.000	0.566#	−0.369#
Tobin's *q*	−0.233*	0.109	0.001	0.028	0.606#	1.000	−0.464#
Assets	0.195^	0.050	0.210*	−0.013	−0.348#	−0.500#	1.000

#/*/^ Significant at 1/5/10 % (2-tailed) respectively. Tobin's q and ROA were transformed using the Van de Waerden formula; while assets were transformed using log natural. Pearson correlation coefficients are shown above the diagonal; Spearman correlation coefficients are shown below the diagonal

Table 3 Determinants board diversity

Variable	Model 1—The presence of women		Model 2—independent women		Model 3—executive women	
	Coef.	Wald	Coef.	Wald	Coef.	Wald
Panel A the presence of women directors						
Constant	−5.276	1.286	−0.960	0.016	−5.344	0.501
Board independence	2.722	1.236	5.590	2.735*	−3.727	0.566
Board size	0.403	7.295#	0.140	0.691	0.504	6.079#
Family on board	0.822	8.392#	0.710	1.004	1.497	3.543*
Return on assets	−0.098	0.109	0.095	0.041	0.051	0.010
Tobin's q	−0.591	3.375*	−0.862	3.545*	0.161	0.096
Firm size	0.007	0.001	−0.239	0.441	−0.028	0.006
Percentage with correct prediction		72 %		89 %		92 %
Nagelkerke R^2		25 %		15 %		36 %

Variable	Coefficient	SE	T-value	VIF
Panel B gender diversity as a continuous variable				
Constant	0.137	0.183	0.750	
Board independence	0.191	0.098	1.840*	1.195
Board size	0.009	0.005	1.763*	1.243
Family on board	0.028	0.019	1.440^	1.048
Return on assets	−0.008	0.012	−0.685	1.531
Tobin's q	−0.025	0.012	−1.979*	1.724
Firm size	−0.011	0.009	−1.258	1.409
F statistics			2.356*	
Adjusted R^2			7.6 %	

#/*/^ Significant at 1/5/10 % respectively

Table 3 presents the results from the multiple regression analyses. Panel A of Table 3 shows the results when female representation is treated as a dummy variable. In Model 1, the dependent variable is the presence of women directors on the board. In Model 2, the presence of independent women directors on the board is the dependent variable. Finally, in Model 3, the dependent variable is the presence of executive women directors. 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.

Results in Panel A of Table 3 support H_2 and H_3, where board size and the presence of family directors on the board are associated with a higher likelihood of the presence of women directors. In fact, as shown in Panel B of Table 3, board size and the presence of family directors are associated with the extent of women directors on the board. The result in Panel A shows that board independence is not associated with the likelihood of the presence of women directors. On the other hand, the result in Panel B shows that when the representation of women is treated as a continuous variable, the independence of the board is shown to be associated with the extent of women directors on the board. Further analysis, as shown in Model 2 of Panel A, reveals an interesting finding where board independence is associated with the presence of independent women directors. Therefore, it appears that the higher the board's independence, the more likely it is that the board will appoint independent women directors. Thus, H_1 is partially supported, depending on the context, i.e. board independence is important in explaining the extent of women directors on the board and the presence of independent women directors. As expected, in Model 3, the presence of family directors is associated with the appointment of executive women directors. This evidence suggests that the family directors appoint their women family members to be executive directors of their firms.

