THE ROLE OF NOMINATION COMMITTEE IN SELECTING DIVERSIFIED BOARD: THE CASE OF MALAYSIA

KASHAN PIRZADA

FACULTY OF BUSINESS AND ACCOUNTANCY
UNIVERSITY OF MALAYA
KUALA LUMPUR

2017

THE ROLE OF NOMINATION COMMITTEE IN SELECTING DIVERSIFIED BOARD:
THE CASE OF MALAYSIA

KASHAN PIRZADA

THESIS SUBMITTED IN FULFILMENT OF THE REQUIREMENTS FOR THE DEGREE OF DOCTOR OF PHILOSOPHY

FACULTY OF BUSINESS AND ACCOUNTANCY
UNIVERSITY OF MALAYA
KUALA LUMPUR

2017

UNIVERSITI MALAYA

ORIGINAL LITERARY WORK DECLARATION

Name of Candidate: **KASHAN PIRZADA**

Registration/Matric Number: **CHA 130005**

Name of Degree: **PhD**

Title of the Project Paper/Research Report/ Dissertation/ Thesis ("this Work"):

The Role of Nomination Committee in Selecting Diversified Board: The Case of Malaysia

Field of Study: **Accounting**

I do solemnly and sincerely declare that:

(1) I am the sole author/writer of this work;
(2) This work is original;
(3) Any use of any work in which copyright exists was done by way of fair dealing and for permitted purposes and any copyright work has been disclosed expressly and sufficiently and the title of the Work and its authorship have been acknowledge in this Work;
(4) I do not have any actual knowledge nor do I ought reasonably to know that the making of this work constitutes an infringement of any copyright work;
(5) I hereby assign all and every rights in the copyright in this Work to the University of Malaya ("UM"), who henceforth shall be owner if the copyright in this work and that ant reproduction or use in any form or by any means whatsoever is prohibited without the written consent of UM having been first had and obtained;
(6) I am fully aware that is in the course of making this Work I have infringed any copyright whether intentionally or otherwise, I may be subject to legal action or any other action as may be determined by UM.

Candidate's Signature Date **10 April 2017**

Subscribed and solemnly declared before,

Witness's Signature Date

Name:

Designation:

Witness's Signature Date

Name:

Designation:

ABSTRACT

Board diversity has grown in importance as a result of the global financial crisis of 2008. Board diversity is a company requirement in Malaysian companies and in relation to this, the Malaysian Code of Corporate Governance 2012 requires that it is the responsibility of the nomination committee (NC) to select a board of directors who are from diverse backgrounds. This study attempts to examine the impact that female directors in the NC have on gender diversity as well as to observe Malay, Chinese and Indian directors' presence in the NC have any influence on ethnic diversity which can affect how the board is run. For the purpose of this study which used quantitative methodology to analyse, 393 (50%) of non-financial Malaysian listed companies for the 3 year period of 2011 to 2013, were selected as samples. Based on the analysis of the data, it was found that the presence of female directors in the NC of an organization is significantly related to the level of gender diversity on the board. The results signified the importance of having female directors in the NC as their presence can influence gender diversity on the board. The results shown by the ethnicity diversity model indicates that, a higher proportion of Indian, as compared with Malay and Chinese directors, on the NC is significantly related to the ethnic diversity on the board. Further, the proportion of executive directors in the NC was also found to have a significant impact on the Malay, Chinese and Indian directors' nomination process but does not a significantly impact on female directors. To test the robustness of the models, several sets of measures were used. Issues of normality of residuals, homoscedasticity, multicollinearity and endogeneity were then addressed by using a fixed effect model of panel data analysis (1) and the generalized method of moments (2). From this study, it can be concluded that the results drawn support the social

identity theory and power struggle theory which illustrate the importance of diversity in the NC of Malaysian companies as a means to create an unbiased and effective board mix.

ABSTRAK

Peningkatan kepentingan kepelbagaian ahli lembaga di kalangan pengarah telah tercetus hasil daripada krisis kewangan global pada tahun 2008. Menurut Kod Tadbir Urus Korporat Malaysia 2012 , jawatankuasa penamaan hendaklah bertanggungjawab untuk memilih pengarah yang mempunyai latar belakang yang pelbagai bagi memenuhi keperluan syarikat. Kajian ini bertujuan untuk mengkaji kesan kehadiran pengarah wanita dalam jawatankuasa penamaan terhadap kepelbagaian gender di kalangan ahlilembaga pengarah dan kehadiran Melayu, Cina dan India dalam jawatankuasa penamaan terhadap kepelbagaian etnik di kalangan ahli lembaga pengarah. Bagi tujuan ini, 393 (50%) syarikat bukan kewangan yang tersenarai di bursa Malaysia telah dipilih untuk tempoh tiga tahun dari tahun 2011 hingga 2013. Dapatan menunjukkan bahawa kehadiran pengarah wanita dalam jawatankuasa pencalonan mempunyai kesan terhaadap tahap kepelbagaian gender di kalangan ahli lembaga pengarah. Ini menandakan kepentingan untuk mempunyai pengarah wanita dalam jawatankuasa penamaan kerana ia akan mempengaruhi kepelbagaian gender di kalangan ahli lembaga pengarah. Dapatan berdasarkan model kepelbagaian etnik menunjukkan kadar yang lebih tinggi daripada pengarah India di NC ketara yang berkaitan dengan kepelbagaian etnik di papan. Berbeza dengan pengarah Melayu dan Cina. Di samping itu, kehadiran pengarah eksekutif dalam Jawatankuasa penamaan didapati juga mempunyai kesan yang signifikan terhadap proses penamaan pengarah Melayu, Cina dan India tetapi tidak mempunyai kesan yang sama ke atas pengaran wanita. Ralat tidak normal, heteroskedastisiti, multi kolinearan dan endogeneity telah ditangani untuk memastikan kemantapan model. Kesimpulannya, kajian ini menyokong teori identiti sosial yang menunjukkan kepentingan kepelbagaian

dalam jawatankuasa penamaan bagi memastikan lembaga pengarah yang tidak berat sebelah dan membuat keputusan yang berkesan.

ACKNOWLEDGEMENT

I would like to express my utmost gratefulness to the Allah, the almighty for giving me the strength and competence to complete this project successfully. Undertaking this PhD has been a truly life-changing experience for me and it would not have been possible to do without the support and guidance that I received from many people.

I would like to begin my sincere and deepest appreciation to my supervisors, Dr. Mohd Zulkhairi Bin Mustapha and Dr. Ervina Binti Alfan for their invaluable advices, constructive comments, firm yet kind feedback, and most of all for their patience and constant motivation throughout the writing of this thesis. Without their guidance and constant feedback this PhD would not have been achievable.

Special thanks to a number of Faculty of Business and Accountancy staff and faculty members for their assistance throughout my study here at University of Malaya. I gratefully acknowledge the grant received towards my PhD from Postgraduate Research Grant (PPP), University of Malaya to undertake this study.

Last, but not the least, my greatest and heartfelt appreciation to my family; especially my wife for her great patience and encouragement in accompanying me during my PhD journey. Also to the rest of my family members- my lovely children, mother, mother-in-law, father, sisters and brothers. I can just say thanks for everything and may Allah give you all the best in return.

TABLE OF CONTENTS

LIST OF FIGURES

LIST OF TABLES

LIST OF ABBREVIATIONS

MCCG	Malaysian Code of Corporate Governance
BMB	Bursa Malaysian Berhad
KLSE	Kuala Lumpur Stock Exchange
MOF	Ministry of Finance
MICPA	Malaysian Institute of Certified Public Accountants
MIA	Malaysian Institute of Accountant
ED	Executive Director
CEO	Chief Executive Officer
NC	Nomination Committee
CA	Companies Act 1965
SC	Securities Commission
MICG	Malaysian Institute of Corporate Governance
MSWG	Minority Shareholders Watch Group
UMNO	United Malays National Organization
MIC	Malaysian Indian Congress
MCA	Malaysia Chinese Association
ASB	Amanah Saham Bumiputra
ASN	Amanah Saham Nasional
PNB	Permodalan Nasional Berhad
IMF	International Monetary Fund
OLS	Ordinary Least Square
GMM	Generalized Method of Moments
GLS	Generalized Least Squares
ROA	Return on Asset
ROE	Return on Equity
ROI	Return on investment
RI	Residual Income
EVA	Economic Value Added
ELF	Ethno-Linguistic Fractionalization

LIST OF APPENDICES

CHAPTER 1: INTRODUCTION

This chapter attempts to demonstrate the importance of this study by providing a number of sections. It begins by looking at the background of the study, the problem statement is then provided to show the necessity of conducting this study followed by the significance of the study, the objectives of the study, the research methodology and the research question.

1.1 Background of the Study

Recent reviews of corporate governance research on corporate boards (Terjesen, Aguilera, & Lorenz, 2009) have specified that it is timely to reflect and explore new directions of research in corporate board research. Specifically, any research on corporate governance should focus on value creation so as to determine how the board functions as well as its reformation (Durisin & Puzone, 2009; Filatotchev & Boyd, 2009; Huse, Hoskisson, Zattoni, & Viganò, 2011). To achieve this necessity of the research, there is a need to adopt theoretical pluralism which draws upon more than one theoretical lens as a means to inform practice. This is because an insight provided by multiple theoretical lenses gives the research greater flexibility rather than observing adherence to a single theoretical perspective (Hambrick, Werder, & Zajac, 2008).

The importance of sub-committees such as audit and remuneration, as compared to nomination committee, has been widely discussed in governance research. However, among these three committees (Audit, Remuneration and Nomination), the Nomination Committee (NC) is the area least studied (Huse et al., 2011; Ruigrok, Peck, Tacheva, Greve, & Hu, 2006). The NCs and their significance of finding and recognition of new representatives are distinctively supported by the demand of corporate governance codes and boards. NCs raise the board's performance, for example, by improving directors' competencies as well as board independence. As far as academic literature is concerned, NCs are amongst the topics least discussed (Gay, 2001; Huse et al., 2011; Ruigrok et al., 2006). Despite the little attention directed to NCs, undoubtedly, NCs are considered as crucial parts of an organization for their duties involving the appointment and recognition of candidates to become members of the board and committee.

According to the corporate governance agenda, academicians, practitioners and governors have focused on various aspects of the board of directors. For instance, studies (Annuar & Abdul Rashid, 2015; Azlan Annuar, 2014; Brown, 2015) have looked at the roles of non-executive directors in providing a sustainable corporate governance. Nonetheless, recent studies have taken the diversification of the board as a major consideration for balanced board mix (Maskati, Bate, & Bhabra, 2015; Nishi, 2014; Wang B., Wang, F., & Li, 2012). Although there are no theorized definitions of what board diversity refers to, the background of the directors, comprising, conventionally, their age, race, gender, academic background and professional qualifications, are often taken into consideration during nomination, as a means to create a well-diversified and sustainable corporate governance. Diversity is conceded as a human capital asset by many scholars (Marimuthu, Arokiasamy, & Ismail, 2009; Stevens, 2010; Wright & McMahan, 2011). Its value has also been advocated by the Financial Report Council (2010, 2011), Nielsen (2010), van Veen and Elbertsen, (2008). Generally speaking, it has been proposed by the MCCG 2012 that the composition of NCs in the board of directors must be diversified.

This study focusses on two variables which are related to diversity: gender (1) and ethnicity (2), both of which are important considerations, in the view of regulators. To illustrate the importance of gender equality, gender quotas in corporate boards were first introduced in Norway. Following that, Spain passed an instructed solution which sets the prospective aim for listed companies (Davies, 2011; Grosser & Moon, 2008; Terjesen et al., 2015). Based on the results of these academic researches, it can be assumed that the female director's presence in the board of directors, increases gender diversity in the boards (Hillman, Cannella, & Harris, 2002; Ruigrok, Peck, & Tacheva, 2007). Moreover, the effectiveness of female directors on the board had been identified in a number of ways such as board strategic involvement (Nielsen & Huse, 2010a), strategic and operation control (Nielsen & Huse, 2010b), and board discussions (Huse, Nielsen, & Hagen, 2009).

The Asian financial crisis of 1997 had not only influenced the Malaysian economy but also other East Asian countries. Many researchers (Claessens, Djankov, & Xu, 2000; Mohammed, Mahenthiran, Rahman, & Hamid, 2006) had stated that the cause of the East Asian economic crisis was due to the deficiency of an efficient corporate governance. As an example, in the late 1990s, Malaysia's corporate reputation was tarnished by corporate incompetence as exemplified by organizations such as Renong, Malaysia Airlines System (MAS) and Perwaja Steel. Correspondingly, investors' trust in the capital markets had also been negatively influenced by global financial outrages such as the collapse of the most significant corporations in the USA like Enron and World Com as well as the worldwide economic crisis of 2008. Based on this, it is claimed that the efficiency of current corporate governance procedures in supporting clarity and accountability, has been incited (Khas, 2002). This phenomenon was also highlighted in the Malaysian Code of Corporate Governance 2012 (MCCG 12, Principle 2 – Strengthen Composition, Recommendation 2.1 and 2.2). Hence, the study found that the role of the NC is significant in strengthening efficient corporate governance.

1.2 Problem Statement

In an organization, a sound corporate governance is meant to strengthen the company's performance. A company's performance must involve transparency as a means to increase the use of the right approach of transparent director selection process (Bebchuk, Cohen, & Wang, 2011; Hassan Che Haat, Abdul Rahman, & Mahenthiran, 2008; Williams, 2000). A well-developed corporate governance, it is emphasized, can assist in raising the confidence amongst companies to create long-term governance. Previous research had acknowledged the barriers of practicing well attained governance but this has been noted mainly, in developing countries (Ahmed Haji & Mohd Ghazali, 2012; Goldin & Vogel, 2010; Hassan Che Haat et al., 2008; Mohammed et al., 2006). Over the past few years, the most prominent members of professional accounting have also focused on achieving independence for Malaysian boards and they managed to accomplish this by focusing on the function of corporate governance and the NC.

This move is observed when the second MCCG revision issued in March 2012 stated that its aim was '*strengthening board structure and composition, recognizing the role of directors as active and responsible fiduciaries*' (MCCG, 2012, p.1). Apparently, this move provided some recommendations for best practices of corporate governance. These recommendations served as the general guide for listed companies in Malaysia to abide by. The revised code of 2012 was clearly aimed at enhancing board effectiveness through board leadership and independence. Despite the important role that NCs play and the impact of its diversity on its performance and the performance of the board and company at large, few studies have examined the impact of NC diversity on firm's performance, especially in developing nations (Carcello, Hermanson & Ye, 2011) such as Malaysia. This gap thus warrants an examination which will be filled by the current study.

Need to establish relationship of NC mix ⟷ Board mix.

Malaysia is a country with a diverse multicultural population of 28.3 million. As a nation, Malaysia is influenced by different religious principles, traditions, languages, and values. The population of Malaysia is dominated by three major ethnic groups of Malay, Chinese and Indian with other minority groups. Each of these ethnic groups carry their own distinctive identities which are exemplified by their different cultures, languages, dress codes, customs and various other phenomena (Hamzah-Sendut, Madsen, & Thong, 1989; Jamil & Razak, 2010). With this distinctive socialization method, the business tradition, organization structure and other organizational services of companies, are inevitably, influenced by each other's differences (Che-Ahmad & Houghton, 2001; Haniffa, Yatim, Kent, & Clarkson, 2006; Hofstede, 1991). As a result of its multi-diversity, this study was thus motivated into selecting Malaysia as its main sample site as the focus of the study was to look at its multiple ethnic groups, gender diversity and the recent emphasis of the MCCG on the importance of NCs. In particular, NCs play a crucial role in overseeing the conduct of the board and this overseeing involves looking at the definitions and proposals of governance standards and codes. In that regard, this study will thus, mainly be directed at understanding the role of the NC in achieving a diversified board composition in the director's nomination process. This study also posits that the composition of the NCs would have a positive effect in influencing the diversity of the board, specifically in gender and ethnicity. A diversified board will lead to better monitoring and better fulfillment of the advisory role. Thus, this study examines the impact of NC diversity on board composition outcomes, i.e. gender and ethnicity diversity of non-financial companies in Malaysia. In addition, the study also examines the impact of NC diversity on board composition outcomes in the period before and after the Malaysian code on corporate governance (MCCG, 2012) was revised.

1.3 Significance of the Study

As mentioned earlier, this study aims to explore the NC's characteristic role in director selection process for board composition outcomes, i.e. diversity (Stiles & Taylor, 2001). This problem is significant because diversity in board composition can explain the differences in the behavior of the board of directors in the boardroom (Forbes & Milliken, 1999; Zahra & Pearce, 1989). Further explanations on how diversity affects the behavior of the board are explained in subsequent sections. Clearly, different explanations are incurred when examining the functions of the NC. Based on these, it can be said that this study yields results which can be beneficial in a number of ways:

1) The study contributes to the identification of the proportion of female directors in the NC of non-financial Malaysian companies. Primarily, Adams and Ferreira, (2009) had argued that with female directors in the board, it is more probable to have board diligence and more effort to demand and monitor managers' performance. This implies that firms were not following the glass ceiling strategy. Moreover, the presence of female

director on the board is more likely to create a less tolerant attitude of opportunistic activities and behaviour when compared to the presence of male director. In addition, female directors' presence in the NC can also increase gender diversity in the overall board composition. According to Davies (2011), this phenomenon can shed light on the significance of equality among genders. An allotted scheme was established for female delegates in Norway (Guha-Khasnobis & Vivek, 2007) but several studies had assumed a merit based system for all types of diversity. Nonetheless, the MCCG 2012 also emphasized the importance of gender diversity in the board, as stipulated in Principle 2 (Recommendation 2.2- Commentary).

2) The board's excellence is improved by the presence of individuals with different backgrounds, qualifications, experiences, abilities and skills (Brundrett & Silcock, 2002). This study analyzes the proportion of major ethnic groups (Malay, Chinese, and Indian) in the board composition of Malaysian firms. The findings will reflect the level of ethnic diversification in Malaysian boards. In that regard, this study will also yield useful data which can analyze the monopoly of ethnic groups (if any) in Malaysian corporate boards (Bolbol, 2012; Ismail, Abdullah, & Nachum, 2013).

3) The number of firm directors in a board can be reasonably limited and bounded. In that regard when firm directors seek new members, they may select board officers who share similar qualities and skills. If a strong selection standard and decision-making process are missing, board selection decisions may be prejudiced by such social limitations. Hence, an NC with recognized operational processes may be perceived as a significant and established mechanism that can act as a means of deterring such

restrictions on board selection procedures. In this case, the identification of the executive director's (ED) proportion in Malaysian listed firm's nominee committee will be another contribution of this study. The proportion noted will explain how the NCs work with independence minus the influence of executive directors (Marimuthu & Kolandaisamy, 2009b).

4) The importance of nomination reflects the competencies and abilities of the directors on a board. Since the principal formal structure intends to reinforce the selection process of the director, the main subject of interest in this study is represented by the NC. Nevertheless, as mentioned earlier, it is quite apparent that there is lack of research that particularly focuses on the NC or its independence and the diversity of its board composition. This study is thus inspired by the fact that very little research had been conducted in looking at the role of the NC in the nomination of the director for effective board composition of Malaysian listed firms. Like other studies, this study also considers various significant variables for analyzing this aspect of gender and ethnicity diversity.

1.4 Objectives of the Study

To be concise, this study intends to examine how the nomination committee (NC) aids in forming a diversified board in non-financial Malaysian companies. Specifically, this study intends:

(i) To investigate the impact of female directors in the NC on gender diversity on the board.

(ii) To examine the effect of the proportion of different ethnic (Malay, Chinese & Indian) directors on the NC and the level of ethnic diversity on the board.

(iii) To examine the moderating effect of Executive Directors proportion in the NC and the degree of gender and ethnic diversity in the nomination committee and board.

1.5 Research Question

The importance of the role of the NC has increased after the global crisis of 2008. Firms around the world began paying more attention in establishing a NC that comes with formal working procedures. Importantly, the role of the NC in the nomination process of female directors and major ethnic groups with diverse background is crucial for balancing board mix. Therefore, the following research question was formulated as a guide to the central thesis of this study:

Is the role of the NC in the process of director nomination significantly related to board composition outcomes (i.e. Gender and Ethnicity diversity)?

(i) What is the impact of female directors' representation in the NC on gender diversity on the board?

(ii) What is the effect of the Malay, Chinese and Indian directors' representation in the NC and the level of ethnic diversity on the board?

(iii) What is the moderating effect of the proportion of Executive Directors in the NC and the degree of gender and ethnic diversity in the nomination committee and board?

1.6 Research Methodology

This study employs the quantitative research approach. Firstly, the study determines the theory and related literature linked to directors' nomination and board composition. Following that, the research gap and research question is formulated. Eight hypotheses were established. For each variable examined, at least one measure is selected to act as proxy for the variable.

Data related to corporate governance variables were collected from the annual reports of sample companies and the financial data were extracted from DataStream database. Sample companies were selected from ten sectors: Trading/Services, Consumer products, Industrial Products, Plantation, Property, Construction, Technology, Hotel, IPC and Mining. These sectors were deemed to be non-financial companies and in total, they comprise 50 % of all Malaysian listed firms on the Bursa Malaysia. The financial sector is subject to a different set of regulations in Malaysia.

The samples for this study comprised 393 publicly listed Malaysian companies and samples were collected from the period of 2011 to 2013. This specific period was selected for the purpose of analyzing the importance of the NC, after the global crisis of 2008. These samples were specifically chosen to test the relevancy of the study's research hypotheses. To do so, Ordinary least square (OLS) GMM estimator, and cross sectional polled data were conducted (Hsiao, 2014).

1.7 Organization of thesis

This thesis is organized into six chapters. Chapter 1 covers the background of the study, problem statement, significance of the study, research objectives, research question and a brief overview of the research methodology. Chapter 2 focuses on the general overview of corporate governance, nomination process, Hofstede cultural model and followed by the theories. Chapter 3 comprises the background of the study and the corporate governance noted in Malaysian companies. Chapter 4 explains the research methodology that was employed in this thesis. It includes the research design, framework, sample size, data collection, statistical modelling and variables' measurement. It further describes the statistical methods used in the study, specifically the descriptive statistics, multiple regressions, and panel data analysis. Chapter 5 presents the analysis of the data and discussions of the findings which focus on the results of the descriptive analysis. Chapter 6 comprises explanations of the bivariate test, multiple regression and multivariate analysis with the analysis, findings and discussions. The final chapter is listed as Chapter 7 which summarizes the objectives and findings of the thesis. It also provides a comprehensive conclusion of the study, besides providing a brief review on future research and limitations related to this study.

CHAPTER 2: LITERATURE REVIEW

2.1 Introduction

The aim of this chapter is to recognize and evaluate related studies and theories which define the nomination committee's NCs role, its influence and its requirement in achieving a well-developed board or board composition. This chapter will thus provide an outline of the theories related to corporate governance, and in the context of this study, the necessity of NC. This is then followed by the discussion of previous studies which examine the various factors influencing the NC and its influence on a board's composition. In examining the extensiveness of the discussion, this chapter will thus be able to determine the research gap.

2.2 Corporate Governance and Performance

In the business world, corporate governance refers to the system of rules, practices and process by which a company is directed and controlled. In economic terms, corporate governance is essentially the balancing of a company stakeholders' interests of the business and this encompasses the stakeholders, management, customers, suppliers, financiers, government and the community (Kraakman, 2009). The ultimate aim of having sound corporate governance is to strengthen the board's monitoring role so that it enhances corporate performance (Bebchuk et al., 2011; Hassan Che Haat et al., 2008; Williams, 2000). A well-developed corporate governance can enhance the confidence of company stakeholders in creating long-term governance. Apart from that, good corporate governance also boosts the management of the company and this is accomplished by delivering and implementing strategies that can enhance its competitiveness which may comprise, an enduring conception that is created through proper governance. A good corporate governance can increase the level of confidence amongst companies.

Corporate governance structures are influenced by two mechanisms: internal and external. The internal mechanism mentioned here would refer to the internal avenues located within the company and this includes the management of the board and ownership. The external mechanism involved would refer to the avenues outside of the company, for instance takeovers, corporate control market and legal/regulatory system (Lara, Osma, & Penalva, 2009; Yang, Chi, & Young, 2011).

Regardless of the possible mechanisms that are available in exercising corporate governance, Belaire-Franch and Opong, (2005) contend that corporate governance could be examined based on certain models which are derived from market governance. The Anglo-American governance patterns, for instance, bear, features which depict an autonomous board, common ownership, transparent disclosure, dynamic makeover market and advanced legal infrastructure. These features seem to suggest a kind of governance that is open. In comparison, the Franco-Germany control model contains a model that exhibits a structure that includes the fundamental inside board, intensified organization of ownership, restricted disclosure; and trust in family finance and the system of firms. Clearly, this is less flexible than the former model.

The breakdown of the internal governance mechanisms can lead to external governance mechanisms. According to (Jensen, 1993; Jensen, Kaplan, & Stiglin, 1989; Jensen & Warner, 1988; Jensen & Meckling 1976) the U.S takeovers in the 1980s were in the end evoked by a breakdown in the internal governance mechanisms of U.S associations. The main cause of the collapse is most likely the management's inefficiencies which then led to the growth of dispersion between shareholders and reduction of management ownership. When dispersion occurs, differences take place and this could develop a wide separation in communication and understanding. This can then lead to the formation of inefficient boards which, in exercising their duties and responsibilities, may become more reluctant to support and protect the interest of the shareholders, in a bid to protect their own interests. Notably, in a business industry, it is the successful division that will contribute to and support the poor divisions and one way to achieve this is through the usage of investors' cash, instead of returning the money to investors. According to J. Yuan and C. Yuan (2007) corporate governance appears to have a bigger impact in improving business efficiency. J. Yuan and C. Yuan (2007) specifically notes that a, good internal corporate governance can provide a better and more efficient way for the board of directors to fulfil their duties, thereby, achieving business efficacy.

Several reports focusing on corporate governance have, in particular, emphasized the necessity of modifying the director nomination process by creating a NC within the board of directors (Aguilera, 2005; Kaufman & Englander, 2005; McKnight & Weir, 2009). The objective of such a particular committee is to develop an identification of the directors' profiles (required on the board) and to make recommendation for future directions albeit minus the influence of CEOs and their executive directors.

2.2.1 Board of Directors

In a business corporation, the board of directors serve as the primary direct stakeholder who has an influence in the corporate governance of the company. It is a tradition, among corporations, that directors are elected by company's shareholders. Alternatively, they may be appointed by other board members. The board of directors represent the shareholders of the company, hence, any wrongdoing performed by the management of a company, in general, a director will have to be held responsible in some way. In a company, the board of directors has the responsibility of making important decisions and this may include appointment of corporate officers, executive compensations and dividend policies. Usually, boards are made up of inside (internal) and independent members. Insiders are major shareholders, founders and executives. In general, independent directors are not supposed to share ties with the insiders, nonetheless, they are selected because of their experiences, either in managing or in directing other larger companies. It has been noted, that independents are beneficial for governance because they dilute the concentration power of companies. They also help to align shareholders' interests with those of insiders. (Corporate Governance Retrieved 22 November, 2016 from http://www.investopedia.com/terms/c/corporategovernance.asp)

In the case of Apple's board, it can be seen that the main issue strengthening the company's corporate governance was the CEO, Steve Job's, strong influence over the nomination process. Based on this context, it can be said that the NC was not independent enough to select the directors. It cannot be overemphasized that, the demand for establishing the NCs was in accordance with the logic of mitigating the influence of the

CEO and the executive directors (Clune, Hermanson, Tompkins, & Ye, 2014; Campbell, J. T., Campbell, T. C., Sirmon, Bierman, & Tuggle, 2012; Chhaochharia & Grinstein, 2009; Jiraporn, Singh, & Lee, 2009). The subsequent section will focus on, the nomination process and the role of the NC.

2.3 Nomination Process

The procedure for director nomination in various countries including the USA, UK, Australia, and Norway emphasizes the role of the NC. In fact, the UK corporate governance code recommends that a, NC should evaluate the balanced skills, experiences, knowledge and independence of its board. In light of the evaluation, it is no surprise that the NC should then prepare a list of the role and responsibilities expected for a particular appointment. The requirement is in line with the demands of the MCCG 2012, which stress that a NC should develop the criteria that are to be used in the nomination process of directors.

More importantly, there have been a number of studies which looked at the theory of the corporate organization and the sociology which supports its development. These theories hold that in the business context involving board of directors, the group which has been rewarded and is most respected, should be the group that comprises directors who have accomplished their supervision and control duty with appropriate alertness. This implies that a good board of directors tends to reflect good corporate governance. However, empirical studies also provide evidence suggesting that the most probable and prospective directors, during the appointment, would be the people whose social capital consists of members from the elite class (Davis & Greve, 1997; Hermalin & Weisbach, 1998; Mizruchi, 1996; Palmer, 1983; Pettigrew & McNulty, 1995). Clearly, this implies that directors from a board are those from the upper echelon of society, if not hierarchy of the business world, if 'elite class' is a term to go by for definition.

Nonetheless, it is important to point out that the appointment of new directors within a company has always been a central issue in corporate governance studies (Finkelstein, Hambrick, & Cannella, 2009). Due to some previous misconduct, current research observes that there is a need to restructure the trend of the appointment of directors in the corporate world. Several reports (Aguilera & Cuervo-Cazurra, 2004; AMF, 2004; Bouton, 2002; Cadbury, 1992; Council, 2000; Lodder, 2014; Viénot, 1995; 1999) have suggested the modification of the way which directors should be appointed. They claim that one way to achieve this is through the formation of a NC as part of the directors' board. (Aguilera & Cuervo-Cazurra, 2004; AMF, 2004; Bouton, 2002; Cadbury, 1992; Council, 2000; Lodder, 2014; Viénot, 1995, 1999). These studies noted that the suggested NC performs two main tasks:

a) Examining the director's profile that is needed by the board and expressing opinions regarding the election of prospective directors.
b) Forming a NC within the board (Fama, 1980; Jensen & Meckling, 1976) can help the company to emphasizes its strategy of separating the firm's control and management's function. As a result of these functions, the NC, can theoretically, reduce the control of the firm's CEO and EDs in the director selection process.

Findings from previous studies (Shivdasani & Yermack, 1999) have shown that companies that do not have a NC are assigned CEO and executive directors (EDs) and this practice, usually cause individuals to associate themselves with the CEOs and the executive directors' ED's. Despite the fact that stockholders must vote for each nominated prospective director of the board, this obligation is just an official formality. In reality, nominations done by the CEOs are considered as appointments which lead to a biased selection (Latham, 1999).

The task mentioned above for the NC would imply that the NC should consist of Non-Executive directors as well as nominated candidates who are independent of the management and so can be responsible for questioning the CEO's decision (Shivdasani & Yermack, 1999). As a matter of fact, an independent NC also has the ability to enhance the firm's board by selecting candidates who can represent investors more accurately.

2.4 Nomination Committee and its Role

Since the last two decades, many countries across the world have endorsed three committees: audits, remuneration committee and nomination committee, among their board members, in the codes of corporate governance (Waring & Pierce, 2004). Previously, NCs were the last to be established amongst the three. Various research results, for instance, Conyon (1994), Gay (2001), Vafeas (1999), and Dedman (2002) have determined that a majority of firms had established the audit and remuneration committee but there was a lack in the establishment of the NC.

The NCs and their significance in finding and recognizing new representatives are distinctively required by corporate governance codes. In the same fashion, the NC is also accountable for the procedure and for streamlining the directors' nomination process to the board. After all, the effectiveness of the board is determined by these appointments. Specifically, Vafeas (1999) and Ruigrok et al. (2006) argue that the significant and the fundamental mechanism which contributes to the efficiency of the director nomination process is principally, represented by the NCs. In Malaysia, the significance of NC had increased after the global crisis of 2008 when most Malaysian firms chose to establish the formation of a formal NC. In view of this, the MCCG 2012 had also stressed the importance of the NC which is supposed to be responsible for appointing and recognizing candidates in becoming members of the board and committee. Subsequently, the NCs helped to raise the board's performance by improving the directors' competencies as well as the board's independence. It is assumed that the independent NC can affect the reputation of a director candidate by decreasing the influence of the CEO and other executive directors on the director selection process.

There are various benefits of having a NC in a company as listed below.

a) It assists in the selection procedure by reducing the influence of management.

b) The formation of the NC alleviates the split between administration and examination of the company (Shivdasani & Yermack, 1999).

c) The resources and legitimacy of the members of the committee are administered separately in order to independently assert their duties on the board (Huse, 2007).

d) As far as recruitment of new members is concerned, the assessment of NC members will be assessed in a strict way as compared to other board members.

Therefore, the NC can play a major role in controlling the CEO's influence in the recruitment process hence resulting in the appointment of more competent directors who have greater control over their managers. Competent directors are far more active in reforming and executing new procedures that are required by corporate governance codes. Likewise, competent directors would gain recognition from the market by obtaining values for the company which are in line to the agenda of the NC. On the other hand, the absence of a NC in a company may cause the director selection process to be influenced by the CEO and other executive directors. (Pettigrew & McNulty, 1995). This would then defeat the purpose of a clean or good governance.

It has been noted that little research has been undertaken to observe the influence of NCs in the director nomination process although the contribution offered by the NCs in the process, is of particular significance. To sum up, this study aims to examine the influence of the NC in the director nomination process which can affect a diversified board composition. In addition, this study also seeks to investigate the extent to which these appointments can be moderated by the existence of ED in the NC (Hermalin & Weisbach, 1998).

In recent years, numerous countries have developed their respective corporate governance codes which regularly optimize the role of the nomination sub-committees, board audit and remuneration (Waring & Pierce, 2004).

The board composition and selection process is considered to be a crucial role of the NCs. According to Eminet and Guedri, (2010), the role of these NCs is to formulate and specify the board director profiles and to make recommendations for prospective director candidates. Furthermore, it was mentioned that there is a necessity to reduce the impact of CEO influence on the director selection process.

Taking the shareholder's concerns into consideration, the NC is supposed to guarantee that newly elected members of the board are qualified outside (external) directors who are able to exercise their functions while not being employed within the company. Henceforth, the more external directors are involved in the board, the more assurance can be obtained for the board's independency against the influence of the company's management. This structure, thus, is perceived to be effective in ensuring that the NC's supervisory function is met.

As an outcome of the increasing evidence given by practitioners and academics, it appears that CEOs have a major impact on choosing new board members. Worldwide, various reports involving corporate governance have recommended and proposed that board of directors be elected through the NC. The main function of NC should include recognizing possible directors, proposing the nomination of potential candidates and creating their profiles.

It is also important to note that the NCs are responsible for appointing the board and for suggesting the choice of directors to the board, including the provision of director's criteria selections as these can reinforce the efficiency of the board as indicated by Westphal and Graebner (2010), Adams, Hermalin, and Weisbach (2010), Kaczmarek, Kimino, and Pye (2012), and Brown and Caylor (2009). These scholars also mentioned that the NCs signify a significant fundamental mechanism that aids and refines the director selection process. Eminet and Guedri (2010), highlights that the assignment of these NCs is to propose upcoming director applicants and to formulate their profiles. The idea is to limit the impact of the company's CEOs on the director selection procedure. Therefore, the NCs play crucial roles in board constitution and planning for future directors. They also ensure that the board will be appropriately constructed.

The members of the NC are concerned about their own good reputation thus by hiring effective directors who control the management, the NC is also adhering to its own good practices. According to the requirements of financial authorities, the annual report should provide information about the financial outcomes of listed companies as well as the names of the NC members and a summary of the work executed over the past year (van Veen & Elbertsen, 2008). The report would also facilitate the achievement of transparency by including the nomination procedure for the appointment of new board members who can enhance the responsibility of the NC members. Indeed, such reports disseminate and shares information about the nomination process to shareholders. (van Veen and Elbertsen, 2008).

In short, it can be said that the director selection process is deputed by the NC which recommends independent suggestions that do not rely on the executive mechanism of the companies. This therefore, ensures a more reliable selection process that mitigates unnecessary personal influences.

Among the many reasons underlying the establishment of the NC is the fact that many board of directors of publicly-listed companies are self-perpetuating and they do not sufficiently represent the interests of shareholders. This existence, therefore, defeats the fiduciary duty of a director to act in the best interests of the company which include shareholders. Not only NC supposed to be an independent body that is used exclusively for selecting, evaluating and nominating candidates for the board and committee memberships, it also enhances the workability and capability of the members of the boards. To clarify, shareholders' interest and the dynamics of the board could be retained by nominating the right candidate for the board. Based on the available literature, it can be deduced that by having an independent NC, the board of directors is less likely to commit financial and corporate fraud thereby, strengthening the corporate governance of publicly-listed companies.

The members of a NC are also expected to perform their duties professionally by ensuring that the board is composed of skillful, experienced and competent candidates. The requirement has been clearly spelt out by the MCCG 2012, p10, stating that:

> ".... Nominating Committee is trying to strive for is a board mix that is effective, balanced and diverse as well as comprising members capable of and willing to offer contrarian views, who possess attributes that contribute to the board dynamic and able to robust the Boardroom discussion"

The corporate governance codes have indicated that the composition of the NC should comprise of non-executive directors and chaired by Senior Independent Directors. The focal point for members of the NC is that they must be independent from the management of the company so as to ensure the transparency and openness of the NC in performing its duties. Likewise, it is recognized that the presence of an executive director is still of significance in a way that he/she can voice out his/her judgement and opinion in meetings. Nonetheless, the executive director and the other internal directors are prohibited from becoming members of the NC. Generally, it is contended that though the NC consists of independent non-executive directors- this does not guarantee the independency of the committee since the independent director may have connections with the corporation and its members. To demonstrate this, despite the NC's recommendation, the publicly listed board still has the final decision on the nomination process. Therefore, the function of the NC in making the nomination and assessment of directors seems insignificant. The next section elaborates more on the presence of executive directors and CEOs in the NC.

