

**FIRM PERFORMANCE EFFECTS OF BOARD DIVERSITY:
A CASE OF MALAYSIAN LISTED FIRMS**

ANIZ ISMAIL

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**FIRM PERFORMANCE EFFECTS OF BOARD DIVERSITY: A CASE OF
MALAYSIAN LISTED FIRMS**

BY:

ANIZ ISMAIL

**Dissertation Submitted to the
Othman Yeop Abdullah Graduate School of Business,
Universiti Utara Malaysia,
in Partial Fulfillment of the Requirement for the Degree of
Master of Science**

DECLARATION

I hereby declare that this thesis entitled “Firm Performance Effects of Board Diversity: A Case of Malaysian Listed Firms” is based on my original research except for quotations and citations that have been duly acknowledged. I also declare that it has not been previously or concurrently submitted for any other degree at Universiti Utara Malaysia or other institutions.

ANIZ BINTI ISMAIL

810105

Othman Yeop Abdullah Graduate School of Business

Universiti Utara Malaysia

06010 Sintok

Kedah

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ABSTRAK

Kepelbagaian dalam keahlian lembaga pengarah dan pihak pengurusan atasan telah menjadi satu isu yang semakin relevan untuk lebih daripada satu dekad sekarang. Dianggap sebagai isu sosial dan isu imej sebelum ini, kepelbagaian semakin dilihat sebagai pemacu nilai dalam strategi organisasi dan tadbir urus korporat. Kajian ini telah dijalankan dalam usaha untuk menganalisis hubungan antara kepelbagaian lembaga pengarah dengan prestasi firma. Data sampel terdiri daripada 82 syarikat-syarikat yang tersenarai di Pasaran Utama Bursa Malaysia dan data dikumpulkan daripada laporan tahunan 2011 syarikat terlibat. Hasil kajian menunjukkan QUAL dan FORDIR berhubung secara positif dengan prestasi firma, iaitu ROA dan TQ. Sebaliknya, MDIR, WOMDIR, BDSIZE dan FIRMSIZE mempunyai hubungan negatif dengan prestasi firma. Bagi AVGAGE, keputusan menunjukkan kesimpulan yang bercanggah. AVGAGE adalah positif berkaitan dengan ROA tetapi negatif yang berkaitan dengan TQ. Hasil kajian ini adalah selari dengan beberapa kajian sebelum ini mengenai hubungan antara kepelbagaian lembaga dengan prestasi firma yang telah menghasilkan dapatan bercampur-campur. Beberapa kajian menunjukkan hubungan yang positif manakala yang lain menunjukkan hubungan yang negatif. Di samping itu, terdapat juga keputusan yang menunjukkan bahawa tidak terdapat hubungan yang signifikan antara kepelbagaian lembaga pengarah dengan prestasi firma.

ABSTRACT

Diversity in the boardroom and in top management team has become an increasingly relevant issue for more than a decade now. Previously considered a social issue and an issue of image, diversity is increasingly considered as a value-driver in organisational strategy and corporate governance. This study was carried out in order to seek the relationship between board diversity and firm performance. The sample data consists of 82 listed companies on the Bursa Malaysia Main Board and data were collected from the companies' respective 2011 annual reports. The findings show QUAL and FORDIR are positively related with both measures of firm performance, namely ROA and TQ. Conversely, MDIR, WOMDIR, BDSIZE and FIRMSIZE have negative association with firm performance. As for AVGAGE, the results show a mixed conclusion. AVGAGE is positively related to ROA but negatively related to TQ. The findings are in line with several previous studies on the relationship between board diversity and firm performance which have produced mixed result. Some findings show a positive relationship while others demonstrate a negative relationship. On the other hand, there are also results which showed that there is no significant relationship between diversity on board and firm performance.

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TABLE OF CONTENTS

	Page
DECLARATION	ii
PERMISSION	iii
ABSTRAK	iv
ABSTRACT	v
ACKNOWLEDGEMENTS	vi
TABLE OF CONTENTS	vii
LIST OF TABLES	x
LIST OF FIGURES	xi
LIST OF ABBREVIATIONS	xii
Chapter 1 INTRODUCTION	
1.1 Corporate Governance in Malaysia	1
1.2 Background of Study	3
1.3 Problem Statement	4
1.4 Research Objectives	5
1.5 Research Questions	6
1.6 Justification of Study	6
1.7 Scope of Study	7
1.8 Organization of Study	8
1.9 Chapter Summary	8
Chapter 2 LITERATURE REVIEW	
2.1 Introduction	9
2.2 Dependent Variables	
2.2.1 Return on Asset (ROA)	9
2.2.2 Tobin's Q (TQ)	11
2.3 Independent Variables	
2.3.1 Ethnicity and Culture Diversity	13
2.3.2 Gender Diversity	18
2.3.3 Board of Directors' Age	22
2.3.4 Board of Directors' Qualification and Education	24

