



# Journal of Applied Economics and Business Studies (JAEBS)

Journal homepage: <https://jaeps.com>

ISSN (Print): 2523-2614

ISSN (Online) 2663-693X



## Different is Better: Does Difference in Age and Ethnicity of the Directors Matter for Corporate Performance in Malaysia?

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### ABSTRACT

*The prior diversity-related literature is mostly dominated by the boardroom gender diversity of the top or large companies of the developed countries. Consequently, this study investigates the impact of the rarely investigated boardroom diversity-related dimensions like directors' age and ethnicity on the financial performance of 360 randomly selected non-financial listed companies from a developing country - Malaysia from 2010 to 2014. The findings revealed that ethnic equality (the presence of directors from all the three major ethnicities of the country) on the board has a significant positive relationship with ROA and share price. However, directors' age has a significant positive association with share price but it has an insignificant effect on ROA. The findings of this study provide important insights for the regulators, policymakers, and all other key stakeholders of the developing countries, especially Malaysia, where the corporate boards are mostly dominated by men of middle age from Chinese ethnicity.*

### Keywords

Age and Ethnicity of Directors, ROA, Share Price, Malaysia

### JEL

### Classification

G30, G38, G39

## 1. Introduction

Agency theory and most of the corporate governance (CG) regulations firmly stand on the notion that managers being agents of the owners (shareholders) are liable to protect their interests. However, managers being opportunistic peruse their own interests instead of the shareholders; hence the corporate board or more specifically directors on the board should be qualified, experienced, independent, vigilant and skilled enough to protect shareholders from the expropriation of management (Fama, 1980; Fama & Jensen, 1983; Jensen & Meckling,

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1976). In this vein, boardroom diversity among others grabbed substantial attention for strengthening the structure, composition, and roles of the board (Rutledge et al., 2016). Like other countries, Malaysia also aimed to increase boardroom diversity as evidenced by its third CG code - Malaysian Code on Corporate Governance (MCCG) introduced in March 2012 (Ismail et al., 2013; Malaysian Corporate Code on Governance, 2012; Haseeb Ur Rahman, Rehman, et al., 2018; Haseeb Ur Rahman, Zahid, et al., 2018). However, among other aspects of the boardroom diversity, only gender aspect could be prioritized and remained a subject of high interest for the regulators, practitioners, academicians, and researchers around the world and in Malaysia (Baker et al., 2020; Haseeb Ur Rahman et al., 2017a; Zahid et al., 2019). The literature paid relatively less attention to other dimensions of boardroom heterogeneity like age, ethnicity, nationality, professional background, and cognition of the directors (Baker et al., 2020; Ezeanyim, 2020). Few studies which investigated the nexus of age and ethnicity of directors with firm performance produced incongruent results. For instance, some studies noted that age and ethnicity of the directors have positive impacts on firm performance by uplifting the quality of decision making (Anju, 2020; Ezeanyim, 2020; Jonson et al., 2020), while others documented that there is no or negative association between them (Pandey, 2020). The latter studies reported that heterogenic boards require more time and energy in reaching a consensus as compared to homogenous boards which are quick and good in making unanimous decisions (Hambrick & Mason, 1984; Haseeb Ur Rahman et al., 2017b). In addition to the communication problem, board members from the diverse background also have their personal or geographical interests which harm coordination, solidarity, consistency, integrity, and motivation of the board (Adams & Ferreira, 2009; Brown, 2016; Carter et al., 2010; Pandey, 2020). Besides, it is also noted that corporations exhibit boardroom heterogeneity for the sake of showing compliance with relevant regulations that do not improve their efficiency or performance (Carter et al., 2010; Haseeb Ur Rahman, Rehman, et al., 2018; Haseeb Ur Rahman, Zahid, et al., 2018).

