


# Chapter 7

## Gender Diversity: An Issue of Concern

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### **ABSTRACT**

*Gender diversity is a new and challenging issue of research in business. Women on boards are a heavily discussed topic in developed countries, though this issue has recently appeared to gain the attention of researchers in developing economies as well. However, research on gender diversity in Malaysia is limited. This study aims to examine whether female directors on boards can affect firm performance based on selected public listed companies in Malaysia. In examining the effect of gender diversity on firm performance, Pearson correlation coefficient and regression analysis tests are employed using economic value added (EVA) as a measurement tool. This study found no relationship between gender diversity and firm performance. Given this, future studies should try to consider other aspects of corporate governance.*

### **INTRODUCTION**

Growing participation of women in the corporate arena both in developed and developing economies in the last few decades appears to have gained increased attention from scholars and academicians as well as corporate leaders. Though, women's place varies based on social, moral and authoritative status in turn based

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## **Gender Diversity**

on culture, norms and social values as well as religious sensitivity, gender diversity is considered as a value driver in business strategy and hence has emerged as a challenging issue to researchers as well as regulatory bodies. In general, it's not long ago since the proportion of female members was not at all notable in top positions in firms due to the myth that women are not as capable as men in making decisions, hence unlikely to be effective in the corporate world. However, the effects of female board members with greater performance reflect that an increased number of women in the board room bring firms' higher productivity as well as higher profitability.

A number of studies have been conducted on gender diversity in the board room and these have argued that diversified board perform better compared to non-diversified, from which this study has been inspired to conduct further research in order to produce empirical evidence on developing economies<sup>1</sup>. A survey by Credit Suisse (2012) found that approximately 29% of firms had women board members in 2011 compared to 12% by the end of 2005 in emerging Asia. However, this figure is notable in Europe and North America where 85% of firms had women in their board rooms by 2011, whereas it only was 48% and 73% respectively in 2005. Results also showed a steady increase in share price as well as in return on equity (ROE) of firms with women in the board room from 2005 until 2011. In fact, in order to increase women's participation in board rooms governments around the world have recently started intervening (Credit Suisse, 2012). The report stated that in the past five years, seven countries have passed legislation mandating female board representation and eight have set out non-mandatory targets, while the Norwegian government made it mandatory for large firms to have at least a 40% female presence in the board room (Juana *et al.*, 2010). On the other hand, the Finnish code of corporate governance (2008) requires all public listed firms to have at least one female director on the board starting from 1<sup>st</sup> January 2010, or otherwise to, explain the reason in their annual report.

Hence, the aim of this study is to examine the effect of gender diversity on firm performance in Malaysia. Moreover, this study aims to suggest whether gender diversity is significant in both of the said economies based on the empirical evidence as most of the empirical evidences on gender diversity have been grounded in developed economies. The next section contains a literature review on gender diversity around the world followed by with sample selection, methodology result analysis and finally the conclusion of the study.

## **LITERATURE REVIEW**

One interesting study area for many researchers over the last few decades has been gender diversity (Elgart, 1983; Wall Street Journal, 1986). Research on female

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