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Women Director Characteristics: Do They Add Value to Firm Performance?

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ABSTRACT

Participation of women as a part of firm management becomes one of the nation agenda as the Malaysian government introduced a policy to increase women involvement at least 30% in corporate sectors in June 2011. The aim of this paper is to examine whether the characteristics of women as decision maker influence firm performance. Based on 2384 firm observations from year 2001 to 2012, this study finds that women education level, age and ownership have a relationship with firm performance. These findings indicate that women directors who are older in age and have a degree qualification help to improve firm performance. In contrast, women ownership has a negative association with firm performance which indicate that women involvement in a company as shareholders do no contribute to the incremental of firm performance. Large firms enjoy high performance whilst capital intensive firms struggling in their performance.

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INTRODUCTION

Women participation as a labour force contribute to Malaysia economic and nation development cannot be neglected as the rate of women participation in Malaysian labour force is expected to be increase from 47.3% in the year 2014 to 55% in the year 2015 (The Star, 9 March 2015). Knowing that gender diversity is important in a firm, the Malaysian government has come out with a policy that firms board of directors should consist of at least 30% women participation, specifically at the managerial level (The Star, June 27, 2011). This policy shows that women are giving an equal right with male counterpart in making firm decisions including the enhancement of firm performance.

The important of women as a part of management level has been recognised in developed country like the US as the females account for over a third of managers overall (Dezso' and Ross, 2012). Similarly in Norway, the proportion of women in Norwegian listed firm increased from about 6% in 2000 to 22% in 2005. Study by Dezso' and Ross (2012) in the US find that female participation does improve firm performance that measured based on Tobin's Q. However, the positive relationship is only applicable for female participation below than CEO level as they find no positive effects from a female CEO. They also find that female management style enhance firm performance by facilitating teamwork and innovation. This finding is in line with Smith, Smith and Verner (2005) who find that the proportion of women among top management and on board of directors tend to have a significantly positive effect on firm performance. Similarly, they also find that women who hold CEO post do not contribute to the increment in firm performance. They comment that this result is due to few Danish firms that have female CEO.

In Malaysia, several studies have been conducted that examine the relationship between women participation and firm performance. For example, Amran (2011) finds that firms that lead by women have lower Tobin's Q as compared to male-led firm performance. Further, Zainal *et al*. (2013) also produce the same evidence as they find that firms which board solely consist of male directors outperform firms that have combination of male and female directors. However, previous studies do not focus on the effect of directors personal attributes on firm performance. In order to fill the above mentioned gap, the main objective of this paper is to investigate whether directors attributes specifically women directors can enhance firm's financial performance.

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This study is organized as follows. Next, a review of literature will be presented, followed by a discussion on research methods. Results will be presented in the following section. Finally, this paper ends with a conclusion section.

Theoretical Perspectives & Hypotheses Development:

Human Capital Theory and Social Network Theory:

Hungenberg, Wulf and Stein (2007) claim that human capital theory is based on resource-based theory which mainly concentrates on the specific type of resources to which it assigns an accentuated role. This specific type of resources is the human capital which comprises all individual skills, abilities and experiences of a company's employees and managers at all levels. Human capital theory assumes that valuable resources which cannot or can hardly be imitated, substituted and transferred are the main prerequisites for a company's success. Skill specialization, educational and prior experience and training will reduce human capital development cost to the firm and allow the incumbent a higher level of productivity. Meanwhile, social network theory explains how managers accumulate power using several mechanisms such as special expertise, experience, industry specialization, prestige, ownership, age and longer tenure (Goodstein & Boeker, 1991; Datta & Guthrie, 1994; Cannella & Lubatkin, 1993). Therefore, women as human capital of the company may have control over valuable resources and use their social network power to enhance firm performance.

Women Characteristics and Firm Performance:

Firm performance is well recognized as a performance indicator to evaluate the sustainability of corporate growth and the effectiveness and efficiency of management in allocating and handling companies' resources. Sustainability in corporate growth deals with how companies can create a stable and sustainable income so that the return to the shareholders is predictable for every period. Commonly, there are two types of firm's performance measures: accounting-based and market-based performance measures. Examples of accounting based performance measures are profit margin, operating profit, earnings per share, net income, return on assets, return on equity, return on investment and cash flows. Some measures of market based performance are stock price, stock returns, market adjusted returns, Tobin's Q, economic value added (EVA) and market value added (MVA).

