Does Women Directorship in Malaysian Government-Linked Companies Matters?

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Abstract

Gender diversity issue is also constantly being a debated issue in corporate governance. This research aims to investigate the effects of women directorship towards the impact of board structure in Malaysian GLCs. Our sample consists of a total of 18 public listed Malaysian Government-Linked Companies from 2003 to 2012. The study examine the impact of women directors as interacting variables to board meeting, board size and independent board on the GLCs performance. The results reveal positive relationship exists between board size and board independence towards GLCs performance while negative relationship exists between board meetings towards firm performance. The panel regression analysis of subsamples found that the women director is significantly affecting the impact of board meeting, board size and independence board towards GLCs performance.

Keywords Women Directorship, Malaysia, Government-Linked Companies, Corporate Governance

1. Introduction

In this era of globalization, competition is enormous; the success and failure of an organization are often linked with the profit and shareholder maximization. The East Asian crisis (1998) and accounting scandals in well known firms such as Enron (2001), WorldCom (2001), Tyco (2002), Freddie Mac (2003), American Insurance Group (2005), Lehman Brothers (2008), Bernie Madoff (2008), Saytam (2008), and etc had shaken the entire corporate world. Although, these accounting scandals occurred in developed countries, developing countries like Malaysia also facing the same obstacles. The common company scandals such as bribery and fraud, including kickbacks, false invoicing, misappropriation of funds, false claims, counterfeiting and piracy pose big risks to Malaysia future. Bribe-taking was found rampant in Malaysia among 30 countries surveyed by Transparency International in 2013. According to the Institute for Democracy and Economic Affairs, Malaysia could save up to RM2.3bil if transparency in procurement is improved. All these incidences had lead investors, regulators and researchers called for stricter corporate governance. Board of directors is playing a vital role in forming good corporate governance practice within the company.

According to Khazanah Nasional Berhad website, Government-Linked Companies (GLCs) can either controlled by the respective state governments or state-level agencies. This includes companies that the Government of Malaysia controls directly as its agencies such as Khazanah Nasional, Ministry of Finance Ltd. (MOF), Kumpulan Wang Simpanan Pekerja (KWSP) and Bank Negara Malaysia. On the other hand, Government-Linked Investment Companies (GLICs) are federal government linked investment companies that allocate some or all of their funds to GLCs investments. Currently there is total of seven GLICs which are Employees

Provident Fund (EPF), Khazanah, Kumpulan Wang Persaraan (KWAP), Lembaga Tabung Haji (LTAT), Lembang Tabung Haji (LTH), MKD and Permodalan Nasional Bhd (PNB).

Nowadays, gender diversity issue is constantly gaining ground in the corporate world. Developing countries like Malaysia struggling to cope with this phenomenon just as the developed countries. Even though Malaysian women received equal education opportunity like men and Ministry of Women and Family, Community Development (MFWCD) even revealed that number women holding undergraduate degrees is higher than men, but women still underrepresented in Malaysian corporate board. In June 2011, government aims to closing this gap by having 30% of women in corporate board by 2016, even though that currently women occupy only 7% of boardroom seats. Government was again reinforced that all government-linked investment companies and government-linked companies should appoint at least one female member to their boards by the end 2013. Malaysian Securities Commission will constantly monitor and assess firm progress towards this target.

However, until today there are many contradicting results revealed by academic researchers on benefit of more women in corporate world. This research aims to study the women directors towards firm performance in Malaysia context that focus in GLCs. As noted above, government has right in GLCs regarding decision electing board member. To achieve the blueprint proposed by government under New Economic Policy having 30% women directors, government might force GLCs to elect more women directors. If GLCs and PLCs blindly obeying the government regulation by recruiting 30% women directors in their board, instead of proper screen through on criteria and qualifications, what is the impacts on the firm performance? Besides that, to achieve government gender equality goal in just two years would it jeopardise the company performance by recruiting women directors that does not up to the bar? Positions that hold by women directors such as independent verses dependent might give different impact towards firm performance.

