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The Effect of Board Diversity and Corporate Performance in Malaysia: Pre- and During COVID-19 Pandemic

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Abstract
The objective of this study, which is based on the upper echelon theory, managerial networking theory and agency theory, is to investigate the influence of board diversity on the performance of Malaysian Pharmaceutical Listed Companies. The information was gathered from pharmaceutical businesses listed on the Bursa Malaysia Berhad from 2015 to 2020. Because the data comprises observations on distinct company parts throughout time, the fixed effects model is used to address the endogeneity problem. We discovered that gender diversity, board size, and foreign directors as evaluated by Bhattacharya's index have a favorable and significant effect on Pharmaceutical-listed firm performance for both accounting and market measures after controlling for many firms and board characteristics. In Pharmaceutical-listed firms, independence, diversity, meeting, and expertise do not appear to be important determinants of corporate performance. The findings confirmed the efficient monitoring hypothesis and management networking theory, which propose that director variety minimizes managerial entrenchment on the one hand, while networking boosts firm resources on the other.
Keywords: Board Diversity, Corporate Performance, COVID-19 Pandemic

Introduction

Corporate governance is a set of rules, policies, and processes that regulate and manage a firm. According to previous research, one of the elements that contributed to the global financial crisis was weak corporate governance, which resulted from a lack of diversity, openness, and independence (Zabri et al., 2016). Good corporate governance will encourage transparency, manage risks, ethics, and standards, decrease the possibility of corruption, and foster trust among investors and the general public (Detthamrong et al., 2017). Investors and stakeholders are also more confident in well-organized organisations, generating positive public perceptions that may lead to improved performance. Furthermore, corporate governance highlights the responsibility of the board of directors in delivering long-term value to stakeholders, creating management policies, and making critical choices to ensure a company's survival and longevity.

According to Jensen and Meckling (1976), managers prefer to pursue their personal goals at the expense of shareholders based on agency theory. As a result, firms would include both independent and non-independent directors to achieve boardroom balance. The presence of independent directors in the boardroom helps defend the interests of stakeholders by upholding the board's integrity and impartiality. In some nations, the majority of board members must be independent directors in order to strengthen the board's independence. The Malaysian Code on Corporate Governance (MCCG) recommends that the majority of board members be independent directors.

The appointment of women to boards of directors has emerged as a hot topic in corporate governance research. Some studies have found that gender diversity improves performance, as well as the reputation and sustainability of businesses (Daniel et al., 2015; Nguyen et al., 2020). In contrast, several research have concluded that board diversity has a negative impact on firm performance. For example, Daniel et al (2015) discovered that business performance suffers in nations where there is a substantial cultural resistance to appointing women to boards of directors or implementing gender quotas. In Malaysia, the Security Commission of Malaysia has actively promoted gender diversity in the boardroom. According to the Malaysian Code on Corporate Governance 2017 (MCCG, 2017), all publicly traded firms must have at least 30% female directors on their boards, and this information must be mentioned in the annual report.

Because various directors have distinct personal characteristics, backgrounds, and experiences, board diversity is critical to increasing the larger range of perspectives that demand profound insight and challenging ideas. As a result, a more open communication atmosphere can be developed, leading to better decision-making. Following the debate, the choice is based on groupthink and poses difficult problems. This is compatible with resource-based theory, which suggests that when the board is diverse, higher quality resources may be achieved since they can provide better counsel management. Gender diversity can increase the board's effectiveness by incorporating more perspectives into the board's role. According to Aggarwal, Jindal, and Seth (2019); Naciti (2019), having a diverse board allows managers to be monitored optimally. Companies nowadays operate in a global market or environment. When a balanced board is accomplished, a good image can be formed. Having female directors on the board as representatives could improve the company's image. The public will recognise the symbolic importance in terms of gender equality, which will contribute to improved firm performance.