There are extant of studies that address the relationship between board characteristics and financial performance relying on accounting-based performance measures (e.g, Johl, Kaur & Cooper, 2015; Shukeri, Wei Shin & Shaari, 2012; Dezso' & Ross, 2012; Adam & Ferreira, 2009; Smith, Smith & Verner, 2005) and market-based performance measures as well as combinations of both (Amran, 2011; Abdullah, Ku Ismail & Nachum, 2013). However, there is limited study that specifically addressed the relationship between women director characteristics and firm performance.

Age (AGE):

A demographic characteristic such as age is commonly used to determine the effectiveness in managing the firms. With regard to the age of directors, the Companies Act 1965 prohibits the appointment of a person of or over the age of 70 years as a director of a public company or subsidiary of a public company. The office of a director shall become vacant until the forthcoming annual general meeting after he attains the age of 70 years. If the vacancy is not filled at the meeting, it may be filled as a casual vacancy. In addition, Kang (2002) claims that there is a provision in the company's articles regarding the retirement by rotation of directors so as to afford the shareholders of the company the opportunity to review the director's performance. For listed companies, the election of directors is to take place every year; and for all directors including the managing directors, they need to retire at least once in every three years but they are eligible for re-election.

Some studies suggest that young manager with little experience have limited effectiveness because it takes time to gain an adequate understanding of the company. For example, in CEO turnover study, Coughlan and Schmidt (1985), split their sample into two categories; young CEOs (aged less than 54 years) and older CEOs (aged at least 54 years). They find that in the young CEO sample (less than 54 years) where mandatory retirement has no influence, the inverse relation between stock price performance and probability of turnover is highly significant. In the old CEO sample (54 years or more), the relationship between performance and turnover becomes positive but insignificant. Further, Cheng, Chan and Leung (2010) assert that young manager has tendency to accept new ideas found but refuse to accept status quo.

In term of relationship between firm performance and age, previous study mixed results. For example, Dagsson (2011) find a positive relationship between age of directors and firm performance, while Akpan and Amran (2014) do not find any significant association between performance and directors' age. Besides, age can also be used as a proxy for manager knowledge. It is commonly stated that young managers are less experienced, therefore they have lower information level about the internal and external environment of the firm (Lausten, 2002). As the age is use as a proxy of effectiveness, these studies suggest that the older the individual, the

greater the understanding of the firm and its industry, and the better the performance of the firm.
H1: There is positive relationship between firm performance and older women directors.

Educational Background (EDU):

Moving towards emerging and competitive market, the career background of managers has shifted from a production man to a professional manager with a higher educational background. A higher educational background such as the post-graduate level will increase the value of individual's human capital (Phan & Hoon, 1995). Bantel and Jackson (1989) claim that managers with higher educational backgrounds are considered as having a higher cognitive ability, higher capacity for decision processing, higher tolerance for ambiguity and propensity or receptivity to innovation which equip them with an effective solution for a complex decision making task. Thus, managers with a high education qualification are regarded as valuable human capital to the company and can use their knowledge to enhance firm performance.
H2: There is positive relationship between firm performance and women director's educational level.

Professional Qualification (PRO):

Directors are often cited as the key player that influences a firm's overall strategies. They are the top manager and the strategies they pursue are expected to make a difference. Kotter (1982) claims that manager who spent his or her career in just one or two industries will have greater knowledge concerning those industries' product lines and manufacturing processes than a manager who has moved across several different industries. Zajac and Stearns (1997) suggest that managers with finance and legal functional backgrounds as professional or expert. They list two reasons why managers with finance and legal backgrounds are considered as professionals or experts. First, their knowledge requires a professional type of education and secondly, their skill is highly specialized in terms of what they had learned. Since their skills are appropriate for the firms, thus, they can enhance firm performance. Study by Haniffa and Cooke (2002) found that board members who are equipped with accounting education tend to disclose more information. Similarly, Yermack (2006) claimed that share price react positively with directors who hold accounting and finance professional qualification.
H3: There is positive relationship between firm performance and women director's professional qualification.

Ownership (OWN):

Agency theory discusses that there will be a convergence of interest between agent and principal. One way to solve this problem and to make the top management's interest aligns with shareholders' interest is by allowing the top management to have some shares in the company. As the management owns some portion of company's share, they are now becoming the owners of the firms. As a result, they will put in their best efforts to enhance the firm's performance in order to maximize their own wealth. Empirical evidences showed that managerial ownership is effective at certain ownership level (Morck *et al*. 1988; Denis *et al*. 1997). Studies by Morck *et al*. (1988) and Pergola (2005) find a curvilinear relationship between firm's value and the number of shares owned by management. They reported an increment in firm value when managerial ownership is between 0 percent to 5 percent and above 25 percent respectively. However, when the managerial ownership is between 5 percent to 25 percent, there is a decrement in firm's value. A similar finding is also discussed by Ghosh *et al*. (2007) who provides evidence that the controlling power of a managers over firms' decision depends of the level on ownership possessed by the manager. If the controlling power is less than 5 percent, their influence is not significant and as the controlling power is more than 25 percent, their power will be significantly increased. These findings are consistent with the management entrenchment hypothesis as the hypothesis posits that when management ownership level increases beyond a certain level, the manager's interest is aligned with the shareholders' interest because at this level the manager is also the owner of the firm. As a result, they will put in their best efforts to enhance the firm's performance in order to maximize their own wealth.
H4: There is positive relationship between firm performance and women director's ownership.