2. Literature Review

Corporate governance defined the relationship between the principals (owners) and agents (managers) in an organization. After the Asian crisis 1997 and recent corporate accounting scandals and collapses called attention to the vulnerability of corporate governance practices from worldwide.

After Asian crisis 1997, Asian countries especially Korea, Malaysia, and Thailand have started important restructuring of their corporate governance. Asian financial crisis was because lacking of transparency, lack of publishing annual report and accountability (Mitton, 2002), lack of safety of minority shareholders against management team and large shareholders (Claessens, Djankov, Fan, & Lang, 2002); consequently after Asian crisis 1997, the governments decided to improve their corporate governance practices and codes. High Level Finance Committee was set up on March 24, 1998 in order to restructure codes of corporate governance and lay out guideline on good practice of corporate governance. Treasury Secretary General and Ministry of Finance have control on The Finance Committee on Corporate Governance. Board governance in Malaysia has undergo a series of reformation and the most current corporate governance model has been built and enhanced based on the current requirements and guidelines to mitigate corporate governance issue.

Women constitute nearly half of the Malaysian population and workforce. And women involved in workplace increased since Malaysia independence. However, Malaysian women are mainly embarked on blue color and low level management. This inequality maybe due to Asian culture influence which perceived man as dominant figure. Furthermore, this mentality is being brought to the workplace. Stereotype, discrimination, imposed of glass ceiling and denies promotions are the common obstacles that face by working women. Women director in Malaysia may be viewed as a token or symbolic because they are elected just to fulfill requirement and portrait the image of gender diversity. Women are underrepresented in Malaysia's corporate boards. Only 6% of board members of Malaysia's financial institutions are women, and the same are found for female membership on corporate boards in the Malaysian insurance industry (7%), Malaysia's 100 largest domestic companies (7.8%), listed companies in Bursa Malaysia (7.6%), and government linked companies (GLC) (8.8%) (Azmi & Barrett, 2014).

Malaysian government linked companies (GLC) is whose the main owner are government and board of directors and management are elected to assist the operation of the companies. From agency theory perspective, management will act in his best interest at the expense of the owner. Therefore, it is important that Board of directors diligence with their responsibility and perform in the best interest of shareholders. This study aims to examine the relationship of involvement of women directorship in government linked companies (GLC) in Malaysia toward the firm performance. The women director will be further scope down to independent women directors. The purpose is to examine does involve of women directors mitigate the agency problem as proposed in agency theory and will lead to better firm performance.

In the study, we will look into board meeting, board size and independent board as the independent variables while woman directorships as the interacting variable. All directors in public listed companies have complied with the minimum attendance of at least 50% of Board meetings held in the financial period pursuant to the Main Listing Requirements. According to Carcello, Hermanson, Neal, and Riley (2002), board meetings are part of the board process and considered as an indication of board diligence. When number of board meetings increased it is viewed as intensity in board activity (Vafeas, 1999). Many studies such as (Beasley, Carcello, Hermanson, & Lapides, 2000; Carcello et al., 2002; Vafeas, 1999) examined the impact of board meetings by taking into account of the frequency or number of meetings. In order to meet the statistical requirements of normal distribution, natural logarithm is taken after adding 1 to the count of meetings (Bathula, 2008). This study uses the same approach and measure, which taken into account board meetings by the number of meetings held annually by the board of directors. The board meeting is measured by number of board meetings held in a financial year.

Board size is defined as the total number of directors inside the corporate board of a company. Various studies such as (Adams & Mehran, 2005; Bhagat & Black, 2002; Bonn, Yoshikawa, & Phan, 2004; Coles, McWilliams, & Sen, 2001; Yermack, 1996) tried to measure the board size effects towards firm performance. Besides that, researchers also debating and interested to find out the optimal number of board directors for a particular company. As proposed by Jensen (1993), the optimal limit of a board size should be eight directors whereas Lipton and Lorsch (1992) suggested the maximum size of the board should be ten members, because greater numbers will lessen board performance. On the other hand, according the Company's Articles of Association (AA) the maximum number of board of directors is 12. Board size in this study is measured by the total number of directors serving in the board.