2.5 Executive Directors and CEO Presence in the Nomination Committee

During the director selection process, the influence of company's CEO or chief executive officer should be reduced by the presence of the NC. Numerous studies have shown that the director selection process often is influenced by dominant CEOs and other executive directors (ED). These entities are biased towards the selection of individuals as they are more likely to confirm to their upcoming decisions, either by mostly denying those nominees who are likely to counter their verdicts, or by demanding for a re-election (Shivdasani & Yermack, 1999). Other studies (Bebchuk, 2003; Bebchuk, 2009) have found evidence which shows that the NC will generally be influenced by the EDs during the nomination of the company's suitable director candidate. This means that the EDs' dominance over the director selection process is considered as the main form of management control, amongst other factors. Certain studies (Bebchuk, 2003), noted that EDs appoint directors who sympathize with their needs. This has led to various concerns where the social ties between the directors of the company with the interviewees is said to be likely to affect the decision in choosing a director candidate as this social tie may strongly influence the directors in choosing candidates favourable to them and not in accordance with the requirements actually needed. Meanwhile, directors with the same sociological and demographic traits are more inclined towards performing less stricter control, thus, they are more preferred by the influential CEOs during the selection process (Westphal & Zajac, 1995).

Additionally, a study (Davis & Greve, 1997) has also specified that a higher predicting power exists in the director selection process than in the director's tendency to enhance supervision and control over management and the elite class members with social ties.

The equivalence of the CEO is measured by the board and the ownership structure. In that connection, the compensation of the CEO in a firm in terms of quality, performance and risk, was found to be negative, on account of performance, managerial entrenchment, poor governance system (Cyert, Kang, Kumar, & Shah, 1997). Recently Agrawal & Cooper (2016) conducted a study on scandals regarding top managements and they provided strong evidence which indicate that there was greater turnover of CEOs, top managements and CFOs in restating companies. Nevertheless, the CEOs may become involved in the appointment of fresh directors and this practice can dominate the NC and thereby, hinder the appointment process.

Given the above scenario, there is a possibility that the more powerful a NC director's reputation is, the higher the number of future nominations to boards will be. In such a board, the CEO is not part of the NC and mostly, the NC tends to be predominated by non-executive directors. However, such reputation of the NC director can be adversely affected by the number of consecutive appointments to boards whereby the NC is dominated by executive directors to boards in which the CEO is a part of the nominating committee (Lorsch & MacIver, 1989). As a matter of fact, if the CEO sits in the NC, he/she will likely have an impact on the discussions, influence other members of the committee, or conclude indirect contracts with particular members that would support the nominations that he/she favours. To illustrate, Shivdasani and Yermack (1999) have demonstrated that if the CEO is part of the NC, he/she decreases the opportunities of hiring an independent external director and so indirectly, expands the opportunity of hiring a non-independent executive director. As a result, as highlighted by past studies, the CEO's presence in the NC is negatively related to the nomination process for increasing control over the committee and board composition.

The proportion of executive directors may also affect the NC in certain cases. For instance, if the CEO and executive directors are part of the NC or if the committee is controlled by executive directors, the CEO may enhance his/her influence over the director selection procedure. This is to say that the executive directors' dominance over the director selection process has always been considered as the main form of management control, amongst other factors. As mentioned earlier, executive directors influence individuals' sympathy to their needs. Various concern would also arise where the social ties between the directors of the company and the interviewees, may affect their decision in choosing a candidate director as the interviewees may be strongly influenced by the director's individual preference rather than the requirements actually needed.

The off-board committees which includes the NC, audit and compensation committee technically belong to the board committee (thus, the board is responsible for their decisions and needs to approve their declarations). The director nomination process is likely to be influenced by the board and the company's CEO's because of their current distribution of power. (Finkelstein & Hambrick, 1996).

Analytically, as some analyses have reported, the struggle of power between current non-executive directors and CEOs is likely to be won by influential CEOs. Westphal & Zajac (1995) stated that CEOs and executive directors can cause an impact on the decisions of the director selection process committee and more likely, would appoint directors with resembling characteristics as themselves. This practice reduces the likelihood of being subjected to stricter supervision. This claim was endorsed by Shivdasani and Yermack (1999) who also noted that CEOs who are part of the NC were capable of opposing the nomination of independent external directors in favour of the independent executive director nomination. For this reason, the nominating process of the director is highly questionable because of the influence of the CEO, an interference which decreases the monitoring roles of the board. On the basis of all the studies and evidence mentioned above, it can be deduced that the intention of appointing directors is to have an effective market process which is in accordance with the theory, and not the monitored practices.

It is contended that an independent director who has served the company for a long period will most probably abide by the decisions of the management. One key and important thing to realize is that studies have found evidence showing that the executive directors' influence over the director nomination process is positively associated with more experienced interviewees and retired individuals serving in the NC. Because of this possibility, it is suggested that interviewees in the NC should consist of non-executive directors who are less likely to want to satisfy the desires of the CEO or EDs such as in maintaining their chemistry and comfort in the company. This is in contrast to truly choosing a director candidate who is capable of in maneuvering the company to greater heights.

Studies have also shown that the NC has consistently been focusing on the chemistry and comfort of the CEOs and EDs while deliberating in the director candidate's process as well as during the final selection. As a matter of fact, a diversion of the board seems to be an important issue that needs to be considered so as to cut down discrepancy and promote a fairer process of developing a sound corporate governance. The following section will elaborate more on this matter.

2.6 Board Diversity

There has been empirical researches which studied various aspects of diversity, and one of the weaknesses noted in this research is that they did not address the effect of each individual diversity on other diversity dimensions (Jackson, Joshi, & Erhardt, 2003). With that in mind, it is asserted that studies focusing on diversity must reflect on the correlation among various aspects of diversity. This is because diversity is a multi-dimensional phenomenon. For instance, Carpenter (2002) suggested conducting research which focus on the interactions of the different dimensions of the directors' personality and he considers these as a "bundle" of attributes. This strategy mentioned by Carpenter (2002) can assist other researchers to develop a profound understanding of the mixed and cumulative effect of diversity on organization outcomes.

Hillman et al. (2002) also, urged others to extend research on a simultaneous consideration of multiple aspects of the directors' personalities, along with the resulting in-depth understanding of the board's diversity, as a multi-dimensional phenomenon. It was emphasized that effective research can be done if it takes into account, the interrelation of various aspects of diversity of the firm's board. By reviewing and incorporating previous demographics studies, researchers should be able to identify the various dimensions of diversity. This aspect of the research is crucial for the board as a finding can enhance the degree of effectiveness of the NCs with regard to diversity as a multidimensional phenomenon. With this intention cleared, the cumulative effects of the multiple diversity dimensions on the board's processes and performance is thus, also taken into consideration. Even though forming a multi-dimensional measure and interpreting the diversity is a painstaking duty, it is the only way to gain a good understanding on how the individual input of directors occur.

The clear standpoint of the regulators regarding diversity is further explained in the following section. For instance, as a representation of the importance of gender equality, corporate board gender quotas were first introduced in Norway and New Zealand. Norway used the legislation in the form of a quota and New Zealand used the soft regulation approach as a form of advocacy (Casey, Skibnes, & Pringle, 2011; Davies, 2011; Ismail et al., 2013). Previous studies (Casey et al., 2011; E. Davies, 2011; Ismail et al., 2013) highlighted the fact that the presence of female directors not only diversifies the board through the gender factor, their presence also shows that these female directors possess superior educational degrees and higher capability of becoming part of the board; they are considered more skilled in comparison to male directors (Hillman et al., 2002;

Ruigrok et al., 2007). Moreover, the effectiveness of the female directors can also be identified through their board strategic involvement (Nielsen & Huse, 2010a), strategic and operation control (Nielsen & Huse, 2010b), and board discussions (Huse et al., 2009). Taking into account the diversity factor, it is observed that, various countries have input new movements into their boards which include: (1) To incorporate 40 percent females onto boards in Norway, (2) To incorporate policies and measurable objectives for gender diversity onto boards in Australia. They also, passed provisions for gender diversity onto boards. (3) The Malaysian Code of Corporate Governance (MCCG) had emphasized importance of increasing the percentage of gender diversity in firms. The annual reports must also publish the percentage of female on boards and overall. (4) The US Securities and Exchange Commission requires firms to disclose their arrangement on how they enforce gender diversity when nominating directors to the company board. (5) The UK Corporate Governance Code (Financial Reporting Council, 2010), implemented customized principles for UK-listed companies. Companies are required to disclose relevant information for the purpose of explaining the situation or any agreement reached. In line with focusing on diversity, the subsequent FRC Guidance on Board Effectiveness (Financial Reporting Council, 2011) also relevantly stressed the importance of diversity. It appears to be a dominant factor for the running of effective boards, proposing that "a board is not composed solely of like-minded individuals" and that its directors also "have the intellectual capability to suggest change to a proposed strategy, and to promulgate alternatives." The current study found the significant gap - the role of NC in board diversity which is not well addressed in existing literature and especially in developing countries. The low representation of female directors in the board is the possible reason of low representation of female directors in NC. The gender and ethnic diversity elements are both examined in this study by considering the composition of the NCs.

Throughouts the world, many organizations are currently facing critical issues on gender, race, ethnicity and cultural composition of the board of directors. It seems that every member of an organization is experiencing these issues whether in big or modern corporations. In essence, the concept of ethnicity diversity originated in North America and of late, it has slowly taken hold in other countries around the world (Hays-Thomas, 2004; Özbilgin & Tatli, 2008). The concept of ethnic diversity and corporate governance has a strong relationship in the context of top-level management. For better illustration, we take the example of boards of directors who are the apparent leaders in the organization. These characters always make strategic decisions and they also set strategic goals for their companies or organizations (see above on Board of Directors). In this scenario, the board's performance and efficiency can be measured through the firm's performance. Cognitive and demographic diversity have been stated to be among the variables that can demonstrate if the respective firms are performing effectively. This claim has been verified by Marimuthu and Kolandaisamy who say that ethnic diversity among the board of directors can boost the board's efficiency (Marimuthu & Kolandaisamy, 2009a).

Ethnicity diversity at top management level can be an advantage to firms (Marimuthu & Kolandaisamy, 2009a). Similarly, researchers have argued that diversity at the board level has a relationship with the firm's performance. In detail, more innovation and creativity seems to have come from a board or a team that is diverse in ethnicity. Further, such a diversity apparently enhances the firm's overall performance (Carpenter, 2002; Hambrick & Mason, 1984; Murray, 1989). As has been noted by some studies, diversity among board members can create a positive or negative effect depending on organizational strategies, culture context and human resource (HR) practices and policies. Ethnicity diversity is beneficial to an organization in certain conditions. As an example, diversity at top management level helps to improve the overall performance of the organization (Yusoff, 2010). Some studies assert that, ethnic diversity has a positive relationship with organizational performance.

While there are benefits, other studies have noted its negative impact on, for instance, firm performance (Ismail et al., 2013). The existence of both positive and negative impact of ethnicity diversity on a firm's performance suggests that there is ambiguity among previous studies. Due to this inconsistency, there is thus a need to investigate this ambiguity even further but via an improved holistic way. Malaysia is one country which can serve as a research site to confirm the above findings as it comprises a population that is not only diverse in race, culture and language but also traditions and values.

2.7 Hofstede Cultural Model

Malaysia is a developing country that is of interest not merely because of the emerging capital market, but because of the country's language, religion and ethnicity existence of a significant division. There was, without doubt, riots that occurred involving the main ethnic group that holds about more than half of the country's population (the Malays) against the second main ethnic group (Chinese) in 1969 and the third ethnic group (Indian) respectively. As a result of this incidence, the government introduced a new economic policy in the following year. The governmental upper class here within Malaysia is known for its racialization, even though a debate to show if the discrimination has been present from the beginning of time (Milne, 1981) or is based on class (Brennan, 1982) was undertaken. Even at that, the New Economic Policy still supported the bumiputra, a type of positive discrimination that involved the handing out benefits like grants, trade, education and specific kind of jobs. Hence, in a racially mixed nation such as Malaysia, an examination of diversity will give more understanding of representation of each ethnic group in the NC and board.

The new economic policy that segregate people based on ethnicity also affects the corporate sectors of Malaysia. It is believed that the approach of management depends on the cultural group of an individual, his or her literacy status as well as the kind of association with the management (Chuah, 1995). Therefore, ethnic type, sex and literacy of an individual work can be used in this study as the functional equivalent of culture. Nevertheless, the measure is partial as acknowledged by the other researchers. Additionally, the result of ethnic type could be of importance in the interracial societies where each of the ethnic types chooses to sustain its ethnic uniqueness (Sendut, 1991).

The existing public ethics may not express the standards of the entire nation in multiracial countries, particularly when every ethnic type chooses to sustain its individual ethnic uniqueness and standards. In fact, candidate directors' nomination process can be affected by an individual's culture, history, ethics and beliefs (Alhabshi, 1994).

As has been noted by some studies (Alhabshi, 1994; Haniffa & Hudaib, 2006; Hofstede, 1991), the Malaysian corporate nomination process practice may reflect not only the variations of cultural values based on ethnicity and belief sof the three main ethnic groups concerned in business, but also the outcome of the economic policy of the government. In order to analyse the possible relationship of cultural values and directors' nomination practices, the four bipolar cultural aspects highly developed by Hofstede (1991) for the three most important cultural groups concerned in business undertakings (particularly, Malay, Chinese and Indian) will be studied. The four cultural value scopes of Hofstede (1980) are individualism, masculinity, power distance and uncertainty avoidance.

Table 2.1: Hofstede Cultural Values of Major Ethnic Groups in Malaysia

Hofstede Cultural values	Ethnic groups		
	Ethnic Malay	**Ethnic Chinese**	**Ethnic Indian**
Power distance	High	High	High
Masculinity	Low	Low	Low
Uncertainty avoidance	High	Low	Low
Individualism	Low	High	High

Hofstede in 1991 suggests that in masculinity, the two main ethnic groups in Malaysia are both low but in power distance, both main ethnic groups are high. In line with the cultural values, the Malays are known to have high uncertainty avoidance which may be recognised by their strong belief in religion, which is reflected in their values and faith (Abdullah, 1992), compared to the Chinese and Indians who are considered low on uncertainty avoidance, as proven by their willingness to accept new challenges to take greater risk (Abdullah, 1992). In view of individualism, the Malays are valued lower, which is relatively recognised by their faith which inspires collectivism because 'under

Islam, cultural order is related to collectivism and rights of private ownership are eventually subordinate to Allah' (Baydoun & Willett, 1995, p. 89). And this is expressed in their principles when getting along well with fellow people (Abdullah, 1992). In comparison to the Chinese and Indian, they are considered more individualistic at the national level which may relatively be recognised by their public ideas and cultural division in the socioeconomic structures (Tan, 1984).

Table 1 presents Hofstede's cultural values, it can be seen that only two cultural values, uncertainty avoidance and individualism, vary among there major ethnic groups of Malaysia. According to the Hofstede's cultural values, the Malays might be expected to be comparatively more reserved than their Chinese and Indian counterparts. This concept is considered important in this study to see if the presence of executive directors in NC does influence the candidate director's nomination process in Malaysia.

2.8 Social Identity Theory

Ashforth & Mael (1989) considers any perception an individual within a group holds of him/herself and then compare this to others, can be defined as social identity. The concept of social identity was a theory formed in Europe and it has spread its wings to various regions of the world, including North America. The social identity theory, is also known as a cognitive social psychological theory (Tajfel, 1982). It was explained by Tajfel (1982) that the central hypothesis that lies within the social identity theory is that group members of an in-group (an exclusive group of people who share same interest) will endeavour to look for the negative aspects of an out-group (those who do not belong to a specific in-group). This search for negative difference will help to promote their perception of their own self-image.

It has been elaborated that social formations and individuality can be connected through the attachment of well-intentioned people who also serve as identity group members where, the emergence of gender, race and ethnicity occurs. A social group is thus defined as a group of individuals who represent the same social identity fiction or see themselves as part of the same social class. To put it another way, the process of comparing different social groups would define resembling people as the out-group. The earliest theories involving social identity were comprised of psychological attributes such as emotions and evaluations of in-group classification. Social comparison and self-categorization are the two most vital systems used in social identity theory.

Tajfel (1978) notes that, social identity is best defined as an understanding of one individual which belongs to certain social groups together with one's emotional and value significance as a group member. Conversely, social identity is derived from the individual categorizations, the discrepancy and prestige of the group, the prominence of outgroups, and the elements that are correspondingly different with the formation of the group. Thus, the social identification process may be compatible with the shared sense of group belonging which supports the social groups that symbolizes their identity. This belief can nurture their perceptions (Ashforth & Mael, 1989). For instance, a strong perception of one's racial identity may provoke racism among other racial groups. Tajfel (1978) notes that individuals are motivated to favour their own racial group by sustaining the positive group identity over other racial groups. The favoured in-group may resist the preferred action policies when these policies are expected to benefit the other racial group members as well. This theory also states that people categorize themselves into meaningful social categories which influence their communication with others from their own identity group or from other groups (Tajfel, 1978, 1982; Tajfel & Turner, 1986; Turner, Hogg, Oakes, Reicher, & Wetherell, 1987).

The identity of an individual has two components.

a) **Personal component:** It is acquired from the characteristics of an individual such as personality, physical body and intellectual traits.
b) **Social component :** It is basically derived from dominant commonalities of the society such as race, sex, social class, and nationality (Ashforth & Mael, 1989; Tajfel, 1982).

Most of the time, a large society may categorize individuals based on their perception as a result of being members of a particular group. For instance, in spite of the immigrants from the Eastern countries' having distinctive cultural heritage with complex historical relationship as immigrants – they are still being categorized as "Asian people" despite having lived in some Western countries such as in the United States.

Over the past few years, these immigrants and their children have developed their sense of identity being Asian Americans. As stated by Fowler, Wesley, and Vazquez (2007), misunderstandings often occur due to the different outlook between these immigrants who have different country backgrounds and histories.

Tajfel and Turner (1986) define that one's self is relative to other people in other categories and they term this as largely "relational and comparative". They also point out that, the young category is only meaningful when it is related to the old category. Nonetheless, social identification is not completely affected or by none at all. Even though social categories can be categorized (e.g., male, American, a manager of ABC Inc.), it is a matter of degree when it comes to how the individual distinguishes him/herself within each category. In addition, such social categories are positively perceived when the individuals vest their self-conceptions as their personal values (Adler P. A., & Adler, P. 1987; Schneider Hall, & Nygren, 1971). As claimed by Jackall (1978), individuals who work at inferior jobs often hide their implied identity at work (e.g., this is only a temporary job; I am saving to invest on my new business). The main objective of discussing the social identity theory is to use it as a means in understanding the consequences of the social identification. In the social identity theory proposed by Tajfel and Turner (1986), it was implied that individuals endure their self-conceptualizations at the level as an individual as well as a group member. Self-characteristics are related to one's personal identity and this helps one to distinguish one individual from another individual within the social groups. Social identity can help one to define one's individual identity as to which group one belongs to with regards to self-aspects that are related to one's group membership, for e.g. I am Malaysian, I am American, or I am a Female and so on. In this case, the consequences, when the group boundaries are made prominent, tend to make the individuals classify their own group members (in-group) or other group members (outgroup) in order to compare their group with other groups, based on some evaluative criteria. Furthermore, these individuals are perceived to become motivated to attain and sustain a positive perception of their in-group so as to become less inferior than the outgroup and this is achieved by differentiating the out-group based on a certain criterion. The in-group's preference or favouritism can position themselves at an advantage that is relative to other outgroups. Given these points, a divergent power can bring significance, even for the uneven distribution of economic and social resources by the in-group favouritism.

Social classification relatively separates and arranges the social environment, whereby, the individual is provided with a standardized meaning to define others where one individual is assigned the features and characteristics of the category to which he/she is categorized. However, based on the literature of stereotypes proposed by Hamilton & Sherma (1989), it can be said that such assignments are not necessarily reasonable. Tajfel and Turner (1986) claim that defining oneself occurs in relation to other people in other categories, terming this as largely "relational and comparative". Simultaneously, social identification can be considered as a perspective of unity that carries with it a sense of belonging to some social categories. For instance, a man may classify himself as 'I am American' with the term of the group(s) that defines himself. Such situations of social identification often, answers to the question of, Who Am I? (Stryker & Serpe, 1982; Turner, 1982). A research from the perspective using social identity theory indicates that people categorize themselves and other people into various social categories such as gender, age cohort, organizational membership and religious affiliation (Tajfel & Turner, 1986). The research also notes that the concept of self-conceptualization consisted of an individual personality enclosing distinctive behaviours, for example, the psychological traits, physical characteristics, interests and capabilities while the social identity distinguishes the individual based on prominent group categorizations.

For the most parts, categories can define group members by abstracting their prototypical characteristics (Turner, 1985). Likewise, the social identity theory discovers that self-conceptualization includes individual, personal and distinctive behaviours. For instance, a man considers his existence as a representation of the group(s) and the fate of the group(s) as his own, whereas, the group members may oppose redistribution of social policies due to greater access to resources. As an example, social policies may relatively become a threat to their group by inverting the favourable evaluation to other groups.

2.9 Power Struggle Theory

The power and struggle theory proposed by Snyder and Tilly (1972) indicates that violence is "a by-product of struggles for political power". These authors argue that "violence tends to occur when one group lays claim to a set of resources, with at least one other group resisting that claim." In the case of this study, power is associated with the CEOs and incumbent directors of a company and this may emerge during a nomination process which involves, gender and ethnic equality. This is illustrated by the effort that is required to change the subordinate status of women while considering the nature of the power. To further emphasize, in order to update the relations of the dominations structured by the society, one must comprehend how power work. Thus, a usable theory of power is required. Notably, the diverse theory of power rests on various assumptions, ontologies and epistemologies. In all cases, these theories assist in highlighting how women are dominated. These theories will also indicate how women's capacities, abilities and strengths are further assessed by male dominance. In that regard, the theory of power, would serve as a guide for understanding the potential transformation of power relationships within a boardroom (Hartsock, 1990).

This study reflects the power struggle theory occurring between the CEO and the incumbent directors during the candidate selection process as a means to determine the profile of the prospective directors who will ultimately obtain the board appointment. On the one hand, independent NCs are likely to reduce the influence of the CEOs over the director appointment process, thus, it is most, likely to increase the recruitment of directors who have reputations for being active in exercising control over managers. Alternatively, the non-existence of NCs or the presence of weak NCs can come under the influence of the CEOs and this occurrence can affect the director nomination process, thereby indicating, CEOs active participation in controlling the management involved in obtaining new appointments. (Zajac & Westphal, 1996)

Nonetheless, this claim can also be attributed to the failure of the system in corporate governance to capture the impact of the power struggle between CEOs and directors that occur during the nomination process. In this regard, the current study will take into account the balancing of power between the CEOs and directors in the presence of an independence NC, which, it is hoped can, uncover the nomination of subsequent director appointments. Generally speaking, the balancing of power between CEOs and directors in the selection process rests with the NC. This dimension is particularly important since NCs, are nowadays, highly diffused across firms as they, lie at the heart of the board of directors' selection process. It is deduced that NCs are very likely to influence the outcome. (Zajac & Westphal, 1996).

This study relies on the social identity theory (Kaczmarek et al., 2012, Jensen, 1993) and power struggle theory to clarify the impact of the nomination structure on the boards gender and ethnicity diversity. Social identity theory is most suitable theory in investigating the impact of NC on boards because social identity theory proposes that people classify themselves and others based on various social categories such as gender, nationality, education, or profession. Each, group is underpinned by norms and cultural values which will impact on behaviour. Therefore, the theoretical evidence confirms that the selection process of a candidate member involves the psychological and cultural attributes of the given social group. As a result, the study theorizes that the representation of female directors in NC will result in another female director's candidate potentially strengthening her otherwise minority representation, increasing feelings of security, identity and self-esteem; hence female directors will be inclined to favour female candidate selection. Similar to female directors' selection, the study proposes that the representation of Malay, Chinese and Indian directors in NC have an impact on board appointments.

The study also used the power struggle theory to explain the influence of CEO and executive director's representation in NC on the selection process of candidates. A number of recent studies including Eminet and Guedri (2010) have addressed the power and struggle between CEO and NC empirically. On the other hand, the study noted that weak NCs under the influence of CEO and EDs decouple the NCs independence for being active in controlling directors' selection process from the likelihood of obtaining new appointments. Hence, this study is consistent with the view that EDs in NCs counteract the selection process. As a result, the study hypothesizes that the representation of executive directors in NCs have an impact on the selection process of female directors and major ethnic groups.

2.10 Summary

Chapter 2 contains the literature review, nomination process, Hofstede cultural model, social identity, power struggle theories and hypothesis. The main theoretical findings had highlighted the fact that the social identity theory and social categorization has significant impact on the psychological process of the nomination and the board's biases. Power struggle theory suggests that it is more likely for the nomination board or the executive directors to be biased in term of their management, nomination and the tendency to act on their own interest. These theoretical findings offer an evaluative perspective on the possibility that the board's diversity is highly impacted by both historical and psychological factors.

CHAPTER 3: CORPORATE GOVERNANCE AND THE NOMINATION COMMITTEE IN MALAYSIA

3.1 Introduction

This chapter looks at the overall understanding of corporate governance and the NC from the Malaysian perspective. It begins with a discussion focusing on the corporate sector and the corporate governance environment. This is done by presenting differences seen in the Malaysian corporate governance, its nomination processes and other uniqueness when compared to the West. This chapter also looks at the social and economic background of the Malaysian corporate governance and system before and after the Asian crisis of 1997. Linked to that, a justification explaining why Malaysia was selected as the research site and case study is also provided. The chapter will also highlight the evolution of the corporate governance and its degree of sustainability in the future. This will be presented by bringing in the ethnic diversity of the country, its government make-up and the reforms development.

3.2 Corporate Governance in Malaysia

By the end of 1997, the economy of East Asia had fallen apart drastically. After the crisis, the role of the NCs became more widely discussed and soon, its importance became even more notable and desirable, particularly, in the Malaysian context and other East Asian countries. At the same time, corporate governance in both the public and private sectors of the countries in the world were beginning to notice how most public listed companies work; hence, strategies to strengthen these companies, especially via the NC, became even more prominent. The importance of NC in publicly listed companies became better recognized and more acknowledged as greater concerns about misconduct in the corporate sector became more widespread. This can be traced to some of the bigger corporations' downfall in the West, for example Enron. As world trade and economy affect each other's economies among countries, the Malaysian government, likewise, also began to pay more attention to the same concern. Soon the Malaysian government began to establish a variety of procedures such as embarking on the declaration of legal and stock market enumeration necessities. The Malaysian government also made efforts to develop two important aspects of the corporate governance: the issuance of the Malaysian Code of Corporate Governance (MCCG) and the establishment of the Malaysian Institute of Corporate Governance (MICG). Previous studies (Baysinger & Hoskisson, 1990; Shivdasani & Yermack, 1999) have already established the strong existence of CEO influence on the selection process of directors on to its board. These studies also note that there was a supplementary agency that was connected to the governance's composition as exemplified by the administration of executive directors who exert their influence by using their power to conclude optimum agreements i.e. selecting suitable directors onto the board. In other words, these executive directors, including CEOs, use whatever influence they have within their means during the selection process to acquire board directors who share similar characteristics or values which can ultimately enable them to meet their own interests in managing their companies. However, evidence to support this claim is limited because of the lack of studies conducted, particularly in emerging and less developed economies such as Malaysia. This research gap or its lack of information on the process and outcome of developing countries, thus necessitates an exploration of the new economies such as Malaysia which is not only diverse in population but also in culture, tradition, values and religious beliefs.

Further to that, the country of Malaysia has often placed much emphasis on board diversity when establishing the NC. For this development, Malaysia has often given support by conducting training and providing education in terms of meeting its diverse populations. Thus it is a good research site to conduct this study; Malaysia's culture and ethnic diversity can also be observed through its annual state budget where huge amounts of money are often assigned to education. In the Malaysian budget 2010/2011 budget, for example RM 30 billion and RM 29.3 billion respectively were allocated for the education sector.

Over the years, the emphasis on establishing the NC within publicly listed companies suggests that the NC is important. In the Malaysian context, this has been overemphasized and the MCCG 2012 stated that NC should be created by the board and moderated by a senior independent director, who is in control of managing the selection as well as the assessment of the MCCG 2012's recommendation. Patrick and Kumar (2012, p. 2) have defined diversity management as "…..a process intended to create and maintain a positive work environment where the similarities and differences of individuals are valued". By taking the diversity composition of the board into consideration, it can be ensured that the actual selection process of a board director is conducted appropriately thereby making the NC a responsible entity that is capable of administering the suitable criteria which comprise good policies in enforcing its duties. To add to this, it has also been ascertained by the MCCG 2012 which recommends that for the board's management to run effectively, the board should develop a few characteristics that can contribute to the ability to balance power between the CEO and executive directors and the NC members. This can help to alleviate unforeseen problems caused by biases or prevent the influence of unnecessary entities. These characteristics, as stated, must comprise traits of efficiency and dissimilarity from the shareholders of the company. Moreover, the NC must also have competent members who are willing to propose contrary opinions and possess qualities that can create the right balance of chemistry and attitude that can counter board dynamics for efficient boardroom discussions.

Further to that, the MCCG 2012 also emphasized the significance that board diversity plays in board composition. The MCCG 2012 suggested that the NC must be capable of defining what the essential qualities and skills of future directors should be; the NC must also be capable of, considering both the, present actions as well as expectations of forthcoming operations (Principle 2, Recommendation 2.1 & 2.2) which, when applied, should increase the efficiency of the respective companies concerned.

Based on the above MCCG requirements, it would be of great interest to realize an investigation in the area of corporate governance and corporate performance of Malaysian companies, seeing that as a developing nation, Malaysia also has many listed companies on the Malaysian Stock Exchange (Bursa Malaysia). To clarify, this research outcome might be of use and benefit to current discussion which focuses on the assessment of the link occurring between the corporate governance and corporate performance. Moreover, the outcome of this study could also demonstrate its noteworthiness toward regulators, investors, academics and others who claim that good corporate governance is essential for increasing the assurance of investors and market liquidity (Westphal, 1999).

Undoubtedly, the specialization of the master strategies as well as the demands of the governing bodies can determine the structure of the Malaysian corporate sector strategies in developing governance mechanism. As the MCCG 2000 states, the concerns mainly emphasized the responsibilities of the board composition acquiring new directors, rewarding directors, employing board committees, meeting their commands and monitoring their activities.

The existence of corporate governance in Malaysian publicly listed companies can be traced to the embodiment of the 10 recommendations made, which particularly concentrates on the Capital Market Master Plan’s (CMMP) corporate governance. The CMMP mainly comprises of recommendations for communication enhancement linking shareholders and firms together. Some additional benefits of the CMMP are:

a) It uplifts the independence and quality of publicly listed companies,

b) It increases and supports minority shareholders’ interests,

c) It improves disclosures in annual reports,

d) It demands shareowner value disclosures for securities issuing, rearrangement, takeovers and merger exercises, and

e) It establishes procedures to strengthen governing, transparency, responsibility, and freedom.

3.2.1 Governance Mechanisms in Malaysian Corporate Sector

To understand corporate governance mechanisms, it is necessary to introduce the idea of viewing this through two perspectives: internal and the external perspectives. For instance, the primary internal mechanism refers to ownership equity and the board of directors. Both the external and internal mechanisms, undoubtedly, refer to the firm's external forces, such as market for corporate control and legal/regulatory system (Cremers & Nair, 2005; Denis & McConnell, 2003). To put it simply, the corporate governance of a firm is heavily influenced by these two mechanisms.

In fact, the Anglo American model also required that a market-based governance model should be characterized by the ability to make active market takeovers, deal with transparent disclosures, be competent enough to disperse ownership, be well developed in legal infrastructure and also have the physical attributes that can depict itself as an independent board (Bai, Liu, Lu, Song, & Zhang, 2004). The Franco - Germany's control model, however, describes a corporate governance's characteristic through its concentrated ownership structure, reliance on family finance, banking system, limited disclosure and the values of insider board.

When the internal governance mechanisms fail, it can be cured through the implementation of external governance mechanisms. Jensen and others (Jensen, 1993; Jensen et al., 1989; Jensen & Meckling, 1976; Jensen & Warner, 1988) have specifically pointed out that the failure of the internal governance mechanism was responsible for the U.S takeovers of the 1980s. Another way to cure the failure of internal governance mechanism is by looking at the corporation's size. It has been said that massive corporations, due to their sizes, can lead to the weakening of internal management. Thus, lowering management ownership and shareholder rights could be a way out. For further illustration, lower management ownership is accomplished when there is a lack of shareholder rights. This often happens when the board carrying out its duties is inefficient. In addition, lower management ownership may also be projected when a flaw occurs in the underwriting of lower performing divisions such as not returning investments to the investors.

In the Malaysian context, it was noted that during the post-independence period, Guthrie Corporation, Sime Darby and Renong which were established earlier, were some of Malaysia's big companies. At the time of their establishment, the total numbers of sectors in the country had only amounted to thirteen sectors with majority of these operating in the industrial sector. These included mining, plantation, agency, housing, rubber and timber extraction. At the beginning, the London Stock Exchange served as the initial association for these companies. Eventually, the Malaysian and Singaporean Stock Exchange became the second registered association. By 1973, the Kuala Lumpur Stock Exchange (KLSE) was established. It is now known as Bursa Malaysian Berhad (BMB). BMB was created as a scope for trading with shares, bonds and other indicators of finance of registered companies.

In 1990, a notable development proliferated in the Malaysian corporate sector encompassing a bigger number of the listed companies. Since 1990, these companies have grown from 285 companies to 708 companies in 1997. The growth was attributed to the after effect of the establishment of the second board of the KLSE. By then, even smaller firms with better future progress chances, were permitted to join the capital market. While this was happening in the Malaysian market, the Asian Financial Crisis of 1997/1998 had impacted the markets negatively and so a very slow growth was recorded. Thereafter, there was a steady escalation in the establishment of companies until 2006. However, the delisting of companies occurred and these were counteracted by the global crisis. An overview of the total number of companies between 2003 and 2015 is listed below in Figure 3.1; Source:http://www.bursamalaysia.com/market/listed-companies/initial-public-offerings/listing-statistics/ as at 11 Dec 2015.

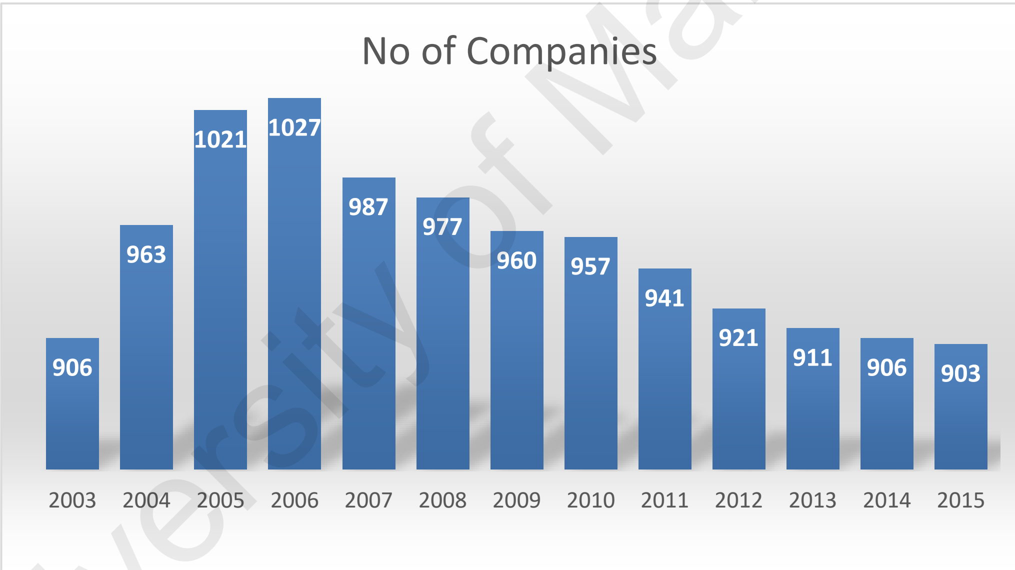


Figure 3.1: Overview of Number of Companies (2003-2015)

As the years developed, listed corporations became one of the vital issues for the flourishing economy and the improvement of internal regulations. Linked to that, the current study will thus focus on Malaysian publicly listed companies as a way to study the roles of the NC in the Malaysian context, its election as an independent and diversified board. According to the corporate governance report of 2011, publicly listed companies in Malaysia are divided into two major sections:

a) Large private companies (Telekom Malaysia, Tenaga Nasional and Petronas Dagangan); and

b) Small corporations (owner-dominated enterprises, looking for enhancing wealth).

In this regard, Malaysia's corporate sector complemented other corporations via number of attributes. These corporations possessed contrasting characteristics from other capital markets of established countries. Therefore, an examination of corporate governance in Malaysia is thereby legitimated. This is specifically, due to its diversified and independent board which is stated in the nomination committee's role for director nomination process. Apparently, 50% of the Malaysian publicly listed companies on the Bursa Malaysia Berhad are within one of nine non-financial sectors. They include Trading/Services, Consumer Products, Industrial Products, Plantation, Property, Construction, Technology, Hotel, and Mining. These sectors will also be considered as sample in the data examined in this study.

3.2.2 Corporate Governance Settings in Malaysia

The importance of Malaysia's corporate governance development is highlighted in this study. This section which discusses the governance consists of two major sections. The first section shall briefly describe the setting of Malaysian corporate governance. The second will describe the current setting of corporate governance, after the Asian financial crisis of 1997.