To sum up, most of the prior literature is dominated by boardroom gender diversity leaving a space and motivation for investigating other aspects of the boardroom like directors' age and ethnicity (Baker et al., 2020; Zahid et al., 2019). Moreover, the studies in the past mostly relied on small or samples of the top companies from the developed countries (Anju, 2020; Carter et al., 2010; Ezeanyim, 2020). Subsequently, this study aims to investigate the impact of age and ethnic equality of the directors on firms' accounting (ROA) and market performance (share price) in a stratified random sample of 360 non-financial listed companies from a developing country like Malaysia for five years from 2010 to 2014. The study has many contributions. First, the study enriches the previous incongruent boardroom diversity literature mostly focusing on gender diversity in the small or samples of the top companies of the developed countries (Anju, 2020; Carter et al., 2010; Ezeanyim, 2020). Second, it contributes to the literature as the age and ethnicity of the directors have rarely been examined in the past.

Moreover, investigating these is also important especially after the implementation of the Minimum Retirement Age Act 2012 on 1<sup>st</sup> July 2013 in a country that hosts various ethnicities i.e. Malay (50%), Chinese (22.6%), indigenous Bumiputras (11.9%), Indians (6.7%) and others (0.7%). Third, it contributes to the literature and policy especially after the enactment of MCCG 2012 that requires increasing boardroom diversity. This is further pronounced as the previous two codes of the country – MCCG 2000 and MCCG 2007 not addressed the issue of boardroom diversity and thus the prior literature could not focus on the subject in the regulatory context (Bursa Malaysia 2012; Rahman et al. 2017a; Rahman, Ibrahim, and Che - Ahmad 2015). Fourth, it enriches the literature by using financial performance as an outcome variable that is still considered important for firms' success, especially in developing countries. Therefore, firms and management in these countries are keen to know about the financial returns of any change or reform they introduced or opt for (Gul, Muhammad, and Rashid 2017; Rahman, Ibrahim, and Ahmad 2015). Besides, firm financial performance measured by both the accounting and market perspective provides a comprehensive picture as the former is calculated based on facts and figures while the latter reflects firms' image in the minds of customers, investors, market, and society (Haseeb Ur Rahman et al., 2016). Overall, the study updates the literature, regulators, policymakers, and other stakeholders in a multi-ethnic country like Malaysia that has recently turned its attention to increasing boardroom heterogeneity as reflected by MCCG 2012. The remaining of this paper is organized as the following section reviews prior literature for developing hypotheses while the next sections discuss methodology and findings before reporting the conclusion and recommendations of the study.

## **2. Literature review**

### **2.1 Boardroom average age and firm performance**

Like many other issues in management sciences, the previous empirical studies regarding the age of the directors being an important element of the boardroom diversity also lack uniformity. Some of these studies favor seniors (Ahern & Dittmar, 2012; Amoll, 2015; Demeke, 2016; Smith-Meyer, 2013) while others support young directors (Abdullah & Ismail, 2013; Darmadi, 2011; Grove et al., 2011; Hambrick & Mason, 1984). Supporters of the senior directors claim that young directors commit more mistakes in financial and economic matters due to lack of experience. Besides grooming young directors and controlling their risky approach (Agarwal et al., 2009; Demeke, 2016), they also acquire important information from their already established network and experience. In addition to experience in managing risks and handling organizational problems, they also oppose firms' investment in vulnerable projects (Demeke 2016; Francis, Hasan, and Wu 2012). Hence, many studies endorse the significant positive impact of senior directors on firms' financial performance (Ahern & Dittmar, 2012; Amoll, 2015; Anju, 2020; Demeke, 2016; Ezeanyim, 2020; Francis et al., 2012; Smith-Meyer, 2013). Also, they improve firms' overall efficiency, market value, and

shareholders' confidence (Demeke, 2016; Francis et al., 2012). Accordingly, the death (Nguyen & Nielsen, 2014) or retirement of senior directors decrease share market price (Arioglu, 2015). Whilst, young directors have negative impacts on firms' financial performance (Ahern & Dittmar, 2012; Smith-Meyer, 2013) and market value (Adams & Ferreira, 2009; Vania & Supatmi, 2014).