Further analyses incorporated several variables that are expected to have an influence on gender diversity. First, ethnic and age variables were included in the model. The population of Malaysia consists of three main ethnic groups—Malays, Chinese, and Indians, accounting, respectively, for about 60, 23 and 7 % of the population according to the 2010 census (Malaysian Government Statistics Department 2010). While the Malays dominate the country's population and politics, the Chinese on the other hand, control the economy of Malaysia. Boards are always represented by the Chinese and the Malays because firms are always owned by the Chinese, and the Malays, on the other hand, are appointed to the board predominantly because of the affirmative policy introduced by the Government to ensure that the indigenous are given an opportunity in the business sector. The Indians, on the other hand, are not always represented on the boards. Stakeholder theory predicts that Malaysian firms appoint these three major races to their boards in order to recognize the wider interests of society (Kang et al. 2007). Firms that appoint Indians recognize that the importance of board diversity as Malaysia is multi-ethnic. Third World women's historical experience suggests "… that race, gender and class are interlocking and interdependent dimensions of domination and these dimensions are experienced simultaneously (Rose 1993, p. 91). Hence, ethnically diverse firms are also more likely to appoint women to their boards as part of increasing the diversity of their boards. Ethnic diversity is measured by the percentage of Indian directors on the board. In addition, age diversity is also predicted to be associated with gender diversity. To this end, age diversity is measured by the number of age brackets into which the directors of a firm fall. Five age brackets are categorized (i.e. less than 40 years of age, 41–50 years of age, 51–60 years of age, 61–70 years of age and 71 years of age and above). A score of five is given to a firm if the directors are represented in each of the age brackets, which means high age diversity. On the other hand, a score of one is given is the directors of a board are represented in only one age bracket, which means lack of age diversity.

The effect of leverage is also examined, the results of which are shown in Table 4. Leverage, measured by dividing a firm's total debts by its total assets, measures the riskiness of the firm. The higher the leverage, the closer it is to

Table 4 Additional analyses

Variable	Model 1—age and ethnic diversities		Model 2—leverage		Model 3—sectorial classification	
	Coef.	Wald	Coef.	Wald	Coef.	Wald
Constant	−4.627	0.860	−7.153	2.022	−3.821	0.639
Board independence	3.399	2.682^	2.150	0.734	2.699	1.180
Board size	0.489	10.057#	0.396	8.025#	0.420	8.694#
Family on board	0.818	2.682^	0.879	3.204*	0.964	3.597*
Return on assets	−0.091	0.093	−0.255	0.588	−0.125	0.166
Tobin's *q*	−0.624	3.583^	−0.480	1.974^	−0.701	4.334*
Firm size	−0.050	0.228	0.092	0.149	−0.093	0.169
Ethnic diversity	−0.678	0.021				
Age diversity	−0.208	0.411				
Trading					0.731	1.863^
Consumer					−0.361	0.216
Leverage			−0.309	1.011		
Percentage with correct prediction		70 %		74 %		69 %
Nagelkerke R square		26 %		26.2 %		28.1 %

breaching debt covenants and exposing the firm to the risk of bankruptcy. Firms that are near to debt covenant violation are predicted to adopt income-increasing policies (DeFond and Jiambalvo 1994). In fact, it has been found that leverage is associated with earnings management (Bartov et al. 2000; Saleh et al. 2005), which is a means of avoiding breaching debt covenants. Hence, the board of highly leveraged firms needs to be more vigilant so that the risk of breaching debt covenants is reduced. Since women directors are found to be more ethical and vigilant compared to male directors, there might be pressure for highly leveraged firms to appoint women directors to the boards.

Lastly, the effect of sectorial classification is examined in the final model. The sector in which a firm operates determines whether it appoints a woman director or not. A firm that produces or sells consumer goods is more likely to appoint women directors because they will add value to the firm through their better understanding of the needs of consumers. In fact, Singh et al. (2001) find that firms in the retail sector are more likely to appoint women to the board. Further, Catalyst (1999) reveals that female directors are most commonly found in toys and sporting goods, soaps and cosmetics and media/publishing. These results suggest that women are more likely to be found in the consumer products and trading/services sectors. To this end, two binary variables are included in the analysis to gauge the effect of sectorial classification. One dummy variable is for firms that are classified in the consumer sector and the other dummy variable is for firms in the trading sector. Results on these additional analyses are shown in Table 4.

The results in Table 4 show that the direction and significance remains for the association between board size, the presence of family directors and Tobin's *q* with the presence of women directors on the board. Hence, the association between board size, the presence of family directors and Tobin's q with the presence of women directors on the board is robust. Of four variables introduced into the model, only the sectorial classification of a firm is found to be significant and in the predicted direction, as shown in Model 3. The results in Table 4 substantiate the contention that firms in the trading/services sector are more likely to appoint women directors compared to other firms. This evidence thus lends support for the evidence provided by Singh et al. (2001) who find that firms in the retail sector are more likely to appoint women to the board.