3.2.3 Governance Prior to the Asian Crisis of 1997

The Asian Financial Crisis of 1997 had pointed out the weaknesses as well as the significance of the Malaysian corporate governance. It was noted that without a good corporate governance, companies can become affected by various negative malpractices such as corruption, over-claims of expenses, corruption, and fraud. These malpractices can lead to the downfall of the companies. Hence, Malaysia began to adopt the corporate management's reformation practice which was implemented after 1998. This reformation practices introduced the legislation of corporate governance into newly assembled Malaysian codes. Specifically, it was noted that, organizations which have influence over the law's implementation such as the Bursa Malaysia Bhd. (BMB), the Ministry of Finance (MOF), the Registrar of Company and the Securities Commission (SC) tend to be more credible when viewed by other corporations for they often carried a more trustworthy and reliable track record with regards to Malaysian corporate governance.

The recent financial crisis and the following debate had enabled the framework of Malaysia's corporate governance to be revised and re-established appropriately. This new establishment includes frameworks that were merged as a consequence of the implementation of stock exchange requirements and the Malaysian statutory legislation. In this case, the main attribute of this corporate governance legislation was its strong administration of the common law system as well as the British's corporate law system. Furthermore, this legislation had also readjusted to the development which had been established during the commonwealth's sovereignty and according to the circumstances of the local environment. The implementation of the Malaysian corporate governance requirement was enacted in the same way as the Companies Act 1965(CA).

It can be said that the Malaysian Accounting standard also accounted for the changes seen in Malaysian Corporate Governance. For instance, the execution of proper accounting standards was applied although this was only enforced after 1997. Before that, the accounting standards were only adopted by companies such as the Malaysian Institute of Certified Public Accountants (MICPA) and the Malaysian Institute of Accountants (MIA). These two bodies, as the predecessors of corporate governance, had all the time been dominating the Malaysian Accounting setting until it was legislated, after the Financial Reporting Act 1997 (FRA).

3.2.4 After the Asian Crisis 1997

The Asian financial crisis of 1997 had been the main reason for corporate governance to become the main concern of the public. As mentioned earlier, the downfall of many companies worldwide opened up the government's eyes to what would be the appropriate measures to take to secure its economies and markets. In the Malaysian context, it was the government that had been supporting corporate governance and this is clearly seen in the Malaysian government's major reforms. This is evidenced in the government's establishment of the Financial Sector Master Plan (FSMP), the Capital Market Master Plan (CMP) and the Malaysian Code on Corporate Governance (MCCG) by the Finance Committee of Corporate Governance (FCCG). The impact of these moves and tangible structures as noted in the current corporate governance can be seen as clear intentions by the government to establish a more stable market. Further evidence can be traced to the establishment of the Minority Shareholders Watchdog Group (MSWG) and the Malaysian Institute of Corporate Governance (MICG) which were established to oversee the reforms and thereby, the nomination committee.

3.2.5 Malaysian Code of Corporate Governance (MCCG)

In March 2000, the Malaysian Code of Corporate Governance was published by the Committee. The corporate governance of Malaysia acknowledged this in the publication. In the publication, the regulations mentioned would concentrated mainly to the director selection process and board diversity. The code developed was a hybrid: it represented an almost equivalent code as the Combined Code on Corporate Governance that was taken from the (United Kingdom). Based on this borrowed code, it was noted that Malaysian firms or companies were supposed to adopt and follow the wide rules of the accomplished governance (that was explained by the code) with common sense and to use this to fit into the different conditions existing in distinctive corporations. In the current study, emphasis is paid to looking at the development of the MCCG from 2000 to 2012; in addition to looking at its implementation level within Malaysian firms.

After the Asian Financial Crisis of 1997, the Malaysian government also established the FCCG. 275-page report. This too was published by the FCCG and in it, 70 recommendations of the Corporate Governance's proposed code were provided. The code of the corporate governance will be discussed thoroughly in this section. This is then followed by a brief description of the revolution of laws and regulations seen in Malaysia.

In March 2000, the MCCG was released by the FCCG. Listed companies in Malaysia were then given such code as a guidance and it served as the principle for these companies to manage themselves. In this regard, non-prescriptive and prescriptive models were used in this very approach. It has to be emphasized that, the actual disclosure of the corporate governance of companies is required by the non-prescriptive model but, the standard of recommended practice for disclosure of compliances is set by the prescriptive model. The combination of the two models would enable companies to develop an efficient response to meet the variance corporate circumstances (Khoo, 2003).

In the application of the codes, it is apt to first explain what the code consists of. As stated, there are four sections to the code which encompass:

(i) Explanatory notes to principles and best practices;

(ii) Exhortations to other corporate participants;

(iii) Corporate governance's recommended practice and

(iv) Good corporate governance's principle.

The code's first section (i) enabled companies to have the flexibility to implement a broad condition according to the board's respective circumstances. In line with this, the *Bursa* Listing requirement also mentions that companies need to submit a report with regards to their corporate governance's principle application. This requirement would subsequently, allow other companies and their investors to assess the companies' governance practices and performances.

The designation of the company's tactic to the implementing of corporate governance is guided thoroughly by a set of practices that were established by the MCCG as stated in the code's second section (ii). It is not compulsory for the company to comply with the principles nevertheless, it is a requirement of the *Bursa* Listing's regulation. Companies are required to include such reports in their annual report. In addition, companies are also expected to include a justification to explain why they are applying a different set of practice other than the one recommended in their report.

The code's third section (iii) applies to auditors and investors only. This section is set up to provide information about the tactics used which, when applied, can improve the role of the company's corporate governance. Specifically, this section of the code is purely voluntary, for both the auditors and investor. The code's final section (iv) sets out a brief description and explanation for the first part of the code.

The most notable of the principles stated in the MCCG2012 is that of principle 2: *"Strengthen Composition"* and this is stated as a guideline or recommendation as to how companies should appoint a NC. The recommendations stated are as follows:

Recommendation 2.1 *"The board should establish a Nominating Committee which should comprise exclusively of non-executive directors, a majority of whom must be independent."*

Recommendation 2.2 *"The Nominating committee should develop, maintain and review the criteria to be used in the recruitment process and annual assessment of directors."*

3.2.6 The Malaysian Institute of Corporate Governance (MICG)

The High Level Finance Committee was the one that helped to establish corporate governance for the MICG in March 1998. This entity was developed as a result of the coming together of various other organizations such as the Malaysian Institute of Accountants (MIA), the Malaysian Institute of Chartered Secretaries (MICS), the

Malaysian Institute of Directors (MID), the Malaysian Association of Certified Public Accountants (MICPA), the Federation of Public Listed Companies (FPLC) and the Malaysian Administrators (MAICSA). They are considered as the founding members of the High Level Finance Committee.

The establishment of the MICG's was mainly to create alertness and prepare for a well-developed corporate governance for Malaysian companies. For this reason, the MICG co-operated with the MASB, FPLC and MIA so as to be able to meet the purpose of its establishment. In order to promote further awareness, the MICG also conducted various trainings, dialogues and conferences.

3.2.7 Minority Shareholders Watch Group (MSWG)

The interest of the minority shareholder was incorporated into the MSWG in August 2000. The sudden readjustment is part of Malaysia's effort to provide further discipline and standards regarding the establishment of corporate governance into publicly listed companies. Through this, institutional and retail minority shareholders are provided a platform to assess and evaluate the performances of the respective companies. Such an action by the MSWG encourages shareholder activism as well as provide shareholders with and protection without the need to litigate in courts to resolve disputes

The MSWG developed itself as a resource center and it shares and disseminates information on Malaysia's corporate governance as a form of educational information to meet minority interest. This indirectly, led members of the public as well as shareholders, into thinking more critically with regards to their rights and the management practices of publicly listed companies. In return, the MSWG will then act as the voice of minority shareholders by stating their concerns and opinions as a means of influencing the decision making process of publicly listed companies. Above all, the MSWG can also act as an agent by sending out reports if there is any concern found, especially if it pertains to a breach committed by a publicly listed company. This role performed by the MSWG will promote the improvement of the conduct of corporate governance. It will also serve as an agent who will locate any doubtful management practiced by respective publicly listed companies. Consequently, any infringement or contemplation in corporate governance practices are then reported to the authorities by the MSWG. Overall, the steps taken by the MSWG can guarantee its important role as an agent that assist public companies on improving good practices of corporate governance in Malaysian companies.

3.2.8 Board of Directors

As stated in the principle of corporate governance, an effective board is responsible in leading the listed companies in the Bursa (MCCG 2012, Principle 1, and Recommendation 1.1-1.7). The recommended principle suggests the inclusion of a balance of diversity of non-executive directors (such as independent non-executives) and executive directors. This is conducted in order to prevent the practice of dictatorships and bias in the board's decision making. The principle also recommends that the board's information be made available in appropriate quality and that it be supplied in a timely fashion. The appointment of new directors, it is recommended, should be conducted with transparency and via formal procedures. Not only that, the re-election of the board members should also be done at least once every three years or on a regular interval. Specifically, the principle also aims to improve the administrative process, policies and methods, and business networking. Using the principles mentioned, this study found that ethnicity and firm performance has a positive and significant relationship in Malaysian companies (as has been verified by Zainal, Zulkifli, & Saleh, 2013). In addition, this study also discovered that, having foreign directors or their agencies at board level is not a good thing as this slows management process. Nonetheless, some researchers had noted that there was no connection between ethnical diversity and company financial performance in Malaysia. (Bolbol, 2012; Ismail et al., 2013).

3.2.9 Establishment of New Bodies

In order to create a successful reformation, the Malaysian government founded a few new bodies that contributed to the strengthening of corporate governance. Besides the requirement of having a well-balanced board, the MCCG also recommends that there be no influence of CEOs in the nomination committee. If the CEO is a part of the nominating committee, he/she should then be competent enough to be able to impact negotiations, decision-making process of other committee members, or be capable of concluding implied agreements with particular committee members, all of whom should support the engagement and not necessarily for the CEO he/she favours. Previous studies had noted that after 2005, most Malaysian companies experienced a very high percentage of CEO presence in their NCs. This indicates that after the separation of roles between the CEO and the chairman, the CEO seemed to be carrying a high level of influence over the committee and its decision-making process, particularly in the context of the Malaysian firms. After 2005, a few studies indicated that although there is a lesser presence of the CEO as members of the NC, there were instances, where the proportion of executive directors are comparatively high in the NC, and hence influence would be exerted. This is occurring because without the CEO, the executive directors were still able to exert influence, another way for the CEO to cast his/her influence in the selection process. The current study is, nevertheless, interested in examining the proportion of executive directors in the NC's of Malaysian listed companies with regards to looking at gender and ethnicity and these variables will be measured on a ratio scale. (Davis & Greve, 1997). In order to get a clear picture of the classification of gender and ethnic division in the Malaysian context, a brief overview of the socio economic background of the country is also elaborated.

3.3 Socio Economic Background

The role and importance of the NC in Malaysian companies appear to be of great benefits in that its role reflects its competencies and abilities of the directors on the board. Since the principal and formal structure of the NC was intended to reinforce the selection process of the director, it is in the best interest of the NC that this selection is a mirror representation of what it represents. In other words, the NC must walk its talk. Nevertheless, due to the lack of research focusing on this area, the selection process of NCs in publicly listed companies in the Malaysian context could not be systematically reviewed and verified. It is possible that the conduct of these NCs is independently maneuvered due to board diversity outcome or even, otherwise. To confirm this discrepancy, the current study will thus aim to gain a deeper understanding of the characteristics of NCs, how its plays its role in the director selection process and whether or not this is related to board composition diversity (gender, ethnic) in Malaysian publicly listed firms. The outcome of this study will contribute to already existing literature, thereby, benefiting future research.

(a) Population of Malaysia

Malaysia is a country with a diverse population of 28.3 million comprising three dominant ethnic groups: 67.4% Malays', 24.6% Chinese, 7.3% Indians (Malaysia, 2010). Due to its diverse ethnic make-up, Malaysia is thus influenced by different religious principles, traditions, languages, and values in a number of ways encompassing economy, politics, education, life style, and so on. Under these circumstances, it would appear that such a unique and diverse national identity may have an effect on the constitution of board of directors within Malaysian publicly listed firms thereby, leading to outcomes of management and administration of companies that could be negative or positive for staff, management and shareholders. Nonetheless, (Marimuthu & Kolandaisamy, 2009b) have noted that this characteristics of Malaysia facilitate the development of a positive image for organizations.

In general, Malaysia's distinctive and diverse society may come from different cultural; backgrounds and practise different ways of life, but overall, they all live harmoniously, tolerating and respecting each other's religious beliefs. As a nation that declares Islam as its official religion, Malaysia comprise of 61.3% Muslims 19.8% Buddhists, 9.2% Christians and about 6.3% of Hindus while those who practise Confucianism are around 1.3% (Malaysia, 2010). The cultural context of the country shapes its nations' population and workforce. Within its economy, businesses may be '*Sendirian Berhad'* (private limited, and mostly run by individuals or families) or they can be big organisations managed by Malaysians of diverse experiences, backgrounds and qualifications. In this context, there are some factors which may affect the diversity of organizations for example, “organization age”, “organization type” “organization size”, while the diversity of the workforce may consequently be affected by the diverse ethnic backgrounds of the respective staff, particularly those who serve on the boards. These companies, as the latter are meant to be, are mainly big and well established with the sole aim of striving to reach globalization through business deals, hence global expansion. Such companies promote staff and board diversity into its work culture by hiring a workforce that is made up of different ethnic backgrounds cultures, thereby, creating what can be described as a more diverse operating, working and learning environment for the respective organizations (Ramasamy, Ling, & Ting, 2007). As had been noted earlier, these companies are aiming for global expansion which requires that organisations promote a global working environment by hiring a diverse workforce, thereby also bringing with it, global challenges and opportunities. Moreover, as aspiring global organisations, these companies must thus also ensure that their goals and aspirations are met through the diverse workforce, via the sharing of new ideas and creativity (Langton, Robbins, & Judge, 2011). While some Malaysian big organisations promote diversity by hiring a diverse workforce, both public and private organizations have also begun to launch training programs and educational trainings that are catered to meet the needs of its diverse workforce. Forty percent of organizations are still providing the kind of diversity awareness. (Prihatiningtias, 2012).

Thus far, it appears that, these companies are managing diversity effectively as they strive to achieve creativity, job satisfaction, as well as an increase in stock prices. In the board of directors for publicly listed companies, it is apt to select a director who is independent and unbiased but inevitably, such a director is only selected based on some associations that are related to main shareholders who have more authority over the companies. These associations may be linked to demographic similarities such as gender, race, age, religion, disabilities, and sexual orientation. However, these claims cannot be further verified due the lack of empirical evidence of noting board diversity with regard to firm performance particularly, from developing countries (Dutta & Bose, 2007; Marimuthu & Kolandaisamy, 2009a). Nonetheless, there are studies (see Dutta & Bose, 2006 ; Marimuthu and Kolandaisamy 2009a) which demonstrated that board diversity at the uppermost management level and its impact on financial accomplishments can lead to different results. In view of the above theoretical perspective and previous researchers' opinions, it is deduced that ethnic diversity at board level could lead to a variety of outcomes. From the literature review, it appears that there is an inconsistency among the results of previous studies, thus this warrants further investigation in a more holistic way.

(b) Malaysia's economy

Malaysia consists of thirteen states with eleven based in peninsular Malaysia and two in the North Borneo's region. Located in the South East Asian region, Malaysia's society and economy are highly influenced by its previous immigration activities created as a result of previous colonial rule (Portuguese, Dutch and British). This colonization occurred historically because of the prosperity of the Malaccan port in the early 15th century as its strategic positon had drawn the interest of many commercial trade as well as the envy of many European countries. History notes that Malaccan port had received the largest amount of ships and hosted 15,000 merchants by the end of 15th century (Mohd, 2002).

Formerly, the British ruling had segregated the Malaysian population into three major ethnic groups predominantly. This is because the colonial masters wanted to avoid any kind of resistance from the entire population as well as to assign them with special duties. For instance, the Indian ethnic group was assigned to rubber estate's management, the Chinese ethnic group was assigned to managing timber extraction and the Malay ethnic group was assigned to taking care of the paddy fields. Over the years, Malaysia's economic imbalance had inevitably existed, due to this 'divide and rule' policy. Such segregations, nonetheless, had boosted the ethnic's segregation even more, in term of cultural, economic and occupations attribute (Rasiah, 1997). As the years go by, further disparity was created due to the differences of residence, religion, language and diet (Fazel & Young, 1988).

From the perspective of its government which is made up of '*Barisan Nasional'*, the political parties involved comprise the United Malays National Organization (UMNO), Malaysian Indian Congress (MIC) and the Malaysian Chinese Association (MCA). These parties held numerous discourse sessions with the British, prior to independence, until the country acquired its independence on August 31, 1957. In summary, upon independence, the country's constitutional final agreement allowed and granted Malaysian citizenship to the immigrants who had come from India and China. However, there was some discrepancy between rights of certain matters. For example, native ethnics comprising Malays, Ibans, Orang Asli and Murut were given some higher benefits and more priorities in terms of social, economic and political privileges.

Amid the post-independence period, the main concern of the Malaysian government was economic inequality for the country. The importance of ethnic balance was highly emphasized, after the May 13, 1969 occurrence. The relation conflict between the Malays and the Chinese then had resulted in the death of more than two thousand people. Subsequently, Malaysia legislated the New Economic Policy (NEP) and many other government policies following that, as a means of preventing further ethnic segregation in terms of income and so on. The policy was aimed at creating equal distribution for the major ethnic groups of Malaysia, the *Bumiputras* in terms of assets and social and economic distribution.

The establishment of the Amanah Saham Bumiputra (ASB), Amanah Saham Nasional (ASN), and Permodalan Nasional Berhad (PNB) resulted from policies which concern foreign investment, privatization and export (Jomo, 1997). Industrialization was promoted through the existence of HICOM and PERWAJA. In addition, Malaysia's manufacturing industries and export was also aimed at supporting the establishment of the Free Trade Zones. Not only that, two public, entities belonging to the government, were the TENAGA and TELEKOM then opened to public trading when both became privatized in the late 1980s.

In order to boost foreign investment, restriction on foreign investments of manufacturing industries' equity were relinquished (IMF, 1999). At the time, 75% of Malaysia's export earnings was earned from the tin and rubber industries (Baharumshah & Rashid, 1999). This dependency on tin and rubber industries changed over time as employment and national output was boosted through the manufacturing sector which had been dominating the country over the years after the tin and mining industry lost its vigour (Zakaullah, 1995). As Malaysia progressively developed its industries and economic development, it became known as “Southeast Asian tiger”, serving as a model for other developing countries.

Malaysia’s government adopted and implemented many policies throughout the 1980s and 1990s. This implementation was due to the economic recession of 1981-1982 and of 1985-1986 which had ultimately caused Malaysia to experience a slowdown in economic development.

Even so, the private sectors of the nation stood firm as they emerged to provide further financial boost to the Malaysian economy. The key driver of Malaysia’s economy in the 1990s was the manufacturing sector. From the period of 1990 to 1997, the manufacturing sector was observed to be experiencing an eight percent (8%) growth annually. This inevitably led to a gradual increase of per capital income, lower poverty rate and inflation rates during at that time.

3.4 Summary

As seen from the history, it is quite obvious that Malaysia was highly influenced by the United Kingdom. The regulations and many other aspects however were restructured after the financial crisis- which was actually beneficial to the corporate governance in Malaysia. There was a realization for reinforcing capital market regulations. This restructuring allowed a number of bodies to be developed so as to enhance the capital market system. As time passed by, regulations were revised and modified to assist the various sectors including the corporate sector. In general, all these amendments on the corporate sectors allowed the companies to work towards establishing a good corporate governance structure, for example, the nomination process of board directors. It can be highlighted and concluded that this study will be appropriate and of significance for the corporate market sector. In conclusion, this chapter has set out to understand the implications of Malaysia's socio dynamics in its relationship between diversity and the management of the corporate boards in Malaysia. By using a developing country such as Malaysia as a case study, there will be findings that can be of interest to many ventures as studies looking at corporate governance within Asian countries, thus far are limited.

CHAPTER 4: RESEARCH METHODOLOGY

4.1 Introduction

The purpose of this chapter is to satisfy the requirement of the research question and its objectives by providing a brief description with regards to the methodology.

There were three possible methodologies for conducting the study, qualitative, quantitative and mixed method approach. The quantitative approach is implemented in this study as a measure of ensuring accuracy. For instance, the proportion of females on the NC and the level of gender diversity on the board can be measured quantitatively based on the foundation of the responses extracted from the listed companies.

The quantitative approach therefore helps to resolve the issue of unsolved modifications which are required to indicate a significant exclusivity to the board. It also provides analytical and important developments. The quantitative approach was employed by most scholars because of the accessibility to secondary data related to governance and financial highlights of the firms. In this study, the quantitative measurement is specifically applied to the board, which is further analyzed into gender and ethnic diversity. However, some researchers such as Bender (2003) had used a qualitative approach as there had been obstacles in obtaining information and evidence from directors of government listed corporations. Despite this being so, the quantitative method still carries the potential of being suitable for the current research.

In essence, this study consists of samples that make up 50 percent of the companies on the Malaysia Stock Exchange. It is this study's main interest to look from the perspective of both old and new Malaysian economies. Data analysis is conducted by using mainly Eviews – Econometric Views and in some cases, the SPSS statistical software package is also applied for transformation of variables. The Microsoft Excel will also be used initially for data importing and cleaning.

Chapter 4 comprises an introduction to the purpose and the sequence of the chapter, a section explaining the research design, theories, theoretical framework followed by an explanation of the variables, sample selection, data collection, and the modelling specification used, measurements of independent, analysis as well as the test applied for endogeneity issues. The chapter concludes with a summary.

4.2 Research Design

In general, it is important to consider the strength and compatibility of the research methodology as to whether it has the ability to address the need of the research. For this reason, it is highly important to note that there are three available methodologies - qualitative method, quantitative methods (Bender, 2004; Main & Johnston, 1993; Perkins & Hendry, 2005; Pettigrew & McNulty, 1995) as well as mixed method (Conyon & Murphy, 2000).

As mentioned in the previous section, researchers who use the qualitative method tend to be restricted in access and resources with regards to the sensitivity of the nomination criteria (Ewers, 2002; Chen, 2006). Bender (2004) supported this claim by pointing out that a deeper understanding of nationality and gender diversity can be gained through the qualitative approach. The qualitative method is time-consuming and it is more difficult to gain access and information from directors. For instance, it took one and a half years to just observe and conduct interviews (Bender, 2004). On the other hand, the quantitative method is preferred in cases when a meaningful result is expected from a large body of qualitative data (Abeyasekera, 2005). For example: in this, study 50 % of the publicly listed Malaysian companies were surveyed.

In either case, the chosen method should be compatible and relevant to the need of the research question and objectives. It is also important to note that, in the context of this research, the analysis of the nomination committee's role and influence on the Malaysian board's diversity cannot be quantified although it can be verified. Subsequently, this observation influenced how analysis will be conducted. In addition, this study also examines gender diversity and ethnicity, and the proportion of executive directors in the nomination committees (NCs). Thus, the current study should strive to justify the 'what' rather than addressing the 'how'. Hence, the quantitative method is a suitable approach here as compared to the qualitative method because of the large number of sample that is needed to be analyzed.

4.3 Theoretical Outlooks

Theory acts as one of the sources to develop the sequence in identifying and classifying research problems. It guides the study into recognizing significant factors, concepts, variables and relationship, comprehend data and improve clarifications (Ghauri & Grønhaug, 2005). The selection of a theory for any particular study is subject to the philosophical stance of the researcher. For example, economics theories are more commonly used by economists, finance and accounting scholars (Ewers, 2002; Indjejikian, 1999; Murphy, 1985) while social-physiological theories are more vastly applied by psychologists. In this study, a hypothetic-deductive method is used to explicate the background and significance of the nomination committees' existence. Considering that connection, Sundaramurthy and Lewis (2003) have argued that research on governance has excessively emphasized the control role of boards. Thus, it very much depends on the agency theory to help it to clarify board behavior. Nonetheless, modern theory has inspired scholars to use various theoretical approaches in order to understand board composition, its roles and its influence on the companies they oversee (Daily, Dalton, & Cannella, 2003). In light of this argument, the current study proposes two theories which are discussed with depth in the subsequent sections.

It has been suggested that the nomination board or the CEO are more likely to be biased in terms of their management, nomination and tendency to act in their own interest. Thus, using the two theories of social identity and power struggle would offer an evaluative perspective on the possibility of board diversity and would highly impact on both the historical and psychological factors of the NCs selection process.

4.3.1 The Social Identity Theory

Based on the explanation provided in Chapter 2 (literature), it is noted that the Social Identity theory is most suitable in the context of this study for the following reasons:

1. Theory about social identity provides classification of people established on numerous social groups such as gender, nationality, education, or profession. Each group is supported by standards and stereotypes of communal group association which will be reflected in the behaviour of the people. Therefore, each social group has an influence on the individual's definition of personality, based on the

characteristics of the assumed communal group. (Williams & O'Reilly, 1998). As a consequence, a female nomination committee member may positively see another female candidate as possibly enhancing her otherwise marginal representation on a board, this can strengthen spirits of security, identity and self-esteem. In this regard, she will thus be more inclined towards preferring a female candidate nomination. From this theory, it can be derived that the nomination of female board candidates may escalate if more females are involved in the nomination process. Their presence will help in developing of the other committee members with regards to issues about gender equality and the scope of achieving new and unique insights from future female entrepreneurs.

2. Social comparison is a self-analyzing process which differentiates individual groups' membership with other groups. The purpose of this comparison process is to preserve or attain benefits from other groups based on some relevant criteria. Studies use this basic process to create a positive pressure when evaluating and comparing the social groups in the attempt to differentiate themselves from each other (Tajfel, 1978; Tajfel & Turner, 1986). According to Tajfel and Turner (1986), the most important and relevant aspect to this discussion regarding the social identity theory is to focus on social categorizations and discrimination between the social groups. Significantly, this implies that the social categorization is a cognitive medium to "separate, categorize, and order the social environment which allows the individuals to manage social actions in many forms". Namely, the social categories can be categorized in various groups such as men, gays, Buddhists, students and managers. Despite this being the case, people are complex

due to a difference in norms and values as well as the individual's group identification, thus, this may affect social categorization in clarifying world understanding. As a consequence, social categorization usually does not match the individuals' sense of thinking. In recent decades, there is a growing consciousness of racial and ethnic identity which does not comply with the previous social identity of the past. One good example is the increase in a number of interracial and interethnic marriages. For example, a woman whose father is a Caucasian and an African American mother may have an identity that belongs to both groups, depending on her most influential self-characteristics. Others may classify her as one race identity or the other which may lead to a feeling of discrimination or of not belonging to any group at all. The social identity theory has also indicated that discrimination can occur in the "sufficience of individuals" mere categorization and the formation of social groups. Based on a nominal group technique where random individuals were assigned to experimental conditions as anonymous, the social categorization criteria could not be connected to the allocated groups. This experiment had thus arrived at a conclusion where, according to Taylor and Moghaddam (1994), people who belong to a different social category tend to be discriminated by the members of the out-groups. The limitation of the social identity theory is its wide rather than generic view of social categories. To clarify, it equally approaches all types of diversive categories such as race, class, and gender from various cultures and nations. The social identity theory does not only conceptualize self-defined identity; it has actually resulted the way individuals are defined by other groups as well as their inclusion or exclusion sense. Taking this study into account, it can be said that female NC membership is increasingly an exemplification of ethnicity on the NC. This will assist in increasing the nomination of diverse ethnic group directors on the board of directors for publicly listed companies. The socio-psychological mechanism of social identification also apply to the nomination process. For instance, different ethnic groups will support the appointment of a newly built board member who comes from a diverse ethnic background and this can thus increase the feeling of security for the others and thereby, enhance self-esteem. It is also theorized that the greater the presence of ethnicity, the higher the level of ethnic diversity on the board. In line with the social identity theory, the CEO of a company may prefer to choose people with similar ethnic groups so as to enhance their sense of belongings and self-esteem (Wagner, Pfeffer, & O'Reilly III, 1984).

From the theories expounded and the justifications provided for the use of the theories, this study will thus draw on the following theoretical framework.

4.4 Theoretical Framework and Hypothesis Development

The theoretical framework in the context of Malaysia is depicted in Figure 4.1 which illustrates the relationship among the variables. Gender and Ethnicity diversity are the dependent variables in this study. On the contrary, the board composition is the outcome in this study. In this case, it is foreseen that balancing board mix can be achieved through a balanced NC mix as a pre-requisite. The proportion of females on the NC and the proportion of Malay, Chinese and Indian members on the NC are the two independent variables considered in this study. The role of the NC is recognized by the assistance of these variables. Here, the NC plays a crucial role in deciding on the diversity of the board for Malaysian companies listed on the *Bursa*. This study is also interested in determining the influence of executive director proportion on the NC while simultaneously considering the director selection process. Therefore, executive director proportion in the NC is considered to be the moderating variable. This study also focuses on the influence caused by this variable in the nomination process. Nonetheless, the key variable for this study will be the four controlled variables which are: a) firm size, b) firm age, c) firm performance and d) board size. These four control variables are highly considered as related in connection to the board composition outcomes.

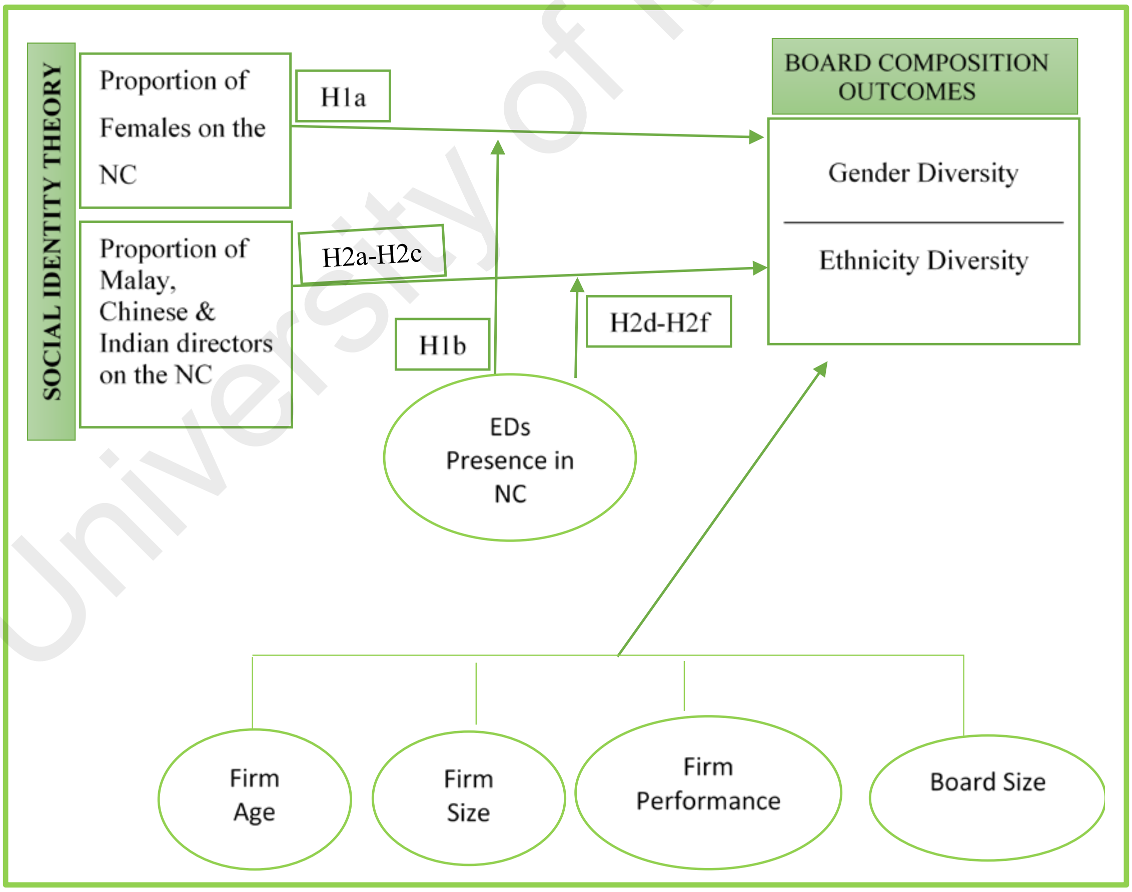


Figure 4.1: Theoretical Framework

As the current study focusses on four control variables comprising firm age, firm size, firm performance and board size, it is apt to discuss these variables in more detail.

4.4.1 Firm Age

The appropriate way of measuring a firm's age, in economic term, is through the number of years included after the firm's listing (Shumway, 2001). However, firms with longer periods of time experience have more restrictions and they also would have gone through intense processes which may be depressing to appointments who come from diverse backgrounds. Nonetheless, some older firms may also hold a track record of their past NC and board proceedings (Minichilli, Corbetta, & MacMillan, 2010) which could be beneficial or otherwise. The aging of the firm occurred due to several reasons such as those which are consistent with the argument presented in firm size. Clearly, older firms are expected to have higher firm performance because of their better reputation, established working procedures of subcommittee and better disclosure practices. Nonetheless, older firms might lack growth opportunities which can lead to lower firm performance.

4.4.2 Firm Size

Firm size is measured as total sales of the firm. Larger firms normally need to increase board capacity which can also take the form of more director appointments of diverse backgrounds. This, in turn, can have a relationship with the NC and board compositions. A diverse board has its own benefits but in larger settings, it can be far more complex as these firms implement their output in their own unique way (Hage, Aiken, & Marrett, 1971). The larger the size of the firm, the more diversity it has in the organizational structure and this prominence can lead to the significant role of the NC in the nomination process which contains more females and ethnic directors of more diverse backgrounds.

One body of literature has reported that firm size is positively associated with firm performance. It was mentioned that larger firms were expected to have better disclosure practices, have more diversified boards and contain more established working procedures of subcommittee. This can result in higher firm performance (Claessens, Djankov, Fan, & Lang, 2003). Larger firms also create an increase in the amount of firm's product-lines and their performance. Thus, smaller firms, in contrast, may have more growth opportunities and this is correlated with higher firm valuation. Nevertheless, the fact that small firms face lesser challenges would imply that bigger firms experience more complexities, hence, more challenges to overcome.

4.4.3 Firm Performance

In looking at firm performance, it can be said that the probability that firms will be open to creativity and innovation is related to its performance. Firm performance promotes the firm's ability to openness and it increases global perspectives which can only be achieved through female appointments of directors and female directors or diverse ethnic backgrounds onto the NC and board if the tradition has been male oriented. Higher firm performance is also likely to increase the board's process of management, thus, it also decreases the potential for board separations. An accounting based measure of performance ROE, is used to measure firm performance. The ROE is calculated as the net income over shareholder equity (Adams & Ferreira, 2009). In order to outline the performance, additional features must be taken into consideration and they include time frame and its reference point. Of the studies conducted, the most compelling evidence seems to imply that when a company's performance is good, it means that the board is composed of more creative, innovative, and open-minded individuals who also has a globalized views of diversification.

4.4.4 Board Size

Board size refers to the number of directors serving in the board. The gross value of the directors available in the boards would be used to define board size which is inclusive of both executive and non-executive directors. Superior corporations regularly need to enhance its board capability which can also be represented by a greater acceptance for varied backgrounds of directors. This, in turn, may influence the probability of board separations. The current study also aims to control board size as it is likely to influence board composition outcomes. As the NCs are the central point in the selection of directors, they are also the reason which causes the diversification of the board. Concern about the board structure is essential to both the efficiency and enactment of the board. When this is cleared, it will eventually assist the company to appoint appropriate people who are nominated to become part of an audit and remuneration committee. For this reason, the basic tenet of a board structure is extensively analyzed and examined in corporate governance studies. When this is coupled with an agency viewpoint, it can contribute to the major interest of directors' independence. With regards to looking at the perspective of the agency, boards are the inner key components which observe and supervise firm directors. With this in mind, it is thus vital that firm managers are not reliant on firm's management. In order to achieve the functions which board of directors need to accomplish as real contributions to the company, the level of their skills and abilities, is frequently examined. In response to such needs, these observations thus, imply that the board structure of a company is the main beneficial element projecting its effectiveness.

Corporate governance studies have frequently discovered how company boards function and how their management can be enhanced so as to assist in the value construction of the company. In addition, the demand for superior hypothetical heterogeneity remains. Despite all these facts, the board and other committees continue, relatively, to develop under-investigative development. Carpenter and Westphal (2001) and Dalton, Daily, Ellstrand, and Johnson (1998) were concerned about the connection between complete board composition and firm performance which frequently shapes questionable conclusions. Some researchers have suggested that one way to overcome this is to concentrate on board room dynamics and board process (Forbes & Milliken, 1999; Pettigrew & McNulty, 1995). Other researchers have pointed out that the structure, operations and impact of board committees should be examined as many of the crucial methods and conclusions of board directors do not originate from the board, but from the sub-committees. (Dalton et al., 1998). Zhang & Rajagopalan (2010) have researched the significant predecessor of variety in the board rooms. They noted that in order to reach a specific global interest of controllers, parameters of soft diversity encompassing gender, nationality, age, education, experience and networks are required. The diversity of the directors' nationalities can globalize board composition and this presence can have an impact on the internationalization of business and monetary markets. Foreign directors who are educated and familiar with international markets can consequently, reinforce the completion of the board and its supervising purpose (Luo, 2005). Given these points above, several hypotheses had been proposed in order to evaluate the dynamic of the board on diversity.

4.4.5 Hypothesis Development

Each community consists of a diverse social group which include differences in terms of gender, ethnicity, education and profession, according to the social identity theory. Regarding this matter, guidelines and concepts were set for every social group conferring on them, their social category membership. This assists them to pursue their influential behaviour (Ashforth & Mael, 1989; Hogg & Terry, 2000). These socially categorized groups have their own distinguished characteristics which in turn affect other associated social groups. In the context of this study, a female NC committee director may prefer another female director as it can possibly strengthen her otherwise marginal representation on a board.

Hence, it is prominent to suggest that increasing the proportion of female candidates in the nomination process will enhance the percentage of female directors on the board. This step will certainly aid gender equality with potentials of increasing contemporary and dynamic overview. Therefore, the study predicts that increasing the number of females on NCs will lead to a gender diversified board.