However, in contrast, it is argued that senior directors have low physical stamina and cerebral resilience which affect their cognitive abilities. Risk aversion, concerns for financial and career security along with the rigidity to respond regulatory reforms and other challenges posed by the external environment are those issues associated with senior directors which weaken their monitoring abilities (Grove et al., 2011). Hence, many studies found that the average age of directors has a negative relation with firms' financial performance (Abdullah & Ismail, 2013; Grove et al., 2011). Hambrick and Mason, (1984) argued that young directors have a low tendency towards the status quo and willingness to accept challenges that improve their flexibility and adaptability for structural and strategic changes in the organization. Many empirical studies found that young directors have a significant positive relation with firms' financial performance (Abdullah & Ismail, 2013; Darmadi, 2011), market value, and share market price (Darmadi, 2011; Eversheds Report, 2013).

Interestingly, some studies also found that directors' age has no significant relation with firms' financial performance (Letting' et al., 2012; Muravyev, 2017; Pandey, 2020), share market price (Randøy et al., 2006) and firms' market value (Kusumastuti et al., 2007). Based on mixed findings and a focus on either accounting or market performance as an outcome variable of prior literature along with a rare empirical investigation of the relationship under consideration after the enactment of MCCG 2012 in Malaysia necessitates further investigation. The need for re-investigation is also highlighted by the discussion started after the implementation of the Minimum Retirement Age Act 2012 on 1st July 2013 in Malaysia. Therefore, this study establishes the following hypothesis for further investigation.

*H1: Average age of directors has a significant positive impact on firm performance.*

## **2.2. Boardroom ethnic equality and firm performance**

Under representing a different culture, ethnic directors have a low level of social interaction and informal relations with their colleagues which strengthen independence and monitoring roles of the board (Baker et al., 2020; Huo, 2016; Nguyen et al., 2015; Haseeb Ur Rahman et al., 2014; Zahid et al., 2019). Besides improving the transparency of the financial matters (Ferreira, 2010; Marimuthu & Kolandaisamy, 2009), ethnic directors also assist firms in an independent assessment of compensation and nomination of the directors (Carter et al., 2010; Salloum et al., 2017). They contribute a critical but constructive voice on the board that improves firms' financial performance (Carter et al., 2003; Huo, 2016; Ramirez, 2003). Many empirical studies found that ethnic directors have a significant positive relationship with firms'

financial performance (Abdullah & Ismail, 2013; Anju, 2020; Carter et al., 2003; Cheong & Sinnakkannu, 2014; Ezeanyim, 2020; Rachagan et al., 2015). Shareholders also assign a value to ethnic directors for connecting firms with critical resources and acquiring legitimacy from the external environment (Huo, 2016; Ntim, 2015). Also, they assume that ethnic directors signal firms' commitment towards equality, transparency, good governance (Ferreira, 2010; Salloum et al., 2017) and shareholders' protection (Abdullah & Ismail, 2013; Huo, 2016; Ismail et al., 2013; Oxelheim & Randoy, 2003; Salloum et al., 2017) which improve firms' reputation and political support (Amoll 2015; Carter et al. 2003; Ferreira 2010; Huo 2016; Ntim 2015; Zahid et al. 2019).

However, in contrast, it is also argued that the preference of ethnic directors for a particular geographical area and barriers in communication cause conflicts and information asymmetry among the board members (Brown, 2016; Carter et al., 2010). Also, ethnic directors are less effective due to no or low attention from the organization (Adams & Ferreira, 2009; Brown, 2016; Pandey, 2020) or showcasing them for the sake of compliance with relevant regulations (Brown 2016; Zahid et al. 2019). Accordingly, many studies found no or significant negative impact of the ethnic directors on firms' financial performance (Brown, 2016; Ilona, 2015; Pandey, 2020; Wang & Clift, 2009) including share price (Kusumastuti et al., 2007).

To sum up, the prior literature is not only scarce but also incongruent. Besides, it examined the impact of ethnic directors on either accounting or market performance and that too of the top companies only. Furthermore, the introduction of MCCG 2012 that required increasing boardroom heterogeneity in a multi-ethnic country like Malaysia where the total population of around 30 million accounts for various ethnicities i.e. Malay (50%), Chinese (22.6%), indigenous Bumiputras (11.9%), Indians (6.7%) and others (0.7%) also necessitates further investigation of the subject. The importance of this investigation is further magnified by bearing in mind the riot on 13<sup>th</sup> May 1969 and its aftershocks that changed the ethnic outlook of the country by implementing New Economic Policy (NEP) and sparking the differences among different ethnicities, especially Malay and Chinese (Abdullah & Ismail, 2013; Cheong & Sinnakkannu, 2014; Ismail et al., 2013). Accordingly, this study investigates the relationship by establishing the following hypotheses.

