

BOARD DIVERSITY AND FINANCIAL SUSTAINABILITY IN CHARITIES: A MALAYSIAN PERSPECTIVE

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ABSTRACT

Charity failure has been a problem that has been plaguing developed countries and developing alike. In Malaysia, it has been reported that charities faced difficulties in raising donations due to the difficult economic climate. Past research has provided some evidence on the role of board diversity on the financial performance of for-profit organizations. **This study examines** the impact of board diversity in improving charity financial sustainability. A sample of 211 active charities (companies limited by guarantee) in 2016 was selected. Data on board diversity (age, gender, race and tenure) as well as financial sustainability were obtained and binary logistic regression via XLSTAT was performed. The findings suggested that director tenure diversity significantly predicts financial sustainability of charities. Age, race and ethnic diversity were found to be not significant. **The implications of the study's findings mean that charities in general should embark upon regular new director appointments, in order to maintain a fresh outlook and to bring in new infusion of skills at the strategic and operational levels.**

Keywords: Financial sustainability, Board diversity, Charities, Malaysia

INTRODUCTION

Charity failure has been a problem that has been plaguing developed countries and developing alike. In Malaysia, it was reported that charities have difficulties in raising donations due to the difficult economic climate (Wong, 2016). Several welfare homes were reported to be at the brink of survival due to the decline in donation levels, such as the Destiny Starting Point Welfare Association Klang (which runs three homes for delinquent children and one for the homeless, elderly, blind, people with physical or mental disabilities as well as those with tuberculosis and HIV), Rumah Kasih (a girls' home providing care and education to enable its inhabitants to support themselves into adulthood), and Pertubuhan Kebajikan Baitul Kasih (a home for underprivileged children) (Foo and Mohd Rani, 2017).

Charities fall into the third sector (in contrast to the public and private sectors), which refers to organisations which undertake not-for-profit social activity. Charities of all sizes play an essential role in society, and provide social care and education, amongst other things. The third sector is significantly large in size, and has been growing rapidly, especially in Asia, Africa and Latin America (Ghaus-Pasha, 2005; Salamon and Anheier, 1997; Lyons and Hocking, 1998). Seen as providers of relief and promoter of human rights, such organisations are now increasingly viewed as critical contributors to economic growth and civic and social infrastructure essential for a minimum quality of life for the people (Salamon and Anheier, 1997; Fukuyama, 1995; OECD, 1995). The third sector is a substantial employer and a provider of services that fill the gaps in those provided by the government (Abraham, 2003); it also serves as an alternative delivery mode for public services, a rich and diverse source of ideas and an avenue for the channelling of