The globe is horrified by the COVID-19 pandemic attack in the year 2020. All countries and millions of people have been affected by the pandemic, including Malaysia. Many businesses are trying to deal with the impact. For example, organisations have closed due to governmental mandates, a lack of client demand, a health concern, a supply chain interruption, the owner's inability to pay bills, financial difficulties, and bankruptcy (Hu & Zhang, 2021). Income losses can be attributed to the closure of several firms around the world. The halting of economic operations has a significant impact on the economy; hence, a worldwide recession is unavoidable. Despite the downturns in many businesses during COVID-19, several industries, such as the digital market, e-commerce, freight and logistics, and pharmaceutical, grew in a short period of time.

As of December 31, 2021, there are 13 pharmaceutical businesses listed on the Bursa Malaysia. During a pandemic, pharmaceutical businesses must assure a constant supply of drugs and other medical supplies such as Personal Protective Equipment (PPE), face masks, shield masks, disposal gloves, hand sanitizers, and many more. The pharmaceutical business is predicted to grow faster due to increased demand for medical supplies and equipment, commercialization, and partnership in spreading the COVID-19 vaccine. According to Hu and Zhang (2021), countries with superior healthcare systems have a lower negative effect of COVID-19 on company performance.

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This study also contributesto understanding of the rationale for bringing women on board to improve business performance before and after COVID-19. Furthermore, the findings of this study are relevant to governments and other organisations involved in developing policies, laws, and regulations governing the membership of a company's board of directors.

Literature Review and Hypotheses Development

Board Diversity and Firm Performance

Diversity in board composition is evolving in many nations because it leads to strong governance, which has a favorable impact on the company's performance. Previous research has emphasized the importance of having diversity on the board since board members represent the company and their decisions have an impact on the company and beyond. Board diversity has become one of the approaches to improve corporate governance in Malaysia, as part of the requirements for public listed companies to implement. The Malaysian Code on Corporate Governance 2017 (MCCG, 2017) requires companies to have at least 30% of its board members be female directors in order to demonstrate gender diversity on Malaysian boards. Women directors have recently been recognized and given opportunities to serve on boards in many nations, as their thoughts and expertise are essential in improving business reputation and gender equality. Board gender diversity will increase board oversight, board legitimacy, broaden perspectives and choices, and thus be able to better relationships with stakeholders (Low et al., 2015).

Furthermore, Song et al (2020); Nguyen et al (2015) discovered that gender diversity influenced company performance. Age, ethnicity, skills, gender, race, experiences, religion, and life experiences can all be used to represent the board's diversity. Board diversity, according to Ozdemir (2020), has a greater impact on firm success. With a diverse board, the discussion becomes more robust, as numerous viewpoints and perspectives can be acquired from the directors, and new insights can be created based on their experiences, backgrounds, and skills, allowing for more effective corporate decision making. Furthermore, all board members are encouraged to express their thoughts and points of view in order to foster effective board debates that lead to broader perspectives, improved company performance, and better corporate governance. Hence, this study hypothesized that:

H1: There is a positive relationship between board diversity and performance.

The specific hypotheses are:
H1a: There is a positive relationship between board diversity and Tobin's Q.
H1b: There is a positive relationship between board diversity and Return of Asset (ROA).
H1c: There is a positive relationship between board diversity and Return on Equity (ROE).

Upper Echelon Theory

Executives at a company play a significant role since they are given a great deal of responsibility and authority to guarantee the company is effective and successful in the formation and implementation of strategic plans (Wheelan, Hunger, Hoffman & Bamford, 2017). As a result, the personal attributes of the executives are critical since they affect the firm's performance. Age, specialisation, tenure, education, experiences, and other factors can all be used to determine characteristics (Zee & Swagerman, 2009; Ting et al., 2015). According to Hambrick and Mason (1984), upper echelon theory states that executives act based on their highly personalised interpretations of the situation they face, and thus the more complex the decision, the more important the decision maker's characteristics as they will affect corporate strategic decision making.

Many research have been conducted to determine how executive traits influence firm performance. According to Zee and Swagerman (2009), the personal traits of senior management executives influenced decision-making. They also stated that firms frequently change younger board members over older ones. Ting et al (2015), on the other hand, discovered that younger CEOs take more risks and make more aggressive decisions. According to Derda (2017), internationalisation experience is important within the upper echelon theory because it lowers the risk of international affairs and the executive may be able to create opportunities for expanding the operations in foreign countries by using their knowledge and business contacts in exploring new markets.