*H 2: Ethnic equality on the board has a significant positive impact on firm performance.*

## **2. Methods**

Due to potential effects, the study includes age and size (Haseeb Ur Rahman et al., 2017a) of the sample firms as control variables. Board size, CG reforms (MCCG 2012), and the effects of time (5years) and industry (9 sectors) are other control variables in the study. Regarding the sample, there were 960 companies registered in 12 different sectors on Bursa Malaysia (Malaysia's stock exchange) at the end of 2009 (Economic Planning Unit, 2011). By excluding finance, hotels, and mining sectors due to their different governance structure and low

representation, the study selected 360 non-financial listed companies through proportionate stratified random sampling from a total of 921 companies registered in nine sectors. Following previous studies, data for age and ethnicity of directors on the board collected from annual reports while the information for all other variables of the study extracted from Thomson Reuters DataStream.

The following are two econometric models of the study.

$$\text{Firm Performance}_{it} = \beta_0 + \beta_1\text{BAGE}_{it} + \beta_2\text{BETH}_{it} + \beta_3\text{BSIZ}_{it} + \beta_4\text{FAGE}_{it} + \beta_5\text{FSIZ}_{it} + \beta_6\text{COD}_{it} + \beta_7\text{ID}_{it} + \beta_8\text{TD}_{it} + \varepsilon_{it} \dots \dots \dots (1)$$

where;

Firm performance is captured through return on assets (ROA) and share price of the *i*th firm at time *t*

$\beta$  = Beta

$\text{BAGE}_{it}$  = Age of the directors on the board of the *i*th firm at time *t*

$\text{BETH}_{it}$  = A dummy variable denoting 1 for the presence of directors from all the three major ethnicities (Malay, Chinese and Indians) on the board and 0 otherwise of the *i*th firm at time *t*

$\text{BSIZ}_{it}$  = Total number of directors on the board of the *i*th firm at time *t*

$\text{FAGE}_{it}$  = Age of the *i*th firm at time *t* measured by the number of years since listing

$\text{FSIZ}_{it}$  = Size of the *i*th firm at time *t* measured by the log of the total market capitalization

$\text{COD}_{it}$  = Malaysian Code on Corporate Governance 2012 measured as 1 for code and 0 otherwise

$\text{ID}_{it}$  = Dummy variables for controlling sector-wise effects on *i*th firm at time *t*

$\text{TD}_{it}$  = Dummy variables for controlling time effects of five years on *i*th firm at time *t*

$\varepsilon_{it}$  = Error term of the *i*th firm at time *t*

## 4. Data analyses

### 4.1. Univariate analyses

The descriptive STATISTICS reported in Table 1 show that SP representing share market price has an average value of 1.958 RM (Ringgit Malaysia). ROA has a mean value of 0.040 and the negative sign of its minimum value explains losses of some of the sample firms.

**Table 1: Descriptive statistics**

	Minimum	Maximum	Mean	Std. Deviation	Skewness	Kurtosis
SP	0.04	3.445	1.958	0.040	.001	-.073
ROA	-1.09	6.34	0.055	0.237	.000	-.069
BAGE	38.83	72.83	56.856	4.827	-.020	.457
BETH	0.00	1.00	0.125	0.331	0.270	0.156
FAGE	1.00	42.00	15.992	7.250	.244	-.302
FSIZ	4.07	7.36	5.590	0.589	.561	.148
BSIZ	4.00	13.00	7.201	1.699	.663	.290
COD	0.00	1.00	0.600	0.490	-	-

Regarding the age of the directors, Malaysian boards are mostly occupied by middle and old age directors as evidenced by an average of 56.86 years in a range from 38.83 to 72.83 years. In respect to ethnic equality, the statistics show that only 12.5% of the boards host directors from all the three major ethnicities (Malay, Chinese, and Indian) of the country. Among control variables, FAGE has an average value of 16 years while FSIZE measured by the log of total market capitalization has a mean value of 5.59. Similarly, the average size of the board is 7.2 while the COD shows the enactment of the code for the last three years of the study since 2012. Given these findings, it is noted that despite a multi-ethnic society, Malaysia has a low boardroom gender and ethnic diversity. Overall, the boards of most of the firms are dominated by middle-aged males from the Chinese and Malay ethnicities of the country.