In Malaysia context, board composition need to comply with Paragraph 15.02 of the Main Listing Requirements (LR), as more than half the board members are independent Directors, and fulfils the criteria of independence as defined under paragraph 1.01 of the Main LR. Theoretically, presence of independent or outside directors should mitigate agency problem, because they have not conflict interest with the companies and independent judgment can be made. Monitoring cost and interest of minority shareholders are protected with the presence of independent directors. The high proportion of independent directors further provides more effective checks and balances in the functioning of the board. Ponnu (2008) revealed that companies with more independent directors in board performed better than companies with fewer independent directors. In addition, analysis of the 481 public-listed Malaysian firms, even found that board independence is significantly associated with higher stock liquidity. In this study, independent board is measured by natural logarithm of the ratio of independent directors. Independent directors and women directors are frequently being employed as tools that measure board diversity and gender diversity towards firm performance. There is lack of empirical study on independent women directors. Therefore, in this study independent women director is the total number of women directors in board that are holding independent position.

Gender diversity is one of the tools can be used by corporate to improve organisational value and performance because women directorship provides new mindsets and perspectives to the firms (Broadbridge, Hearn, Huse, & Grethe Solberg, 2006; D. A. Carter, Simkins, & Simpson, 2003; Fondas & Sassalos, 2000; Letendre, 2004). Moreover, women on board can represent different stakeholders for equity and fairness compared to all male dominated board (Kim, Hoskisson, & Keasey, 1997). Following previous empirical studies such as (Bonn et al., 2004; Tacheva & Huse, 2006), women directorship is measured by using the number of women relative to the total number of board members.

3. Research Methodology

This study consists of panel data that included 18 public listed government linked companies. These samples are firms listed under Bursa Malaysia or previously known as Kuala Lumpur Stock Exchange (KLSE). Sample comprises of Malaysian government-linked companies from year 2003 to 2012. The essential information of this study is the company annual reports. Therefore, the availability of annual reports is the main requirement whether to include the particular companies in this sample.

This study uses mainly several sources of secondary data available. The list of government linked companies is available on Khazanah National Berhad website (http://www.khazanah.com.my). As the sample companies are publicly listed, their individual annual reports are available in Bursa Malaysia Website (http://www.bursamalaysia.com). Annual report is the main source of information for this research because it contains all information regarding directorship and financial statements. Besides that, this study also extracts data from Osiris Databases through the University Science Malaysia's library database. Company's website is also one of the most useful sources to obtain more information regarding company's policies. Basically this study employed quantitative and secondary data which is available online. The vital data and information for the study were collected from Bursa Malaysia (KLSE) websites such as companies' annual reports and University Science Malaysia's library databases such as Osiris.

3.1 Empirical Model

$$\text{Tobin's Q} = \alpha + \beta_1\,\text{FS} + \beta_2\,\text{LV} + \beta_4\,\text{BM} + \beta_3\,\text{BS} + e$$

The empirical model above is used in study. The control variables in this model are firm size, leverage and board size. This model aims to test the independent variables board meeting towards firm performance. While women directors and independent women directors serve as the moderating variables on board meeting towards firm performance. Error term is included. This study is employed panel data analysis as tool of examines the sample. The panel data analysis of regression model will be used to test all 10 years sample, from year 2003 to 2012. This panel data analysis can be defined as collection of observations that cross section over several time series. Therefore this panel data analysis allow study to take into account of both cross sectional and time series effect in the sample that will provide a clearer understanding about the impact of independent variables towards firm performance. Since this study is investigating both cross sectional and longitudinal analysis, double clustering standard errors is adopted to adjust the standard errors for correction either across firm and year.

There are two moderating variables proposed in this study which are women directors and independent women directors. In order to examine the moderating variable effect on firm performance, this research applies the subsample regression where the sample will be divided according to the four percentiles of the moderating variables. This research proposed to examine seven subsamples.]If the coefficient in the subsection regression found significant, it means that the moderating variable is significantly moderate the variable.