Managerial Networking Theory

According to Kyne (2005), managerial networking refers to activities conducted by managers in order to develop interpersonal or informal relationships with people both inside and outside of their organizations. Based on an integration of resource dependence theory and social exchange theory, the author identified five important factors that describe the management networking mechanism: motives, activities, relationship development, relational strength, and performance. Motives for management networking, networking exchange activities, networking relational development, and networking relational strength were found to be favorably and significantly associated with individual and organizational performance. Managers should build excellent relationships with employees and employee union leaders within their organizations in order to boost efficiency, productivity growth, and performance improvement (Acquaah, 2006).

Furthermore, solid relationships between the two parties could promote communication among them, allowing them to operate as a team in a happy working environment to fulfil the firm's joint goals. Maintaining good networking with people outside the firm, such as competitors, suppliers, customers, government, community leaders, and financial institutions, on the other hand, is critical for managers to acquire valuable information, resources, knowledge, and a competitive advantage in the face of the business environment's uncertainty (Mwendwa, Atambo, Iravo & Atikiya,2020). Furthermore, having networks with managers from other enterprises, universities, or other research institutions allows the firm to leverage their capabilities in order to improve the firm's innovation performance (Naqshbandi & Kaur, 2014).

According to Acquaah (2006)'s study on manufacturing and service enterprises in Ghana, networking with senior managers of other firms, government bureaucratic officials, community leaders, and leaders of employee unions and representation is significantly and positively associated to firm performance. However, associations formed with politicians have no bearing on corporate performance. Consistent with Konak's (2018) findings, there is a favourable link between networking with government officials and the strength of the networking with firm performance.

Agency Theory

Jensen and Meckling's (1976) classic definition of agency theory holds that agency relations develop when one or more principals pay agents to act on their behalf, assigning decision-making authority to him. This interaction arises in the context of financial management between self-interested managers and shareholders. Shareholders are only expected to care about the value of their investment. Conflict emerges, however, when opportunistic managers participate in decision-making and behaviors that benefit directors as controlling, resulting in a lesser quality of reported results (Gonzalez & Garcia-Meca, 2014). This is due to the fact that directors are part of management, and managers are appointed and by directors. Thus, ownership structure, particularly managerial ownership and concentration, is viewed as a corporate governance method for resolving conflicts of interest between shareholders and managers in profits management (Alves, 2012).

Hu and Izumida (2008), on the other hand, failed to identify a link between ownership structure and business performance. This could be owing to the actual state of the corporate governance environment in terms of communities, political settings, cultures and ideologies, industry organization, and financial markets in general. Another study revealed management ownership to be an effective monitoring mechanism, particularly in small businesses, and it is proposed that large businesses should demand and apply better corporate governance procedures owing to increased agency conflicts and require less managerial ownership for control (Kazemian & Sanusi, 2015).

Agency theory, according to Agustin, Abdul Rahman, and Jamil (2020), symbolises the value of the capitalist economic system, which in actuality increases agency costs due to knowledge asymmetry, transaction costs, and selfishness. It removes the feeling of human values like taste, intuition, spirituality, mutual trust, mutual respect, reciprocal trust, and honesty from the connection between management and shareholders. This theory likewise places little weight on agent competency. Founded on the aforementioned criticisms of agency theory, the author advocated that agent contract principles be based on Islamic perspectives such as Akhidah (obedience to Allah Ta'ala), Shiddiq (truth), Fathanah (intellectual), Amanah (honest/trustworthy), and Tabligh (communicative).

Methodology

To test the hypotheses, this study adopts methodology that has generally been employed in earlier investigations. The methodology is divided into two parts: (1) performance using market and accounting indicators, and (2) regression model utilising standard panel data. The random effect model (REM) is utilised in this study to examine the influence of board diversifications on performance.