Control Variables:

Firm size and industry classification are among potential firm characteristics that may play important roles in appointing women as board members. Firm size is measured as natural log of book value over total assets and leverage industry classification is classified under capital intensive industries are firms that heavily invest in R&D, namely the technology, construction, properties, IPC and hotel industries. They are coded as '1' and other industries are coded as '0' (Zajac & Stearns, 1997).

Research Methodology:

The sample of this study is all companies listed on the Main Market of Bursa Malaysia that have women on board. The years of study are from 2001 to 2012 with a final sample of 2384 firm observations. Data on women directors are gathered from the annual reports. Financial data are retrieved from Datastream. The regression model use in this paper is:

$$PERF_{it} = \alpha + \beta_1 AGE_{it} + \beta_2 EDU_{it} + \beta_3 PRO_{it} + \beta_4 OWN_{it}\ \beta_5 FSIZE_{it} + \beta 5 IND_{it} + \varepsilon_{it}$$

Table 1: The variables and their operation measures.

Variables	Operational measures
Return On Assets (ROA)	Profit before interests and taxes by the firm's total assets
Earnings Per Share (EPS)	Net income by number of outstanding shares
Women age (AGE)	Age of women director
Women education level (EDU)	1 1– has a degree qualification and above, 0- otherwise
Women professional qualification (PRO)	1– has a background in accounting and finance, 0- otherwise
Women ownership (OWN)	Percentage of shares owned by women directors
Firm size (FSIZE)	Natural log of total assets in million (RM)
Industry dummy (INDUSTRY)	1– capital intensive industry, 0- otherwise

RESULTS AND DISCUSSIONS

Table 2 displays the descriptive statistics for both continuous and dichotomous variables. Our findings suggest that on average, firms in this study enjoy a healthy performance with a positive ROA with an average of 5.138 and the mean of EPS is 0.121. On average, the age of women directors is 51 years with the maximum age is 90 years old. This result shows that on average the age of women on board is consider as old which is more than 50 years old. Sixty eight percent of women directors have higher academic qualification as they obtained a degree or above qualification like master degree and PhD. However, in terms of their professional qualification in accounting and finance only 25% of women directors have that qualification. Women directors also do not have significant control over firms as on average, they only owned 15.35 percent of firms share. In other words, their opinion is less likely take into account by other board of directors. Large firms tend to have women as their board members due to large number of board size which create gender diversity. Further, women involvement in firms that classified as capital intensive is low as compared to other industry as only 21.9% percent of women in this kind of industry. This may be due to complexity of firm activities which required knowledge and capable directors to handle the complex test which is less suitable for women.

Table 2: Descriptive Statistic (N=2384).

Variables	Min	Max	Mean
ROA	-5.251	21.222	5.138
EPS	0.000	4.750	0.121
AGE	0.000	90.000	50.530
EDU	0.000	1.000	0.680
PRO	0.000	1.000	0.250
OWN	0.000	29.080	15.350
FSIZE	4.664	5.432	4.831
INDUSTRY	0.000	1.000	0.219

Table 3 presents the correlation analysis. The evidence suggests that on correlation basis, firm performance which measured by ROA is only significantly associated with firm size and for EPS measurement, performance is significantly correlate with women director age, ownership, firm size and industry classification. Older women directors have lower education level, professional qualification and hold a small portion of firm shares. Education level has a positive association with professional qualification which means that directors who obtained high level of education also have a background in accounting and finance. However, the high education level and professional qualification of women directors do not contribute to high portion of ownership control as their association are negative and significant. This result shows that high educated women with accounting and finance background hold a small number of shares which limit their control over the firm. Large firms tend to have higher performance as both ROA and EPS show a positive and significant correlation. Further, their board also consists of older women as the age variable show a positive association. In contrast, capital intensive firms have a negative association with performance (EPS), ownership and firm size. These results imply that firms that classified as capital intensive firms do have low performance, less controlled by women directors and smaller in size. None of the correlation is too high to suggest severe multicollinearity threats (see Nunally, 1978).