Analysis and Result

In this section, descriptive statistics, correlation and regression will be presented. The finding will be presented at the end of this section. Table 1 is the summary of descriptive statistics of 7 variables for 18 government linked companies in Malaysia for 10 years period from 2003 to 2012.

Table 1 Descriptive Statistics

Variable	Observation	Mean	Median	Std. Dev.	Min	Max
TobinQ	147	0.69	0.57	0.59	0.03	3.11
Firm Size	178	41.90	7.80	86.80	0.01	495.00
Leverage	174	85.09	1.77	439.54	0.62	2612.81
Board Size	179	9.25	9.00	2.11	5.00	16.00
Board Meeting	179	10.00	10.00	4.33	4.00	27.00
Independent Board	179	0.46	0.44	0.14	0.17	0.86
Women Directors	179	1.01	1.00	1.13	0.00	5.00

The mean of Tobin Q is 0.69 and range from 0.03 to 3.11. Tobin Q is used to measure firm value by using total market capital divided by total asset. Positive Tobin Q implies that GLC in Malaysia is performing well across the sample period. Firm size is measured by natural logarithm of total assets of the firm. The mean of firm size is 41.90 with minimum of 0.01 and maximum of 495.00. This shows that the sample of this study have mix of young and well established firms. Leverage is measured by debt ratio which is total asset divide by total liability. Leverage is used to measure companies's ability to meet its financial obligations. The mean of leverage is 85.09 and range from 0.02 to 2612.81. This show that some of the GLC is highly leveraged but some are least. This can be explained because the sample of GLC consists of firm across sectors. Leverage is differing from sector to sector.

The mean of number of board size is 9.25 vary from 5 to 16. This shows that some GLC has big number of board directors than others. The mean of number of meeting is 10. The minimum and maximum is range from 4 to 27. This shows that Malaysian GLC does comply with corporate govanence code by having minimum of 4 meetings. The ratio of independent board is range from 0.17 to 0.86 with mean is 0.46. This show that almost 46% of the board consists of independent directors. Having independent directors in board is practise by Malaysian GLC. The mean of number of women in board is 1.01. The minimum and maximum is range from 0 to 5. This show that some of the GLC does not involved women in the board but some companies does emphasized the involved of women by having up to 5 women on board.

Table 2 Correlations Analysis

	1	2	3	4	5	6	7
1. TobinQ	1.00						
2. Firm Size	-0.36	1.00					
3. Leverage	0.23	-0.65	1.00				
4. Board Size	-0.13	-0.04	0.28	1.00			
5. Board Meeting	-0.48	0.18	0.09	0.50	1.00		
6. Independent Board	0.13	0.13	0.05	-0.23	0.04	1.00	
7. Women Directors	-0.12	-0.01	0.00	0.43	0.33	-0.06	1.00

Table 2 shows correlation among 7 variables in this study. The correlation is varies from -0.65 to 0.50. Among these 7 variables, leverage has the highest negative correlation while independent women directors have the highest positive correlation. Leverage and firm size has the highest negative correlation of -0.65, whereas women directors and board size has the highest positive correlation of 0.50. On the other hand, no correlation is found between number of women directors and leverage and well as number of women executive directors and number of women directors. The correlation coefficients among all variables suggest that multicollinearity is not a concern for this study.