Sample

This study makes use of data from the DataStream Thomson Reuters and annual report for the pharmaceutical sector in Bursa Malaysia Berhad (BMB). It is valid from 2015 to 2020. This aims to examine the pattern of corporate fraud in relation to the performance of these companies prior to the COVID-19 pandemic and one year later. BMB first lists 13 enterprises in the leisure and hospitality sector. There are 78 total firm observations.

Variables

The Beneish M-score Model was used to assess the scope of probable fraudulent companies. Beneish (1997, 1999) created this model to discriminate between earnings manipulators who break accounting standards and non-manipulators. According to Ezrein et al (2016), this model is capable of detecting 82 percent of the public listed companies prosecuted by the Securities Commission of Malaysia for fraudulent financial reporting, demonstrating that this model is reliable and capable of identifying potential fraudulent companies listed on Bursa Malaysia. This approach detects financial statement fraud using eight financial ratios, as shown in Table 1. Table 1 shows a summary of the variables.

Table 1
Description of Variable used in this research

Variables	Operationalisation	Formula
Board Diversity (Independent Variable)	Board Size (Bhatt & Bhattacharya, 2017)	<7 = 0 8-14=1 >15=2
	Board Independence (Bhatt & Bhattacharya, 2017)	<50%=0 50%-75%=1 >75%=2
	Board Meeting (Bhatt & Bhattacharya, 2017)	<4=1 4-8=1 >8=2
	Board Expertise (Garcia-Sanchez, Martinez-Ferrero & Garcia-Meca, 2017)	1=YES; 0=NO
	Female Director (Masulis et al., 2012)	0= Less than 30%female 1=More than 30% female
	Foreign Director (Masulis et al., 2012)	0=No foreign director 1= At leat 1 foreign director
Corporate Performance (Dependent Variable)	Tobins's Q (Suffian et al., 2015)	(Market Value of Equity + Total Debt) / Total Asset
	Return on Asset	Net Income / Total Asset

	(Kothari et al., 2005)	
	Return on Equity (Kothari et al., 2005)	Net Income / Shareholders' Equity

Analyses and Findings

Descriptive Statistics

According to Table 2, the descriptive statistics used in this investigation are consistent with those used in earlier studies by Bhatt and Bhattacharya (2017) and Garcia-Sanchez et al (2017). The average for BoardIndex is 7, indicating that the companies are following the corporate governance guidelines. While the data is normally distributed, part of it is outside of the -2 to 2 range. This is due to the small number of observations.

Regression Analysis

Based on the regression results, this study discovered a mixed result. Only ROA is adversely significant at 5% (t-value= -2.15) for pooled data. This could be because the number of samples is small, and the influence cannot be determined for only one year. The findings suggest that corporate governance as reflected by board diversification may be harming the firm's success as measured by return on assets (Ko et al., 2019). Other variables, however, are not significant. As a result, this study did not support all hypotheses. The null hypothesis was rejected for the comparison results between pre- and during pandemic COVID-19. This is due to the fact that the p-value is only significant (0.05) for ROE. As a result, this study accepts the alternative hypothesis (HA), which states that there is a difference in mean firm performance scores between the two groups. Table 4 displays the t-test results.

Discussions

The findings demonstrated the importance of Agency Theory in determining the impact of board diversity on business performance. This demonstrated corporate governance's ineffectiveness in improving firm performance (Makhlouf, Laili, Ramli & Basah, 2017). This suggests that certain businesses may not be carrying out corporate governance in an efficient and effective manner. As a result, the relevant authorities must monitor these organisations to ensure that corporate governance is successfully enforced, which will improve firm performance. Other than that, this study also not fully supporting the idea of managerial networking theory; where this study found mix results. This is inconsistent with Acquaah (2006)'s study on manufacturing and service enterprises in Ghana, where the researcher found that the networking with senior managers of other firms, government bureaucratic officials, community leaders, and leaders of employee unions and representation is significantly and positively associated to firm performance.