Hypothesis 1a. There is a positive association between the proportion of females on the NC and the level of gender diversity on the board.

Empirically, it is significant that the power struggle of executive directors (ED) influence the director's nomination process (Eminet & Guedri, 2010; Shivdasani & Yermack, 1999; Westphal & Graebner, 2010; Zajac & Westphal, 1996). Such an occurrence is prone to resolve and strengthen the board's decision (Westphal & Zajac, 1995). Nonetheless, the entire standard of diversity may decline if the CEO and ED plays an influential role on the NC. Since, there will be more non-executive directors (NEDs) and EDs who have established their similar backgrounds such as age, gender, ethnicity, nationality, education degree, board tenure and financial specialism, it is inevitable that the ED's proportion on the NC may hinder the nomination process and prevent gender diversity on the board.

Hypothesis 1b. The relationship between proportion of females on the NC and the gender board diversity is moderated by the proportion of ED in NC.

Boards with ethnic diversity enhance and create the value of the firms. Under those circumstances, people of diverse ethnic backgrounds coming on board could be those bringing with them different and unique ideas, experiences and power of thinking. All of these can provide better outcomes during the decision-making process and the policy making process. In multiracial countries, the prevailing societal values may not reflect the values of the nation as a whole, especially if each racial group has chosen to maintain its own ethnic identity and values under the notion of social identity theory. Difference between the groups is greater if there exists a history of conflict or in which racial differences coincide with national or socioeconomic differences (Pettigrew, 1979). Therefore, it is important to acknowledge that values may differ between groups even within a nation (Specter & Solomon, 1990).

In the context of Malaysia, there are three major ethnic groups: Malay, Chinese and Indian. In general, the country is influenced by its diverse religious principles, traditions, languages, and values thus, a diverse ethnic board can be a positive image (Marimuthu & Kolandaisamy, 2009b). In order to investigate for the possible association between three major ethnic groups representation in NC and ethnicity diversity on board, the four bipolar cultural dimensions advanced by Hofstede (1991) are adopted in this study.

The study considers the cultural values proposed by Hofstede (1991); this comprises of four bipolar cultural dimensions. These dimensions were individualism, masculinity, power distance and uncertainty avoidance and they were used to analyse the incidence of diversity in the three major ethnic groups of Malay, Chinese and Indian. However, the cultural values of each ethnic group varies between one to the other, take for example, the high level of ethnic Malays on boards in publicly listed companies may cause certain ambiguities or uncertainty among other board members who are of a more international background. They may feel uncomfortable with things since they are unsure of the right or appropriate manner of conducting meetings, and transparent selection criteria for example. This can cause ambiguity (Abdullah, 1992). In contrast, a very low level of ethnic Chinese and Indians in publicly listed companies could prevent uncertainty as it has been noted that they are willing to accept new challenges and take risks (Abdullah, 1992). The Chinese and Indian ethnic groups also follow the individualism, which states that each individual is acting on his or her own, making their own choices, based on the expected benefits among the ethnic groups (Tan, 1984); compared to their counterpart they are rated lower in individualism, which is partly attributed to their religion (Islam) which encourages collectivism because ‘under Islam, social order is closer to collectivism and rights of private ownership are ultimately subordinate to Allah’ (Baydoun & Willett, 1995, p. 89). This is reflected in their values of getting along well with others (Abdullah, 1992). It can be seen that, two societal values, uncertainty avoidance and individualism differ among the three ethnic groups.

Based on a Hofstede model, the Malays may be expected to be relatively more ambiguous with things since they are unsure compared to their Chinese and Indian counterparts, and high ambiguity implies lower representation. Therefore, Malay directors are likely to be negatively associated with the level of ethnicity diversity on the NC board compared to Chinese and Indians.

Hypothesis 2a. NC containing Malay (Bumiputera) directors will be negatively associated with the level of ethnicity diversity on the board.

Hypothesis 2b. NC containing Chinese directors will be positively associated with the level of ethnicity diversity on the board.

Hypothesis 2c. NC containing Indian directors will be positively associated with the level of ethnicity diversity on the board.

According to the Power struggle theory, the primary role of the board should be in monitoring of company's management. The concern of a CEO is to have many executive directors on the board as they cooperate closely and on a daily basis with him/her thus, they are less likely to question and dispute the CEO's views. Nevertheless, the NCs may represent a significant position in increasing the diversity of board members and decreasing the impact of management. (Firstenberg & Malkiel, 1994; Jensen, 1993; Westphal, 1998; Westphal & Zajac, 1995). Above all, the director selection process is deputed by the NC to a group which is influential enough to introduce own independent suggestions and not be reliant on the executive mechanism. Notwithstanding the fact remains that the CEO will intrude into the process if the NC is not self-governing.

Furthermore, if the CEO is a member of the NC or if this committee is dominated by executive directors, it will also hinder the appointment process (Shivdasani & Yermack, 1999). Zajac and Westphal (1996) conclude that the ultimate balance of power between the EDs and NEDs effectively predicts whose preferences will be realized in the director selection process. As a result, each of the two different interest groupings on the NC, i.e., the EDs and NEDs, is likely to endeavour to influence the other to change their preference in the director selection process. Hence, hypotheses for this study was developed considering these aspects, where the proportion of executive director proportion plays a moderating effect in the nominating committee.

Hypothesis 2d. The relationship between proportion of Malay directors on the NC and the ethnicity board diversity is positively moderated by the proportion of ED in NC.

Hypothesis 2e. The relationship between proportion of Chinese directors on the NC and the ethnicity board diversity is positively moderated by the proportion of ED in NC.

Hypothesis 2f. The relationship between proportion of Indian directors on the NC and the ethnicity board diversity is positively moderated by the proportion of ED in NC.

4.5 Data Characteristics

In brief, the secondary data analysis is the main research method that is used for this study. This is due to the large sample data which would allow the secondary data analysis to provide a generalizable result. In fact, a sample is specifically chosen to test the relevancy of the study's research hypotheses. Comparatively, the term 'large' is defined differently by different scholars. In this case, it is highlighted by Tabachnick et al. (1996) who define it as the number of independent variables used to define the size of the sample.

For instance, the formulated formula to define the size of the sample in this context is $N>50 + 8m$, where N is the number of participants and m is the number of independent variables. In order to construct a reliable equation, 15 subject per independent variable is highly recommended by Stevens (2012).

In this study, the collected sample covers the period from 2011 to 2013. Both the main and secondary listing board consisted of a total of 965 companies in 2011. Specifically, only listed companies that were present for the entire period of the study were included for the sake of minimizing the number of missing data. For this reason, delisted, new and insolvent companies after 2011, would not be included in this 3-year study sample. Similarly, companies that were subjected to specific regulations such as financially related issues were also excluded from the collected sample. This reduced the sample to 786 companies, coupled with a gross observation of 2,358.

It is also important to point out that this study had classified the listed companies through the use of the *Bursa* Malaysia classification of the five major industrial organizations (Table 4.1). For instance, the hotel, property, mining and plantation were classified together. In order to select the appropriate sample, the companies' size was not considered to be the prime factor for the study. Moreover, a random selection of half of the companies in each category was done in order to assemble the end sample of 393 companies whereby, firm size shall be dictated by the use of the methodology models that will be elaborated later on.

In this circumstance, the method of stratified random sampling technique will be implemented in order to ensure that the sample consists of all the represented non-financial industry in Malaysia. This is then followed by Table 4.1 below which present the final compilation of sample companies that were selected according to their individual category in industry.

Table 4.1: Final Compilation of Sample Companies

No.	**Sector**	**Population**	**Sample**	**Percentage**
1	Industrial Product	248	124	50%
2	Consumer Product	127	63	50%
3	Trading & Services/Technology	245	123	50%
4	Infrastructure Projects/Construction	47	24	50%
5	Property/Plantation/ Hotel/Mining	119	59	50%
	Total	**786**	**393**	**50%**

4.5.1 Data Collection

This study is based on the analysis of secondary data as it attempts to focus on the corporate governance variables and financial highlights of Malaysian publicly listed firms. In this context, the target samples represent 50 % of the Malaysian listed firms in ten non-financial sectors. They comprise sectors which have been categorized into 5 groups – Industrial Product, Consumer Product, Trading & Services/Technology, Infrastructure Projects/Construction and Property/Plantation/Hotel/Mining (see Table 4.1).

4.5.2 Justification

The reasons for choosing publicly listed companies from the non-financial sectors as the sample is because financial related companies were subjected to specific regulations. In this study, the secondary data were derived from two main sources.

Firstly, the study had gathered the data based on firm size, firm age and firm performance from DataStream. Particularly, DataStream is a comprehensive global collection which includes both data and information with regards to public and private firms. The approach of DataStream was used as a means to extract financial data such as total assets, total equity value, market capitalization and net profit.

Secondly, data were collected from each sampled firm's annual reports. In doing so, details of the corporate governance related to gender, ethnicity diversity and executive directors extract manually by examining the content of the director's profile and background section of the annual reports of sample firms. These details would be analyzed in order to seek the significance of diversity in these companies. Likewise, the Malaysia Stock Exchange's website published a list of the available individual firms' full annual reports. In addition, director's information cross checked using DataStream.

As mentioned earlier, the selected period for collecting the data was from the year of 2011 to 2013. As a matter of fact, the study specifically does not collect data from 2008 to 2010 due to the readjustment period of the 2008's financial crisis. After the financial crisis of 2008, there was an improvement on the matter of corporate governance disclosure by the Malaysia Stock Exchange's new listing requirement and MCCG's issuance. This precaution was applied as a means to ensure consistency in the firm's disclosure level after the two years' adjusting period. Similarly, the panel data analysis that was conducted for this study would need specifically, a three-year period. More importantly, the particular time was assigned so as to ensure maximum efficiency in identifying the respective companies' distinctive effects on the role of the nomination committee.

4.6 Modelling Specification

The purpose of this section is to illustrate the formulation of a model that was able to justify the influences of the nomination's committee role on the Malaysian's listed firm's board diversity. In particular, the diversity model should be able to justify the result of the proportion of the director's ethnicity and female directors' variable on the board and the NC. To further clarify on this matter, the diversity model shall be used to justify the hypotheses specified above in Chapter 2.

For this study, the model proposed by Blau (1977) would be observed as one of the conventional ways of measuring diversity within group (Nielsen, 2010), whereas Harrison and Klein (2007) demonstrate that there are different textures to diversity: notably, separation, variety and disparity as three different elements of diversity. Harrison and Klein (2007), is suitable in case of multiple characteristics of board members are simultaneously taken into account no matter whether they are continuous or categorical variables. This study would considered on using the Blau's index which is principally focus on single characteristics (e.g., gender or ethnicity).

To further elaborate, the proportion of female directors' variables and the executive directors in the NC are among the significant variables that will influence the overall board composition. Hence, it is important to note that the main focus of this study are these factors. Despite being so, this study will also consider other variables which will be taken as the control variables for the study and these include firm size, firm age, firm performance, and board size as has been explained above.

Figure 4.1 below, illustrates a demonstration that depicts the main factors deemed to be capable of depicting the causality that affects gender diversity, along with the control variables.

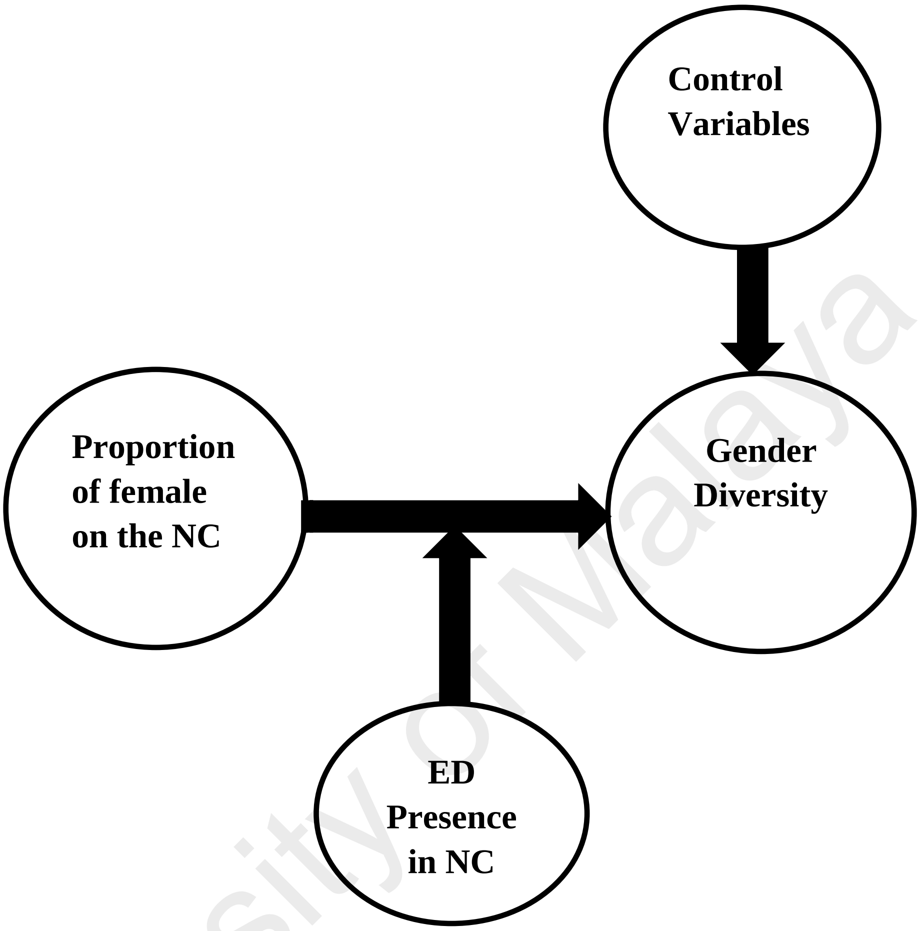


Figure 4.2: Factors affecting Gender Diversity

4.6.1 Dependent Variables

As mentioned above the dependent variable noted in the context of this study encompass gender diversity

(a) Gender Diversity

The conception with regards to gender diversity had undoubtedly, presented itself through various settings. For instance, Higgs (2003), Tyson (2003) and Davies (2011) had stated that the participation of gender diversification was first accepted and reviewed in the corporate governance code of 2012 in the UK while, the Malaysian Corporate Governance Blueprint (2011) had confirmed the consignment of a minimum of 30% of women directors for publicly listed firms. Since board diversity consists of gender diversity as one of its important component, it is inevitable that the issue would affect the firm's market value which can emphasize the importance of the relationships between the variables (Claessens & Yurtoglu, 2013). In this case, various researchers such as Ruigrok et al. (2006) had opted to use the traditional method of Blau's Index which was applied due to its ability to analyse the characteristics of the dispersion in a sample. Nonetheless, Lau and Murnighan (1998) had somehow, outlined the negativity of diversity as the notion of "separation". Thus, the proposal of using this measure of diversity as a method to be considered is drawn from Thatcher, Jehn, and Zanutto's (2003). Despite being so, Blau's index of heterogeneity will still serve as a suitable method for this study as it is widely used by various researchers such as Campbell and Mínguez-Vera (2008), in terms of looking at diversity research in addition to looking at the efficiency it reflects of groups in a dataset (Blau, 1977). In the context of this study, Blau's index is applied for the purpose of measuring the gender diversity model in this study. For example, the index has a value of 0.50 when there are two groups thereby illustrating maximum heterogeneity (50% in each group- male and female for gender).

(b) Ethnic Diversity

Ethnic diversity is visualized as a complicated construct because it involves a responsibility and sense of belonging to one's ethnic group notwithstanding the fact that diversion can lead to a positive interpretation and a different significance of the group (Barkema & Shvyrkov, 2007; Tuggle et al., 2010). Specifically, few previous studies, with regards to ethnic diversity, had opted to using the Ethno-Linguistic Fractionalization (ELF) measure. However, there were some critiques to the measure due to its “coding inaccuracies” (Posner, 2004). Hence, the Blau’s Index measurement was applied as it can principally focus on a single characteristic (e.g. gender or ethnicity). It can also examine every sequence of error term and is extremely unique (Barkema & Shvyrkov, 2007; Tuggle, Schnatterly, & Johnson, 2010). For this reason, Blau's (1977) index of heterogeneity was used to measure the ethnic diversity of this study (Richard, 2000). The level of diversity is measured through $(1- \Sigma\ pi2)$, where P is the proportion of group members in a category and 1 is the number of different categories represented in a firm. For example, the index will have a value of 0.67 when there is maximum diversity with three groups, as in this study (Malay, Chinese and Indian).

4.6.2 Independent variables

Where there are dependent variables, there are also independent variables.

(a) Proportion of Female on the NC

The analysis of various academic research had indicated that the presence of female directors can assist and promote the diversification process of the board (Erhardt, Werbel, & Shrader, 2003; Heemskerk & Fennema, 2014; Post & Byron, 2015; Terjesen et al., 2015). In this regard, the existence of female directors would serve as an important factor to illustrate the relationship between the diversity and the NC. Furthermore, female directors have the capacity to grasp the chance of becoming a part of the board, in contrast to male directors (Doldor et al., 2012; Nayak et al., 2007). In brief, the study will also take previous studies into account when analyzing the data. The proportion of female members on the NC is measured in terms of the proportion of female directors on the board (Amanatullah & Morris, 2010; Banyard, 2010; Morgan, Gregory, & Roach, 1997). The independent variable for the gender diversity is the proportion of female directors on the NC (**Female on NC**) and this is presented to the use of ratio scaling. For instance, in this study, the proportion of females on the NC is derived from the ratio of the number of female directors to the total number of directors on the NC. This is illustrated by an equation.

Equation 1:

The equation below was used to examine the association of the proportion of females in the NC with the Gender Diversity on the board other than proportion for executive director in the NC, Board Size, Firm Size, Firm Age and Firm Performance.

where:

$$GD_{it} = \beta_1 FNC_{it} + \beta_2 ROE_{it} + \beta_3 Frsize_{it} + \beta_4 Frage_{it} + \beta_5 BS_{it} + \beta_6 EDXPFN_{it} + \varepsilon$$

GD_{it}	Gender Diversity, measured by diversity index.
FNC	Females on NC, measured as the proportion of females on NC by the nomination size.
ROE	ROE, measured by net income over shareholder equity.
Frsize	Firm size, measured by the total sales of the firm.
Frage	Firm age, measured by number of years since firm establishment.

BS	Board size, measured by number of directors, serving on the board.
EDXPFN	Proportion of Executive Directors on NC.
i	Firm i
t	Year
ε	Error term.

The model is used to investigate the first two hypotheses of Hypothesis 1a and 1b which state that:

> *There is a positive association between the proportion of females on the NC and the level of gender diversity on the board (H1a).*
>
> *The relationship between proportion of females on the NC and the gender diversity on board is moderated by the proportion of ED in NC (H1b)*

Figure 4.3 summarizes the main factors affecting ethnic diversity and also the control variables.

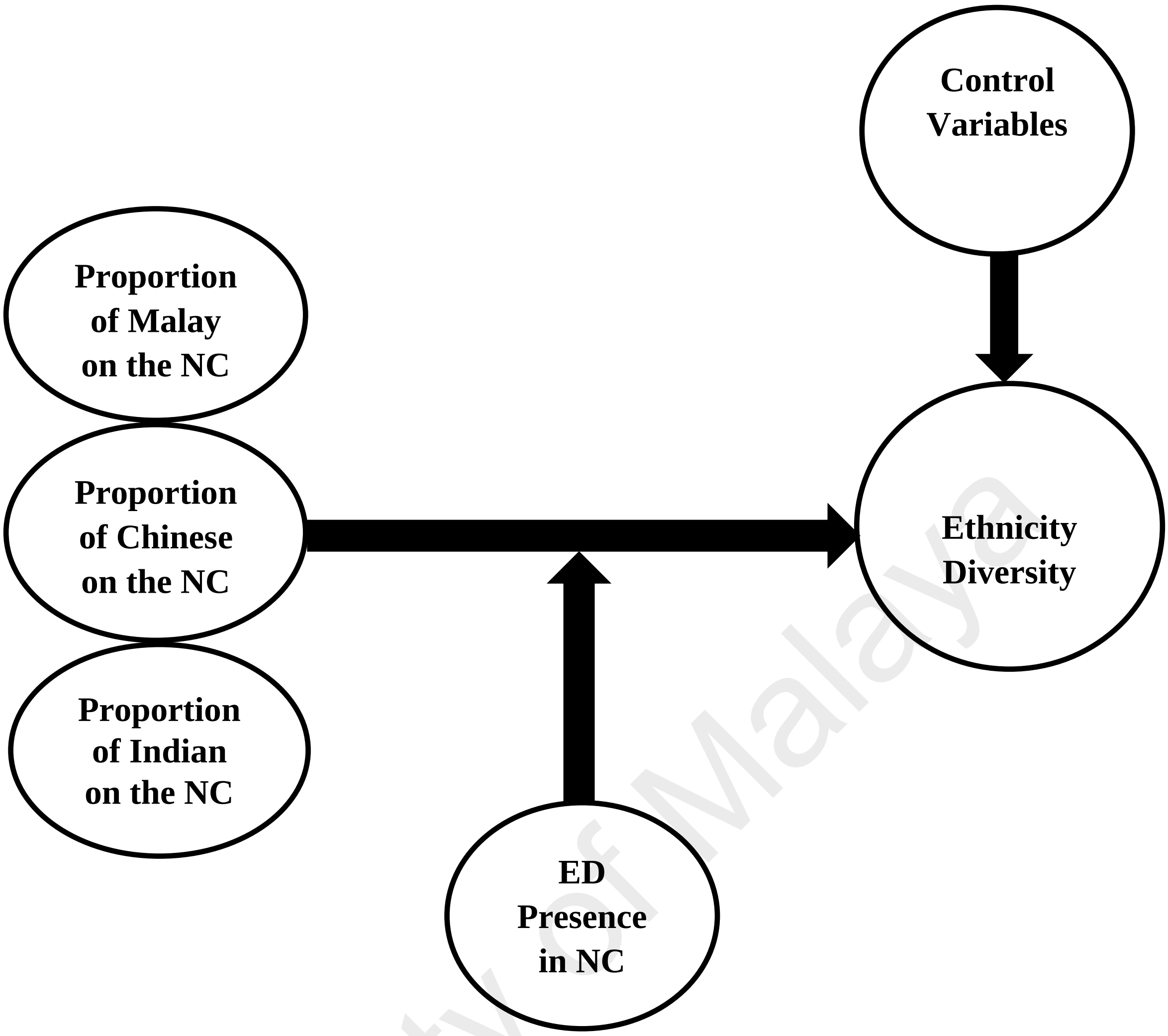


Figure 4.3: Factors affecting Ethnic Diversity

(b) Proportion of Malay, Chinese and Indian on the NC

Since Malaysia is heavily influenced by the different religious principles, traditions, languages, and values, it is important to take its three dominant ethnic groups into consideration. This is because the relationship between the ethnic diversity on boards (i.e. non-Bumiputera among board members) with market values can provide a unique introspection into the research. Several studies such as Fidanoski, Simeonovski, & Mateska (2014) had founded positive relationship between ethnicity and firm's performance. However, there is still ambiguity among previous research which somehow suggested inconsistent results. With this in mind, a holistic approach should be adopted to verify such relationships.

The independent variables for measuring ethnic diversity is then further classified as the ratio of number of Malay, Chinese and Indian directors to the total number of directors. This approach is unlike the approach assumed by Abdullah (1992), who had presented the proportion of these three ethnic groups as simply a dummy variable in their research.

It is also important to note that when examining ethnic diversity, the main variables to be considered are the proportion of Malay, Chinese and Indian directors and the executive directors in the NC. Moreover, the control variables are similar to the ones considered in the case of the gender diversity this is measured as the equation illustrates.

This study sets out to predict that ethnicity diversity is influenced by the proportion of Malay, Chinese, Indian directors on NC and moderating effect of executive directors in NC on the nomination process of Malay, Chinese and Indian directors. Thus, equation 2 was derived to test the hypotheses 2a, 2b, 2c, 2d, 2e, and 2f.

Equation 2:

The equation below is used to examine the association of the proportion of Malay, Chinese and Indian directors in NC with the Ethnicity Diversity in the board other than proportion for executive directors in NC, Board Size, Firm Size, Firm Age and Firm Performance.

To measure the other sets of hypotheses, a second model was developed for this purpose where

Where:

$$EthnD_{it} = \beta_1 MD_{it} + \beta_1 ChiD_{it} + \beta_1 InD_{it} + \beta_2 ROE_{it} + \beta_3 Frsize_{it} + \beta_4 Frage_{it} + \beta_5 BS_{it} + \beta_6 EDXPMN_{it} + \beta_6 EDXPCN_{it} + \beta_6 EDXPIN_{it+} \varepsilon$$

$EthnD_{it}$	Ethnicity measured by diversity index,
MD	Ethnic culture of Malay director, measured by the proportion of ethnicity on NC by the nomination size.
ChiD	Ethnic culture of Chinese director, measured by the proportion of ethnicity on NC by the nomination size.
InD	Ethnic culture of Indian directors, measured by the proportion of ethnicity on NC by the nomination size.
ROE	ROE, measured by net income over shareholder equity.
FrSize	Firm size, measured by the total sales of the firm.
Frage	Firm age, measured by number of years since firm establishment.
BS	Board size, measured by number of directors, serving on the board.
EDXPMN	Proportion of Malay Executive Directors on NC.
EDXPCN	Proportion of Chinese Executive Directors on NC.
EDXPIN	Proportion of Indian Executive Directors on NC.
i	Firm i
t	Year
ε	Error term.

NC containing Malay (Bumiputera) directors is negatively associated with the level of ethnicity diversity on the board (H2a).

Nominating committees containing Chinese directors will be positively associated on the level of ethnicity diversity on the board (H2b).

Nominating committees containing Indian directors is positively associated with the level of ethnicity diversity on the board (H2c).

The relationship between proportion of Malay directors on the NC and the ethnicity diversity on board *is positively moderated by the proportion of ED in NC (H2d).*

The relationship between proportion of Chinese directors on the NC and the ethnicity diversity on board *is positively moderated by the proportion of ED in NC (H2e).*

The relationship between proportion of Indian directors on the NC and the ethnicity diversity on board *is positively moderated by the proportion of ED in NC (H2f).*

4.7 Variable Definition and Measurements

Table 4.2 below explains the measurement of the variables, scaling with related references of gender and ethnicity diversity models.

In this matter, Blau's index is considered. In this case, the separation can be detected when there are contrasts in the position or opinion among unit members. This index can also measure horizontal distance along a single continuum of a particular attribute or value. Additionally, diversity is the reflection of the differences in kind or category, mainly in information, knowledge or experience among unit members. Thus, disparity is taken to demonstrate the differences in concentration of valued social assets or resources such as pay and status among group members (Nielsen et al., 2010a, 2010b)

Table 4.2: Summary of Variables and Measurement

Variables	Scale	Measurement	Classification
Dependent Variable			
Board composition outcomes (Gender & Ethnicity diversity)	Ratio	**Gender Diversity:** Blau's index (Blau, 1977), (Nielsen, 2010). **Ethnicity Diversity:** Blau's index (Blau, 1977), (Nielsen, 2010).	1− Σ pi2), where **pi** stands for the fraction of board members that are male/ female for gender diversity. (1− Σ pi2), where **pi** stands for the fraction of board members that are Malay/Chinese/Indian for ethnicity diversity.
Independent Variables			
Proportion of Female on NC	Ratio	Proportion of female directors in the NC, Daily, Certo, & Dalton, 1999; Farrell & Hersch, 2005)	No. of female directors/ total no of directors in NC
Proportion of (Malay, Chinese & Indian) directors on NC	Ratio	Proportion of ethnicity in the nomination committee/NC	Malay/Chinese/Indian / total no. of directors in NC
Moderating Variable:			
Proportion of Executive director Presence in NC	Ratio	Proportion of ED, (Shivdasani & Yermack, 1999)	Proportion of ED/total number of directors in NC
Control Variables:			
Firm Size	Ratio	(De Andres & Vallelado, 2008).	Total sales of the Firm
Firm Age	Ratio	No of years, (Minichilli et al., 2010).	Number of years since the firm was established as an economic entity.
Accounting based measure: Firm Performance:	Ratio	ROA, ROE, (Adams & Ferreira, 2009).	Annual earnings / total assets, Net Income / shareholders' equity
Board Size	Count	Total directors (Jensen, 1993)	(the number of directors serving on the board)

The above Table present the summary of variables and their measurement that was used in this study.

4.7.1 Moderating Variables – Executive Directors' Presence in the NC

According to Shivdasani and Yermack, (1999) the role of ED over the directors' selection process has always been considered as a dominant factor particularly when the EDs appear to have a higher supremacy and guidance. For instance, if the EDs are a part of the nomination committee or if the committee is controlled by majority of EDs, there is a higher probability that the EDs may enhance their influence over the director selection procedure. This variable is measured as the ratio of the proportion of the executive director by the total number of directors in NC.

4.8 Data Analysis

The data analysis procedure is conducted as the initial process of the investigation of the data's pattern and variability. Specifically, the data go through three phases of analysis: preliminary, descriptive and multivariate analysis.

4.8.1 Preliminary Analysis

In essence, the preliminary analysis is administrated in order to ensure error-free variables from the regression and that there is no violation on the multiple regression assumption on the variables' normality.

Flaws on the scatter graph and descriptive statistic's variable (for instance, maximum and minimum value, average and mode) are analyzed thoroughly while being corrected simultaneously.

First and foremost, the outliers of the data are needed to be identified earlier otherwise, the reliability of the regression model would be significantly affected. For this reason, the method of scatter plot and summary statistic was adopted in the examination of every variable.

Together with the identification of the existences of missing data, another point to be noted is the method of cross sectional pooled data and ordinary least square (OLS) regression which are used for analyzing the data as well. However, certain readjustment is needed before implementing the final model for the analysis because important variables such as normality, multicollinearity, heterogeneity and endogeneity needed to be considered during the final model's readjustment.

The method of cross sectional pooled data and ordinary least square (OLS) regression shall be implemented on the analysis of the collected data. In addition, the unobservable firm's specific factors that influence the ethnic and gender diversity is hard to be contained by the OLC method. This explains why the method of panel data is highly recommended for the effect of missing data and factors derived from the ultimate outcome (Hsiao, 2003).

With regards to the preliminary analysis, each variable was analyzed through the normality test as well. The implementation of this analysis was taken as a measure to prevent any skewed and error variable from being computed onto the regression model. After transformation, the data's variables were retested so as to ensure the stability and the normality of the data.

This is then followed by the use of correlation analysis and the scatter graph plot which was aimed at overviewing the prediction and pattern of the relationship between the independent and dependent variables. Specifically, this test was carried out as a means to confirm that no biased variable had invaded the regression model whereby, if the issue of multi-collinearity and normality resurfaced, it could lead to the alteration of the following variables, as shown in Table 4.3. After alteration, the variables would be tested again to ensure normality.

Table 4.3: Transformation of Variables

Variable	***Transformation***
Firm Age	Natural Log
Firm Size	Natural Log
ROE	Natural Log
Prop Malay NC	Mean centring
Prop Chinese NC	Mean centring
Prop Indian NC	Mean centring

From the table shown, it can be seen that the firm age, firm size, firm performance (ROE) are transformed through the natural log process. In contrast, the proportion of Malay NC, Chinese NC and Indian NC were transformed through the means of centering. In this analysis, the mean centering is arrived at by deducting the mean sample from the individual observed value of the predictor and moderator variables. This approach has been promoted as an effective solution to high and extreme multicollinearity. Furthermore, the mean centering can expand on improvising conditioning by sinking the covariance and correlations between the predictor variable (Shieh, 2011). This can simultaneously, aid in reducing the threat of multicollinearity whilst enhancing the precision of estimates.

Nonetheless, the pros and cons of the centering approach in general, has been elaborated expansively by Belsley (1984).

Test for Endogeneity Issues

Endogeneity problems include both descriptive variables and lagged dependent variables. As this study applies the system linear of the GMM estimation, it should be sufficient and adjustable enough to dominate both unobserved heterogeneity (female directors, gender diversity, Malay/Chinese/Indian directors characteristics, and ethnic diversity) and the endogeneity issue (Hsiao, 2014). For instance, Arellano and Bover (1995) and Blundell and Bond (1998) had proposed that the GMM estimator is especially suitable for tolerating both lagged stages and lagged first dissimilarities.

The most compelling evidence to be derived from this approach is the consequence of using subsequent moment conditions which can lead to important discoveries and also improved prognosis for the sample's inner explanatory variables. By presenting more tools, Arellano and Bover (1995) difference in the GMM estimator was expanded and improved by Arellano and Bover (1995), Blundell and Bond (1998), and Blundell, Bond, and Windmeijer (2001) system GMM estimator. To clarify, the stages of improvement are provided presenting the dissimilarities in the second changed equation. In addition, the GMM system may significantly influence the effectiveness of estimation due to the last modifications which may be more extrapolative of present stages than of past stages of the parallel changes. Significantly, the reduction in the final sample bias is created through subsequent moment conditions. These then prove that the result is an important finding. This by itself offers an improved and effective prognosis for the inner explanatory variables in the current study.

4.8.2 Descriptive Analysis

In this study, the descriptive analysis was used as it can provide conclusive explanations and descriptions for each obtained variable's summary statistics. The descriptive analysis also points out the data's general description which allows the comparison between the other countries and the Malaysian data to be done. Chapter 5 shall present the outcome of the descriptive analysis.

4.8.3 Multivariate Analysis

The regression diagnostics and multiple OLC regression are the two main multivariate analysis. For this reason, a comparison of the OLS regression's model is tested in order to find out the suitable model for this study. In this case, the dependent variables used in the two separate models are gender diversity and ethnic diversity.

In order for the model to be valid, it is therefore necessary for a series of assumptions to be met in the OLS regression, for instance, the collinearity, linearity, normality, endogeneity, model specification, homogeneity and the independence of errors in variables (Chen, 2006; Stock & Watson, 2003). Meanwhile, the significant existence of the independent variables for this data had increased the probability for the model to violate some of these assumptions.

In fact, the normality issue is dealt with the use of Shapiro-Wilk W test. This method ensures the normal distribution of the residuals or errors of the regression. This method is highly significant in validating the validity of the hypothesis testing. In addition, the histogram with Jarque-Bera was used to visually analyse the residuals of the regression. Only non- normality of residuals are accepted in the event where the sample of N is as large as this research (Chen, 2006).

Despite all of the precautions taken, it cannot be denied that the multicollinearity examination is an important aspect of this study. To enumerate, the existence of the multicollinearity problems occurs in the case of correlations occurring between independent variables. This is acceptable given that the confidence interval on the regression will be wide and the individual p-values is to be misrepresented. In this case, the crucial variables may also consist of high p-value and the factors that lead to the existence of the multi collinearity issue (Belsley, Kuh, & Welsch, 1980). In fact, the significance of the multicollinearity problem can also be evaluated through the use of the Variance Inflation Factor (VIFs).

Another point that is often overlooked is the seriousness of the multicollinearity fatality which tend to be indicated as the VIFs when the value is more than 10. This multicollinearity issue is therefore, addressed by grouping the factors loading into the variables by using the factor analysis cases in the study. Specifically, the minimization of multicollinearity between the variables can be addressed through the panel data analysis itself.

The examination of the existence of heteroscedasticity problem is equally important because it is important to note that the ordinary least squares estimation and the test of significant variable are both equally, not efficient, in terms of the existence of heteroscedasticity (Solon, Haider, & Wooldridge, 2015).

In this matter, the Cook Weisberg/Breusch-Pagan, 1979 test is deemed to be the most commonly used for the detection of heteroscedasticity problem. The test is normally suitable for considering auxiliary regression of the square residuals from the original equation.

Last but not least, the endogeneity problems can resurface during the analysis. This includes both the descriptive variables as well as the lagged dependent variables. In particular, endogeneity problems can present some biasness and inconsistent results over the data analysis which could specifically, be solved through the GMM estimator.

Panel Data Analysis

With a total of 393 sampled firm as the base of the board's diversity data, the method used for the panel data analysis is an important tool as it supports the error terms of the regression analysis. Moreover, the time series technique is an inappropriate method due to its limited duration for the collected data. For instance, the unobservable factors that influence the gender and ethnic diversity may not be captured by the multivariate regression. Likewise, the use of the panel data method may receive less difficulties in term of the missing variable problem. In particular, in terms of the residual heterogeneity, the differences between the change over time and the firms' timeline is able to be distinguished by the panel data's fixed and random effect (Chen, 2006; Stock & Watson, 2003). Under those circumstances, the strength of the panel data method's estimator can be boosted by increasing n x t observation with the number of cases. Likewise, the problem of multicollinearity can be easily solved as well as the relevancy of the use of the panel data method is also supported (Hsiao, 2014; Murphy, 1985).

This inevitably points out that the use of the panel data analysis method and the cross-sectional techniques have significant differences. In fact, Murphy (1985) had dictated that the panel data analysis method is far more suitable for the nomination committee analysis in selecting a diversified board. This is because the method can identify gender and ethnic diversity as factors more efficiently.

The panel data method, can be estimated through two different techniques: the random effect methods and the fixed method. Specifically, both methods produce results of different estimations in term of analyzing error structure. To clarify further, an example of a dummy variable model would be represented by the fixed effect model. This is based on condition that thousand observations of the data set and a set of additive dummies are in existence. The result of the data can then be analyzed by using the OLS (Esping-Andersen, 2013; Greene, 2003). Nonetheless, it is, only in the case where homoscedastic and uncorrelated idiosyncratic errors are in existence that the fixed effects method can be implemented (Wooldridge, 2003). Included variables will also be correlated with the unobserved individual effects through this method.

Further to that, in the provision where the independent variables are uncorrelated with the individual specific constant term, then implementing of the random effect method will be more appropriate. The assumption that is derived through this method can also be classified as not valid if there is no consistency in the estimation and reduction of the number of coefficients (Greene, 2003). In this case, the relationship between the error term and unobserved differences can be identified through the use of generalized least squares (GLS) regression via the random effects method.