Table 3 Subsample Regression of Women Directors

	No condition	W=0	W< 50%	W<75%	W>75%
Firm Size	-0.0760**	-0.0589	-0.1274***	-0.1232***	0.0617
	(0.0142)	(0.1351)	(0.0074)	(0.0008)	(0.3278)
Leverage	0.0001	0.4870***	-0.0001	0	-0.0812
	(0.4569)	(0)	(0.7028)	(0.7424)	(0.4258)
Board Meeting	-0.6675***	-0.0562	-0.6341***	-0.6080***	-0.9691***
	(0)	(0.6866)	(0.0001)	(0)	(0)
Board Size	0.3863*	0.052	0.7918**	0.5445**	0.0824
	(0.0834)	(0.881)	(0.0159)	(0.0358)	(0.8395)
Independent Board	0.8818***	0.7852*	0.5551	0.7406**	1.0579*
	(0.0056)	(0.076)	(0.2884)	(0.0431)	(0.0563)
_cons	2.1218***	0.3576	2.1085***	2.4794***	1.4036
	(0.0005)	(0.6318)	(0.007)	(0.0002)	(0.3605)
N	146	59	80	112	34
r^2_o					
r^2_a	0.3406	0.6962	0.3223	0.3397	0.608
r^2	0.3634	0.7224	0.3652	0.3695	0.6674

The first column contains no condition which means that all the variables do not interact with number of women director. From Table 3, it can be clearly seen that the board meeting frequency has negative effect towards the firm performance. With the confidence level of 1%, the coefficient is -0.6675. It means that with every increase in a unit of board meeting frequency, the firm performance will decrease by 0.6675. On the other hand, the board size is positively affect the firm performance Tobin's Q with 90% of confidence level with 0.3863 coefficients. This means that for every a unit increase in board size, Tobin's Q increase by 0.3863. Next, the independent board is positively affecting the GLCs performance with 95% of confidence level. Coefficient 0.8818 can be interprets as a unit increase of independent board increase GLCs performance by 0.8818.

Next, column 2, 3, 4 and 5 in table 5 are used to investigate whether woman directors affects the impacts of board meeting frequency, board size and independent board towards GLCs performance. Column 2 shows that when there is no women involvement in board, the board meeting frequency tends to have higher firm performance. However, the result is no significant towards the firm performance. On the other hand, in term of board size, when there is no women directors the result is positive but not significant, the p-value is too high. Besides that, when there is no woman director interacting with independent board, the independent board has is 90% significant level towards GLCs performance. Coefficient 0.7852 is slightly lower that previous no condition situation which is 0.8818.

Subsequently, column 3 shows that when woman director's involvement is less than 50%, the coefficient of board meeting frequency towards the firm performance decreases from -0.6675 to -0.6341 with the confidence level of 1%. It means that with women involvement that less than 50%, it will reduce the negative effects of board meeting frequency towards the firm performance. When women directors' involvement in board size is less than 25%, the coefficient of board meeting frequency towards the firm performance improves from 0.052 to 0.7918 with the 5% confidence level. It means that with women involvement that less than 50%, interacting in board size GLCs tends to has better firm performance. In term of independent board, the firm performance tends to be lower but the result is not significant.

On the other hand, column 4 shows that when woman involvement is less than 75%, the coefficient of board meeting frequency towards the firm performance decreases from -0.6675 to -0.6080 with confidence level of 1%. It means that when women involvement is less than 75%, it negative effects of board meeting reduced by 0.0595. This also indicates that when women involvement is less than 75%, the firm performance will increases by 0.0595. While examine interacting of women director in board size, the coefficient decrease from 0.7918 to 0.5545 with the same confident level. This shows that when women involvement is more than 75% the firm performance tends to be lower 0.2437.

In contrary, when women involvement is more than 75%, the negative effects of board meeting enhance from -0.6675 to -0.9691 with confidence level of 1%. It means the women involvement that less than 75% will give the best interacting effect towards the effects of board meeting frequency towards the firm performance. While, when women involvement more than 75% the board size effect towards GLCs performance is not significant. On the other hand, when women directors' involvement is more than 75% firm performance tends to increase. The coefficient is 1.0579 with 90% of confident level.

3.2 Finding

From the results, board meeting has negative relationship towards firm performance, in this case which is Tobin's Q. This is consistent with previous studies where negative relationship between board meeting and firm performance (Kyereboah-Coleman, 2008; Vafeas, 1999). This is because even though board meetings bring benefits such as more time for directors to discuss, formulate strategy, and monitor management, but there are also costs associated with board meetings such as managerial time, travel expense, and directors' fees (Vafeas, 1999).