Furthermore, this study also not fully supporting the echelon upper theory. Executives at a company play a significant role since they are given a great deal of responsibility and authority to guarantee the company is effective and successful in the formation and implementation of strategic plans (Wheelan et al., 2017). As a result, the personal attributes of the executives are critical since they affect the firm's performance. Since there are no significant results found in this study, the concept of echelon upper theory is not fully supported. This could be due to the small number of samples which could influenced the final results.

Conclusion

This study discovered data supporting the influence of board diversity on business performance, which is related to the agency hypothesis. According to the findings, board diversity is negatively associated to firm performance. This demonstrates that corporate governance is ineffectual at improving firm performance. As a result, the company's reputation will suffer, and the trust that stakeholders have placed in it will diminish. Further research into the impact of board diversity on business performance before, during, and after the epidemic can be conducted. A larger sample size is also required to generalise the findings to all publicly traded companies, not just one sector. Aside from that, qualitative data such as managers' behaviour and perceptions during the epidemic should be used for future research.

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Appendices

Table 2

Descriptive Statistics

	Min	Max	Mean	Std. Dev	Skewness	Kurtosis
BODIndex	1	7	3.858974	1.364907	.4416101	2.396808
TobinsQ	.001921	14.99642	1.804893	2.200443	3.418624	1.875185
ROA	-.2097772	.4007880	.0840868	.0813886	-.1641401	7.537516
ROE	-.4187059	.8316865	.0997019	.1382313	.8165778	1.533489
SIZE	4.907175	7.649827	6.110784	.6428555	.5371628	3.195378
LEV	.001921	.4359176	.1556909	.1258050	.6027652	2.200429
GROWTH	0	.0076151	.0016051	.0018579	1.610284	5.050517
CurrentRatio	.7758663	29.36057	22.37236	6.874469	3.233409	11.63003
AcidTestRatio	.256063	28.02611	20.75254	6.579908	3.237999	11.66039

Table 3

Regression Results on Firm Performance

	Tobins Q	ROA	ROE
Constant	-.1130378	-.3268846	-.2899144
	(-0.08)***	(-1.90)***	(-1.14)***
BODIndex	-.1222392	-.0158758	-.0075332
	(-1.02)	(-2.15)**	(-0.52)
SIZE	.1298745	.0737796	.055922
	(0.49)	(2.51)**	(1.25)
LEV	-.2365875	-.0077483	-.0259951
	(-0.20)	(-0.12)	(-0.21)
GROWTH	9.995774	16.12499	46.16747
	(1.21)***	(3.50)***	(4.96)***
CurrentRatio	.0429398	-.0005907	0.099233
	(0.33)	(-0.10)	(0.83)
AcidTestRatio	-.0449205	.0004782	-.0103608
	(-0.33)	(0.08)	(-0.83)
Firm Effect	YES	YES	YES
sigma_u	0	.07158162	.08765466
sigma_e	1.2271518	.04637827	0.9864537
rho	0	.70433242	.44120993
R Squared	.7208	.2507	.3022
Adjusted R Squared	.6972	.1874	.2432
Wald chi2	183.30	24.05	31.05
N	78	78	78

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***Significant at the 1% level (1-tailed), **Significant at the 5% level (1-tailed), *Significant at the 10% level (1-tailed)

Table 4
T-test for Pre- and During Pandemic COVID-19

	Tobins Q		ROA		ROE	
	Pre	During	Pre	During	Pre	During
Mean	1.611039	2.774162	.0797443	.1057989	.085971	.1688963
Mean Diff.	-1.163122		-.0260546		-.0829252	
Std Error	.1846176	1.177748	.0083239	.0370783	.0128591	.0674122
Std Dev	1.488434	4.24643	.0671093	.1336877	.1036735	.2430581
95% Conf	1.242223	.2080693	.0631155	.0250123	.060282	.0220177
95% Diff.	1.30877		-.0752682		-.1649602	
Interval	1.979855	5.340254	.0963732	.1865856	.1116601	.3157748
Interval Diff.	2.301016		.0231591		-.0008903	
t-stat	.0818		-1.0544		-2.0133	
p-value	-1.7635		.2950		.0476	
Degree of Freedom	76		76		76	
Observations	65	13	65	13	65	13