The implementation of the Hausman test can also be conducted as a means to test the compatibility of the two methods used in this study. As an example, the alternative estimate is evaluated against the significances of the estimator through this specification test. This evaluation test is used to ensure that the efficient model provides consistent results when comparing the less efficient model (Hahn & Hausman, 2003). Both the random effect model and the fixed effect model produce efficient and consistent results (Stock & Watson, 2003).Thus, it is acceptable to use the Hausman test for the purpose of evaluating the random effort model first (Chen, 2006). Both the estimator and model are deemed inconsistent if the Hausman test's null hypothesis is rejected. Given these points, the fixed effect method is deemed to be more appropriate for this study.

As mentioned earlier, the hypotheses formulated for this study will be evaluated through several models such as the panel data analysis model and the GMM estimator. These analyses are specifically implemented for the purpose of tackling the issue of heterocasdasicity and endogeneity. In this regard, the panel data analysis model can be referred to multiple regression models as the sample is for a three-year period. The final conclusion of the analysis will then be derived through the GMM's estimator's result as it can help to reduce inconsistency and bias in results. Hence, the use of the identified model specifications will be administrated during the implementation of the panel data set. Specifically, several identified model specifications were also used to run the panel data set.

As stated earlier, sampled data were sourced from the DataStream and the annual report of individual companies. Data pertaining to the ethnicity and gender diversity of the sample collected were evaluated under the multiple regression models. In this case, more than one measurement was used for some of the existent variables in the data as also mentioned earlier, normality, outliers, heteroscedasticity and multicollinearity will be addressed in this study. In the final analysis stages, the panel data technique's description of both the random effect model and the fixed effect methods will also be illustrated.

4.9 Summary

This chapter has elaborated on the methodology used. The research design was duly described and the theories used for developing the theoretical framework was also explained. This is followed by the justifications, sample and data collection method and then the various methods used for data analysis. In detail, all the models applied for the purpose of measuring and evaluating the hypotheses were also discussed so that it can enable the data to be validated as a means of answering the research question which focused on gender and ethnic diversity on board composition of Malaysian publicly listed companies. Specifically, the hypotheses were investigated through GMM model for the study as its aim was to explore the concept of board diversity which can influence the role of the nomination committee. For this reason, this study also identified the norm and nature of the board diversification in Malaysia, the motivation and reason for board diversification, and the impact of the nominee committee intervention. The research has also sought several methods to analyse the livelihood of the relationship between the firms' characteristic and firms' directors, both of which can result in the attribute of the NC, which then influences the board's diversification. The general methodology that was chosen for this study is the panel data analysis method which is highly compatible as data for this study encompass 50% of the total number of Malaysia's publicly listed companies, i.e. a total of 393 firms whose data extracted for study had spanned the 3-year duration period. They comprise non- financial firms that were willing to participate and their data in terms of their annual reports and firm's information were also accessible. The data analysis consists of three stages namely preliminary analysis, descriptive analysis and multivariate analysis. In the last part of this chapter, a description of the test for endogeneity issues involving the GMM estimator was also provided.

CHAPTER 5: DESCRIPTIVE ANALYSIS RESULTS

5.1 Introduction

This chapter reports on the outcome of the descriptive and bivariate analysis results which were based on the eight variables employed in this study. The purpose of this chapter is to depict the principal features of the data. The descriptive analysis would focus on the attributes of the data while the bivariate analysis would assist the study in identifying any probability of negligence of important presumptions during the process of employing the multivariate method. The multivariate method used in this study includes the multiple regression approach which tests accuracy.

This chapter is divided into three sections. The first section presents the descriptive analysis noted from the eight key variables used in this study. The second section reports on the bivariate analysis used to identify the initial correlation between variables and the last section concludes by summarizing the main findings of the descriptive and bivariate analysis.

5.2 Descriptive Analysis of the Main Variables

As mentioned in the methodology chapter, the final sample of this study consist of a total of 393 companies with a total outcome of 1179 year-observations as the data collected comprised those observed from a three year period of 2011 to 2013. A diligent approach for sampling selection was administered and based on the aim of the study and the formulation of the research question, eight major variables were determined: 1) Gender diversity, 2) Ethnic diversity, 3) Proportion of females in the NC, 4) Proportion of Malay in the NC, 5) Proportion of Chinese in the NC, 6) Proportion of Indian in the NC, 7) Presence of Executive Directors (ED) in the NC and 8) the control variables. These were examined accordingly. The descriptive analysis used for the variables include mean, median, standard deviation, minimum and maximum value, skewness and kurtosis.

5.2.1 Gender Diversity

In this study, one of the dependent variables used is gender diversity (GENDER DIVERSITY). This was discussed in detail in the Methodology chapter. Over the years, as was also highlighted in the Literature Review chapter, gender diversity has been acknowledged as an essential consideration in corporate governance. In fact, various reports had advocated for the presence of gender diversification on boards as has been evidenced by Higgs (2003) and Tyson (2003). Moreover, it was observed that among Malaysia's publicly listed companies, a total of 30 % of women directors to be included onto company boards have been dispatched by the Malaysia Corporate Governance Blueprint (2011). In consideration of the urgency and the importance of gender diversity on company boards, gender diversity, as a dependent variable, was thus incorporated into this study. Expanding on that, the moderating variable that was considered in this study is the proportion of executive directors in the NC. It was hypothesized that this variable may affect the nominating process and the selection of female directors (ED X PFN). In brief, this study uses four control variables which include the board size (Board Size), firm size (Firm Size), firm age (Firm Age), and firm performance (ROE). The summary of the statistics of the variables is presented in Table 5.1.

To elaborate, Panel 1 in Table 5.1 presents the summary of the statistics generated from the gender diversity model, for the year 2011 to 2013. The statistics presented depict the mean, standard deviation, minimum and maximum value, skewness and kurtosis. It was noted that the index of the gender diversity preserved in the data extracted from 2011 to 2013 is merely 0.1178, which is a legitimately low indication when compared to the suggested 30 % served by regulators (MCCG). This score can only be interpreted as that the board of directors on Malaysia's publicly listed companies during that period of time was not rationally diverse and gender diversity in terms of female directors, was rather an outnumbered phenomenon, as of 2011 to 2013. In observing the trend from 2011 to 2013, it appears that there is a relationship, for as the mean increases over time, it somehow reached a stagnant level by 2013. This observation is contrary to what Fidanoski et al. (2014) revealed. They noted that the mean for gender diversity in companies of Southern Europe was 0.16 as compared to its mean for ethnic diversity which was 0.28. These statistics, specifically implied that awareness and the practice of gender equality needs to be further improved across Southern Europe as well as Malaysia.

Referring to table 5.1 again, Panel 2 in Table 5-1, refers to the proportion percentage of female directors in the NC. The average mean of female directorship as noted in the NC was 0.06 which indicated a minimum ratio of gender diversity in the nomination committee. This result is also in line with the MCCG 2012's call for all publicly listed companies to increase the level of gender diversity in nomination committees in their boards. The call had also explicitly stated that this disclosure be made in companies' annual reports. The mean value presented in Table 5.1 suggests that Malaysian publicly listed company boards were consistently not diverse in terms of gender. The result specifies that there was low diversity in terms of gender in the nomination committee of Malaysian corporations. The same can be attributed to other studies which noted the low percentage of women representation in board directorships. Take for instance, Liao, Luo, and Tang (2014), who found that only 9.2 per cent of directors in company boards were females.

With reference to the same table, Panel 2 further elaborates on the proportion of executive directors in the NC. The score shows that the average proportion of EDs is 0.0088 which indicates that, there was an influence of EDs on the selection of female directors on the board of companies. The proportion comprises a standard deviation of 0.0318 followed by a skewness and kurtosis value of 3.8481 and 18.284 respectively. This score shows that the presence of EDs in the NC is high presence and so is their influence in the selection of female directors. This can be traced to the number of females present in Malaysian firm's NC which constituted an average of 0.0608.

In consequence, Panel 3 in table 5.1 examines the result of the four control variables of firm size, firm age, firm performance and board size. From the analysis noted, it appears that the largest board size is 14 with most boards having a minimum of four directors on the Malaysian corporate boards. The designated directors on the boards were selected correspondingly to board size as is practiced in Norway and Sweden (Randoy & Nielsen, 2002). However, the value noted in the table is less when compared to other Asian countries such as Hong Kong and China which tend to comprise an average of 9 directors (Cheng & Firth 2005). Nonetheless, in India, their corporate boards tend to consist of ten directors (Ghosh, 2006). This dependence on board size as a consideration was also noted in the Price Waterhouse Coopers (1998) reports which was conducted in Malaysia.

Besides this measure of monitoring, the MCCG 2012 had also implemented one other suggestion, that is, the need for companies to scrutinize their board size as a means of maintaining their effectiveness. This can be traced to the need for companies to verify their performances where the measurement used was based on the return on equity (ROE), as a representation of the accounting based performance. Linking this study to that, table 5.1 presents a result which shows that there was a declining pattern of the ROE which was valued at 1.657, 1.60 and 1.555 respectively in the years 2011, 2012 and 2013. While 1.1 years was taken as the least number of years for firm establishment so as to be treated as an economic entity, the highest number of years considered was 5.22 years. In addition, the total sales of the respective firms measured in this study appears to carry a minimum value of 4.5 and a maximum of 17.68.

To conclude, it can be said that the data collected and analysed have less variations since the score of 1.8387 was marked as the greatest value of firm size. Moreover, the kurtosis value of all the variables were noted as positive while the variable of firm age carried a negative skewness valuing at -0.0684.

In looking at the proportion of females on the NC, the score showed a kurtosis value of 7.1037 and the score indicating the presence of EDs in the NC was 18.2849. These scores were both noted to be leptokurtic since they were both more than 3. These scores suggest that the phenomenon cannot be rectified because it causes the deterioration of the rest of the major and useful results.

Table 5.1: Summary Statistics of Gender Diversity

Variable	Year	N	Mean	Median	Sd.	Min	Max	Skew	Kurtosis
Panel 1									
Gender Diversity	2011	393	0.1178	0.0000	0.1558	0.0000	0.5000	0.8250	2.1854
	2012	393	0.1181	0.0000	0.1559	0.0000	0.5000	0.8211	2.1791
	2013	393	0.1181	0.0000	0.1559	0.0000	0.5000	0.8211	2.1791
	Pooled	1179	0.1178	0.0000	0.1550	0.0000	0.5000	0.8382	2.2502
Panel 2									
Proportion of Female On NC	2011	393	0.0637	0.0000	0.141599	0.0000	0.7500	2.1172	6.8048
	2012	393	0.0583	0.0000	0.133114	0.0000	0.7500	2.1735	7.1404
	2013	393	0.0594	0.0000	0.136722	0.0000	0.7500	2.2344	7.4879
	Pooled	1179	0.0608	0.0000	0.137201	0.0000	0.7500	2.1653	7.1037
ED X Female in NC	2011	393	0.0086	0.0000	0.031183	0.0000	0.2222	3.7201	16.848
	2012	393	0.0087	0.0000	0.031991	0.0000	0.2222	3.9588	19.4033
	2013	393	0.0087	0.0000	0.032357	0.0000	0.2222	3.9236	18.9044
	Pooled	1179	0.0088	0.0000	0.031870	0.0000	0.2222	3.8481	18.2849

Table 5.1: Summary Statistics of Gender Diversity (continued)

Panel 3

	Year	N	Mean	Median	Sd.	Min	Max	Skew	Kurtosis
ROE	2011	393	1.6566	1.7917	1.2048	0.0000	5.0498	-0.1736	1.8446
	2012	393	1.5995	1.7917	1.2426	0.0000	6.0661	0.13627	2.2810
	2013	393	1.5548	1.7917	1.2030	0.0000	5.9135	0.14294	2.5354
	Pooled	1179	1.6027	1.7917	1.2159	0.0000	6.0661	0.0398	2.2098
Firm Age	2011	393	3.2499	3.3000	0.6932	1.1000	5.2100	-0.1345	3.0168
	2012	393	3.2977	3.33000	0.6612	1.3900	5.2100	-0.0444	2.9376
	2013	393	3.3417	3.3700	0.6327	1.6100	5.2200	0.03217	2.9144
	Pooled	1179	3.2962	3.3300	0.6628	1.1000	5.2200	-0.0684	3.0010
Firm Size	2011	393	12.1155	12.0600	1.8425	5.0900	17.5500	0.08316	3.2186
	2012	393	12.1836	12.1250	1.8211	5.8000	17.6800	0.02577	3.3864
	2013	393	12.1772	12.1200	1.8561	4.5100	17.6600	-0.0881	3.6947
	Pooled	1179	12.1556	12.0900	1.8387	4.5100	17.6800	0.00926	3.4295
Board Size	2011	393	7.2188	7.0000	1.8892	4.0000	14.0000	0.9285	4.1717
	2012	393	7.2678	7.0000	1.9355	4.0000	14.0000	0.8370	3.6894
	2013	393	7.2704	7.0000	1.9437	4.0000	14.0000	0.8527	3.6594
	Pooled	1179	7.2536	7.0000	1.9201	4.0000	14.0000	0.8708	3.8330

Following the accounts presented by Table 5.1 (above), a summary of the bivariate correlation matrix for the dependent variables, independent variables, dependent moderating variables and control variables applied in the gender diversity model is displayed in Table 5.2 below. The score appears to show that the variables have positive and negative relations with reference to Gender diversity.

The presence of Gender diversity on the boards of the NC appears to have a strong positive relationship, standing at the 1% significance level. This indicates the presence of a greater proportion of females in the NC which can lead to a higher proportion of females in the board. The MCCG 2012 had persistently made this emphasis.

At the same time, the results also demonstrate a weak positive relation of Gender diversity and females on the NC with the ROE standing at 1% significance level. This is because there is zero or less number of females on the board. Hence, a statistically positively significant correlation between females on the NC and the level of gender diversity was seen, as shown in the result of 2-Tailed. Further, Table 5.2 also presents the summary statistics of the correlation of Gender diversity of these characteristics. Each characteristic is analyzed separately as shown.

Table 5.2: Summary Statistics of Correlation of Gender Diversity (in Proportion)

Correlation	*1*	*2*	*3*	*4*	*5*	*6*	*7*
1 Gender Diversity	1	.560**	.100**	-0.004	0.025	.116**	.362**
2 Females on NC	.560**	1	0.046	0.03	.091**	.096**	.647**
3 ROE	.100**	0.046	1	.095**	.381**	.207**	0.025
4 Firm Age	-0.004	0.03	.095**	1	.342**	.126**	.071*
5 Firm Size	0.025	.091**	.381**	.342**	1	.383**	.090**
6 Board Size	.116**	.096**	.207**	.126**	.383**	1	.063*
7 ED X PFN	.362**	.647**	0.025	.071*	.090**	.063*	1
	**. Correlation is significant at the 0.01 level (2-tailed).						
	*. Correlation is significant at the 0.05 level (2-tailed).						

5.2.2 Ethnicity Diversity Model

Ethnic diversity is visualized as a complicated construct. This involves a responsibility and a sense of belonging to one's ethnic group notwithstanding the fact that diversion can lead to a positive interpretation and different significance of the group (Barkema & Shvyrkov, 2007; Tuggle et al., 2010). Ethnic diversity also enables people to know each other and share their cultural aspects and experiences and specifically, diversity helps in reducing prejudice and racism. This measure of the Ethnic diversity model is advantageous as it can take multiple characteristics into account. It also examines every sequence of error term and is unique (Barkema & Shvyrkov, 2007; Tuggle et al., 2010).

In particular, one of the dependent variables considered in this study is Ethnic diversity (Ethnic Diversity Index). As mentioned in the earlier section, ethnic diversity is acknowledged as a complex attribute in corporate governance. Many studies recommend ethnic diversity as it provides a positive impact on companies as has been noted (Barkema & Shvyrkov, 2007; Tuggle et al., 2010). Moreover, the presence of ethnic diversity ensures a perseverance avoiding discrimination. In accordance with that, this study measures ethnic diversity as a dependent variable. Additionally, the Ethnic diversity model is ranged from 0 to a maximum of 0.333 in terms of the Blau values. The score of 0.333 indicates that the board consists of an equal number of Malay, Chinese and Indian. More can be discussed through the statistics shown in Table 5.3

Panel 1 in Table 5.3 presents the summary of the statistics of the Ethnic diversity model for the years between 2011-2013. The scores depict the mean, standard deviation, minimum and maximum value, skewness and kurtosis. Accordingly, the average Ethnic diversity index value is 0.3332 representing 33% and this implies that the boards were not diverse enough in terms of ethnicity.

Panel 2 in Table 5.3 elaborates on the mean of the proportion of Malay, Chinese and Indian directors with an average of 0.401, 0.545, and 0.0297 respectively. This score is legitimately low compared to the diversification score. Furthermore, the statistics also report on the proportion of Malay, Chinese and Indian Executive directors in the NC and the score shows that the mean value of the presence of Malay ED in the NC is 0.0508 with a standard deviation of 0.110 followed by a skewness of 3.004 respectively. The value for the Chinese and Indian ED mean was 0.0656 and 0.00456 respectively. From these statistics and report, it can be said that the Chinese have the highest presence in the NC as Executive directors with a mean of 0.0656, followed by Malay directors at 0.0508 and Indian directors at only 0.0041.

Panel 3 in Table 5.3 reports on the control variables comprising of firm performance, firm age, firm size and board size. In this case, a maximum of 14 directors and a minimum of 4 directors was considered in this study. The ROE is used as a measure of Firm performance representing a measurement of accounting based. The finding thus, shows a fluctuating pattern of the ROE which amounts to 6.066, 5.050 and 5.914 from 2011 to 2013. More importantly, the maximum and minimum firm age was considered at 5.22 years and 1.1 years respectively while the score of 4.5 was considered as the measured minimum total sales of the firm and 17.68 as the measured maximum total sales of the firm. In conclusion, the data were considered to have less variation as the largest standard deviation marked was 1.920131 of board size. Moreover, the kurtosis value of all the variables was noted to be positive. On the other hand, the proportion of Chinese on the NC and firm age showed a negative skewness of - 0.1924 and - 0.0684 respectively.

Table 5.3: Summary Statistics of Ethnic Diversity

Panel 1

Variable	**Year**	**N**	**Mean**	**Median**	**Sd.**	**Min**	**Max**	**Skew**	**Kurtosis**
Ethnic Diversity	2011	393	0.3332	0.3456	0.0209	0.0000	0.9382	9.0882	100.1205
	2012	393	0.3332	0.3456	0.2047	0.0000	0.2500	-0.1263	2.5264
	2013	393	0.3332	0.3456	0.0209	0.0000	0.2500	9.0882	100.1205
	Pooled	1179	0.3332	0.3456	0.0194	0.0000	0.7530	8.7532	97.4014
Panel 2									
PropMalay NC	2011	393	0.3974	0.3333	0.3259	0.0000	1.0000	0.3761	2.1432
	2012	393	0.4131	0.3333	0.3278	0.0000	1.0000	0.3318	2.1167
	2013	393	0.3927	0.3333	0.3240	0.0000	1.0000	0.4037	2.2031
	Pooled	1179	0.4011	0.3333	0.3257	0.0000	1.0000	0.3705	2.1525
PropChinese NC	2011	393	0.5494	0.6666	0.3422	0.0000	1.0000	-0.1985	1.9098
	2012	393	0.5339	0.6667	0.3367	0.0000	1.0000	-0.1545	1.9524
	2013	393	0.5516	0.6667	0.3373	0.0000	1.0000	-0.2257	1.9816
	Pooled	1179	0.5450	0.6667	0.3385	0.0000	1.0000	-0.1924	1.9459
PropIndian NC	2011	393	0.0306	0.0000	0.1098	0.0000	0.6667	3.8756	18.5303
	2012	393	0.0280	0.0000	0.1038	0.0000	0.6667	4.0020	19.7492
	2013	393	0.0302	0.0000	0.1028	0.0000	0.6667	3.6464	16.9431
	Pooled	1179	0.0296	0.0000	0.1054	0.0000	0.6667	3.8502	18.4967
ED X Malay in NC	2011	393	0.0489	0.0000	0.1071	0.0000	0.7500	3.0525	14.6281
	2012	393	0.0537	0.0000	0.1132	0.0000	0.7500	2.8663	13.0039
	2013	393	0.0497	0.0000	0.1085	0.0000	0.7500	3.1034	14.9625

Table 5.3: Summary Statistics of Ethnic Diversity (continued)

	Year	N	Mean	Median	Sd.	Min	Max	Skew	Kurtosis
	Pooled	1179	0.0508	0.0000	0.1095	0.0000	0.7500	3.0044	14.1542
ED X Chinese in NC	2011	393	0.0667	0.0000	0.1265	0.0000	1.0000	2.4612	11.9330
	2012	393	0.0660	0.0000	0.1259	0.0000	1.0000	2.5411	12.4256
	2013	393	0.0641	0.0000	0.1136	0.0000	0.6667	1.7530	5.71328
	Pooled	1179	0.0656	0.0000	0.1221	0.0000	1.0000	2.3112	10.6961
ED X Indian in NC	2011	393	0.0043	0.0000	0.0250	0.0000	0.2222	6.6164	50.5505
	2012	393	0.0037	0.0000	0.0224	0.0000	0.2222	6.8863	55.8391
	2013	393	0.0040	0.0000	0.0230	0.0000	0.2222	6.5689	50.9336
	Pooled	1179	0.0040	0.0000	0.0230	0.0000	0.2222	6.5689	50.9336
Panel 3									
ROE	2011	393	1.5989	1.7917	1.2411	0.0000	6.0661	0.1377	2.2867
	2012	393	1.6566	1.7917	1.2048	0.0000	5.0498	-0.1736	1.8446
	2013	393	1.5526	1.7917	1.2022	0.0000	5.9135	0.1473	2.5370
	Pooled	1179	1.6027	1.7917	1.2159	0.0000	6.0661	0.0398	2.2098
Firm Age	2011	393	3.2974	3.3300	0.6604	1.3900	5.2100	-0.0431	2.9446
	2012	393	3.2499	3.3000	0.6932	1.1000	5.2100	-0.1345	3.0168
	2013	393	3.3414	3.3700	0.6319	1.6100	5.2200	0.0336	2.9214
	Pooled	1179	3.2962	3.3300	0.6628	1.1000	5.2200	-0.0684	3.0010
Firm Size	2011	393	12.179	12.1100	1.8209	5.8000	17.680	0.0307	3.3818
	2012	393	12.115	12.0600	1.8425	5.0900	17.550	0.0831	3.2186
	2013	393	12.1721	12.1200	1.8565	4.5100	17.660	-0.0827	3.6848
	Pooled	1179	12.1556	12.0900	1.8387	4.5100	17.680	0.0092	3.4295

Table 5.3: Summary Statistics of Ethnic Diversity (continued)

	Year	N	Mean	Median	Sd.	Min	Max	Skew	Kurtosis
Board Size	2011	393	7.2697	7.0000	1.9334	4.0000	14.000	0.8349	3.6930
	2012	393	7.2188	7.0000	1.8892	4.0000	14.000	0.9285	4.1717
	2013	393	7.2722	7.0000	1.9416	4.0000	14.000	0.8506	3.6628
	Pooled	1179	7.2536	7.0000	1.9201	4.0000	14.000	0.8708	3.8330

Moving on from the above discussion, Table 5.4 is illustrated in order to present the bivariate correlation matrix for the dependent variables, independent variables, dependent moderating variables and control variables applied in the Ethnic diversity model. The statistics revealed that ethnic diversity has positive and negative relations with the variables.

While the ethnic diversity in the board comprises of Malay and Chinese on the NC, it also indicated a strong negative relationship at 1% significance level. Alternatively, it showed a strong positive relationship with ethnic diversity, proportion of Indian in the NC and the proportion of EDXIndian. This result thus indicates that there is a weak positive relationship between ethnic diversity, ROE, firm age, and EDXMalay on the board, at 1% significance level. Subsequently, the results showing the relationship between the board size and the ethnic diversity depicted a weak positive relationship which suggests that the result is ambiguous. In contrast, numerous studies had argued against larger boards, stressing that larger boards have a higher tendency to create communication and coordination-related problems (Wang & Hussainey, 2013) and agency problems within the organization (Zulkafli, Amran, & Abdul Samad, 2010). Thus, the effectiveness of these boards, in terms of management control, may be lower than that of smaller boards (Sánchez, Domínguez & Álvarez, 2011). In contrast, those who argued that larger boards are better maintained than boards with more members should take up more significant roles in order to resolve agency problems as this competence can be drawn from their extensive expertise and experiences (Xie, Davidson & Dalt, 2003).

Various empirical evidence (Chen & Jaggi, 2001; Giannarakis, 2014; Akhtaruddin, Hossain M.A., Hossain M., & Yao, 2009) had also suggested that the larger the board size, the better their capability in monitoring, including the extent of the disclosure. It was argued that larger boards have the collective experience and expertise, henceforth, suggesting that higher information disclosure is required and this, in turn, could reduce the possibility of information asymmetry. Even so, the proportion of EDXChinese in the table showed a negative relationship with ethnic diversity thereby, indicating that the higher the proportion of Malay and Chinese in the NC, the lower the proportion of ethnic diversity in the board. Though the enhancement of ethnic diversion allows for the creation of a positive value to the firm, it is a fact that a diversion of ethnicities allows for a variation of ideas and capabilities. The diversity of ethnicity can create a different sense of power for the deliverance of concepts, thoughts and ideas. This, in turn, would assist in promoting an improved consequence while also impacting positively on any aspects of the decision-making and policy-making process.

Table 5.4: Summary Statistics of Correlation Matrix (Ethnicity Diversity)

Correlation	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**	**11**
1 Ethnic Diversity	1	-.310**	-.352**	.257**	.092**	.106**	.207**	.105**	0.032	-.130**	.179**
2 PropChineseNC	-.310**	1	.799**	.109**	-.066*	0.023	-0.02	0.003	.156**	-0.045	0.04
3 PropmalayNC	-.352**	.799**	1	-.091**	-.097**	-0.003	-0.034	-0.023	.247**	-.084**	-.060*
4 PropIndianNC	.257**	.109**	-.091**	1	.058*	0.022	0.013	0.05	-0.016	-.063*	.600**
5 ROE	.092**	-.066*	-.097**	.058*	1	.095**	.381**	.207**	-0.054	-.098**	-0.011
6 Firm age	.106**	0.023	-0.003	0.022	.095**	1	.342**	.126**	-0.016	-.081**	-0.041
7 Firm size	.207**	-0.02	-0.034	0.013	.381**	.342**	1	.383**	0.007	-0.043	-0.023
8 Board Size	.105**	0.003	-0.023	0.05	.207**	.126**	.383**	1	0.01	-0.055	-0.01
9 ED X Malay in NC	0.032	.156**	.247**	-0.016	-0.054	-0.016	0.007	0.01	1	.082**	.118**
10 ED X Chinese in NC	-.130**	-0.045	-.084**	-.063*	-.098**	-.081**	-0.043	-0.055	.082**	1	0.02
11 ED X Indian in NC	.179**	0.04	-.060*	.600**	-0.011	-0.041	-0.023	-0.01	.118**	0.02	1

**. Correlation is significant at the 0.01 level (2-tailed).

*. Correlation is significant at the 0.05 level (2-tailed).

5.3 Summary

This chapter has elaborated on the descriptive results drawn from the 50% samples of Malaysian public listed firms between the span of 2011- 2013. The samples covered 393 non-financial firms listed in the Malaysia Stock exchange. The data provided by the descriptive statistics can be termed as beneficial in delivering the basic information which demonstrates the nature, background and characteristics of the sample data. The reliability of data extracted can also be enhanced by the use of the descriptive analysis in various ways. For example, the minimization of inaccuracies and blunders created through focusing in the extremity of the values of the variables.

Henceforth, various transformation procedures such as log or square root were adapted to mend the distribution of the variables when there is a presence of these variables being not normally distributed. This initial process has a positive impact on the consequent multivariate analysis which can impact on the final conclusion. These measurements were taken to ensure that the results extracted can be compared with different countries, for example, the declination of the ROE in the current report can be compared with other countries. Under this circumstance, the descriptive analysis is an obligatory and convenient method for analysis.

In this chapter, the summary of the statistics of Gender and Ethnic diversity was reported. The summary includes the means, median, standard deviation, minimum and maximum, skewness as well as kurtosis. These results helped in assessing the accuracy of the data. It further assisted in the comparison of the variables in terms of the three year period ranging from 2011 to 2013. Similarly, the bivariate correlation matrix covered in this chapter can assist in deriving the significant relation within the variables. The statistics had shown that there was very poor diversity on the NC in terms of gender suggesting that the male population dominated the nominating committee. Additionally, it was also shown that the Chinese and Malay ethnic groups dominated the nominating committee in terms of ethnicity whereby, Indians had a very small proportion as compared to the other two. Based on the results, it can be said that there is an urgency for the respective parties to look into the matter in terms of gender and ethnic diversity of firms as resolving this issue can enhance company management as well as provide for a fair nomination committee for sustainable corporate governance. The next chapter will focus on in-depth analysis by reporting on the multivariate analysis.

CHAPTER 6: MULTIVARIATE ANALYSIS RESULTS

6.1 Introduction

This chapter outlines the outcome of the multivariate analysis of the study. For the purpose of discussion, it is emphasized that the multiple regression, panel data and GMM estimator analysis were utilized. As was mentioned previously, the focus of this study was to examine the role of the NC in the director nomination process to see if it is significantly related to board composition outcomes (i.e. gender and ethnic diversity) in publicly listed companies in Malaysia. In this regard, this chapter will discuss the outcome of the examination by identifying whether the hypotheses formulated in the methodology chapter could be accepted or disregarded. The analysis will be discussed based on the literature reviewed within the context of Malaysia.

There is a clear significance of the hypothesis derived from the study which will be elaborated in the next sections. NC that contain Malay (Bumiputera) and Chinese directors have negative effect on the level of ethnicity diversity on the board. Furthermore, NC containing only Indian directors has positive association on the level of ethnicity board diversity. Finally, it is reported that the relationship between proportion of Malay, Chinese and Indian directors on the NC and the ethnicity diversity on board positively moderated by the proportion of ED in NC.

This chapter comprises seven sections. The first section serves as the introduction. This is followed by subsequent sections which will discuss the results extracted from the multiple regression analysis for the gender and ethnic diversity model. The other three sections will report on the regression diagnostics results, other robustness test result and the panel data analysis respectively. This chapter is then followed by a summary section which summarizes the findings and discussions accordingly.

6.2 Multiple Regression Analysis

Based on the hypotheses formulated in the methodology chapter, the multiple regression analysis was thus used to examine the hypotheses which were associated with the variables pointed out. A total of eight hypotheses were formulated – two hypotheses cover the dimension of Gender diversity, and six hypotheses cover the concept of ethnic diversity.

6.2.1 Gender Diversity Model

In contemplating the testing of the hypotheses which involve gender diversity, three models (Model 1, Model 2 and Model 3) were examined. This is presented in Table 6.1 below which comprises of Panel 1 and Panel 2.

Table 6.1: Multiple Regression Results Using Gender Diversity as Dependent Variable

Panel 1:

	Model 1			Model 2			Model 3		
	Coef	**t**	**Sig**	**Coef**	**t**	**sig**	**Coef**	**t**	**sig**
(Constant)	0.0493	1.401	0.161*	0.0279	0.954	0.340	0.0279	0.952	0.341
Board Size	0.0097	4.115	0.000***	0.0052	2.658	0.008**	0.0052	2.657	0.008**
Firm Age	-8.47E-0	-0.454	0.649	-3.86E	-0.249	0.803	-3.87E-0	-0.249	0.803
ROE	-0.0004	-3.192	0.001**	-0.0003	-2.684	0.007**	-0.0003	-2.683	0.007**
LnFirm Size	0.0003	0.130	0.896	0.0014	0.688	0.491	0.0014	0.686	0.492
Prop Female NC	-	-	-	0.6237	22.88	0.000***	0.6234	17.528	0.000***
ED X PFN	-	-	-	-	-	-	0.0017	0.011	0.991

Panel 2

	Model 1	Model 2	Model 3
R-squared	0.022	0.323	0.322
Adj. R-squared	0.018	0.321	0.320
S.E. of regression	0.153	0.127	0.127
F-statistic	6.608	112.45	93.599
Prob(F-statistic)	0.0007***	0.000***	0.000***

***significant at 1% level **significant at 5% level *significant at 10% level

The F-Ratio values conclude that the three models were significant, standing at the 1 percent (1%) level as shown in Panel 2 of Table 6.2.

Model 1 comprises of control variables that were established based on the reading of past studies. These variables include firm age, firm size, firm performance and board size. Model 1 contains results which illustrate that there is only a two percent (2%) variation in Gender diversity.

Model 2 include the proportion of females on the NC. Per the statistics shown in Model 2, it appears that the result has improved drastically to 32.3% when the independent variable was added.

Model 3 incorporates the proportion of the executive directors on the NC. Based on the statistic shown in Table 6.1, it can be seen that the adjusted R is on the elevating trend, increasing from 0.012 to 0.322. Even though, the adjusted R is significantly similar to the one seen in Model 2, it can be seen that in Model 3, the r-square has not increased due to the additional number of variables. Nonetheless, statistics indicate that the added variable had improved the variation power of the model. Since Model 3 takes into consideration all the variables of the study, the model was thus considered as the ideal model to be applied. The model will also be used for subsequent discussions noted for every variable in the consecutive sections of this chapter. For the purpose of checking the robustness of the model, the procedures used were repeated by the Panel data analysis. The outliers, normality of residuals, heteroscedasticity and multicollinearity were also taken into account. All of these will be explained in detail in the following section. The results of the Panel data are shown in Table 6.2 below.

Table 6.2: Panel Data for Gender Diversity Model

Panel 1: Gender Diversity as dependent variable

	Model 1			Model 2			Model 3		
	Coef	**t**	**Sig**	**Coef**	**t**	**sig**	**Coef**	**t**	**sig**
(Constant)	0.0534	1.505	0.132*	-0.067	-2.180	0.029**	-0.069	-2.226	0.026**
Board Size	0.0113	4.151	0.000***	0.0123	5.310	0.000***	0.0124	5.334	0.000***
Firm Age	-0.0004	-0.493	0.621	0.0018	2.209	0.027**	0.001	2.247	0.024**
ROE	3.50E-	0.614	0.539	1.91E	0.393	0.694	1.93E-	0.396	0.691
LnFirm Size	-0.0001	-0.178	0.858	0.0004	0.623	0.533	0.0004	0.621	0.534
Prop Female NC	-	-	-	0.480	17.19	0.000***	0.489	15.21	0.000***
ED X PFN	-	-	-	-	-	-	-0.073	-0.563	0.573

Panel 2

	Model 1	Model 2	Model 3
R-squared	0.936	0.953	0.953
Adj. R-squared	0.903	0.930	0.930
S.E. of regression	0.048	0.041	0.041
Sum squared residuals	1.813	1.31	1.31
Durbin Watson stat	2.18	2.32	2.33
F-statistic	28.94	40.49	40.35
Prob(F-statistic)	0.000***	0.000**	0.000***

***significant at 1% level **significant at 5% level *significant at 10% level

Table 6.3: GMM Endogeneity Test for Gender Diversity Model

Panel 1			
	Coef	**t**	**sig**
(Constant)	0.0629	0.2271	0.8203
GENDER(-1)	0.4955	16.4445	0.0000***
Board Size	0.0041	2.0205	0.0435**
Firm Age	-0.0001	-0.4759	0.6342
ROE	-0.0001	-1.9002	0.0576**
LnFirm Size	-0.00452	-0.2026	0.8394
Female NC	0.4442	10.3328	0.000***
ED X PFN	-0.1177	-0.5770	0.5640

Panel 2	**Model 3**
R-squared	0.5309
Adj. R-squared	0.5281
S.E. of regression	0.1066
Durbin Watson stat	1.6157
J-statistic	0.9121
Instrument rank	10

***significant at 1% level **significant at 5% level *significant at 10% level

Panel 1 in Table 6.2 illustrates that **Model 1** and **Model 3**, comprise of six variables. **Model 1** was observed based on four control variables. From these variables, it is noted that the variable of board size was significant, standing at the one percent (1%) level. As for **Model 2**, it had incorporated the variable of the proportion of females on the NC followed by four control variables. In the result, it is noted that the proportion of females on the NC was highly significant, standing at the one percent (1%) level. In looking at **Model 3**, it is apparent that Model 3 includes the proportion of executive directors on the NC, similar to the multiple regression analysis. However, the adjusted R-square noted for the Panel data analysis seems to have improved significantly as compared to the multiple regression analysis. Statistics show that **Model 1** has an adjusted R value of 0.936 but the score had increased to 0.953 when it is observed in Model 2 and Model 3. Statistics show that a one percent (1%) significant value was achieved by the variables of firm age, board size and proportion of females on the NC for **Model 2** and **Model 3**.

Table 6.3 (Panel 1 & 2) reports on the Generalized Method of Moments (GMM) results for Model 3. To control for potential problems of endogeneity in both the explanatory variables and the lagged dependent variable, this study employed the GMM system linear estimator. Two specific tests – Hansen J-test and Arellano Bond Test were used. The Hansen J-test was used for the over-identifying restriction. These tests recommend a comprehensive validity of the instruments used and the validity is done by testing the moment conditions in the estimation process (Kaczmarek et al., 2012). Apparently, the Hansen J statistics noted for the gender diversity model do not support the null hypothesis. This means that the instruments were related with the residuals. Subsequently, when the Arellano Bond test was used to test the hypotheses, it resulted in an idiosyncratic disturbance term which was serially correlated.

6.2.2 Ethnic Diversity Model

To test hypotheses 2a, 2b, 2c, 2d, 2e, and 2f, three models were examined. This is illustrated in Table 6.4 below which comprise of **Panel 1** and **Panel 2.**

Table 6.4 is elaborated below considering each Models separately.