Second, from the results, board size tends to increase GLCs firm performance. From the agency theory perspective, as the firm grow larger, it would require bigger boards to monitor and control the actions of management (Kiel & Nicholson, 2003). As suggested by Jensen (1993), the pioneer in agency theory, the optimal number in the board is eight directors while later Lipton and Lorsch (1992) suggested that the maximum size of the board should be 10 members. As the number of the board grows more than 10 directors, the board performance of the board will be hindered (Lipton & Lorsch, 1992).

Third, board independent tends to improve firm performance. This is consistent with several studies argue that board independence enhances board effectiveness and improves firm performance (Choi, Park, & Yoo, 2007; Rosenstein & Wyatt, 1990). The findings of several empirical studies provide evidence supporting the expectation that independent boards and board committees provide more effective monitoring of managerial decisions and activities (Byrd & Hickman, 1992; Rosenstein & Wyatt, 1990; Xie, Davidson, & DaDalt, 2003), while other studies like (Anderson, Mansi, & Reeb, 2004; Dahya & McConnell, 2005) show that independent boards and board committees provide unbiased counsel and guidance to management. These findings confirm that independent corporate boards and board committees result in improved firm performance because they provide effective monitoring and guidance for management.

On the other hand, with the presence of women director is significantly affect the impact of board meeting towards firm performance. When women director is less than 75% in the board meeting, women directors tends to lessen the negative effect of board meeting towards GLCs performance. However, when women directors are more than 75%, they tend to increase the negative effect of board meeting towards firm performance. This could be explaining by when women directors dominate the board meeting the same negative effect goes to when male dominate the board meeting. Finding can be concluded from these result is when either gender dominating the corporate board meeting the firm tends to have lower performance. This is because there is lack of new insight and fresh ideas from another point of view during the decision making process.

Fifth, women directors do significantly affect the impact of board size towards firm performance. However, women directors is positively influenced the board size when less than 75% of women directors in corporate board. Yet another important finding is when either male dominating or women dominating the corporate board, board size tends be insignificant to firm performance. This showed that regarding how big the board size, if the board size does not have gender diversity it tends to reduce its significant towards firm performance.

Lastly, the same effect revealed when independent women director is positively related to Tobin's Q. This implies that higher ratio of independent directors inside the board increased firm performance. This is because independent directors do not have interest and relationship with the companies and ultimately will work in the best interest of companies. Moreover, based on the result on above, when the independent board is consists of women director, better the firm performance. When the independent board comprised of more women, Tobin Q improved. On top of that, when these independent women director involved in board meeting the beta is greater. This shows that when independent women director involved in board meeting its can create more positive impact on firm performance.

4. Discussion and Conclusion

In this study, we examine corporate governance related issues in Malaysian Government-Linked Companies (GLCs), namely, the relationship board meeting between corporate governance and a firm's performance, and does the presence of women directors and independent women directors moderate the effect of board meeting towards firm performance.

Numerous board meeting does not serve the firm performance. This study shows significance negative related when companies had too many board meeting will impair the firm performance. Corporate board should have board meeting which are essential to the companies. This is because even though board meetings bring benefits such as more time for directors to discuss, formulate strategy, and monitor management, but there are also costs associated with board meetings such as managerial time, travel expense, and directors' fees (Vafeas, 1999). This is consistent with previous studies where negative relationship between board meeting and firm performance (Kyereboah-Coleman, 2008; Vafeas, 1999).

One of the most important findings of this study is that it is that having the right amount of women directors will improve the firm performance rather than simply having more number of women directors. This is consistent with by previous studies done by (D. Carter, D'Souza, Simkins, & Simpson, 2007; D. A. Carter et al., 2003; Erhardt, Werbel, & Shrader, 2003; Lückerath-Rovers, 2013) where positive relationship is found. Overall, when women director more than 75% or dominate in corporate board they tend to reduce the board meeting and board size towards GLCs performance. This is because when one gender dominate the board, little new insight and information to the current or unexpected problems. Whereas when women more than 75%, it tends to increased board independent affect towards firm performance.

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