To investigate the year-wise statistics for examining the impact of the new code, this study employed comparing the means of average age and ethnicity equality of the directors on the board on yearly basis for 5 years from 2010 to 2014. The statistics for BAGE in Table 2 show that the average age of directors i.e. 55.718 years in 2010 increased to 56.492 in 2011 and 57.124 in 2012. Likewise, BAGE of 57.470 years in 2013 and 57.475 years in 2014 respectively show a slight increase at a decreasing rate.

**Table 2: Year-wise mean analyses**

Year	2010	2011	2012	2013	2014
BAGE	55.718	56.492	57.124	57.470	57.475
BETH	0.12	0.12	0.13	0.12	0.13

BAGE denoting average age of all the directors on the board and

BETH a dummy for the presence or otherwise of the directors from all the three major ethnicities of the country equality

The findings indicate that Malaysian firms have started the nomination of some young directors to their boards particularly after the enactment of new code. The year-wise statistics for BETH are interesting as their 12% representation in 2010 and 2011 each increased to 13% in 2012. However, it dropped again to 12% in 2013 before increasing to 13% in 2014. The findings indicate that the new code has no substantial contribution to improving compliance with ethnic equality on the Malaysian boards.

Table 3 shows Pearson's correlation of the age and ethnic equality of the directors with accounting (ROA) and market measures (share market price) of firms' performance. The statistics show that BETH has a significant positive association with ROA. Similarly, BSIZ and FSIZ also have a significant positive correlation with ROA. However, BAGE has an insignificant positive while FAGE shows an insignificant negative association with ROA. Moreover, COD has a significant negative relationship with ROA. The statistics reported in Table 3 also show that BAGE and BETH have significant positive coefficients towards SP. Likewise, BSIZ, FAGE, FSIZ, and COD also have a significant positive association with SP.

Overall, there is no correlation above 0.8 and thus there is no multicollinearity in both models of the study.

**Table 3: Pearson correlation**

	ROA	SP	BAGE	BETH	BSIZ	FAGE	FSIZ	COD
ROA	1							
SP	0.439**	1						
BAGE	0.035	0.303**	1					
BETH	0.088**	0.128**	0.008	1				
BSIZ	0.183**	0.280**	0.117**	0.112**	1			
FAGE	-0.021	0.272**	0.351**	-0.037	0.058*	1		
FSIZ	0.221**	0.602**	0.297**	0.078**	0.366**	0.309**	1	
COD	-0.067**	0.084**	0.127**	0.008	-0.026	0.172**	0.051*	1