6 Discussion

The representation of women on the boards of large Malaysian firms is considered low compared to the developed countries, i.e., numerically, it is about one-third of the rate of women directors on the boards of US firms and about half of the rate of women directors on the boards of UK and Australian firms (Vinnicombe and Singh 2003; Kang et al. 2007; Spencer Stuart 2007). On a positive note, however, women's representation on the boards of large Malaysian firms is considered promising and it is much higher than in Japan (Corporate Women Directors International 2009). With 54 female directors found in the top 100 firms, on average, there is 0.54 female on each board or one female director for every two boards, which is similar to the findings by Brammer et al. (2007), who find that the average female representation on UK boards is 0.5 with an average board size of 8.8. Hence, even though the major religions in Malaysia (i.e. Islam and Confucianism) do not encourage women to take up the leadership positions, the evidence suggests that women are making entry into the corporate world and the numbers are quite encouraging.

The multivariate analyses indicate that the relation between board independence and gender diversity is not conclusive, i.e. H_1 is neither fully supported nor rejected. While there is an argument that women directors are largely independent directors as put forward in earlier studies (Daily et al. 1999; Kesner 1988), it appears not to be true in Malaysia. In fact, the present study reveals that only about 25 % of the women directors are independent directors. Nevertheless, the results from the additional analyses reveal that board independence is associated with the extent of women directors on the board as well as with the presence of independent women directors. In light of this, board independence does play a limited role in the appointment of women directors. Therefore, agency theory explains only partially the link between board independence and the appointment of women to the board.

The association between gender diversity and board size is positive and significant, indicating that women directors are more likely to be found in a large board. Hence, large board sizes are more accommodative of women appointments. This evidence is consistent with the earlier findings (e.g. Bilimora 2000; Klein 2002; Luoma and Goodstein 1999; Luckerath-Rovers 2011). The larger the board, the more able it is to bring women to the board to tap their expertise. Conversely, the evidence could also imply that women are appointed to support the male directors rather than to assume their roles. In other words, women's appointment is seen as a gesture of tokenism rather than for the business case. Interestingly, board size is associated with the presence of women executive directors rather than with the presence of women independent directors. This result could further imply that the appointment of women directors is not primarily to enhance the diversity of the board but rather, they are appointed to protect the interest of the firm's major shareholders. In fact, this conjecture is supported by the positive and significant association between gender diversity and the presence of family directors, which is consistent with the argument by Chen and Jaggi (2000). Hence, the findings fail to support resource dependency theory (Hillman et al. 2000; Pfeffer and Salancik 1978; Palmer and Barber 2001; Pfeffer 1973), i.e. women directors are not appointed solely to tap their expertise, but rather to protect the interest of the firm's major shareholders.

Results for the association between control variables and gender diversity is not encouraging either. First, the association between gender diversity and firm performance is negative and significant. This implies that firms with women on the board tend to perform poorly. Hence, gender diversity is counter-productive to firm performance. This evidence is thus far consistent with the study in the US (e.g. Zahra and Stanton 1988; Shrader et al. 1997) and Rose (2007) in Denmark. This result could indicate that the presence of women leads to over monitoring by the board (Adams and Ferreira 2009) and thus diminishes the quality of the board's working practices (Phillips et al. 2009). In addition, this evidence is consistent with that of Ryan and Haslam (2005) who reveal that during 5 months prior to the appointment of a woman director, a firm experiences worse performance than a firm which decides to appoint a male director. They argue that women are sometimes appointed to the board when a firm is in trouble. Another explanation is the lack of a critical mass of women directors on the board, where a minimum of three women is needed for the women directors to be effective (Konrad et al. 2008).

