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Market reactions towards the appointment of women to the boards of Malaysian firms

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ABSTRACT

This study examines market reactions towards the appointment of women to corporate boards and observes if women's attributes as well as the role that they play in discharging their monitoring responsibilities would affect the value of firms. We observe 127 Malaysian firms that appoint women directors over the period 1999–2011. We use the market model to assess abnormal returns surrounding the appointment of women directors from day −10 to day 10. Using conventional *t*-test, share time series test and rank test, we find that investors welcome the appointment of women directors. A positive average abnormal return (AAR) is observed on day −1 using all the three tests. Cumulative average abnormal returns (CAAR) are positive over the period day 1 to day 10. We also find that investors are more likely to favour women who are prominent, younger, have no international exposure and no family relationship with any other directors. Our findings support the initiative taken by the Malaysian Government to promote greater women participation on corporate boards. Policy makers may benefit from this study because it provides them an input at enhancing the policy related to women on boards.

1. Introduction

The representation of women directors on corporate boards has become an issue of interest throughout the world. This is because women are under-represented at corporate decision-making levels despite their significant contribution to the economy in general, and to firms in particular. Some countries have made it compulsory for companies to achieve a certain quota with respect to women representation on boards. Norway, for example, requires that boards have at least 40% of both genders on boards. The initiatives taken are legitimate because for one, the pool of women candidates is getting larger as more women are entering tertiary education and securing positions at the managerial levels. Second, evidence shows that women are able to improve firm performance, and that they are more ethical than men.

Acknowledging the role of women in the development of the country, the government of Malaysia has also introduced a policy in which 30% of the decision-making positions in the corporate sector must be allocated to women. The corporate sector is given until 2016 to fulfil the requirement (The Star, 27 June 2011). The policy is consistent with at least some

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of the evidence showing that women directors are able to improve boards' monitoring roles (Bradshaw and Wicks, 2000; Stephenson, 2004; Zaltman, 1997), and that women directors positively influence firm accounting performance (Abdullah et al., 2016; Erhardt et al., 2003; Singh et al., 2001; Smith et al., 2006) and firm market performance (Carter et al., 2003; Nguyen and Faff, 2006).

Many of the studies on women directors observe if women enhance firm accounting performance and market long-term performance by looking at the accounting numbers and market values after they have been appointed to the boards, and very few examine the short-term firm value, that is how investors react to the appointment of women to the boards surrounding the announcement dates. Due to the mixed results on the influence of women on firm performance (Abdullah and Ku Ismail, 2013; Abdullah et al., 2016; Zainal et al., 2013) and the absence of studies on market reactions towards the appointment of women to the boards in Malaysia, we feel that it is timely that the latter study be conducted.

Some may argue that investors react positively towards the appointment of women to the boards to reward firms for complying with the specific country's policy or code on women directorship. Since our observations cover the period 1999 to May 2011, when the policy has not been announced, this is not an issue of concern. However, even if the policy was already in place, what motivates us further to conduct this study is that we want to understand whether the characteristics of women directors matter in valuing a firm. In other words, would market react differently to different women characteristics?

Malaysia makes a good platform for this study because, for one, the government is making a serious effort at promoting women to the boards. Second, the unfavourable attitudes towards women in power and control are likely to be inherent in emerging economies such as Malaysia (Abdullah et al., 2016). Investors in the emerging markets are more likely to be risk-averse because of the weak investors' protection in these countries (Morck, 2000). Thus, investors in these countries tend to be unreceptive towards the appointment of women directors. Further, it is the Eastern culture that shape such attitude towards women. In the Asian culture, women traditionally play a secondary role rather than a leading role in a family, and their place is usually at home taking care of the household. Men would be the breadwinner of a family (Abdullah and Ku Ismail, 2013).

In view of the above discussion, the first objective of this paper is to examine how investors value the appointment of women to the boards, or how the stock market reacts to the appointment of women on boards of firms listed on Bursa Malaysia. Do investors view that women brings value to firms and thus support the policy of having women on boards? This study is timely as the results would be an input for policy makers in planning for future policies. Furthermore, the results add to the literature on the role of women directors in developing countries, particularly in Malaysia. To our knowledge, only a handful studies have examined investors' reactions on women's appointments to the board—Campbell and Mínguez-Vera (2010) in Spain, and Ding and Charoenwong (2013) and Kang et al. (2010) in Singapore.

The appointment of women as directors may be viewed as a signal by firms to investors. As investors rely on signals from firms for investment decisions (Kang, 2008; Sanders and Boivie, 2004), they would react positively to the announcements of the appointment of women directors if they believe women directors would enhance firm performance. On the other hand, they would react negatively if they believe women directors would weaken firm performance, or they will not react if they believe the appointment would not have any effect on firm performance.

Studies from other countries indicate that investors welcome the appointment of women directors as they perceive that women would bring value to the firms. Positive abnormal returns are observed following the announcements of the appointment of women directors in Singapore (Kang et al., 2010; Ding and Charoenwong, 2013) and in Spain (Campbell and Mínguez-Vera, 2010). On the other hand, due to the belief that women lack the masculine attributes of power and control (Hofstede, 1998), market may react unfavourably towards the appointment of women to the boards. Due to the competing arguments, we hypothesize that the appointment of women directors by Malaysian firms would have market valuation effects, whether favourably or unfavourably.

We also predict that it is not gender alone that matters in influencing investors' investment decisions. We believe that the attributes of women directors as well as the role that they play in discharging their monitoring responsibilities and in making firm decisions would affect the value of firms; thus, the market would react towards the appointment of women directors having different attributes and different monitoring roles. To this end, we test whether prominence, international exposure, age, family relatedness, executive directorship, audit committee membership and multiple directorship of women directors would affect investors' valuation towards their appointments.

There is an argument that women who are executive directors would be more involved in the operations of a company and thus would bring greater profit to companies (Smith et al., 2006). On the other hand, agency theory argues that independent directors, rather than executive directors would discharge their responsibilities better. Next, women who are appointed as audit committee members would also bring more value compared to those who are not due to the former's greater monitoring roles. While there is an argument that the value that directors who hold multiple directorships would bring to companies is limited due to their lesser commitments in the firm, some challenge that the network that these directors possess would benefit companies. There is an argument that family-related women directors will not work in the interest of a firm. The activities and decision making of such women directors will be influenced and controlled by their man family members in the firms. As a result, the women directors will be less likely to contribute significantly. It is also a belief that directors who are more experienced, prominent and internationally exposed would bring more value to firms. Subsequently, we believe that investors would react positively or negatively depending on how they perceive the attributes and roles of the newly appointed directors would influence firm performance.