.

Table 6.4: Multiple Regression Results Using Ethnicity Diversity as Dependent Variable

Panel 1

	Model 1			Model 2			Model 3		
	Coef	**t**	**Sig**	**Coef**	**t**	**sig**	**Coef**	**t**	**sig**
(Constant)	0.3230	11.019	0.000***	0.5582	12.547	0.000***	0.5497	12.470	0.000***
Board Size	0.0001	0.0855	0.931	-0.0040	-2.3127	0.020**	-0.0037	-2.201	0.027**
LnFirmSize	0.0023	1.1339	0.257*	0.0032	1.8130	0.070**	0.0032	1.830	0.0674*
Firm Age	0.0007	5.0286	0.000***	0.0003	2.6793	0.0075**	0.0003	2.431	0.0152**
ROE	7.62E	0.6178	0.536	8.35E	0.7745	0.4388	0.0001	1.098	0.2723
Prop Malay NC	-	-	-	-0.1581	-4.3453	0.000***	-0.1489	-4.121	0.000***
Prop Chinese NC	-	-	-	-0.2677	-7.3729	0.000***	-0.2604	-7.225	0.000***
Prop Indian NC	-	-	-	0.2054	4.4665	0.000***	0.2055	4.483	0.000***
ED X PMN	-	-	-	-	-	-	0.0360	2.789	0.005**
ED X PCN	-	-	-	-	-	-	0.0501	3.739	0.0002**
ED X PIN	-	-	-	-	-	-	0.0163	3.008	0.002**

Panel 2

	Model 1	Model 2	Model 3
R-squared	0.022	0.255	0.273
Adj R-squared	0.018	0.251	0.267
S.E. of regression	0.128	0.111	0.110
F-statistic	6.63	57.52	44.05
Prob(F-statistic)	0.000**	0.000**	0.000**

***significant at 1% level **significant at 5% level *significant at 10% level

As Table 6.4 demonstrates**, Model 1** consists of the variables of firm age, firm size, firm performance (ROE) and Board size. This model, however, displays a two percent (2%) variation in Ethnic diversity in Malaysian firms. As is seen in the table, only the variable of Firm age was seen to be significant, standing at the one percent (1%) level. **Model 2** includes the proportion of Malay, Chinese and Indian directors on the NC followed by four control variables: the proportion of Malay (H-2a), the proportion of Chinese (H-2b), and the proportion of Indian (H-2c) directors on the NC. Based on the result, it appears that all the hypotheses were statistically significant at the one percent (1%) level. The interpretive result of Model 2 indicates that it has improved the R square to 25.5%. **Model 3** incorporates the moderating variable of the proportion of Executive directors on the NC, a variable which could influence the nomination process of Malay, Chinese and Indian directors. In this regard, the adjusted R square had improved from 0.0255 to 0.273 for Model 3. Moreover, all the variables were significant at the one percent (1 %), five percent (5%) and 10 % levels respectively, except for ROE. Based on this outcome, it is thus deduced that Model 3 is the best model to be used for the purpose of elaborating on the variables in the consecutive sections.

Table 6.5: Panel Data for Ethnic Diversity Model

Panel 1									
	Model 1			Model 2			Model 3		
	Coef	t	Sig	Coef	t	sig	Coef	t	sig
(Constant)	0.391	10.33	0.000***	0.414	8.366	0.000***	0.429	8.598	0.000***
LnROE	-0.001	-1.239	0.215*	-0.001	-0.967	0.333	-0.001	-0.889	0.374
LnFirmSize	-0.0009	-0.988	0.3230	-0.001	-1.725	0.084*	-0.002	-2.113	0.034**
LnFirmAge	0.0016	1.526	0.127*	0.001	1.173	0.240*	0.001	1.331	0.183
Board size	0.0006	0.238	0.811	-0.001	-0.064	0.948	0.0003	0.119	0.905
Prop Malay NC	-	-	-	0.071	2.039	0.041**	0.068	1.869	0.062*
Prop Chinese NC	-	-	-	-0.035	-0.968	0.333	-0.064	-1.705	0.088*
Prop Indian NC	-	-	-	0.065	1.503	0.133*	0.062	1.171	0.2419
ED X PMN	-	-	-	-	-	-	0.016	0.273	0.784
ED X PCN	-	-	-	-	-	-	0.132	3.256	0.001***
ED X PIN	-	-	-	-	-	-	-0.026	-0.137	0.890

Table 6.5: Panel Data for Ethnic Diversity Model (continued)

Panel 2			
	Model 1	**Model 2**	**Model 3**
R-squared	0.89	0.90	0.91
Adj. R-squared	0.843	0.84	0.850
S.E. of regression	0.051	0.050	0.049
Sum squared residuals	2.044	1.96	1.93
Durbin Watson statistics	2.47	2.52	2.52
F-statistic	17.05	17.60	17.69
Prob(F-statistic)	0.000**	0.000**	0.000**

***significant at 1% level **significant at 5% level *significant at 10% level

Table 6.6: GMM for Endogeneity Test of Ethnic Diversity Model

Panel 1			
	Coef	**t**	**sig**
(Constant)	0.4210	5.477	0.000***
Ethnicity(-1)	0.4625	15.00	0.000***
Board Size	-0.0045	-2.152	0.031**
Firm Size	1.78E-	0.192	0.847
Firm Age	0.0001	0.755	0.450
LnROE	-0.0393	-1.118	0.263
Prop Malay NC	-0.0944	-2.313	0.020**
Prop Chinese NC	-0.1735	-4.369	0.000***
Prop Indian NC	0.1511	2.991	0.002***
ED X PMN	0.0238	1.792	0.073**
ED X PCN	0.0316	2.353	0.018**
ED X PIN	0.0104	1.960	0.050**

Panel 2	Model 3
R-squared	0.310
Adj. R-squared	0.303
S.E. of regression	0.107
Durbin Watson stat	1.801
J-statistic	2.87
Instrument rank	16

***significant at 1% level **significant at 5% level *significant at 10% level

As mentioned earlier, panel data analysis was used to examine the robustness of the Ethnic diversity model. Table 6.5 displays the panel results derived from the tests conducted to verify the hypotheses: 2a, 2b, 2c, 2d, 2e and 2f.

Similar to the multiple regression results derived from the ethnic diversity model, **Model 2** incorporates the Proportion of Malay, Chinese and Indian on the NC followed by four control variables. **Model 3** includes all the variables including moderating the proportion of executive directors on the NC with the interaction of Malay, Chinese and Indian directors. To elaborate further, **Model 1** has an adjusted R square value of 0.89 but the result went up to 0.91 when observed in Models 2 and 3. This increasing trend demonstrates that in the variables of firm size, firm age, and the proportion of Malay, Chinese and Indian on the NC, values are statistically significant, standing at five percent (5%) and 10% respectively. As has been noted, the proportion of executive director's interaction with Malay, Chinese and Indian directors on the NC was incorporated into **Model 3**. The results thus indicate that the proportion of executive directors with Chinese is only significant at the one percent (1%) level. This is further evaluated by the GMM estimator, as illustrated in Table 6-6. Here, the Hansen J statistics for the Ethnic diversity model rejects the null hypothesis thereby, leading the instruments to be related with residuals. Subsequently, the Arellano Bond tests was used to further test the hypotheses and this resulted in an idiosyncratic disturbance term which was serially correlated.

Table 6.7: Summary of Results of Total Gender and Ethnic Diversity Model

Gender Diversity Model						
No	**Variable**	**Hypothesis**	**Result**	**Predict sign**	**Actual sign**	**Decision**
1	Females on NC	1a	1% significance	+	+	Support
2	ED X PFN	1b	Not Significant	?	+	Not support
Ethnicity Diversity Model						
3	Malay on NC	2a	1% significance	-	-	Support
4	Chinese on NC	2b	1% significance	+	-	Not support
5	Indian on NC	2c	1% significance	+	+	Support
6	ED X PMN	2d	1% significance	+	+	Support
7	ED X PCN	2e	1% significance	+	+	Support
8	ED X PIN	2f	1% significance	+	+	Support
9	ROE	N/A	Significant	N/A	N/A	N/A
10	Firm Age	N/A	Significant	N/A	N/A	N/A
11	Firm Size	N/A	Significant	N/A	N/A	N/A
12	Board Size	N/A	Significant	N/A	N/A	N/A

Table 6.7 reports on the summary result of the gender and ethnic diversity models. The gender diversity results were based on two hypotheses (H1a & H1b). Hypothesis 1a could be accepted as it was at the one percent (1%) significance level. This means that there is

a higher proportion of female directors in the NC which will consecutively, lead to a higher level of gender diversity in the board. This can make the board more balanced for the purpose of making strategic decision making and consistent firm performances. Hypothesis 1b was noted to be statistically insignificant. This study did not find any evidence of the influence of the executive directors on the nomination process for female directors.

The ethnic diversity results were derived based on six hypotheses (2a, 2b, 2c, 2d, 2e & 2f). All these hypotheses were found to be statistically significant at the one percent (1%) level, except hypothesis 2b. The following section elaborates on the variables in detail.

6.2.3 Variables

This study focuses on two main dependent variables – gender diversity and ethnic diversity. It is then followed by four independent variables - the proportion of females on the NC, the proportion of Malay on the NC, the proportion of Chinese on the NC and the proportion of Indian directors on the NC with one moderating variable. This moderating variable was further distributed into four interaction variables - the proportion of executive directors with female directors, the proportion of Executive directors with Malay directors, the proportion of executive directors with Chinese directors and the proportion of executive directors with Indian directors on the NC.

In addition to the above key variables, firm performance, firm age, firm size and board size served as the control variables in this study. All variables are discussed below.

(a) Females on the NC

Table 6.1 of the multiple regression result had indicated that there was a positive significance of the proportion of females on the NC, based on the coefficient and the statistics observed in Model 2 and Model 3. This has been verified by previous studies which also agrees on the positive impact of the proportion of females on the NC. Results from the current study suggest that there is a strong relationship between the Proportion of females on the NC and the degree of gender diversity in the board level (Adams & Ferreira, 2009; Hafsi & Turgut, 2013). Further, the regression test results noted from the current study were also consistent with the results derived from the Panel data analysis and the GMM estimator (refer to Tables 6.2 & 6.3, Panel 1). Respectively, the validity for this Gender Diversity Model as applied in the multiple regression analysis is confirmed by this estimator. Therefore, hypothesis 1a is supported.

The research finding derived from this study is also consistent with the claims noted by the Social identity theory as well as previous studies (see Kaczmarek et al., 2012). The results suggest that the proportion of females on the NC of the selected firms is crucial for supervising the level of gender diversity in corporate boards as this can lead to an increase in firm performance. The selected Malaysian companies had consisted of 2 female board members on average (Chapter 5, Table 5.1) and the MCCG had also emphasized the need to have gender diversity on boards whilst companies have also been directed to explicitly disclose their gender diversity policy. These codes offered by the MCCG enable companies to determine the appropriate number of female board members and the suitable percentage that could amount to a balanced board mix.

(b) Executive Director Interaction with Females directors

Looking at the results derived from the multiple regression, panel data analysis and the GMM estimator tests, it appears that the results do not support the relationship between the proportion of executive directors and the proportion of females on the NC. The interaction variable between the EDs on the NC and females on the NC is, however, statistically insignificant with positive signs (Refer to Table 6.1). In this regard, Hypothesis 1b is not supported as per the prediction. It is suggested that there is no significant effect of the executive directors in the nomination process of female directors. Likewise, Hypothesis 1b is also rejected. The related findings indicated in the study of Kaczmarek et al. (2012) mentioned that boards are consistently not (gender) diverse and are mostly male dominated. The results of this study thus also indicate that executive directors of Malaysian firms are more biased towards male director appointments, an occurrence which could be a possible reason causing the low representation of female directors in the NC and the board.

(c) Proportion of Malay in NC

The results of the multiple regression analysis indicate a negative sign, with one percent (1%) significance level for the proportion of Malay directors on the NC and the degree of ethnic diversity in the board (Refer to Table 6.4). This result thus implies that there is an inverse relationship of Malaysian directors on the NC and the board. This result is consistent when the Ethnic diversity model is predicted via a two-step system of using the GMM estimator (Refer to Table 6.6, Panel 1) which depicts that the consistency of this estimator is dependent on the validity of the instruments used in the regression analysis. Therefore, Hypothesis 2a of this study is supported (Table 6.6). Based on this, it can be further inferred that the proportion of Malay on the NC in the selected firms is crucial for the purpose of examining the level of ethnic diversity in corporate boards. A balanced ethnic mix can create a positive value for the firms involved as it welcomes a variation of ideas and capabilities as well as a different sense of power for delivering concepts, thoughts and ideas. Consequently, it can be said that the results further enhanced the process of decision making and policy making among companies. Nonetheless, the cultural values derived from each ethnic group could vary from one to the other. It appears that a high level of ethnic Malays on company boards can deter uncertainty because Malays are generally, uncomfortable with things that they do not know and they also avoid ambiguity (Abdullah, 1992). In this regard, Malay directors are likely to be negatively associated with Ethnic diversity on the board, in contrast to Indian directors. Nevertheless, the model supports the arguments that the nomination process of candidate directors cannot be cultural free.

(d) Proportion of Chinese in NC

Table 6.4 of the multiple regression report states that the proportion of Chinese directors on the NC is statistically significant as is shown by the negative one percent (1%) level. The results indicate that a less proportion of Chinese directors on the NC will lead to a higher proportion on boards. Hence, Hypothesis 2b is not supported. The Chinese ethnic group follow the individualism, which states that each individual is acting on his or her own, making their own choices, based on the expected benefits among the ethnic groups (Tan, 1984). An alternative interpretation is that the firms dominated by Malay directors reflects a response to 'traditional hostility towards the Chinese who, with their entrepreneurial skills, have tended to exert economic influence out of proportion to their numbers' (Mackerras, Maidment, & Schak, 1998, p. 6). Therefore, the presence of Chinese directors on the NC is likely to be a negatively associated with Ethnic diversity on the board, which is inconsistent to Malay results.

(e) Proportion of Indian in NC

Table 6.4 of the multiple regression analysis shows that the coefficient and t statistics of the square root of the proportion of Indian directors on the NC is statistically significant with a positive sign of one percent (1%) level. This result hence, implies that a higher proportion of Indian directors on the NC can lead to a higher proportion of Indian directors at the board level.

In this regard, Hypothesis 2c is supported (Refer to Table 6.7). Gray (1988) noted that the Indian ethnic group was categorized as being less professional in the accounting field. They tend to have a more uniform, high conservative and high secrecy value. It was noted that the Indian ethnic group was high in uncertainty avoidance (Abdullah 1992). Therefore, Indian directors are likely to have a positively associated relation on the level of Ethnic diversity on the boards, in contrast to Malay.

(f) Executive Director Interaction with Malay directors

The results of the multiple regression analysis prove that there is a positive influence of Executive directors on the nomination process of Malay directors. Similarly, the GMM test also supports the result of the regression. In the result, the interaction variable noted between the ED with Malay on NC is, however, statistically significant at the one percent (1%) level (Refer to Table 6.4 & Table 6.6). Therefore, Hypothesis 2d is supported (Refer to Table 6.7). The result of the multiple regression analysis shows that there is a positive influence of the Executive directors on the nomination process of Malay directors. Likewise, the GMM estimator test also supports the results derived from the regression. It appears that the interaction variable between the ED with Malays on the NC is, however, statistically significant at the one percent (1%) level (Refer to Table 6.4 & Table 6.6). Therefore, Hypothesis 2d is supported (Refer to Table 6.7). According to the findings of Shivdasani and Yermack, (1999), a NC that is dominated by the Executive directors, which may also include the CEO, tends to influence the director nomination process where the selection of their preferred Malay group is made for their own benefit. Indeed, the MCCG 2012 recommends the formation of NC's which can exclude the Executive directors and the CEO's. Empirical results drawn from this study confirm the influence of the Executive directors during the selection process of Malay directors.

(g) Executive Director Interaction with Chinese ED directors

The results of the multiple regression analysis also indicate that there is evidence of positive influence of Executive directors in the nomination process of Chinese directors in Malaysian firms. Here, the GMM estimator test was also used to validate the regression results. The interaction variable between the EDs on the NC with the Chinese on the NC is, however, statistically significant, with positive signs of one percent (1%) level (Tables 6.4 & 6.6). Therefore, Hypothesis 2e is supported in our prediction. The results suggest that the Proportion of Executive directors on the NC was found to have a significant effect on Chinese directors' nomination. Hence, Hypothesis 2e is supported (Refer to Table 6.7). Consistent to the above findings, Shivdasani and Yermack (1999) study also indicated that the NCs dominated by Executive directors or by members which include the CEO, can influence the director nomination process in selecting their preferred candidate among the Chinese group which also meets their own benefits. Indeed, the MCCG 2012 had recommended the formation of a NC which excludes the executive directors and the CEO. The empirical results of this study thus confirms the influence of the Executive directors during the selection process of Chinese directors.

(h) Executive Director Interaction with Indian Directors

Results of the multiple regression and GMM tests confirm the positive influence of the Executive directors in the nomination process of Indian directors. This result suggests that higher proportion of executive directors on the NC can affect the Indian director's nomination. The interaction variable between the ED on the NC and Indian director on the NC is statistically significant at the one percent (1%) level, with positive signs (see Tables 6.4 & 6.6). In this regard, Hypothesis 2f is supported (Refer to Table 6.7). This finding is consistent with the findings of Shivdasani and Yermack (1999) hence, it is clear that a NC that is dominated by the executive directors or which include the CEO as a member, tends to have an influence in the director nomination process when selecting a preferred Indian director. This study thus confirms the influence of the executive directors during the selection process of Indian directors.

(i) Firm Size

The result of the multiple regression also shows that the relationship between firm size and the gender diversity model is not significant (Refer to Table 6.1, 6). The result of the panel data analysis and the GMM estimator, nonetheless, displayed a positive insignificant relationship between firm size and gender diversity (Table 6.2 & 6.3).

Likewise, the multiple regression result of the ethnic diversity model also depicts a positive relationship between firm size and ethnic diversity at the five percent (5%) level (Table 6.4). Moreover, the results of the GMM estimator also indicate that it is not significant (Refer to Table 6.6). This inconsistency of ethnic diversity relationship with Firm size was also noted in previous studies (Ismail et al., 2013). Based on the above, it can be said that the empirical results of this study confirm the insignificant relationship between firm size and the gender diversity model.

(j) Firm Performance

In the gender diversity Model 3, the result of the multiple regression shows a significant relationship of firm performance and gender diversity at the one percent (1%) level with negative signs (Refer to Table 6.1). This result is consistent with the result seen in the GMM estimator at five percent (5%) significance level with negative signs (Refer to Table 6.3). This result suggests that firm performance has a significant effect on the level of gender diversity. In the ethnic diversity model, the multiple regression, the GMM and the panel data results show an insignificant relationship of firm performance and Ethnic diversity on the board. This inconsistency in the results was also noted in previous studies (Tosi, Werner, Katz, & Gomez-Mejia, 2000). Based on the above, it is thus deduced that the empirical results of this study confirm the significant relationship between firm performance and the gender diversity model.

(k) Firm Age

In the gender diversity model, the result of the multiple regression and the GMM estimator shows no significant relationship (Refer to Table 6.1 & 6.3). However, the panel data result shows a significance over gender diversity at the five percent (5%) level. Based on this, it can be predicted that firm age is not significant. In the ethnic diversity model, the multiple regression and the panel data results indicate a statistically significant relationship of firm age with ethnic diversity (Refer to Table 6.4 & 6.5). However, the GMM results do not support the relationship (Refer to Table 6.6). This means that firms with longer time are rationalized towards restrictions and intense processes which are depressing to appointments from diverse backgrounds. Likewise, some older firms may have a track record of the past NC and board proceedings.

(l) Board Size

The results of the multiple regression and the GMM estimator as indicated in Panel 1 of Tables 6.1, 6.2, and 6.3, show that board size is positively related with gender and ethnic diversity. All the test results are statistically significant at the one percent (1%) level in the gender and ethnic diversity models. The current board size in the selected firms of Malaysia is capable enough to support board decisions on gender and ethnic diversity. The selected firms consist of an average of seven board members (Refer to Table 5.1). Previous studies have not mentioned the specific number of board members to be on the NC. Nonetheless, some studies have indicated that smaller boards are better as they can deliver quick and effective decisions (Dalton et al., 1998). It appears that this may be up to the respective companies to elect the right number of board members onto its NC in order that the boards can function effectively.

6.2.4 Interaction Terms

The Interaction terms included in Model 3 of gender diversity and ethnic diversity model, take into account that some variables can raise the responsiveness of members in the process of deciding for a sustainable NC. The results of this study are related to Hypotheses 1b, 2d, 2e and 2f. These hypotheses include the interaction of executive directors with females, Malay, Chinese and Indian directors on the NC. In the gender diversity model, adding up the interaction variables increases the adjusted r squared from Model 1 (0.022) to Model 3 (0.323). This is followed by the ethnic diversity model where the adjusted r squared increased from 0.022 to 0.273.

(a) Proportion of Female on NC

The interaction term for gender diversity – the proportion of females on the NC is seen to be positively insignificant. The result of the multiple regression and the GMM test do not support the relationship between the proportion of females on the NC and the proportion of executive directors on the NC. The interaction variable between the ED on the NC and females on the NC is, however, statistically insignificant with positive signs (Refer to Table 6.1 & 6.2). Based on this, it is suggested that the proportion of executive directors on the NC has no significant impact on female nomination. Hence, Hypothesis 1b is not supported.

(b) Proportion of Malay on NC

The proportion of Malay on the NC is one of the interaction terms for Ethnic diversity. The GMM test supports the connection between the proportion of Malay on the NC and the proportion of executive directors on the NC. According to the results obtained, Hypothesis 2d is supported (Refer to Table 6.7). From the findings reported by Shivdasani & Yermack, (1999), it was noted that when the NC is dominated by executive directors which include the CEO as a member, their presence can cast an influence on the director nomination process where they select their preferred Malay group for their own benefit.

(c) Proportion of Chinese on NC

The result of the multiple regression test supports the relationship between the proportion of Chinese on the NC and the proportion of executive directors on the NC while results from the GMM estimator also support the relationship between the proportion of Chinese on the NC and the proportion of executive directors on the NC. The interaction variable between the ED on the NC and Chinese on the NC is, however, statistically significant, with positive signs at the one percent (1%) level (Tables 6.4 & 6.6). This outcome suggests that the proportion of executive directors on the NC is found to have significant impact on Chinese directors' nomination. Therefore, Hypothesis 2e is supported (Refer to Table 6.7).

(d) Proportion of Indian on NC

Both the results of the multiple regression test and the GMM estimator test support the relationship between the proportion of Indian on the NC and the proportion of executive directors on the NC. The interaction variable between the ED on the NC and Indian on the NC is positively insignificant (Tables 6.4 & 6.6). As a result, Hypothesis 2f is supported (Refer to table 6.7).

The above sections have discussed the outcome of the results and tests shown by the multiple regression test and the GMM estimator test. To summarize, firstly the results show that an increased number of females on the NC would positively lead to a better nominating committee. The MCCG 2012 had specifically mentioned increasing the diversification of boards in terms of gender in Principle 2: Strengthen composition *'The board should establish a policy formalizing its approach to boardroom diversity and explicitly disclose in the annual report its gender diversity policies and targets and the measures taken to meet those targets'*. Previous studies have also highlighted the importance of increasing the proportion of females on director boards (Peterson & Philpot, 2007; Terjesen et al., 2009). However, no study has covered the importance of female diversification based specifically on the nominating committee. This study has considered the need for diversification on the NC for the purpose of achieving positive results for balance board mix.

Secondly, a correct number of Malay, Chinese and Indian directors on the board can also lead to an enhanced nominating committee. Likewise, this study has provided statistics which show a positive result, thereby supporting the statement. Previous studies have also mentioned the need for Ethnic diversity on boards (Cox & Blake, 1991; McLeod Lobel, & Cox, 1996; Richard, 2000). Specifically, no study has disclosed the implication of Ethnic diversity on the nominating committee. The result of this study thus, suggests that the inclusion of diversity in terms of ethnicity on to the NC will enhance and assist in the derivation of a diversified nominating committee that consists of an unbiased development of corporate governance. Since, different races have different ideas and creativity, this variation will help in excavating the performance of the firm as discussed earlier in Chapter 2. However, according to the outcome of this study, the proportion of executive directors on the NC seems to have a significant impact on the nomination process within the firm. Finally, this study found that the inclusion of board size leads to a better scope of distributing the gender and ethnicity equally and fairly. For board size, earlier studies (Chen, 2006) had observed board size to be positively influenced up to a certain point.

6.3 Regression Diagnostic

This section illustrates the result of the study that were derived from Model 3. Study diagnostics were conducted in order to confirm that the Models used are robust and free from all regression-related issues such as non-linearity, normality, heteroscedasticity, dependence of errors in variables collinearity and endogeneity. In brief, the regression diagnostic results extracted, support the soundness of the results presented earlier.

First, the endogeneity problems include both the descriptive variables and the lagged dependent variables. This study applied the system linear GMM estimation, thus, it should be sufficient and adjustable enough for the purpose of dominating both unobserved heterogeneity. In the gender diversity model, the Hansen J-statistic is 0.91 while in the Ethnic diversity model, the Hansen J-statistic is 2.87. Both these outcomes suggest that both models, as instruments, are valid for analyzing the moment conditions in the estimation process. As reported, the J-statistic for both models confirms that the instruments are not correlated with residuals.

Second, the Jarque-Bera test was run to check the normality of the residuals of the final outcome (Model 3) for both the gender diversity model and the ethnic diversity model. The results for the gender diversity model (JB= 245.08, p = 0.0000) indicate that the residuals of the final model are not normally distributed. Likewise, the results for the Ethnic diversity model (JB= 11.95, p = 0.0025) also suggest the issue of normality. However, in practical terms, it is acceptable to have non-normal residuals in the case of large N (Chen, 2006)

Third, the Breusch-Pagan Godfrey test was performed so as to check the heteroscedasticity issue in the models. Results indicate that there is no issue of heteroscedasticity in both the gender diversity model and the ethnic diversity model. The results for both models are (χ (1) = 61.54, p = 0.000) and (χ (1) = 47.52, p = 0.000) respectively.

Next, the issue of multicollinearity was also addressed. Multicollinearity is a common problem in multiple regression. Initial multicollinearity test suggests the existence of multicollinearity problem among a few of variables, in particular between the interactions terms. However, this problem was dealt with by using the mean-centered each variable used for the purpose of calculating the interaction variable (refer to Table 4.3: Transformation of variables). Tables 6.8 and 6.9 show the variation inflation factor (VIF) for all variables used in the final model. It was found that all of the VIF do not exceed five. Mason and Pereault (1991) have suggested that if the VIF is more than 10, it signals multicollinearity problem in the model tested. From the tests run the results presented, there is no evidence to indicate multicollinearity problem in the final model.

Table 6.8: Multicollinearity among Independent Variables for Gender Diversity Model

	Gender Diversity Model	
Variable	**VIF**	**1/VIF**
LnROE	1.178	0.8488
LnFirmAge	1.138	0.8787
Ln FirmSize	1.47	0.6802
Board Size	1.183	0.8453
Pro Female NC	1.734	0.5767
EDXPFN	1.731	0.5777
Mean VIF	**1.405**	

Table 6.9: Multicollinearity among Independent Variables for Ethnic Diversity Model

	Ethnicity Diversity Model	
Variable	**VIF**	**1/VIF**
LnROE	1.204	0.8305
LnFirmAge	1.146	0.8726
LnFirm Size	1.468	0.6811
Board Size	1.184	0.8445
Pro Malay NC	3.232	0.3094
Pro Chinese NC	3.087	0.3239
Pro Indian NC	1.737	0.5757
EDXPMN	1.114	0.8976
EDXPCN	1.049	0.9532
EDXPIN	1.626	0.6150
Mean VIF	**1.68**	

Finally, the Cusum test was conducted in order to check the stability of the coefficients of the linear in the regression model, over time. The Cusum test's graphical presentation confirms that the gender and ethnic diversity (model 3) are stable. Figures 6.1 and 6.2 show that the blue lines are located within the red line. This means that the models are stable. Thus, it can be said the dependent variables of gender and ethnic diversity are stable at the five percent (5%) significance level.

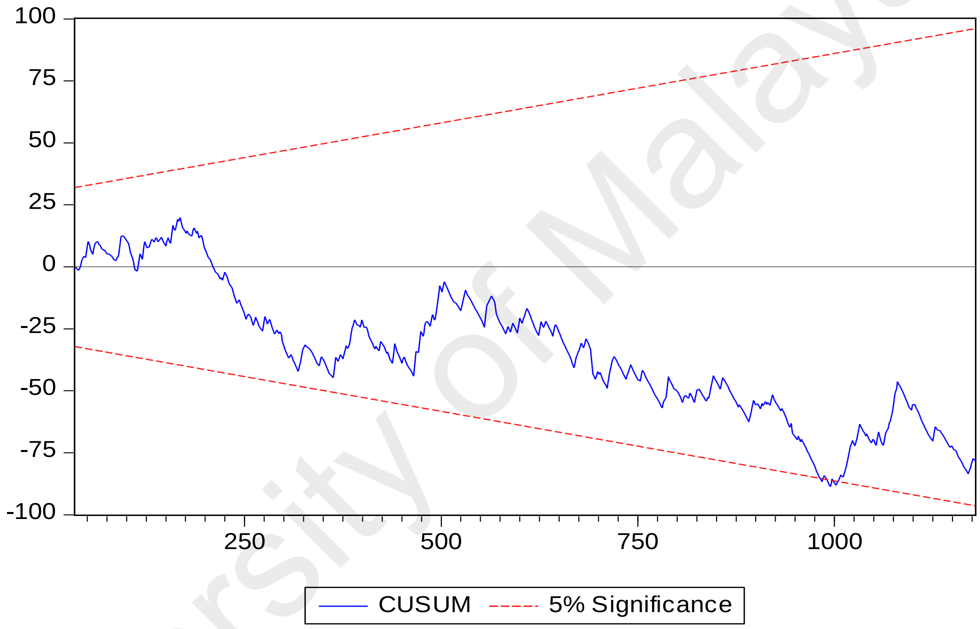


Figure 6.1: Cusum Stability Test for Gender Diversity Model

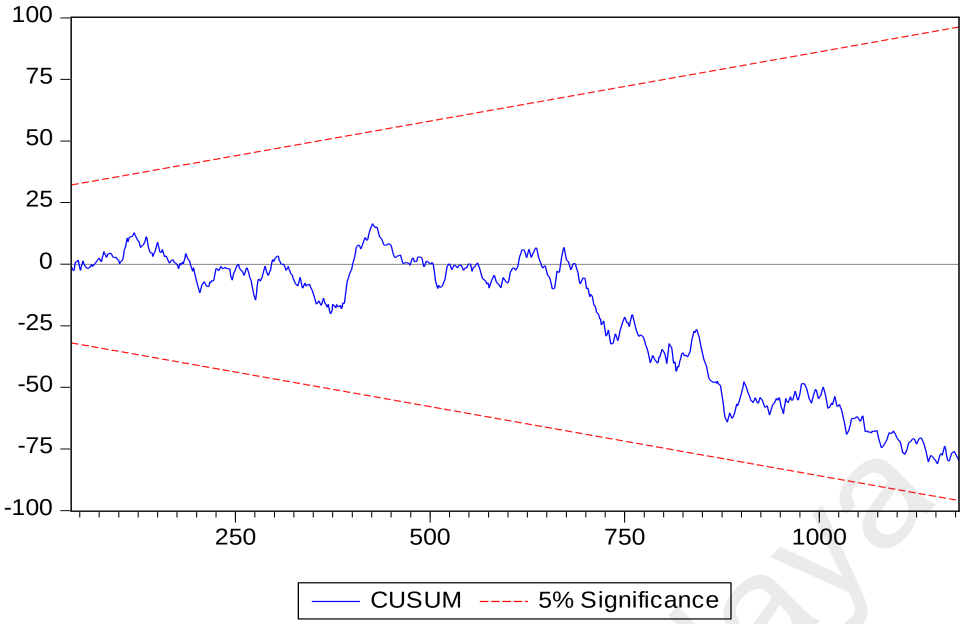


Figure 6.2: Cusum Stability Test for Ethnicity Diversity Model

6.4 Panel Data Analysis – Fixed Effects Models

Ordinary Least Square (OLS) test is not able to control the unobserved and time-constant firm effect. Therefore, this study used the panel data analysis – fixed effect and random effect model, to address these issues. The Hausman test was conducted in order to determine which of the two between fixed effect and random effect model, is more appropriate in treating the error structure (Hahn & Hausman, 2003). This is interpreted to mean that a rejection of the null hypothesis would be seen as indicating that fixed effects estimates are more consistent and therefore, it should be used.

Results of the Hausman test conducted on both the gender and ethnic diversity models are presented in Table 6.10. In both cases, the null hypothesis of the Hausman test was rejected. This indicates that fixed effects models are more efficient than OLS models, when dealing with pooled data. The result of the fixed effect model shows that firms effects are significant (F (40.35) = 27.68, p < 0.0001) and (F(17.67) = 62.40, p<0.0000).

This indicates that fixed effects models are more efficient than OLS models with pooled data. In the gender diversity model, the performance coefficient remains significant and positive at the five percent (5%) level while ethnic diversity became significant at the one percent (1%) level.

Table 6.10: Hausman Test Results

Haussmann Test Results for the Gender Diversity Model

	Total Gender Diversity Model
Chi-Sq Statistics	27.68
Chi-Squ. Df	6
P-Value	0.0001**

Haussmann Test Results for Ethnic Diversity Model

	Total Ethnic Diversity Model
Chi-Sq Statistics	62.40
Chi-Squ. Df	10
P-Value	0.0000***

Other researchers (Kaczmarek et al., 2012; Chen, 2006) also found similar results when comparing between fixed effects model and the cross sectional OLS model. Kaczmarek et al. (2012), for example, found that board composition, nationality diversity, NC independence, ownership concentration is no longer significant under the fixed effects model.

Likewise, Chen (2006) also found that board structure, supervisory board size, duality dummies, and ownership concentration is no longer significant under the fixed effects model. One reason for such discrepancies is that there was very little variation among the diversity variables over time. Stock and Watson (2003) had pointed out that insufficient variation in a variable can adversely affect statistical power, resulting in Type II errors (failing to reject a null hypothesis when the null hypothesis is false). However, since this study aims to identify the individual effect of these diversity variables, the GMM model was used as the main model although firm specific effects was also be borne in mind.

6.5 Discussions and Conclusions

This chapter has covered and discussed the important empirical findings extracted from this study which comprise 393 samples which made up ten non-financial firms that were listed on the *Bursa Malaysia Berhad* (BMB) between 2011 to 2013. The main aim of this study was to investigate the role of the nomination committee in forming a diversified board in the Malaysian context. Two important dimensions examined in this study are gender and ethnic diversity. The multivariate analysis consisting of three steps was applied to test the hypotheses presented in the Methodology chapter. the gender diversity model and the ethnic diversity model were both considered as the two main models.

Results show that the proportion of female directors and the proportion of Malay, Chinese and Indian directors on the NC have a positive impact on the NC and the level of board composition diversity. This implies that a proper proportion of female, Malay, Chinese and Indian director on the NC will encourage firms to develop a better and more efficient board which are diverse in composition, which, consequently, can enhance the process of strategic decision making. The findings of this study are compatible with the social identity theory. It is also coherent with literature such as is noted by Tajfel (2010), Singh and Vinnicombe (2004), and Westphal and Zajac (1995). The code of governance

(MCCG 2012, Page 13) for a diversified board was reiterated by the MCCG 2012 which says that:

> 'The NC has a challenging task indeed. Not only is it responsible for selecting the right directors with high standards of professionalism, integrity, expertise and experience, but also those who can add value to the board as a whole. For this NC has to ensure diversity from the industry, technical, business and gender aspects. This helps to provide for robust discussions, varied point of views and avoiding the groupthink syndrome. In addition, the NC needs to help the board select independent directors.'

In line with the discussion of the MCCG 2012, this study provides empirical results which support the findings that a higher level of gender and ethnic groups on the NC leads to a diverse board mix. This study also validates that the NC is the principle committee in the nomination of right directors for the board without the influence of management and CEO.

This study also found that the increase of female directors and the right distribution of Malay, China and Indian directors on the NC can lead to a positive impact for firm performance. However, it was also found that the proportion of executive directors in the NC has a significant impact on the nomination process of Malay, Chinese and Indian directors while no such evidence was found in the case of female directors' nomination.

The models used for the above discussions were subjected to vigorous statistical tests. The results of the multiple regression diagnostics show that the associated problems with

OLS regressions model have been taken care of. It was also noted that the models presented were free from problems that were associated with non-normality, heteroscedasticity, endogeneity, multicollinearity, and measurement and specification errors. This study further extends the OLS results to fixed effects and panel data analysis in order to control for unobserved and time-constant firm effects. It was found that fixed effects models are more efficient than the OLS models with pooled data. Both models reported significant and positive coefficient for performance but not on all other control variables including those significant variables such as proportion of executive directors with Malay, Chinese and Indian directors. Finally, the study extends the OLS results derived from the GMM estimator in order to control possible endogeneity issues in the models. Consistent to the OLS results, both models reported some significant results.