2.3.5	Foreign Directors on Board	27
2.4	Control Variables	
2.4.1	Board Size	29
2.4.2	Firm Size	30
2.4.3	Industry Type	32
2.5	Chapter Summary	33
Chapter 3	RESEARCH METHODOLOGY AND HYPOTHESIS	
3.1	Introduction	34
3.2	Research Framework	34
3.3	Research Hypotheses	35
3.4	Research Design	36
3.5	Data Collection	36
3.6	Sampling	37
3.7	Variables and Measurements	
3.7.1	Dependent Variables	38
3.7.2	Independent Variables	38
3.7.3	Control Variables	39
3.7.4	Measurements of Variables	39
3.8	Data Analysis	
3.8.1	Descriptive Analysis	41
3.8.2	Ordinary Least Squares (OLS) Regression Model	41
3.8.3	Correlation Coefficient Analysis	43
3.9	Chapter Summary	43
Chapter 4	FINDINGS AND DISCUSSIONS	
4.1	Introduction	44
4.2	Descriptive Analysis	
4.2.1	Dependent Variables	44
4.2.2	Independent Variables	45
4.3	Multiple Linear Regression Analysis	
4.3.1	Model 1: ROA as Dependent Variable	47
4.3.2	Model 2: TQ as Dependent Variable	51
4.4	Multicollinearity Test	55

4.5	Pearson Correlation Coefficient	57
4.5.1	Model 1: ROA as Dependent Variable	58
4.5.2	Model 2: TQ as Dependent Variable	61
4.6	Acceptance or Rejection of Hypothesis	63
4.7	Chapter Summary	66
Chapter 5	CONCLUSION AND RECOMMENDATIONS	
5.1	Introduction	67
5.2	Discussion and Summary of Findings	67
5.3	Limitations of Study	70
5.4	Recommendations For Future Research	71
5.5	Chapter Summary	72
	REFERENCES	73
APPENDIX A:	Table 4.12	
	Correlations Coefficients Model 1: ROA as Dependent Variable	83
APPENDIX B:	Table 4.13	
	Correlations Coefficients Model 2: TQ as Dependent Variable	85
APPENDIX C:	Research Timeframe	87
APPENDIX D:	List of Companies in Sample Frame	88

LIST OF TABLES

<u>Table</u>	<u>Title</u>	<u>Page</u>
3.1	Dependent Variables	38
3.2	Independent Variables	39
3.3	Control Variables	39
3.4	Measurements of Variables	40
4.1	Descriptive Statistics for ROA and TQ	44
4.2	Descriptive Statistics for IVs	45
4.3	Model Summary (Model 1)	47
4.4	ANOVA table (Model 1)	48
4.5	Excluded Variables (Model 1)	49
4.6	Coefficients Table (Model 1)	50
4.7	Model Summary (Model 2)	52
4.8	ANOVA table (Model 2)	52
4.9	Excluded Variables (Model 2)	53
4.10	Coefficients Table (Model 2)	54
4.11	Collinearity Statistics	56
4.12	Correlations Coefficients Model 1: ROA as Dependent Variable	83
4.13	Correlations Coefficients Model 2: TQ as Dependent Variable	85
4.14	Acceptance or Rejection of Hypotheses	65

LIST OF FIGURES

<u>Figure</u>	<u>Title</u>	<u>Page</u>
3.1	Research Framework	35
3.2	Companies by Industry Type	37

LIST OF ABBREVIATIONS

WOMDIR	=	Woman Directors
WOMDIRD	=	Woman Directors (Dummy)
MDIR	=	Malay Directors
MDIRD	=	Malay Directors (Dummy)
AVGAGE	=	Directors' Age
QUAL	=	Directors' Qualification
FORDIR	=	Foreign Directors
BDSIZE	=	Board Size
FIRMSIZE	=	Firm Size
ROA	=	Return on Asset
TQ	=	Tobin's Q

CHAPTER ONE

INTRODUCTION

1.1 CORPORATE GOVERNANCE IN MALAYSIA

There have been numerous definitions of corporate governance in previous studies. In Malaysia the High Level Finance Committee Report on Corporate Governance defines corporate governance as “the process and structure used to direct and manage the business and affairs of the company towards enhancing business prosperity and corporate accountability with the ultimate objective of realizing long-term shareholder value whilst taking into account the interest of other stakeholders”¹.

According to the Malaysian Code of Corporate Governance (Revised 2007), there are three broad approaches to the issue of corporate governance. The first approach is the prescriptive approach, where the standard of corporate governance is set by specifying sought-after practices together with a requirement to disclose compliance with them. The next approach is a non-prescriptive approach where companies are required to disclose their corporate governance practices. The rationale behind this approach is that each company’s corporate governance needs are different and directors of companies should address these needs. The last approach is the hybrid approach. This involves the use of broad principles which are applied flexibly to the varying circumstances of individual companies.

¹ Report on Corporate Governance (1999), page 10

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