#### 4.2 Multivariate analyses

After having no multicollinearity, the data for both the models diagnosed for heteroscedasticity, cross-sectional dependence, and serial correlation. The results of the Breusch-Pagan/Cook-Weisberg Test for heteroscedasticity test ( $\chi^2(1) = 23.04$  and Prob.  $> \chi^2 = 0.000$ ) reported in Table 4 and ( $\chi^2(1) = 1961.81$  and Prob.  $> \chi^2 = 0.000$ ) in Table 5 confirm heteroscedasticity in the models. Similarly, the significance (Pr. = 0.000) of the statistics of 59.556 in Table 4 and 89.649 in Table 5 evidence cross-sectional dependence in both models. The statistics of Wooldridge test for autocorrelation  $F(1, 319) = 15.084$  and Prob.  $> F = 0.000$  in Table 4 and  $F(1, 319) = 182.834$  and Prob.  $> F = 0.000$  in Table 5 show the existence of serial correlation. Keeping in view the results of all these diagnostics tests, the study employed Pooled Ordinary Least Squares (OLS) with robust standard errors – Drisc. Kraal Standard Errors (DKSEs) as suggested by Hoechle (2007). Additionally, the study also employed OLS Panel Corrected Standard Errors (PCSEs) that is considered a more consistent and robust estimator in the presence of heteroscedasticity and cross-sectional dependence in the panel data estimation. However, as the estimator is sensitive to serial correlation, thus the study used a one-year lag of ROA and SP as predictors. The statistics of  $F(23, 4) = 267.22$  and Prob.  $> \chi^2 = 0.0000$  for DKSEs and Wald  $\chi^2(15) = 1.46000$  and Prob.  $> \chi^2 = 0.0000$  for PCSEs reported in Table 4 evidence fitness of Model 1. Similarly, the findings of  $F(23, 4) = 23471.34$  and Prob.  $> \chi^2 = 0.0000$  for DKSEs and Wald  $\chi^2(15) = 3.51000$  and Prob.  $> \chi^2 = 0.0000$  for PCSEs in Table 5 confirm fitness of Model 2.

#### 5. Discussion

Table 4 shows the statistical findings for the relationship of age and ethnic equality of the directors with firm performance measured by ROA through DKSEs and OLS – PCSEs estimators. The findings of both the estimators show that an increase in BAGE has no significant impact on ROA. Following previous literature, the finding has a plausible



explanation that the cognitive ability of the individuals regarding monitoring and decision making gets weaker with an increase in their age that affects firms' performance. Also, the findings could be explained in that senior directors are not only concerned about their financial and career security but also rigid in responding to the regulatory reforms and other challenges posed by the internal and external environment which affect firms' performance (Grove et al., 2011).

**Table 4: Boardroom diversity and firm performance (ROA)**

ROA	DKSEs	XTPCSEs
	0.003	0.003
BAGE	(0.002)	(0.004)
BETH	0.180**	0.097**
BSIZ	(0.054)	(0.042)
FAGE	0.057**	0.040***
	(0.007)	(0.010)
FAGE	-0.011***	-0.007**
	(0.001)	(0.003)
FSIZE	0.338***	0.190**
	(0.032)	(0.085)
COD	-0.119**	-0.162***
	(0.011)	(0.016)
LAGROA		0.432
		(0.148)
	0.035**	-1.168*
Cons	(0.005)	(0.601)
Industry Dummy	YES	YES
Year Dummy	YES	YES
F(23, 4)	267.22	Wald chi2(15)
Prob > chi2	0.000	Prob > chi2
R-squared	0.1056	R-squared
		0.274
<b>Heteroscedasticity</b>		
		chi2(1)
		23.04
		Prob > chi2
		0.000
<b>Cross Sectional Dependence</b>		
		Pesaran CD
		59.556
		Pr
		0.0000
<b>AutoCorrelation</b>		
		F(1, 319)
		15.084
		Prob > F
		0.0000

Standard errors in parentheses, \*\*\* p < 0.01, \*\* p < 0.05, \*p < 0.10

The findings are consistent with many previous studies showing no significant relationship between the age of the directors and firms' performance (Letting' et al., 2012; Muravyev, 2017; Pandey, 2020). However, the findings are not consistent with (Abdullah & Ismail, 2013) in Malaysia which may probably be due to the difference in methodology or their sample composed of top companies.

The estimations of DKSEs and PCSEs reported in Table 4 also show that ethnic equality – the presence of directors from major three ethnicities of Malaysia has a significant positive

impact on firms' performance (ROA). By consulting the previous studies, the findings have a possible explanation that ethnic directors improve firm performance by augmenting monitoring role of the board and transparency of financial matters as they have no strong social or informal relations with other colleagues mainly due to differences in culture (Huo, 2016; Nguyen et al., 2015). Besides, under their different culture, they also improve the quality of decision making through offering unique perspectives which have a positive impact on firms' financial performance by countering group thinking (Carter et al., 2003; Huo, 2016; Ramirez, 2003). Simply, the findings show similarity with many studies around the world (Carter et al., 2003) including UK (Nathan, 2016), Kenya (Amoll, 2015), Nigeria (Ezeanyim, 2020), India (Anju, 2020), Australia (Jonson et al., 2020) and Malaysia (Abdullah & Ismail, 2013; Cheong & Sinnakkannu, 2014; Marimuthu, 2008; Rachagan et al., 2015). However, the findings are different than Hassan and Marimuthu (2016) in Malaysian context which might be due to their different methodology or a small sample of top companies which does not reflect the true picture of the economy.