CHAPTER 7: SUMMARY AND CONCLUSION

7.1 Introduction

This chapter covers the summary of the entire thesis. Major aspects of the study have been discussed in the previous chapters. In Chapter 1 (Introduction), the thesis presented the objectives and motivations developed to convince the reader of the importance of the study. The subsequent chapters covered the literature of previous studies and the background related to the governance topic located within the Malaysian context. Chapter 2 focused on the review of literature and previous studies covering those from developed and developing countries as well as the relevant theories. Based on the discussion of the literature and theories, the research gaps were highlighted. In addition, Chapter 2 also discussed the theoretical perspectives adopted for this study. Keeping the theme of the thesis in view, Chapter 3 discussed the governance and the nomination committee (NC) located in the Malaysian context followed by a discussion of the MCCG. Chapter 4 presented the theoretical framework and hypotheses based on the discussions of previous studies, most of which were related to the corporate governance aspects as well as the theoretical arguments. In addition, Chapter 4 also discussed the various methods used by the study to ensure validity of the variables and results including the determination of samples used and the justification that followed. In reporting the results in Chapter 5, the first part of the analysis focused on the descriptive results which were based on 50% of the nonfinancial companies. The findings extracted from the gender diversity model showed a low average of female directors in the NC and the board. The findings extracted from the ethnic diversity model showed that the highest number of directors in the NC were Chinese directors as compared to Malay and Indian directors, respectively. The second part of the analysis was discussed in Chapter 6 which focused on the multivariate results derived from the gender and ethnic diversity models. The findings presented and discussed in Chapter 6 showed that the presence of female directors and a diverse ethnic composition in the NC has a significant impact on the level of board diversity. In other words, the study found a positive association between female directors in the NC and the level of gender diversity on the board (H1a is supported). The study also found that the NC comprising Malay (Bumiputera) directors was negatively associated with the level of board ethnic diversity (H2a is supported). However, contrary to the hypothesis, the study found no evidence to support that the presence of Chinese directors in the NC has a positive impact on board ethnic diversity. Instead, the study found a significant negative effect from the presence of Chinese directors in the NC on the level of board ethnic diversity, (H2b is not supported). The study also found that the presence of Indian directors in the NC has a positive association on the level of board ethnic diversity (H2c is supported).

Besides the above results, this study also found that the proportion of ED (executive directors) in the NC can positively moderate the relationship between the Malay, Chinese and Indian directors' presence in the NC and the level of board ethnic diversity (H2d, H2e and H2f are supported). However, the study was unable to provide any evidence which could support the moderating role of the ED in affecting the relationship between female directors in the NC and gender diversity on the board (H1b is not supported).

This study also showed that the outcome of the power struggle between the executive directors and non-executive directors in the NC during the director selection process can determine the profile of the directors who will ultimately obtain the board appointment. On the one hand, an independent NC is likely to reduce the influence of CEOs and the EDs over the director nomination process. On the other hand, the non-existence of a NC or the presence of a weak NC is likely to be under the influence of CEOs and the EDs and this can affect the directors' reputations for being active in controlling the management and so, hinders the likelihood of obtaining new appointments. This study also found evidence which suggests that there is the presence of the influence of the EDs on the director nomination process of major ethnic groups. These findings are in line with the emphasis made by the MCCG 2012 which has been encouraging firms to reduce the ratio of the EDs in the NC.

The main aim of Chapter 7 is to summarize and articulate the results and findings discussed in previous chapters. It also contains the recommendations for future studies, while highlighting the practical and theoretical implications derived from the findings for policy makers as well as the MCCG. This discussion will then be followed by a description of the limitation of the research. This chapter ends by providing the conclusion of the study.

7.2 Discussion: Overview of the Findings

To reiterate, the main objective of this research is to examine the nomination committee's (NC) diversity impact on board diversity in non-financial Malaysian companies. The main objective is further divided into the following three sub objectives:

7.2.1 Research Objective 1: To investigate the impact of female directors in the NC on gender diversity on the board.

The earlier chapter had provided a discussion mentioning how the NC assists the firm in forming a diversified board through the selection of female directors. The results had shown that gender diversity has a significant effect on the NC. It was noted that the proportion of female directors in the NC would have a significant impact on the board composition outcome. Therefore, this study has empirically proven that companies need to consider the importance of having female directors in the NC of their firms. The reason developed to support this claim is that only an average of 11% female directors was identified to be present on the corporate boards. This percentage clearly falls short of the minimum requirement of at least 30%, as suggested by Ministry of Women, Family and Community Development Malaysia.

7.2.2 Research Objective 2: To examine the effect of the proportion of directors of different ethnic groups (Malay, Chinese & Indian) in the NC and the level of ethnic diversity on the board.

As was mentioned before, this study seeks to determine how the NC plays its role in forming a diversified board by observing the incidence of ethnic diversity in major ethnic groups. The results showed that ethnic diversity has a significant effect on the NC. It was clearly noted that the proportion of Malay, Chinese and Indian directors in the NC would have a significant impact on board composition outcome. Therefore, this study asserts that ethnic diversity and the presence of directors from various ethnic backgrounds in firm boards are crucial in creating a balanced board mix.

7.2.3 Research Objective 3: To examine the moderating effect of executive director's (ED's) proportion in the NC and the degree of gender and ethnic diversity in the nomination committee and board.

In addition to the above, this study also aims to determine the moderating effect of executive directors' (ED) proportion in the NC and the degree of gender and ethnic diversity in the nomination committee and board. The results drawn from this study indicate that a higher proportion of executive directors in the NC will increase the influence of the management in the director selection process for the nomination committee and board. Therefore, this study recommends that a lower proportion of executive directors in the NC will lead to a transparent nomination process and thereby, increase the independence of the NC. The following paragraphs reiterate the discussion of Malaysia's inherent characteristics and its socio-economic standings which are considered important in understanding the results of this study.

Malaysia

In an ethnically mixed nation such as Malaysia, an examination of diversity could give more understanding of the phenomenon investigated. It is a common perception that in the Malaysian corporate sectors, the approach of the management is influenced by the cultural group of the individuals, their literacy status as well as the kind of associations they have with the management (Chuah, 1995). In fact, a director candidate's nomination process can be affected by the individual's culture, history, ethics and beliefs (Alhabshi, 1994).

As has been noted by some studies, the Malaysian corporate nomination process practice may reflect not only the variation of cultural values based on ethnic types and beliefs of the three major ethnic groups involved in business, but also the outcome of the economic policy of the government. In order to analyse the possible relationship of cultural values and the directors' nomination practices, this study adopted the cultural values proposed by Hofstede. The cultural values proposed by Hofstede (1991) comprise of four bipolar cultural dimensions. These dimensions were individualism, masculinity, power distance and uncertainty avoidance and they were used to analyse the incidence of diversity in the three major ethnic groups of Malay, Chinese and Indians. Hofstede (1991) had suggested that in the masculinity dimension, the two main ethnic groups in Malaysia are both low but in the power distance dimension, the two main ethnic groups are high. In line with their respective cultural values, it was noted that the Malays are known to have high levels of uncertainty avoidance, a trait that could be attributed to their strong belief in their religion (Abdullah, 1992). In contrast, the Chinese and Indian were considered to have low levels of uncertainty avoidance and this has been proven by their willingness to accept new challenges or to take on greater risks (Abdullah, 1992). In view of the individualism dimension, the Malays were valued lower and this trait is relatively recognised as it is attributed to their faith in God which inspires collectivism. 'Under Islam, the cultural order for believers is related to collectivism and the rights of private ownership are eventually subordinated to Allah (see Baydoun & Willett, 1995, p. 89). This value of the Malays is also reflected in their behavior which has the tendency to get along well with fellow Malays (Abdullah, 1992). In contrast, the Chinese and Indian, are considered to be more individualistic at the national level and this trait may be attributed to the cultural division noted in the socioeconomic structures (Tan, 1984) or it could just be their peculiarities. According to Hofstede's (1991) dimension of cultural values, the Malays can be expected to be comparatively more reserved than their Chinese and Indian counterparts because studies have shown that the Malays, as an ethnic community, are more traditional in their ways (see Zamani, 2003). This concept is considered as important in this study as it enables the model to observe if the presence of executive directors in the NC creates any influence on the director candidate's nomination process in Malaysia.

7.3 Implications of the Findings

The main result extracted from this study is that the mixture of gender and ethnicity in the NC affects board diversity. Thus, it is strongly recommended that companies increase the variation of ethnicity at the NC level so as to enhance its gender and ethnic diversity at the board level. Achieving board diversity will lead to positive firm performance and growth, as has been supported by literature (Huse et al., 2009). The outcome of these findings could be attributed to a number of possibilities. One likely reason is that the NC is responsible for the selection of the director who should be from diverse backgrounds in order to be able to meet the compliance set by the MCCG. Such a diversity as noted in Malaysian companies can be explained by the social identity theory that was discussed previously in the Literature review chapter.

Furthermore, the result had indicated that there is a positive significance of female directors on the NC and the degree of gender diversity in the Malaysian board. This outcome signals that a female director in the NC may prefer another female director due to the 'like draws like' inference where a female director can strengthen another female director in terms of their marginal representation on the Malaysian board. Accordingly, this implies that Malaysian companies increase the proportion of female directors' candidate in the NC in order to achieve the gender diversified board. Such an implication further strengthens the crucial role of the NC in overseeing the practical aspect of the corporate governance of the board. This finding is significant in view of the newly revised MCCG requirement which involves the revision of the definitions and proposals of governance standards and codes (H1a is supported). Nonetheless, there is a positive and negative significance level for the proportion of Malay, Chinese and Indian directors in the NC and the degree of ethnic diversity in the board. These findings suggest that a more diversified NC will result in a higher diversity of the boards. Previous studies (Adams & Ferreira, 2009) have shown that firms with a more diversified board tend to have a higher firm value. In other words, this study has evidence to show that for an entity to have a higher firm value, it needs to first ensure that its NC is well balanced and diversified. Under those circumstances, individuals who are of diverse ethnicity and are on the board tend to promote different and unique ideas, experiences and power of thinking, all of which can lead to a better outcome during the decision-making and policy making process. These implications are also strengthened by further findings which have indicated that the ethnic participation at top management level of Malaysian boards contribute towards a balanced board mix (H2a and H2c are supported). Moreover, the study also found that the Indian ethnic group was under-represented in the NC board of Malaysian companies since the time of the country's independence (H2b is not supported). Nevertheless, the findings also support the argument which claims that the director candidate nomination process cannot be culture free. Further interpretations of the study are discussed below.

7.4 Interpretation of Findings

In this study, the main variables were found to be significantly related to gender and ethnic diversity of Malaysian boards. In general, the study found some key findings. Firstly, in the case of the gender diversity model, it was found that there was a positive relationship between the proportion of female directors in the nomination committee and the level of gender diversity in the board. This means that a high number of female directors in the NC can lead to better gender composition at the board level.

Second, in the ethnic diversity model, the results support the idea that the proportion of Malay, Chinese and Indian directors in the NC affects the level of ethnic diversity in corporate boards. Ethnic diversity creates a positive value to the firms. A diverse board promotes a variation in ideas and capabilities, the expression of power differences in delivering concepts, thoughts and ideas. As a result, ethnic diversity enhances the decision-making and policy-making process.

However, two contradictory results were also noted in the case of the gender diversity model where the proportion of executive directors in the NC was found to have low or no significant impact on female directors' nomination. However, the moderating role of the executive directors was found to have a significant impact on the Malay, Chinese and Indian director candidate nomination process (refer to Table 6.4 & 6.6)

The findings of this study are also consistent with the social identity theory as well as the reports noted in previous studies conducted, including those covering the control variables. From the outcome of this study, it can be inferred that the presence of female directors in the NC is crucial for the purpose of ensuring gender diversity on corporate boards. On average, the sampled companies have two female board members (refer to Table 5.1). The MCCG has emphasized the need to create gender diversity within boards and it has also directed companies to explicitly disclose their respective gender diversity policies. The codes proposed by the MCCG has left a space for companies to decide on the appropriate number of female board members that is required for companies to fill as a way of balancing their board mix. It has also been noted that in 2011, the Malaysian Cabinet had approved a policy which states that women must make up at least 30% of those in the decision-making positions in the corporate sector, and companies were given five years to comply. In March 2012, Malaysia issued a revised Code of Corporate Governance (to come into effect on 31 December 2012 p.6), which recommends that "the board should establish a policy formalizing its approach to boardroom diversity and take steps to ensure that women candidates are sought as part of its recruitment exercise". The board is also encouraged to "explicitly disclose (or explain) in the annual report its gender diversity policies and targets and the measures taken to meet those targets".

7.5 Contributions of the Study

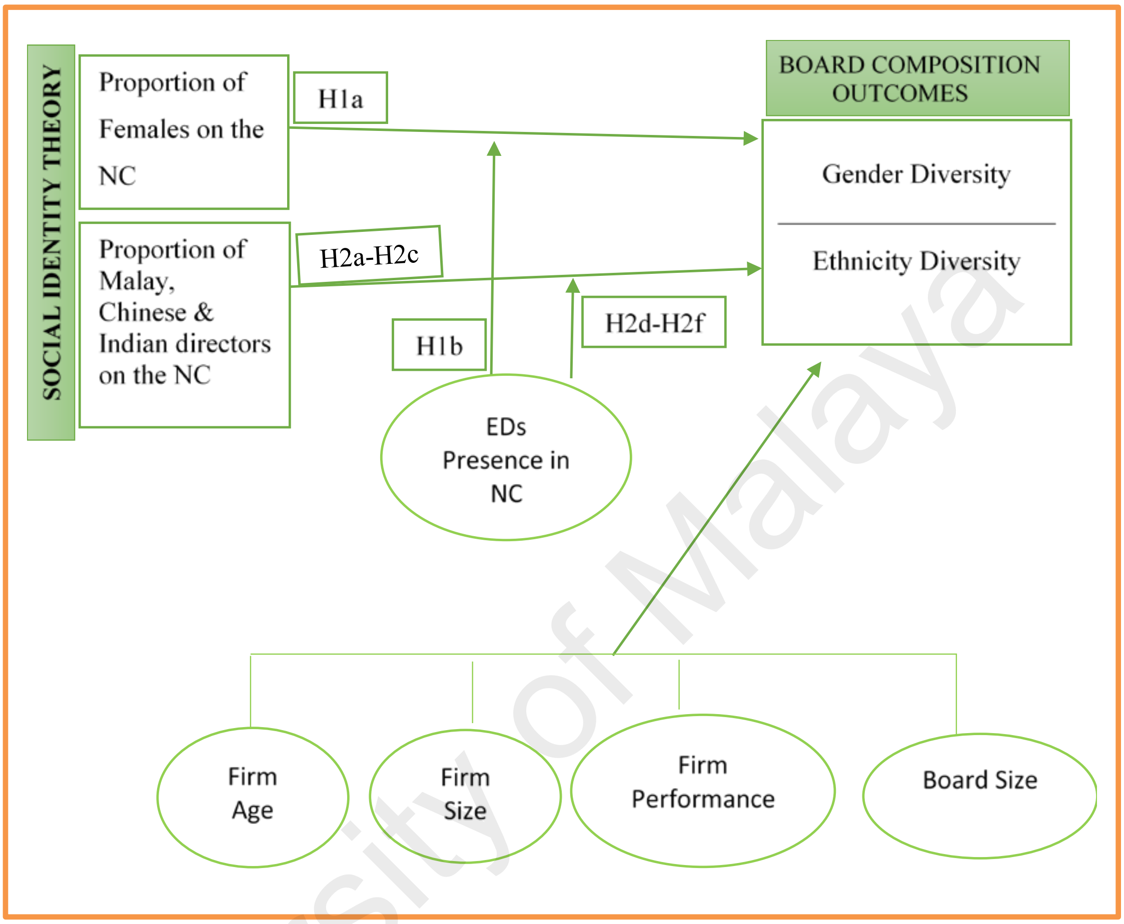
The slower rate of the adoption of NCs, as compared to audit and remuneration committees, suggest that the economic rationale for NC existence is not clear-cut. Ruigrok et al., (2006) had reported that the NC has a beneficial impact on board composition Vafeas (1999) demonstrated that there may be a substitution effect between the NC and other governance mechanisms such as insider ownership, and McKnight and Weir (2009) suggested that the NC existence can be costly. Yet, the consistent recommendation for NC adoption in Malaysian regulation since 2000 and the uniform compliance of companies with this recommendation until today, indicates that delegating the board succession process represents a key factor in creating a well-composed and effective board. This study has provided adequate evidence in supporting the importance of the NC's role in this process. Through the influence of the NC, two types of board composition outcomes encompassing diversity as variety (gender and ethnicity) can be accomplished. This study has also provided contributions in the expansion of the NC literature given that there is relatively insufficient literature on this particular topic. The importance of nomination reflects the competencies and abilities of the directors on a board. Since the principal formal structure intends to reinforce the selection process of the director, the main subject of interest in this study was represented by the NC.

The implications of this study are timely in the wake of the calls made by the MCCG 2012 for boards to appoint more female directors and director candidates who are from diverse ethnic backgrounds. The increasing presence of females and ethnic diversity on the NC was found to positively impact on the level of board gender and ethnic diversity, respectively. Although the high proportion of the EDs on the NC was found not to contribute to subgroup formation on a board, his/her influence on the selection process of the directors was found to likely result in a stronger challenge on the NC's Independence. Thus, a lower proportion of the EDs in the NC would represent a desirable solution, given that the majority of NC members should be non-executive directors. From this study, it can be concluded that an important influence on board nomination process and outcomes may be attributed not only to the composition of the whole board but also to its sub-committees. Hence, further studies are needed for the purpose of examining the effects of particular board committees, for example, by developing a qualitative analysis to see how they work and to what effect. This study contributes to the research on NC by providing a robust quantitative evidence of the effects of the NC characteristics on likely board compositions across a three-year period of Malaysia's publicly listed companies.

7.5.1 Theoretical Contribution of the Study

Drawing on the theoretical frameworks of social identity, this study has provided a detailed examination of three years' data, reflecting the role and impact of the NC on board composition in Malaysian companies. This helps to enrich the under-researched subject of NCs by adopting a social identity theory to reveal evidence of the relationship between the NCs and board composition, which underpins the process of director selection and appointment. These findings and the outcome of the findings can thus be used to conclude that the structural characteristics of the NCs have a strong impact on potential board composition outcomes. The aim was to contribute to research on board committees and to contribute to the relatively scarce literature on nomination committees, in particular. In so doing, the outcome of this study also contributes to a more pluralistic corporate governance research by drawing upon the concept which have particular relevance to group dynamics social identity **Social Categorization - Social Identification - Social Comparison** (Tajfel, 1979). In this study, two dimensions of diversity as board composition outcomes on which the NC has important influence were considered.

From the theories expounded and the justifications provided for the use of the theories, this study will thus draw on the following theoretical framework.



It has been suggested that the nomination board or the CEOs are more likely to be biased in terms of their management, nomination and tendency to act in their own interest. Thus, using the two theories of Social Identity and Power Struggle would offer an evaluative perspective on the possibility of board diversity highly impacting on both the historical and psychological factors of the NCs selection process.

7.5.2 Practical Contribution of the Study

This study has focused on two dimensions of diversity (gender & ethnicity) as board composition outcomes on which the NC has important influences. The study explains how diversity in the NC affects board compositions. The study contributes to the identification of the representation of female directors in the NC and board of Malaysian companies. Particularly, this contribution helps the researcher and policy makers to analyze the strategy of Malaysian firms on gender diversity. This study notes that the board excellence is influenced by individuals with different backgrounds, race, qualifications, experiences, abilities and skills (Brundrett & Silcock, 2002). The study also analyzes the proportion of major ethnic groups (Malaya, Chinese, and Indian) in board composition of Malaysian firms. In addition, this study will be useful to others in analyzing the monopoly of any ethnic group in the Malaysian corporate boards. (Bolbol, 2012; Ismail et al., 2013). Likewise, this study provides empirical support showing how to increase gender and ethnic diversity in Malaysia by focusing on the mixture of the NC. A diverse NC would affect board diversity.

This study is useful for practical purposes as it addresses the need for further research to look at the role of the nomination committee that was highlighted by MCCG 2012. The findings expand on the knowledge regarding the importance of a balanced board mix which affects the strategic decisions of the director's selection process. This study also provides a better representation of the gender and ethnic diversity noted in Malaysian companies as it assists firms in developing the strategy for increasing their board diversity. The findings suggest that board of directors should reduce the proportion of executive directors in their NC and increase other committees so as to promote the transparency of the selection process and the NC's independence.

The directors of a company are expected to act as the guardians in manoeuvring the direction of the company to its best interest in order to secure investors' confidence. Hence, the directors' skills, experiences, knowledge and professionalism are among important matters that need to be taken into consideration before being recommended for directorships. Recognizing the importance of the role of directors in a company, the Malaysian Corporate Governance Code 2012 (MCCG2012) had attempted to strengthen the board structure and composition. In the MCCG 2012, it calls for boards to set up a nominating committee who will be responsible for the recruitment of directors. According to the MCCG 2012, the nominating committee shall bear the responsibility of overseeing the selection of the directors so as to ensure that the Board composition meets the needs of the company. Based on the findings of this study, it was noted that directors were often appointed to the board because of their personal connections with individuals within the management rather than due to their experience, skills and knowledge. This kind of outcome may be detrimental to the company concerned as these directors may not have the appropriate qualifications to be appointed to the board. High expectations were placed upon the independent directors by the MCCG as they were expected to discharge their duties responsibly and specifically, it draws upon their involvement in the Nominating Committees whereby they are expected to perform their duties objectively, without any influence from the executive directors or CEO.

Here in this study, it is contended that there might be conflicts in the Nominating Committee itself where the question of its independence arises. This is due to the result of the formal and informal professional and social networks between the management and the members of the NC who may affect the value of objectivity of the NC in making decisions (Renneboog & Zhao, 2011; Clune et al., 2014). It appears that in identifying candidate directors, appointments have been almost due entirely, to directors' personal, professional and social networks (Pettigrew, 2005). It was found that such appointments were due to a great reliance on the recommendations of current board members. For the board, the most important criteria of a candidate director are his/her cooperative relationship with colleagues (Westphal, 1998).

The NC will generally be influenced by the executive directors in choosing a suitable candidate director for the company rather than for it to stick rigidly to the procedure in nominating new directors. The executive directors' dominance over the director selection process has always been considered as the main form of management control, amongst other factors (Westphal & Zajac (1995). Moreover, (Westphal & Zajac (1995) have suggested that the executive directors enhance their power and influence by pushing for the appointment of directors who are sympathetic to their (ED) needs. Linked to this concern is the social ties between directors of the company with the interviewees, a factor which may affect directors' decision in choosing a candidate whom they favour more because of their own preference and not in accordance with the requirements actually needed.

7.6 Limitations and Recommendation for Future Research

The conclusion that can be drawn from this study is that a significant impact on board process and outcomes may be attributed not only to the composition of the whole board but also to its sub-committees. Hence, further studies which investigate the effects of particular board committees, for example, by developing qualitative analysis to see how they work and to what effect can be useful. This study contributes to the research on nomination committees by providing strong statistical evidence of the effects of the NC characteristics on likely board composition across a three-year period of Malaysia's listed non-financial companies. These findings are indicative of the important elements underlying director selection and appointment processes in board settings of a Southeast Asian economy. The outcomes may have relevance in other settings. Thus, it is apt to make a call for future research working on this topic to focus on different contexts as a means of widening insights into the role and influence of the NCs in making vital board decisions about director appointments upon which corporate governance is ultimately dependent.

However, there are also other aspects of board composition and functions that the NC may influence through its activities which would provide interesting avenues for future research. For example, board independence and director capabilities, reputation and their financial and legal backgrounds (Jeanjean & Stolowy, 2009) and educational degrees could be taken as further dimensions of the board profile which can be studied by analyzing the NC's operations. This could provide valuable insight highlighting other roles of the NC which may influence board capabilities and performance.

The importance of researching board micro-processes to reveal macro-level relationships (Westphal, 1998) indicates that a qualitative inquiry holds promise as a method to investigate in detail, for example, the stages of the director nomination and the selection processes. However, board access remains traditionally problematic (Leblanc & Schwartz, 2007; Pye & Pettigrew, 2005) and there are other aspects of the director nomination and selection processes that remain largely unaddressed. These include the role and involvement of recruitment consultants in developing such selection criteria

(McCool, 2008). Studies based on other country contexts would also provide further evidence of the validity and generalizability of findings of such extant work.

7.7 Conclusion

To conclude, it is argued that the economic benefits of having the NCs on board is not immediately apparent as the pace of adopting the NCs is slower in comparison with other committees such as the audit and remuneration committee. However, the MCCG's recommendation for adopting the NC since 2000 for a uniform compliance of companies demonstrates that one of the important steps in forming a well-composed and effective board is to have a board succession process. This study provides evidence indicating the importance of the NC in board succession process and its influence on two categories of board composition outcomes, i.e. diversity and variety (gender and ethnicity). The examination of three years' data with the reflection of the role and influence of the NC on firms' board composition in 393 Bursa listed companies was drawn from the theoretical framework of social identity. The purpose of investigating was to enhance the under-researched area of board committees by applying a multi-theoretic approach to discover the interconnection between the NC and board compositions, a factor that is crucial for the selection and appointment process. Based on these findings, it is concluded that the structural characteristics of the NC have a profound influence on board composition outcomes. It was found that board gender and ethnicity diversity is positively influenced by increasing the presence of females and the ethnic diversity in the NC. Hence, the NC is an important aspect promoting gender and ethnic diversity on boards, thereby, building a better board mix. The code of governance provides for the minimum percentage requirement for females to serve on the board. However, no suggestion or recommendations were made in the current code of governance with regards to ethnic diversity. The results presented therefore, highlight the importance of achieving ethnic diversity on boards in Malaysia's listed non-financial companies. To achieve diversity, not only shall gender diversity be the central focus, ethnic diversity is also equally important. Hence, it is timely that an obligatory percentage of ethnic diversity at board level be introduced in the code of governance.

REFERENCES

Abdullah, A. (1992). The influence of ethnic values on managerial practices in Malaysia. *Malaysian Management Review*, *27*(1), 3-18.

Abeyasekera, S. (2005). *Quantitative analysis approaches to qualitative data: why, when and how?* Warwickshire: ITDG Publishing.

Abowd, J. M. (1990). Does performance-based managerial compensation affect corporate performance? *Industrial & Labor Relations Review, 43*(3), 52S-73S.

Adams, R. B., & Ferreira, D. (2009). Women in the boardroom and their impact on governance and performance. *Journal of financial economics, 94*(2), 291-309.

Adams, R. B., Hermalin, B. E., & Weisbach, M. S. (2010). The role of boards of directors in corporate governance: A conceptual framework and survey. *Journal of Economic Literature, 48*(1), 58-107.

Adler, P. A., & Adler, P. (1987). *Membership roles in field research* (Vol. 6): California: Sage Publication Inc.

Agrawal, A., & Cooper, T. (2007). Corporate governance consequences of accounting scandals: Evidence from top management, CFO and auditor turnover. *Quarterly Journal of Finance*, 1650014.

Aguilera, R. V. (2005). Corporate Governance and Director Accountability: an Institutional Comparative Perspective. *British Journal of Management*, *16*(s1), S39-S53.

Aguilera, R. V., & Cuervo-Cazurra, A. (2004). Codes of good governance worldwide: what is the trigger? *Organization Studies*, *25*(3), 415-443.

Ahmed Haji, A., & Mohd Ghazali, N. A. (2012). Intellectual capital disclosure trends: some Malaysian evidence. *Journal of Intellectual Capital*, *13*(3), 377-397.

Akhtaruddin, M., Hossain, M. A., Hossain, M., & Yao, L. (2009). Corporate governance and voluntary disclosure in corporate annual reports of Malaysian listed firms. *Journal of Applied Management Accounting Research*, *7*(1), 1.

Alhabshi, S. O. (1994). Corporate ethics in the management of corporations. *The Malaysian Accountant*, *24*.

Al - Maskati, N., Bate, A. J., & Bhabra, G. S. (2015). Diversification, corporate governance and firm value in small markets: evidence from New Zealand. *Accounting & Finance, 55*(3), 627-657.

Amanatullah, E. T., & Morris, M. W. (2010). Negotiating gender roles: Gender differences in assertive negotiating are mediated by women's fear of backlash and attenuated when negotiating on behalf of others. *Journal of personality and social psychology, 98*(2), 256.

Autorité des Marchés Financiers. (2004). *Sur le gouvernement d'entreprise et les procédures de contrôle interne des émetteurs faisant appel public à l'épargne* [On corporate governance and the internal control procedures of publicly traded issuers] Paris: Autorité des Marchés Financiers - AMF.

Annuar, H. A., & Abdul Rashid, H. M. (2015). An investigation of the control role and effectiveness of independent non-executive directors in Malaysian public listed companies. *Managerial Auditing Journal*, *30*(6/7), 582-609.

Antle, R., & Smith, A. (1986). An empirical investigation of the relative performance evaluation of corporate executives. *Journal of Accounting Research*, 1-39.

Arellano, M., & Bover, O. (1995). Another look at the instrumental variable estimation of error-components models. *Journal of econometrics, 68*(1), 29-51.

Ashforth, B. E., & Mael, F. (1989). Social identity theory and the organization. *Academy of management Review, 14*(1), 20-39.

Azlan Annuar, H. (2014). Independent non-executive directors strategic role–some evidence from Malaysia. *Corporate Governance, 14*(3), 339-351.

Asrul Zamani. (2003). *The ideal Malay*. Selangor: Univision Publications.

Baharumshah, A. Z., & Rashid, S. (1999). Exports, Imports and Economic Growth in Malaysia: EmpiricalEvidence Based on Multivariate Time Series. *Asian Economic Journal, 13*(4), 389-406.

Bai, C.E., Liu, Q., Lu, J., Song, F. M., & Zhang, J. (2004). Corporate governance and market valuation in China. *Journal of Comparative Economics, 32*(4), 599-616.

Bantel, K. A. (1993). Strategic clarity in banking: Role of top management-team demography. *Psychological Reports*, *73*(3 suppl), 1187-1201.

Banyard, K. (2010). *The equality illusion: The truth about women and men today.* London: Faber & Faber.

Barkema, H. G., & Shvyrkov, O. (2007). Does top management team diversity promote or hamper foreign expansion? *Strategic management journal, 28*(7), 663-680.

Barnhart, S. W., Marr, M. W., & Rosenstein, S. (1994). Firm performance and board composition: Some new evidence. *Managerial and Decision Economics, 15*(4), 329-340.

Baydoun, N., & Willett, R. (1995). Cultural relevance of western accounting systems to developing countries. *Abacus*, *31*(1), 67-92.

Baysinger, B., & Hoskisson, R. E. (1990). The composition of boards of directors and strategic control: Effects on corporate strategy. *Academy of management Review*, *15*(1), 72-87.

Bebchuk, L. A. (2003). The case for shareholder access to the ballot. *The business lawyer*, 43-66.

Bebchuk, L. A. (2009). *Pay without performance: The unfulfilled promise of executive compensation*. Massachusetts: Harvard University Press.

Bebchuk, L. A., Cohen, A., & Wang, C. C. (2011). *Staggered boards and the wealth of shareholders: Evidence from two natural experiments* (No. w17127). Massachusetts: Harvard University Press.

Belaire-Franch, J., & Opong, K. K. (2005). A variance ratio test of the behaviour of some FTSE equity indices using ranks and signs. *Review of quantitative finance and accounting*, *24*(1), 93-107.

Belsley, D. A. (1984). Demeaning conditioning diagnostics through centering. *The American Statistician, 38*(2), 73-77.

Belsley, D. A., Kuh, E., & Welsch, R. E. (1980). Wiley Series in Probability and Statistics. *Regression Diagnostics: Identifying Influential Data and Sources of Collinearity*, 293-300.

Bender, R. (2003). How executive directors' remuneration is determined in two FTSE 350 utilities. *Corporate Governance: An International Review, 11*(3), 206-217.

Bender, R. (2004). *The determination of directors' remuneration in selected FTSE 350 companies.* Coventry: University of Warwick.

Blau, P. M. (1970). A formal theory of differentiation in organizations. *American Sociological Review*, 201-218.

Blau, P. M. (1977). *Inequality and heterogeneity: A primitive theory of social structure* (Vol. 7): New York, NY: Free Press

Blueprint, C. G. (2011). *Towards excellence in corporate governance.* Kuala Lumpur: Securities Commision Malaysia.

Blundell, R., & Bond, S. (1998). Initial conditions and moment restrictions in dynamic panel data models. *Journal of econometrics, 87*(1), 115-143.

Blundell, R., Bond, S., & Windmeijer, F. (2001). Estimation in dynamic panel data models: improving on the performance of the standard GMM estimator. *Nonstationary Panels, Panel Cointegration, and Dynamic Panels, 15*, 53-91.

Bolbol, I. I. (2012). Board Characteristics and Dividend Payout of Malaysian Companies. *Unpublished Master Dissertation, Universiti Utara Malaysia*.

Bontis, N., Wu, S., Chen, M.-C., Cheng, S.-J., & Hwang, Y. (2005). An empirical investigation of the relationship between intellectual capital and firms' market value and financial performance. *Journal of Intellectual Capital, 6*(2), 159-176.

Bouton, M. E. (2002). Context, ambiguity, and unlearning: sources of relapse after behavioral extinction. *Biological psychiatry, 52*(10), 976-986.

Brennan, M. (1982). Class, Politics and Race in Modern Malaysia, *Journal of Contemporary Asia, 12*(2), 188-201.

Breusch, T. S., & Pagan, A. R. (1979). A simple test for heteroscedasticity and random coefficient variation. *Econometrica: Journal of the Econometric Society*, 1287-1294.

Brown, G. (2015). *The Independent Director: The Non-Executive Director's Guide to Effective Board Presence*. Basingstoke: Palgrave Macmillan.

Brown, L. D., & Caylor, M. L. (2009). Corporate governance and firm operating performance. *Review of quantitative finance and accounting, 32*(2), 129-144.

Brundrett, M., & Silcock, P. (2002). *Achieving competence, success and excellence in teaching*. New York, NY: Routledge.

Cadbury, A. (1992). *The financial aspects of corporate governance: A report of the committee on corporate governance.* London: Gee and Co.

Campbell, J. T., Campbell, T. C., Sirmon, D. G., Bierman, L., & Tuggle, C. S. (2012). Shareholder influence over director nomination via proxy access: Implications for agency conflict and stakeholder value. *Strategic management journal, 33*(12), 1431-1451.

Campbell, K., & Mínguez-Vera, A. (2008). Gender diversity in the boardroom and firm financial performance. *Journal of Business Ethics, 83*(3), 435-451.

Carcello, J. V., Hermanson, D. R., & Ye, Z. (2011). Corporate governance research in accounting and auditing: Insights, practice implications, and future research directions. *Auditing: A Journal of Practice & Theory*, 30(3), 1-31.

Carneiro, J. M., Silva, J. d., Rocha, A. d., & Dib, L. d. R. (2007). Building a better measure of business performance. *RAC-Eletrônica, 1*(2), 114-135.

Carpenter, M. A. (2002). The implications of strategy and social context for the relationship between top management team heterogeneity and firm performance. *Strategic management journal*, *23*(3), 275-284.

Carpenter, M. A., & Westphal, J. D. (2001). The strategic context of external network ties: Examining the impact of director appointments on board involvement in strategic decision making. *Academy of Management Journal, 44*(4), 639-660.

Carter, D. A., D'Souza, F., Simkins, B. J., & Simpson, W. G. (2010). The gender and ethnic diversity of US boards and board committees and firm financial performance. *Corporate Governance: An International Review, 18*(5), 396-414.

Casey, C., Skibnes, R., & Pringle, J. K. (2011). Gender equality and corporate governance: Policy strategies in Norway and New Zealand. *Gender, Work & Organization, 18*(6), 613-630.

Che-Ahmad, A., & Houghton, K. (2001). *The effect of ethnicity on audit pricing.* Paper presented at the The 2nd Asian Academic Accounting Association (AAAA) Conference, Proceedings.

Chen, C. J., & Jaggi, B. (2001). Association between independent non-executive directors, family control and financial disclosures in Hong Kong.*Journal of Accounting and public policy*, *19*(4), 285-310.

Chen, H. (2006). *Board characteristics, ownership structure and executive remuneration in China.* Cardiff: Cardiff University.

Chen, S., & Dodd, J. L. (1997). Economic value added (EVA™): An empirical examination of a new corporate performance measure. *Journal of Managerial Issues*, 318-333.

Cheng, S., & Firth, M. (2005). Ownership, corporate governance and top management pay in Hong Kong. *Corporate Governance: An International Review*, *13*(2), 291-302.

Chhaochharia, V., & Grinstein, Y. (2009). CEO compensation and board structure. *the Journal of Finance, 64*(1), 231-261.

Chuah, B. H. (1995, March). The Unique Breed of Malaysian Managers, *Management Times*, New Straits Times Press Malaysia,

Chun, H., Kim, J.-W., Morck, R., & Yeung, B. (2008). Creative destruction and firm-specific performance heterogeneity. *Journal of financial economics, 89*(1), 109-135.

Claessens, S., & Yurtoglu, B. B. (2013). Corporate governance in emerging markets: A survey. *Emerging markets review, 15*, 1-33.

Claessens, S., Djankov, S., & Xu, L. C. (2000). Corporate performance in the East Asian financial crisis. *The World Bank Research Observer*, *15*(1), 23-46.

Claessens, S., Djankov, S., Fan, J. P. H. and Lang, L. H. P. (2003), When does corporate diversification matter to productivity and performance? Evidence from East Asia, *Pacific-Basin Finance Journal*, Vol. 11 No. 3, pp. 365-392.

Clune, R., Hermanson, D. R., Tompkins, J. G., & Ye, Z. S. (2014). The nominating committee process: A qualitative examination of board independence and formalization. *Contemporary Accounting Research, 31*(3), 748-786.

Conyon, M. J. (1994). Corporate governance changes in UK companies between 1988 and 1993. *Corporate Governance: An International Review*, *2*(2), 87-100.

Conyon, M. J., & Murphy, K. J. (2000). The prince and the pauper? CEO pay in the United States and United Kingdom. *The Economic Journal, 110*(467), 640-671.

Cook, R. D., & Weisberg, S. (1983). Diagnostics for heteroscedasticity in regression. *Biometrika*, *70*(1), 1-10.

Coopers, P. W. (1998). *Corporate Governance: 1998 Survey of public listed companies*. Kuala Lumpur: Price Waterhouse Coopers.

