

Does Having Women on Boards Create Value? The Impact of Societal Perceptions and Corporate Governance in Emerging Markets

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Regulators in several economies aim to enforce gender equality on corporate boards. These proposals are based on the premise that inclusion of women positively influences board functioning and therefore firm performance. However, the empirical evidence supporting that argument is inconclusive. In this paper, authors examine the relationship between women's participation on corporate boards and firm performance. The study was conducted in emerging market context using data from 841 Malaysian firms. This summary presents the study, its findings and implications in regulatory and family business context.

Women Participation on Board and Governance and Market Performance

The authors argue that women board members bring value to the firm on two distinct dimensions: (1) in terms of corporate governance, i.e., *accounting performance* of the firm and (2) *market performance*, which is determined by the manner in which the market perceives women directors' contribution to business.

Women directors are likely to contribute to the firm by establishing relationships, collaborative working, monitoring and firmly holding others to accountability standards. The impact of monitoring is more valuable in emerging market contexts where

governance systems are weak. Hence, the authors hypothesize that women directors are likely to positively influence accounting performance of the firm.

Societal and (by extension) market reactions to women in position of power are likely to be starkly negative in the emerging market contexts. Market perceptions are likely to override the judgments of women directors' actual performance. Moreover, women directors are scarce in emerging market firms. Hence, a firm that brings in women directors on board is likely to be perceived as breaking the societal norms and therefore more risky by investors. As emerging market investors are known to be more risk averse therefore the authors argue that the firm's market performance will be adversely affected if they appoint women directors.

Influence of Firm and Board Characteristics

According to the authors, the relationship between women's participation on board and the firm's accounting and market performance is likely to be moderated by firm and board characteristics. They argue that in case of family and government firms this relationship is likely to get negatively affected, as less capable women are likely to be appointed, mainly with an aim to adhere to regulatory requirements. However, if the public shareholding of the firm is

concentrated then this relationship is likely to be positively moderated because large shareholders will favorably view women directors' contribution to firm's corporate governance. The authors further argue that board's ethnic diversity and independence are likely to provide an enabling environment to women directors and will therefore positively influence the effect that women directors would have on firm's accounting and market performance.

Key Findings

The key findings of the study were the following:

- Women directors were found to have enhanced accounting performance of the firm, which signaled improved corporate governance.
- The firm's market performance was found to have been adversely affected as the markets discounted the impact of women's directors.
- As expected, government ownership negatively affected the relationship between women directors and firm's accounting and market performance. However, family ownership was not found to have any negative effect on this relationship.
- Ownership concentration turned out to be significantly affecting the relationship. Thus large public shareholders viewed women directors as valuable contributors to the firm's corporate governance.
- Board characteristics like ethnic diversity and independence were not

found to have any significant effects. The authors explain these results by suggesting that most Malaysian firms have ethnic homogeneity and typical of an emerging market, the concept of independence of the board is more on paper than in real practice. Hence both these board characteristics did not make much of an impact.

Practical Implications

The findings of this study have important bearings for regulators and family businesses, especially for those in the emerging market contexts. Regulators would better serve the interests of their respective economies if they take a gradual approach of introducing gender diversity on corporate boards. For family firms a significant implication is that they surely need to move towards enhancing gender diversity in their boards. However, they need to maintain a fine balance between gender diversity's positive effect on firm's accounting performance and its negative effect on the firm's market performance as markets undervalue the presence of women on boards.

The negative effects are profound in the emerging market context because those markets often lack a robust regulatory framework and the boards only have a symbolic significance. Hence, to counter that, family firms would be required to proactively institutionalize higher thresholds of corporate governance and convince the markets of the value women directors bring to the firm.

Source: Strategic Management Journal, (2016), Vol. 37, No. 3, pp. 466-476.