Table 5 shows the estimations DKSEs and OLS – PCSEs for the relationship of age and ethnic equality of the directors with firm market performance measured by share market price. The findings of both the estimators show that the average age of the directors on the board has a significant positive impact on the share market price. By referring to previous studies, the findings have an explanation that senior directors by their experience and ability to oppose managements' decisions particularly in regard with risky projects enhance shareholders' confidence as reflected by an increase in share market price (Demeke 2016; Francis, Hasan, and Wu 2012). Also, the findings could be explained in that shareholders consider senior directors on the board as safe hands for managing risks (Arioglu, 2015; Nguyen & Nielsen, 2014) and improving firms' overall efficiency (Demeke, 2016; Francis et al., 2012). The findings are consistent with many previous studies (Anju, 2020; Demeke, 2016; Ezeanyim, 2020; Francis et al., 2012; Jonson et al., 2020). The DKSEs and PCSEs estimations also evidenced that the presence of directors on the board from all three major ethnicities in the country has a significant positive impact on the share price.

**Table 5: Boardroom diversity and firm performance (share market price)**

SP	DKSEs	XTPCSEs
BAGE	0.019** (0.002)	0.012 *** (0.003)
BETH	0.257*** (0.016)	0.106** (0.030)
BSIZ	0.035** (0.009)	0.026*** (0.006)
FAGE	0.008** (0.002)	0.005*** (0.001)
FSIZE	0.896*** (0.040)	0.457*** (0.138)
COD	0.197***	0.419***

		(0.004)	(0.044)
LAGSMP			0.590***
		-----	(0.116)
		0.201***	-4.135***
Cons		(0.003)	(0.959)
Industry Dummy		YES	YES
Year Dummy		YES	YES
F (23, 4)	23471.34	Wald chi2(15)	3.510
Prob > Chi2	0.000	Prob > chi2	0.000
R-squared	0.4439	R-squared	0.680
<b>Heteroscedasticity</b>			
chi2(1)			1961.81
Prob > chi2		0.000	
<b>Cross-Sectional</b>			
Pesaran CD			89.649
Pr			0.000
<b>AutoCorrelation</b>			
F(1, 319)			182.834
Prob > F			0.000

Standard errors in parentheses, \*\*\* p < 0.01, \*\* p < 0.05, \*p < 0.10

Consulting previous literature, the findings could be explained that ethnic directors signal firms' positive image particularly in regard with board independence, transparency of financial matters and commitment of firms towards good governance including the protection of shareholders' interests (Abdullah & Ismail, 2013; Huo, 2016; Ismail et al., 2013; Oxelheim & Randoy, 2003; Salloum et al., 2017). These, in turn, enhance shareholders' confidence as reflected by an increase in share market price (Ferreira, 2010; Salloum et al., 2017). The shareholders also believe that ethnic directors are helpful in the acquisition of resources and legitimacy for firms (Huo, 2016; Ntim, 2015) which improve their reputation, political support and worth in the market, among others (Amoll, 2015; Carter et al., 2003; Ferreira, 2010; Huo, 2016; Ntim, 2015). Also, the findings could be explained in that ethnic directors increase share market prices by attracting institutional investors (Brammer et al., 2007). The findings of the study endorse many previous studies (Anju, 2020; Carter et al., 2003, 2010; Cook & Glass, 2009; Ezeanyim, 2020; Jonson et al., 2020; Ntim, 2015). Overall, the findings show that BAGE has an insignificant (Table 4) and significant positive (Table 5) association with ROA and share price which partially supports H1 of the study. Likewise, the findings reveal a significant positive association of BETH with ROA (Table 4) and share price (Table 5) that fully support H2 of the study.