Second, gender diversity is not associated with firm size. Thus, the size of a firm does not affect the decision about whether or not to appoint a woman to the board. Generally, the appointment of women directors is construed as the firm's effort to be socially responsible. In fact, the literature reveals that firm size and CSR are positively associated (e.g. Andrew et al. 1989; Haniffa and Cooke 2005; Abdullah et al. 2011). Therefore, based on the finding in the present study and the evidence in CSR literature, the appointment of women directors is not seen as part of the firm's CSR activities in the Malaysian context. Consequently, stakeholder theory is not supported in the Malaysian context in explaining the appointment of women to the board. Third, the effects of age diversity, ethnic diversity and leverage are also found to be insignificant in explaining the appointment of women directors. Hence, irrespective of whether or not the age brackets of the board are skewed or spread out, or if the board is dominated by certain ethnic groups, the presence of women directors is unaffected. Finally, the presence of women directors is directly and positively determined by whether the firm is classified in the trading/services sector or not. Companies that are classified under the trading/services are those that offer services (e.g. airlines, telecommunication companies, healthcare and utility companies) and large retail chains. While the evidence supports the earlier findings (i.e. Singh et al. 2001; Catalyst 1999), the fact these companies are usually owned by the Government (i.e. telecommunication and utility companies) and families (large retail chains) could be the main reason for the appointment of women to their boards. While the Government needs to "walk the talk" on the appointment of women at the decision making level, the families want to protect their interest in their firm.

7 Summary and conclusions

While arguments in favor of appointing women directors are numerous, their actual appointments have not increased as much as the proponents of women's representation would like. Even though the number of companies that have appointed women to their boards has increased, the majority of firms have only one woman on their boards. This leads many to believe that the appointment of women is a result of tokenism rather than evidence of a board's genuine intention to become gender diverse. Further, the evidence shows that board size and the presence of family directors increase the likelihood of a woman being appointed to the board. On the one hand, it appears that the boards are not yet ready to replace male directors with women directors; on the other hand, it also appears that only when a board has enough male directors, does it then appoint a female director. In other words, when the board size is large, only then is a woman director appointed, which is consistent with the evidence offered by Bilimora (2000). The fact that the presence of family members on the board is associated with women's appointment to the board indicates that these women are related to the controlling shareholders. Their appointment to the board is to ensure that the controlling shareholder of the firm has a balanced representation on the board by having both male and female directors from the family present. Conversely, it could also be that when there are no other male family members, women family members are then next in line. Further, the majority of women directors are either executive or non-executive directors, which means that the majority of the women directors are related to the controlling shareholders. Hence, the study indicates that the women who are appointed to the board are within the circle of the CEO and the controlling shareholders of the firm.

The results also show that board independence is inconclusive in explaining the presence of women on the board. While it is argued that the presence of women on the board should help the independent directors to carry out their oversight roles more effectively as women are argued to pay more attention to audit and risk oversight and control (Stephenson 2004), the independent male directors do not ensure that there are women on their boards. Nonetheless, it is somewhat reassuring to note that board independence is associated with the extent of women directors on the board and the presence of independent women directors. The low representation of independent directors in the firms, i.e. three to four independent directors (42 %) out of a total of eight to nine directors, may mean that they have less influence on the board decision to appoint women to their board, especially when the board is dominated by directors who represent the controlling shareholder of the firm.

Perhaps the one-third requirement should be revised to ensure that the board is independent of management and the controlling shareholders. This would be in line with the development in other jurisdictions, such the UK, where at least half of the board members, excluding the board Chair, comprise independent directors (Financial Reporting Council 2010). Recent amendments to the Malaysian Code on Corporate Governance do, however, include the requirement that the majority of board members be independent directors if the board Chair of the firm is not independent (Securities Commission 2012). This is an important initiative that takes a step towards making the board independent of management and the controlling shareholder.

In sum, the key conclusions from this study are as follows. First, board independence plays a limited role in the appointment of women to the board, depending on the context. Second, the appointment of women to the board is associated with large board size. Hence, it is less likely that women are appointed to the small boards. Third, women directors are appointed mainly due to their connection with the firm's large shareholders, i.e. they are more likely to be appointed to the board of family-owned firms or in the government-owned firms. Further, they are also more likely to be appointed as executive directors or non-executive directors (as nominees for the firm's controlling shareholders), but not as independent directors. Hence, the "know-who" or "*guanxi*" or simply "relationship" concept plays a very important role in women's appointment to the board of Malaysian firms. In fact, the influence of connection appears to be the major determinant in the appointment of women to the boards of firms in this country.

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