Results from the logistic regression analysis are presented in Table 4. From four hypotheses variables and using EPS as performance measurement, three variables namely AGE, EDU and OWN show a significant results. The AGE coefficient is positive and significant at 1% level which indicates that older women directors do improve firm performance. Similar result is appeared in the ROA's model as the coefficient is positive and significant at 5% level. As the median age from our descriptive results is 51 years old which is about three years prior to retirement, we argue that the age group of directors of between 50-55 years old represents a critical group of near retirement group. These directors may have to tread carefully between maintaining their reputation in the labour market or pressing for the last bonus/pay they would likely receive.

Table 3: Correlation Analysis.

	1	2	3	4	5	6	7	8
1.ROA	1	0.383	0.042	0.027	0.023	-0.017	0.122**	0.001
2. EPS		1	0.111**	0.029	-0.014	-0.108**	0.172**	-0.061**
3. AGE			1	-0.231**	-0.159**	-0.115**	0.069**	-0.001
4. EDU				1	0.389**	-0.196**	0.007	0.021
5.PRO					1	-0.130**	0.015	-0.046
6.OWN						1	-0.056**	-0.042*
7.FSIZE							1	-0.133**
8. INDUSTRY								1

** significant at 0.01 level, * significant at 0.05 level (2-tailed)

Results in Table 4 show a significant sign of EDU which indicates that the degree qualification of women directors is important in determining firm performance. The coefficient of EDU is positive and significant at 10 percent level. This can be explained that high education level can marginally contribute to high performance as the women directors can use their knowledge to implement policy and strategies that can enhance firm performance. Women directors with a background in accounting and finance are considered as directors with skill and functional background. This study hypothesized that women directors equipped with these qualifications are more likely to enhance firm performance as their skills are needed in managing the firms. Results in Table 4 also show that there is a positive insignificant relationship between professional qualification and firm performance. This result implies that the firm performance is not influenced by manager qualification in accounting and finance. Although these skills are usually needed in most businesses, only 25% of the women directors have some accounting and finance background. The insignificant coefficient of professional qualification suggests that accounting and finance background is perceived as less important quality required for a directors. These finding is in line with Zajac and Westphal (1996) who argue that managers with an industry specialization related to a firm's business operation is more important regardless of his level of skill and functional background.

Percentage of shares owned by women directors may also have a significant influence on firm performance. When women directors have some control on firms via ownership they may intervene in decision making. Thus, this study expects that there will be a positive relationship between women director ownership (OWN) with firm performance. In other words, it is predicted that a women director who owns shares in the same company will improve firm performance as their interest is aligned with other shareholders interest. However, the result fails to support Hypothesis 4 as it shows that women director ownership has a negative relationship with firm performance as the coefficient is negatively significant at 1% level. One explanation that this study can offer is that even though ownership can aligned the interest of the directors and help in improving firm performance, but due to the small portion of ownership with the average of 15 percent will not give women directors a significant control over firms decision. In other words, they cannot use their ownership power to influence board of directors in making their policies and strategies in managing firm's activities.

Table 4: Regression analysis for women director's characteristic and firm performance.

	EPS	ROA
	coef. (s.e.)	coef. (s.e.)
AGE	0.093*** (0.000)	0.045** (0.018)
EDU	0.042* (0.011)	0.032 (0.452)
PRO	-0.035 (0.012)	0.019 (0.480)
OWN	-0.085*** (0.000)	0.006 (0.009)
FSIZE	0.162*** (0.000)	0.124*** (0.154)
INDUSTRY	-0.045** (0.012)	0.015 (0.463)
CONS	-3.391*** (0.032)	-1.434 (1.303)
R^2	0.228	0.137

*** Significant at the 0.01 level, ** significant at the 0.05 level, * significant at the 0.1 level.

We also find that bigger firms tend to have high performance as performance coefficient measured by both ROA and EPS respectively, show a positive and significant relationship. The study also find that capital intensive firms have low performance may be due to huge investment in research and development and for machineries and equipment. These investments need some times to get back the return.

As a result, the capital intensive firms may suffer some losses in a few earlier years.

Conclusion:

The study investigates possible ramifications of women director characteristics on firm performance in Malaysia from 2001 to 2012. We find that the age of the women director and education level influence firm performance. It could be as simply as older CEOs might be try to maximize their last pay. Further, women director with high education level will use their knowledge to improve firm performance. However, still few companies that accepted the involvement of women directors as the portion of share allocated to women is still low. This gives a limit to women directors to intervene in firm policies and strategies which can enhance firm performance.

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