Among control variables, both the estimations show a significant positive impact of the BSIZ on ROA and share market price. Besides an increased diversity, the findings also indicate that shareholders prefer the large size of the board for improving monitoring and the acquisition of resources to improve firm performance. Previously, it is found that small boards may suffer regarding expert advice or better conceptualization of problems (Jensen & Meckling, 1976; Pfeffer & Salancik, 1978). FAGE has a significant negative impact on ROA that might have a

rationale that sample firms could not adapt themselves as per the emerging challenges and new developments in the market which facilitate the introduction of substitutes for their products or decreased their market share. The findings are consistent with Rahman et al. (2017b) who found that an increase in firms' age negatively affects their performance. FSIZE has a significant positive impact on firms' financial performance (ROA) which indicates that large firms have substantial assets the efficient utilization of which improves firms' financial performance (Haseeb Ur Rahman et al., 2017a). The significant positive association of FAGE and FSIZ with SP has an explanation that shareholders express confidence in old, already established, and large firms due to their experience and potential resilience for the economic and financial crisis (Rahman et al. 2017a). As per both the estimations, COD has a significant negative impact on ROA. This could be explained in that regulatory reforms complicate the already in practice structure of the firms that affect their efficiency and thus profitability through increased costs, particularly in the short run (Haseeb Ur Rahman et al., 2017a). The significant positive coefficient of COD implies that shareholders believe in the introduction of new code for improving firms' compliance with good CG practices including the protection of shareholders' interests. Under PCSEs estimation, no significant relationship between LAGROA and ROA shows that firms' previous years' financial performance has no significant role in the current year. Likewise, the significant positive relationship between LAGSP and SP indicates that shareholders assign a value to firms' previous record on the stock market in buying shares.

## **6. Conclusion and recommendations**

This study aimed to investigate the nexus of rarely focused boardroom diversity-related aspects like age and ethnicity of the directors with firm performance and the impact of regulations on their association if any. The findings explain that MCCG 2012 not only addressed the important issue of boardroom diversity but also improved firms' compliance in this regard. However, the compliance is still not good and the overall statistics are not satisfactory as the Malaysian boards are mostly dominated by men of middle age from Chinese ethnicity, and only 12.5% of them have ethnic equality-directors from all the three major ethnicities. The insignificant association between directors' age and ROA endorse that senior directors have no significant contribution towards firms' accounting performance which might be due to their weak physical stamina or monitoring abilities. The significant positive influence of the ethnic diversity on ROA explains that firms with boards having directors from all the three major ethnicities of the country have better financial performance than others. The positive findings for the relationship of age and ethnic equality of directors with share market price indicate that shareholders express trust in senior and ethnically diverse boards for increasing firms' reputational capital and signaling their equality, transparency, experience, and commitment towards good governance, particularly the protection of shareholders' interests.

The study has many contributions and policy implications. First, this study identified the current status, the level of voluntary compliance, and the importance of the boardroom heterogeneity in Malaysia. Though the government has taken some steps like the introduction of MCCG 2012 that recommends an increase in boardroom diversity, thus it is the turn of Malaysian firms to ensure their compliance with the new code or voluntarily increase boardroom heterogeneity for reaping its benefits. Second, the findings of the study also provide policy insights in that to train, equip and enhance the acquaintance and capabilities of the senior and directors from diverse backgrounds, especially regarding the new technologies and market trends, for the effective discharge of their duties and improving efficiency. Third, the regulators and firms may increase boardroom ethnic diversity in anticipation of producing good results regarding their financial performance, positive image, and equality as the stakeholders and more importantly, the customers belong to various ethnic groups of society. Finally, they may also encourage the nomination of a few young directors to the boards. Overall, the findings indicate that Malaysian firms should reflect the composition of the population on their boards as an increase in boardroom diversity could minimize group thinking or the inclination of its decisions towards a particular group or groups of the stakeholders. The study is not free of limitations; hence studies in the future may add value to the subject by considering some other aspects of the boardroom diversity and the qualitative aspect of this investigation as well.

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