Coughlan, A. T., & Schmidt, R. M. (1985). Executive compensation, management turnover, and firm performance: An empirical investigation. *Journal of accounting and economics*, *7*(1), 43-66.

Council, F. R. (2000). *The combined code: principles of good governance and code of best practice*. London: Financial Reporting Council.

Cox, T. H., & Blake, S. (1991). Managing cultural diversity: Implications for organizational competitiveness. *The Executive*, 45-56.

Cremers, K., & Nair, V. B. (2005). Governance mechanisms and equity prices. *the Journal of Finance*, *60*(6), 2859-2894.

Cyert, R., Kang, S., Kumar, P., & Shah, A. (1997). Corporate governance, CEO compensation, and firm performance. *Manuscript, University of Pennsylvania*.

Daily, C. M., Dalton, D. R., & Cannella, A. A. (2003). Corporate governance: Decades of dialogue and data. *Academy of management Review*, *28*(3), 371-382.

Dalton, C. M., & Dalton, D. R. (2005). Boards of directors: Utilizing empirical evidence in developing practical prescriptions. *British Journal of Management*, *16*(s1), S91-S97.

Dalton, D. R., Daily, C. M., Ellstrand, A. E., & Johnson, J. L. (1998). Meta-analytic reviews of board composition, leadership structure, and financial performance. *Strategic management journal*, *19*(3), 269-290.

Davies, E. (2011). *Women on boards: An independent review into women on boards.* London: Department for Business Innovation and Skills BIS.

Davila, A., & Penalva, F. (2006). Governance structure and the weighting of performance measures in CEO compensation. *Review of Accounting Studies, 11*(4), 463-493.

Davis, G. F., & Greve, H. R. (1997). Corporate elite networks and governance changes in the 1980s. *American journal of sociology, 103*(1), 1-37.

De Andres, P., & Vallelado, E. (2008). Corporate governance in banking: The role of the board of directors. *Journal of banking & finance, 32*(12), 2570-2580.

Dedman, E. (2002). The Cadbury Committee Recommendations on Corporate Governance–A review of compliance and performance impacts. *International Journal of Management Reviews, 4*(4), 335-352.

Denis, D. K., & McConnell, J. J. (2003). International Corporate Governance. *The Journal of Financial and Quantitative Analysis, 38*(1), 1-36. doi:10.2307/4126762

Dess, G. G., & Robinson, R. B. (1984). Measuring organizational performance in the absence of objective measures: the case of the privately-held firm and conglomerate business unit. *Strategic management journal, 5*(3), 265-273.

Diesing, P. (1979). *Patterns of discovery in the social sciences*. Piscataway, New Jersey: Transaction Publishers.

Doldor, E., Vinnicombe, S., Gaughan, M., & Sealy, R. (2012). Gender diversity on boards: The appointment process and the role of executive search firms. *Equality and Human Rights Commission Research Report, 85*.

Durisin, B., & Puzone, F. (2009). Maturation of corporate governance research, 1993–2007: An assessment. *Corporate Governance: An International Review*, *17*(3), 266-291.

Dutta, P., & Bose, S. (2006). Gender diversity in the boardroom and financial performance of commercial banks: Evidence from Bangladesh. *The Cost and Management*, *34*(6), 70-74.

Dutta, P., & Bose, S. (2006). Gender diversity in the boardroom and financial performance of commercial banks: Evidence from Bangladesh. *The Cost and Management*, *34*(6), 70-74.

Eminet, A., & Guedri, Z. (2010). The role of nominating committees and director reputation in shaping the labor market for directors: An empirical assessment. *Corporate Governance: An International Review, 18*(6), 557-574.

Erhardt, N. L., Werbel, J. D., & Shrader, C. B. (2003). Board of director diversity and firm financial performance. *Corporate Governance: An International Review, 11*(2), 102-111.

Esping-Andersen, G. (2013). *The three worlds of welfare capitalism*. Hoboken, New Jersey: John Wiley & Sons.

Ewers, D. (2002). *Director Remuneration and performance: a study of top UK companies 1996-1998.* Reading: Henley Management College.

Fama, E. F. (1980). Agency Problems and the Theory of the Firm. *The journal of political economy*, 288-307.

Fama, E. F., & French, K. R. (2001). Disappearing dividends: changing firm characteristics or lower propensity to pay? *Journal of financial economics, 60*(1), 3-43.

Farrell, K. A., & Hersch, P. L. (2005). Additions to corporate boards: the effect of gender. *Journal of Corporate finance, 11*(1), 85-106.

Fazel, M. K., & Young, D. M. (1988). Life quality of Tibetans and Hindus: A function of religion. *Journal for the Scientific Study of Religion*, 229-242.

Fidanoski, F., Simeonovski, K., & Mateska, V. (2014). The Impact of Board Diversity on Corporate Performance: New Evidence from Southeast Europe *Corporate Governance in the US and Global Settings* (pp. 81-123). Bingley, West Yorkshire: Emerald Group Publishing Limited.

Filatotchev, I., & Boyd, B. K. (2009). Taking stock of corporate governance research while looking to the future. *Corporate Governance: An International Review, 17*(3), 257-265.

Financial Reporting Council. (2010). *The UK Corporate Governance Code, June 2010*: Financial Reporting Council, United Kindom.

Financial Reporting Council. (2011). *Developments in Corporate Governance 2013: the Impact and Implementation of the UK Corporate Governance and Stewardship Codes*. London, UK.

Finkelstein, S., & Hambrick, D. C. (1996). *Strategic leadership: Top executives and their effects on organizations*. Mason, Ohio: South-Western Pub.

Finkelstein, S., Hambrick, D. C., & Cannella, A. A. (2009). *Strategic leadership: Theory and research on executives, top management teams, and boards*. New York, NY: Oxford University Press.

Firer, S., & Mitchell Williams, S. (2003). Intellectual capital and traditional measures of corporate performance. *Journal of Intellectual Capital, 4*(3), 348-360.

Firstenberg, P. B., & Malkiel, B. G. (1994). The twenty-first century boardroom: who will be in charge? *Sloan Management Review, 36*(1), 27.

Forbes, D. P., & Milliken, F. J. (1999). Cognition and corporate governance: Understanding boards of directors as strategic decision-making groups. *Academy of management Review, 24*(3), 489-505.

Fowler, D. C., Wesley, S. C., & Vazquez, M. E. (2007). Simpatico in store retailing: How immigrant Hispanic emic interpret US store atmospherics and interactions with sales associates. *Journal of Business Research, 60*(1), 50-59.

Gay, K. (2001). A Boardroom Revolution? The impact of the Cadbury nexus on the work of non-executive directors of FTSE 350 companies. *Corporate Governance: An International Review, 9*(3), 152-164.

Ghosh, S. (2006). Do board characteristics affect corporate performance? Firm-level evidence for India. *Applied Economics Letters, 13*(7), 435-443.

Gray, S. J. (1988). Towards a Theory of Cultural Influence on the Development of Accounting Systems Internationally. Abacus, 24(1), pp. 1 – 15.

Ghauri, P. N., & Grønhaug, K. (2005). *Research methods in business studies: A practical guide.* London: Pearson Education.

Giannarakis, G. (2014). Corporate governance and financial characteristic effects on the extent of corporate social responsibility disclosure. *Social Responsibility Journal*, *10*(4), 569-590.

Gilman, S. (1939). *Accounting concepts of profit*. New York, NY: Ronald Press Company.

Goldin, I., & Vogel, T. (2010). Global governance and systemic risk in the 21st century: Lessons from the financial crisis. *Global Policy, 1*(1), 4-15.

Greene, W. H. (2003). *Econometric analysis*: Delhi: Pearson Education.

Gregg, P., Machin, S., & Szymanski, S. (1993). The disappearing relationship between directors' pay and corporate performance. *British Journal of Industrial Relations, 31*(1), 1-9.

Grosser, K., & Moon, J. (2008). *Developments in company reporting on workplace gender equality?: A corporate social responsibility perspective.* Paper presented at the Accounting Forum.

Guha-Khasnobis, B., & Vivek, S. (2007). Rights-based Approach to Development. *Lessons from the Right to Food Movement in India*. Basingstoke: Palgrave Macmillan.

Guo, L., & Masulis, R. W. (2015). Board structure and monitoring: New evidence from CEO turnovers. *Review of Financial Studies, 28*(10), 2770-2811.

Hafsi, T., & Turgut, G. (2013). Boardroom diversity and its effect on social performance: Conceptualization and empirical evidence. *Journal of Business Ethics*, *112*(3), 463-479.

Hage, J., Aiken, M., & Marrett, C. B. (1971). Organization structure and communications. *American Sociological Review*, 860-871.

Hahn, J., & Hausman, J. (2003). Weak instruments: Diagnosis and cures in empirical econometrics. *The American Economic Review*, *93*(2), 118-125.

Hall, R. H., Johnson, N. J., & Haas, J. E. (1967). Organizational size, complexity, and formalization. *American Sociological Review*, 903-912.

Hambrick, D. C., & Mason, P. A. (1984). Upper echelons: The organization as a reflection of its top managers. *Academy of management Review, 9*(2), 193-206.

Hambrick, D. C., Werder, A. v., & Zajac, E. J. (2008). New directions in corporate governance research. *Organization Science*, *19*(3), 381-385.

Hamilton, D. L., & Sherman, S. J. (1989). Illusory correlations: Implications for stereotype theory and research. *Stereotyping and prejudice* (pp. 59-82). Berlin: Springer.

Hamzah-Sendut, T. S. D., Madsen, J., & Thong, G. T. S. (1989). *Managing in a plural society*. London: Longman.

Haniffa, R., & Hudaib, M. (2006). Corporate governance structure and performance of Malaysian listed companies. *Journal of Business Finance & Accounting*, *33*(7-8), 1034-1062.

Haniffa, R., Yatim, P., Kent, P., & Clarkson, P. (2006). Governance structures, ethnicity, and audit fees of Malaysian listed firms. *Managerial Auditing Journal, 21*(7), 757-782.

Harrison, D. A., & Klein, K. J. (2007). What's the difference? Diversity constructs as separation, variety, or disparity in organizations. *Academy of management Review, 32*(4), 1199-1228.

Hartsock, N. (1990). Foucault on power: a theory for women? *Feminism/postmodernism, 162*. London: Routledge.

Hassan Che Haat, M., Abdul Rahman, R., & Mahenthiran, S. (2008). Corporate governance, transparency and performance of Malaysian companies. *Managerial Auditing Journal, 23*(8), 744-778.

Hays-Thomas, R. (2004). Why now? The contemporary focus on managing diversity. *The psychology and management of workplace diversity*, 3-30.

Heemskerk, E., & Fennema, M. (2014). Women on Board: Female Board Participation as a Form of Elite Democratization. *Review of Financial Studies*.

Hermalin, B. E., & Weisbach, M. S. (1998). Endogenously chosen boards of directors and their monitoring of the CEO. *American Economic Review*, 96-118.

Higgs, D. (2003). *Review of the role and effectiveness of non-executive directors* (pp. 1-120). London: Stationery Office.

Hillman, A. J., Cannella, A. A., & Harris, I. C. (2002). Women and racial minorities in the boardroom: How do directors differ? *Journal of management, 28*(6), 747-763.

Hofstede, G. (1991). Management in a multicultural society. *Malaysian Management Review, 26*(1), 3-12.

Hofstede, G., Neuijen, B., Ohayv, D. D., & Sanders, G. (1990). Measuring organizational cultures: A qualitative and quantitative study across twenty cases. *Administrative science quarterly*, 286-316.

Hogg, M. A., & Terry, D. I. (2000). Social identity and self-categorization processes in organizational contexts. *Academy of management Review, 25*(1), 121-140.

Hsiao, C. (2014). *Analysis of panel data.* Cambridge: Cambridge University Press.

Huse, M. (2007). *Boards, governance and value creation: The human side of corporate governance.* Cambridge: Cambridge University Press.

Huse, M., Hoskisson, R., Zattoni, A., & Viganò, R. (2011). New perspectives on board research: changing the research agenda. *Journal of Management & Governance, 15*(1), 5-28.

Huse, M., Nielsen, S. T., & Hagen, I. M. (2009). Women and employee-elected board members, and their contributions to board control tasks. *Journal of Business Ethics, 89*(4), 581-597.

Indjejikian, R. J. (1999). Performance evaluation and compensation research: An agency perspective. *Accounting Horizons, 13*(2), 147-157.

Ismail, K., Abdullah, S. N., & Nachum, L. (2013). *Women on Boards of Directors of Malaysia Firms: Impact on Market and Accounting Performance.* Paper presented at the Academy of Management Proceedings.

Jackall, R. (1978). *Workers in a labyrinth: Jobs and survival in a bank bureaucracy*: New York, NY: Allanheld & Schram.

Jackson, S. E., Joshi, A., & Erhardt, N. L. (2003). Recent research on team and organizational diversity: SWOT analysis and implications. *Journal of management, 29*(6), 801-830.

Jamil, H., & Razak, N. A. (2010). Ethnicity and education policy in Malaysia: Managing and mediating the ethnic diversity. *Journal of US-China Public Administration, 7*(1), 77-87.

Jeanjean, T., & Stolowy, H. (2009). Determinants of board members' financial expertise—Empirical evidence from France. *The International Journal of Accounting*, *44*(4), 378-402.

Jensen, M. C. (1993). The modern industrial revolution, exit, and the failure of internal control systems. *The Journal of Finance*, *48*(3), 831-880.

Jensen, M. C., Kaplan, S. N., & Stiglin, L. (1989). Effects of LBOs on tax revenues of the US treasury. *Tax Notes, 42*(6). Available at SSRN: https://ssrn.com/abstract=173454 or http://dx.doi.org/10.2139/ssrn.173454

Jensen, M. C., & Meckling, W. H. (1976). Theory of the firm: Managerial behavior, agency costs and ownership structure. *Journal of financial economics, 3*(4), 305-360.

Jensen, M. C., & Warner, J. B. (1988). The distribution of power among corporate managers, shareholders, and directors. *Journal of financial economics, 20,* 3-24.

Jiraporn, P., Singh, M., & Lee, C. I. (2009). Ineffective corporate governance: Director busyness and board committee memberships. *Journal of Banking & Finance, 33*(5), 819-828.

Jomo, K. S. (1997). Southeast Asia's Misunderstood Miracle. *Industrial Policy and Economic Development in Thailand, Malaysia and Indonesia.* Colorado: Westview.

Kaczmarek, S., Kimino, S., & Pye, A. (2012). Antecedents of board composition: The role of nomination committees. *Corporate Governance: An International Review, 20*(5), 474-489.

Kaufman, A., & Englander, E. (2005). A team production model of corporate governance. *The Academy of Management Executive, 19*(3), 9-22.

Khas, M. (2002). *Corporate governance in Malaysia: Issues and challenges*. Paper presented at the Colloquium for UiTM-MICG Corporate Governance Research Centre (UiTM Shah Alam, Malaysia).

Khoo, B. T. (2003). *Beyond Mahathir: Malaysian politics and its discontents*: Vauxhall, London: Zed Books.

Kraakman, R. H. (2009). *The anatomy of corporate law: A comparative and functional approach*. Oxford: Oxford University Press.

Langton, N., Robbins, S. P., & Judge, T. (2011). *Fundamentals of Organizational Behaviour*: Ontario: Pearson Education Canada.

Lara, J. M. G., Osma, B. G., & Penalva, F. (2009). Accounting conservatism and corporate governance. *Review of Accounting Studies, 14*(1), 161-201.

Latham, M. (1999). The corporate monitoring firm. *Corporate Governance: An International Review, 7*(1), 12-20.

Lawrence, P., & Lorsch, J. (1967). Organization and Environment. Boston, MA: Harvard Business School Press.

Liao, L., Luo, L., & Tang, Q. (2015). Gender diversity, board independence, environmental committee and greenhouse gas disclosure. *The British Accounting Review, 47*(4), 409-424.

Lipton, M., & Lorsch, J. W. (1992). A modest proposal for improved corporate governance. *The business lawyer*, 59-77.

Lodder, A. M. F. (2014). *Dans les Coulisses France's Mediatory Role in the Paris Peace Negotiations to end the Vietnam War, 1968-1973* (Master's thesis, Utrecht University)

Loderer, C. F., Neusser, K., & Waelchli, U. (2011). Firm age and survival. *Available at SSRN 1430408*.

Loderer, C. F., & Waelchli, U. (2010). Firm age and performance. *Available at SSRN 1342248*.

Lorsch, J. W., & MacIver, E. (1989). Pawns or potentates: The reality of America's corporate boards. Boston, MA: Harvard Business School Press.

Lückerath-Rovers, M. (2013). Women on boards and firm performance. *Journal of Management & Governance, 17*(2), 491-509.

Luo, Y. (2005). How does globalization affect corporate governance and accountability? A perspective from MNEs. *Journal of International Management, 11*(1), 19-41.

Mackerras, C., Maidment, R., & Schak, D. (1998). Diversity and Convergence in Asia-Pacific society and culture. *Culture and Society in the Asia-Pacific*, *3*, 1-13

Main, B. G., & Johnston, J. (1993). Remuneration committees and corporate governance. *Accounting and Business Research*, *23*(1), 351-362.

Malaysia, D. o. S. (2010). Population Distribution and Basic Demographic Characteristic Report 2010. Putrajaya: Department of Statistics Malaysia.

Marimuthu, M., Arokiasamy, L., & Ismail, M. (2009). Human capital development and its impact on firm performance: Evidence from developmental economics. *The journal of international social research*, *2*(8), 265-272.

Marimuthu, M., & Kolandaisamy, I. (2009a). Demographic diversity in top level management and its implications on firm financial performance: An empirical discussion. *International Journal of Business and Management*, *4*(6), 176-188.

Marimuthu, M., & Kolandaisamy, I. (2009b). Ethnic and gender diversity in boards of directors and their relevance to financial performance of Malaysian companies. *Journal of Sustainable Development*, *2*(3), 139-148.

McKnight, P. J., & Weir, C. (2009). Agency costs, corporate governance mechanisms and ownership structure in large UK publicly quoted companies: A panel data analysis. *The Quarterly Review of Economics and Finance*, *49*(2), 139-158.

McLeod, P. L., Lobel, S. A., & Cox, T. H. (1996). Ethnic diversity and creativity in small groups. *Small group research*, *27*(2), 248-264.

Milne, R. S. (1981). *Politics in Ethnically Bipolar States: Guyana, Malaysia, Fiji*, Vancouver: University of British Columbia Press.

Minichilli, A., Corbetta, G., & MacMillan, I. C. (2010). Top management teams in family-controlled companies:'familiness','faultlines', and their impact on financial performance. *Journal of Management studies*, *47*(2), 205-222.

Mizruchi, M. S. (1996). What do interlocks do? An analysis, critique, and assessment of research on interlocking directorates. *Annual review of sociology*, 271-298.

Mohammed, H., Mahenthiran, S., Rahman, R., & Hamid, N. (2006). Agency costs that cause companies to be suspended from the Kuala Lumpur stock exchange. *Journal of Contemporary Accounting and Economics*, *6*(1), 99-121.

Mohd, A. H. (2002). *The British colonial legacy: sport and politics in multi-ethnic Malaysia from 1800 to 2000*. Coventry: University of Warwick.

Morgan, G., Gregory, F., & Roach, C. (1997). *Images of organization*. California: Sage Publication Inc.

Murphy, K. J. (1985). Corporate performance and managerial remuneration: An empirical analysis. *Journal of accounting and economics*, *7*(1), 11-42.

Murray, A. I. (1989). Top management group heterogeneity and firm performance. *Strategic management journal, 10*(S1), 125-141.

Nayak, A., Maclean, M., Harvey, C., & Chia, R. (2007). Entrepreneurship, corporate governance, and Indian business elites. *International Journal of Indian Culture and Business Management, 1*(1-2), 9-27.

Nielsen, S. (2010). Top management team diversity: A review of theories and methodologies. *International Journal of Management Reviews, 12*(3), 301-316.

Nielsen, S., & Huse, M. (2010a). The contribution of women on boards of directors: Going beyond the surface. *Corporate Governance: An International Review, 18*(2), 136-148.

Nielsen, S., & Huse, M. (2010b). Women directors' contribution to board decision-making and strategic involvement: The role of equality perception. *European Management Review, 7*(1), 16-29.

Nigh, D., & Athanassiou, N. (1999). The impact of US company internationalization on top management team advice networks: A tacit. *Strategic management journal, 20*(1), 83-92.

Nishi, T. (2014). *Corporate diversification and board composition in Japanese electronic corporations.* Paper presented at the Proceedings of International Academic Conferences.

Özbilgin, M., & Tatli, A. (2008). *Global diversity management: An evidence-based approach*. Basingstoke: Palgrave Macmillan.

Palmer, D. (1983). Broken ties: Interlocking directorates and intercorporate coordination. *Administrative science quarterly*, 40-55.

Pástor, Ľ., & Pietro, V. (2003). Stock valuation and learning about profitability. *the Journal of Finance*, *58*(5), 1749-1790.

Patrick, H. A., & Kumar, V. R. (2012). *Managing Workplace Diversity.* California: Sage Publication Inc.

Perkins, S. J., & Hendry, C. (2005). Ordering Top Pay: Interpreting the Signals. *Journal of Management studies, 42*(7), 1443-1468.

Peterson, C. A., & Philpot, J. (2007). Women’s roles on US Fortune 500 boards: Director expertise and committee memberships. *Journal of Business Ethics, 72*(2), 177-196.

Pettigrew, A., & McNulty, T. (1995). Power and influence in and around the boardroom. *Human relations*, *48*(8), 845-873.

Posner, D. N. (2004). Measuring ethnic fractionalization in Africa. *American journal of political science*, *48*(4), 849-863.

Post, C., & Byron, K. (2015). Women on boards and firm financial performance: A meta-analysis. *Academy of Management Journal, 58*(5), 1546-1571.

Prihatiningtias, Y. W. (2012). *Gender Diversity in the Boardroom and Firm Performance: Evidence From Indonesian Publicly-Listed Financial Firms*. Canberra: University of Canberra.

Pugh, D. S., Hickson, D. J., Hinings, C. R., & Turner, C. (1969). The context of organization structures. *Administrative science quarterly*, 91-114.

Randøy, T., & Nielsen, J. (2002). Company performance, corporate governance, and CEO compensation in Norway and Sweden. *Journal of Management and Governance*, *6*(1), 57-81.

Ramasamy, B., Ling, N. H., & Ting, H. W. (2007). Corporate Social Performance and Ethnicity A Comparison between Malay and Chinese Chief Executives in Malaysia. *International Journal of Cross Cultural Management, 7*(1), 29-45.

Rasiah, R. (1997). Class, ethnicity and economic development in Malaysia. *The Political Economy of South-East Asia*, 121-147.

Renneboog, L., & Zhao, Y. (2011). Us knows us in the UK: On director networks and CEO compensation. *Journal of Corporate Finance*, *17*(4), 1132-1157.

Report, H. (2003). *Review of the role and effectiveness of non-executive directors*. London: Stationery Office.

Richard, O. C. (2000). Racial diversity, business strategy, and firm performance: A resource-based view. *Academy of Management Journal, 43*(2), 164-177.

Ruigrok, W., Peck, S., & Tacheva, S. (2007). Nationality and gender diversity on Swiss corporate boards. *Corporate Governance: An International Review*, *15*(4), 546-557.

Ruigrok, W., Peck, S., Tacheva, S., Greve, P., & Hu, Y. (2006). The Determinants and Effects of Board Nomination Committees. *Journal of Management & Governance, 10*(2), 119-148.

Sánchez, I. M. G., Domínguez, L. R., & Álvarez, I. G. (2011). Corporate governance and strategic information on the internet: A study of Spanish listed companies. *Accounting, Auditing & Accountability Journal*, *24*(4), 471-501

Santos, J. B., & Brito, L. A. L. (2012). Toward a subjective measurement model for firm performance. *BAR-Brazilian Administration Review, 9*(SPE), 95-117.

Schneider, B., Hall, D. T., & Nygren, H. T. (1971). Self image and job characteristics as correlates of changing organizational identification. *Human Relations, 24*(5), 397-416.

Sendut, H. (1991). Managing in a multicultural society: The Malaysian experience. *Malaysian Management Review, 26*(1), 61-69.

Shieh, G. (2011). Clarifying the role of mean centring in multicollinearity of interaction effects. *British Journal of Mathematical and Statistical Psychology, 64*(3), 462-477.

Shivdasani, A., & Yermack, D. (1999). CEO involvement in the selection of new board members: An empirical analysis. *The Journal of Finance, 54*(5), 1829-1853.

Shumway, T. (2001). Forecasting bankruptcy more accurately: A simple hazard model. *The Journal of Business, 74*(1), 101-124.

Singh, V., & Vinnicombe, S. (2004). Why so few women directors in top UK boardrooms? Evidence and theoretical explanations. *Corporate Governance: An International Review, 12*(4), 479-488.

Snyder, D., & Tilly, C. (1972). Hardship and collective violence in France, 1830 to 1960. *American Sociological Review*, 520-532.

Solon, G., Haider, S. J., & Wooldridge, J. M. (2015). What are we weighting for? *Journal of Human resources, 50*(2), 301-316.

Specter, C. N., & Solomon, J. S. (1990). The Human Resource Factor in Chinese Management Reform: Comparing the Attitudes and Motivations of Future Managers in Shanghai, China; Baltimore, Maryland; and Miami, Florida. *International Studies of Management & Organization, 20*(1-2), 69-83.

Stevens, J. P. (2012). *Applied multivariate statistics for the social sciences*: Routledge.

Stevens, R. H. (2010). Managing human capital: How to use knowledge management to transfer knowledge in today's multi-generational workforce. *International Business Research, 3*(3), 77.

Stiles, P., & Taylor, B. (2001). *Boards at work: How directors view their roles and responsibilities: How directors view their roles and responsibilities*. Oxford: OUP.

Stock, J. H., & Watson, M. W. (2003). *Introduction to econometrics* (Vol. 104). Boston, MA: Addison Wesley Boston.

Stryker, S., & Serpe, R. T. (1982). Commitment, identity salience, and role behavior: Theory and research example *Personality, roles, and social behavior* (pp. 199-218). Berlin: Springer.

Sundaramurthy, C., & Lewis, M. (2003). Control and collaboration: Paradoxes of governance. *Academy of management Review, 28*(3), 397-415.

Tabachnick, B., & Fidell, L. (1996). Using Multivariate Statistics, (3rd Ed) New York, NY: Harper Collins.

Tajfel, H. (1978). *Differentiation between social groups: Studies in the social psychology of intergroup relations*. Cambridge, MA: Academic Press.

Tajfel, H. (2010). *Social identity and intergroup relations*. Cambridge: Cambridge University Press.

Tajfel, H., & Turner, J. (1986). The social identity theory of intergroup behavior. In. WORSHEL, S.; AUSTIN, W.(Eds.) The psychology of intergroup relations. Chicago: Nelson-Hall.

Tan, C. B. (1984, January). National Culture and National Integration. *Aliran Monthly*,

Taylor, D. M., & Moghaddam, F. M. (1994). *Theories of intergroup relations: International social psychological perspectives*. Connecticut: Greenwood Publishing Group.

Terjesen, S., Aguilera, R. V., & Lorenz, R. (2015). Legislating a woman's seat on the board: Institutional factors driving gender quotas for boards of directors. *Journal of Business Ethics, 128*(2), 233-251.

Terjesen, S., Sealy, R., & Singh, V. (2009). Women directors on corporate boards: A review and research agenda. *Corporate Governance: An International Review, 17*(3), 320-337.

Tosi, H. L., Werner, S., Katz, J. P., & Gomez-Mejia, L. R. (2000). How much does performance matter? A meta-analysis of CEO pay studies. *Journal of management*, *26*(2), 301-339.

Triana, M. d. C., Miller, T. L., & Trzebiatowski, T. M. (2013). The double-edged nature of board gender diversity: Diversity, firm performance, and the power of women directors as predictors of strategic change. *Organization Science, 25*(2), 609-632.

Tuggle, C. S., Schnatterly, K., & Johnson, R. A. (2010). Attention patterns in the boardroom: How board composition and processes affect discussion of entrepreneurial issues. *Academy of Management Journal, 53*(3), 550-571.

Turner, J. C. (1982). Towards a cognitive redefinition of the social group. *Social identity and intergroup relations*, 15-40.

Turner, J. C. (1985). Social categorization and the self-concept: A social cognitive theory of group behavior. *Advances in group processes, 2*, 77-122.

Turner, J. C., Hogg, M. A., Oakes, P. J., Reicher, S. D., & Wetherell, M. S. (1987). *Rediscovering the social group: A self-categorization theory*. Oxford: Basil Blackwell.

Tyson, L. D. A. (2003). *The Tyson Report on the Recruitment and Development of Non-executive Directors: A Report Commissioned by the Department of Trade & Industry Following the Publication of the Higgs Review of the Role and Effectiveness of Non-executive Directors in January 2003*: London Business School.

Uzun, H., Szewczyk, S. H., & Varma, R. (2004). Board composition and corporate fraud. *Financial Analysts Journal, 60*(3), 33-43.

Vafeas, N. (1999). The nature of board nominating committees and their role in corporate governance. *Journal of Business Finance & Accounting, 26*(1-2), 199-225.

Van Veen, K., & Elbertsen, J. (2008). Governance regimes and nationality diversity in corporate boards: A comparative study of Germany, the Netherlands and the United Kingdom. *Corporate Governance: An International Review, 16*(5), 386-399.

Viénot, M. (1999). Rapport du comite sur le gouvernement d'entreprise (Vienot II). [Report of the Committee on Corporate Governance (Vienot II).] Retrieved from: http://www.ecgi.org/codes/documents/vienot2_fr.pdf

Viénot, R. (1995). Le conseil d'administration des sociétés cotées. [The board of directors of listed companies] *Int'l Bus. LJ*, 933.

Wagner, W. G., Pfeffer, J., & O'Reilly III, C. A. (1984). Organizational demography and turnover in top-management group. *Administrative science quarterly,* 74-92.

Wang, B., Wang, F.-j., & Li, G.-d. (2012). The Research on Firm Diversification Strategy, Board Finance Affiliation and Corporate Performance. *Journal of Tianjin Normal University (Social Science), 2,* 002.

Wang, M., & Hussainey, K. (2013). Voluntary forward-looking statements driven by corporate governance and their value relevance. *Journal of Accounting and Public Policy, 32*(3), 26-49.

Waring, K., & Pierce, C. (2004). *The handbook of international corporate governance: A definitive guide*. London. Kogan Page Publishers.

Westphal, J. D. (1998). Board games: How CEOs adapt to increases in structural board independence from management. *Administrative science quarterly*, 511-537.

Westphal, J. D. (1999). Collaboration in the boardroom: Behavioral and performance consequences of CEO-board social ties. *Academy of Management Journal, 42*(1), 7-24.

Westphal, J. D., & Graebner, M. E. (2010). A matter of appearances: How corporate leaders manage the impressions of financial analysts about the conduct of their boards. *Academy of Management Journal, 53*(1), 15-44.

Westphal, J. D., & Zajac, E. J. (1995). Who shall govern? CEO/board power, demographic similarity, and new director selection. *Administrative science quarterly*, 60-83.

Williams, K. Y., & O'Reilly, C. A. (1998). Demography and diversity in organizations: A review of 40 years of research. *Research in organizational behavior, 20*, 77-140.

Williams, S. M. (2000). Relationship between board structure and a firm's intellectual capital performance in an emerging economy. *University of Calgary. P, 44*.

Wooldridge, J. M. (2003). Cluster-sample methods in applied econometrics. *The American Economic Review, 93*(2), 133-138.

Wright, P. M., & McMahan, G. C. (2011). Exploring human capital: putting 'human'back into strategic human resource management. *Human Resource Management Journal, 21*(2), 93-104.

Xie, B., Davidson III, W.N. and DaDalt, P.J. (2003). Earnings Management and Corporate Governance:The Roles of the Board and the Audit Committee. *Journal of Corporate Finance*, 9 295–316.

Yang, J., Chi, J., & Young, M. (2011). A review of corporate governance in China. *Asian‐Pacific Economic Literature, 25*(1), 15-28.

Yuan, J., and Yuan, C. (2007). "How to improve China's enterprise internal control system: Based on the perspective of corporate governance," *The Business Review*, *7*(2), 91-97.

Yusoff, W. F. W. (2010). *Characteristics of boards of directors and board effectiveness: a study of Malaysian public listed companies* (Doctoral dissertation, Victoria University).

Zahra, S. A., & Pearce, J. A. (1989). Boards of directors and corporate financial performance: A review and integrative model. *Journal of management, 15*(2), 291-334.

Zainal, D., Zulkifli, N., & Saleh, Z. (2013). Corporate board diversity in Malaysia: A longitudinal analysis of gender and nationality diversity. *International Journal of*

Academic Research in Accounting, Finance and Management Sciences, 3(1), 136-148.

Zajac, E. J., & Westphal, J. D. (1996). *Director Reputation, CEO/Board Power, And The Dynamics Of Board Interlocks.* Paper presented at the Academy of Management Proceedings.

Zakaullah, M. A. (1995). Islamic Culture as an Essential Component of a Comprehensive Approach to Development: Some Lessons from the Malaysian 'Miracle'. *Intellectual Discourse, 3*(2). 123-138.

Zhang, Y., & Rajagopalan, N. (2010). CEO succession planning: Finally at the center stage of the boardroom. *Business Horizons, 53*(5), 455-462.

Zulkafli, A. H., Amran, A., & Abdul Samad, M. F. (2010). Board structure and firm value: a study on listed banking firms in the Asian emerging markets. *International Journal of Business Governance and Ethics, 5*(3), 157-177.

Statutes

Malaysian Code on Corporate Governance 2000, 2007 and 2012

LIST OF PUBLICATIONS AND PAPERS PRESENTED

Pertanika J. Soc. Sci. & Hum. 24 (S): 105 - 118 (2016)

SOCIAL SCIENCES & HUMANITIES

Journal homepage: http://www.pertanika.upm.edu.my/

The Role of Nomination Committee in Selecting Female Directors: A Case of Malaysia

Pirzada K.[1]*, Mustapha, M. Z.[2] and Alfan E.[3]

Department of Accounting, Faculty of Business & Accountancy, University of Malaya, 50603 Kuala Lumpur, Malaysia

ABSTRACT

The growing importance of board diversity among directors has been established as a result of global financial crisis in 2008. According to the Malaysian Code of Corporate Governance 2012, nominating committee shall be responsible to select directors with diverse background that meet the needs of the company. This paper attempts to examine the impacts of having female directors in a nomination committee on gender diversity on board. For this purpose, 393 (50%) non-financial Malaysian listed companies were selected for the three year period of 2011 to 2013. Results indicated that having female directors in a nomination committee is significantly related to the level of gender diversity on board. The results also signify the importance to have female directors in nomination committee as it will influence gender diversity on board.

Keywords: Gender Diversity, Boards of directors, Nomination Committee, Malaysia

INTRODUCTION

Corporate governance studies are frequently motivated by desire to explore how boards work and how their conduct may contribute to value creation (Filatotchev & Boyd, 2009; Huse, Hoskisson, Zattoni, & Viganò, 2011; Ramly et al., 2015). In the second half of 1997, the world witnessed the collapse of East Asian economies. Corporate governance in private sector were developed after this period. In Malaysia, introduction of Malaysian Code of Corporate Governance (MCCG), establishment of legal and stock market regulation and foundation of new authorities were among the efforts to create better governance among corporate players in Malaysia. One of the aspects addressed by the MCCG is the establishment of

ARTICLE INFO

Article history:
Received: 28 December 2015
Accepted: 25 April 2016

E-mail addresses:
kashan_pirzada@yahoo.com (Pirzada, K.),
zulkhairi@um.edu.my (Mustapha, M. Z.),
ervina_alfan@um.edu.my (Alfan, E.)
* Corresponding author

ISSN: 0128-7702 © Universiti Putra Malaysia Press

Int. Journal of Economics and Management 11 (S1) : 109 – 122 (2017)

IJEM
International Journal of Economics and Management
Journal homepage: http://www.econ.upm.edu.my/ijem

Antecedents of Ethnic Diversity: The Role of Nomination Committees

PIRZADA, K.*, MUSTAPHA, M. Z., ALFAN, E. B.

Department of Accounting, Faculty of Business & Accountancy, University of Malaya, 50603 Kuala Lumpur, Malaysia

ABSTRACT

The role of the nomination committee (NC) in the selection of members of various ethnic groups for board membership has increased significantly as a result of the global financial crisis of 2008. A company board that comprises directors who come from all the three major ethnic groups (Malay, Chinese and Indian Malaysians) increases the efficiency of the board in its monitoring and advising roles. According to the Malaysian Code of Corporate Governance (MCCG 2012), the NC shall be responsible for the appointment and recognition of candidates of diverse backgrounds into the board and committee. With that in mind, this paper examines the presence of Malay, Chinese and Indian directors in a nomination committee and its impact on the ethnic diversity of its board. This paper also examines the influence of the executive directors who are members in the nomination committee on the nomination process. For this purpose, 393 (50%) Malaysian listed companies were selected from the three year period of 2011 to 2013. Only non-financial companies were included because other companies such as finance have a different set of regulations in Malaysia. In this study, descriptive statistics, correlation and multiple regression were used for the purpose of revealing important significance of the variables used. In order to control possible endogeneity issues, the GMM estimator was also administered. The regression results of the ethnic diversity model are statistically significant, showing that, a higher proportion of Malay and Chinese directors in a nomination committee has negative relationships while a higher proportion of Indian directors in a nomination committee increases their representation on the board. However, the proportion of

*Corresponding author: Email : kashan_pirzada@yahoo.com

Pirzada, K., Mustapha, M. Z. and Alfan, E. B. (2016). *The Role of Nominating Committee in selecting Independent Board.* Paper presented at the British Accounting and Finance Association (BAFA) Annual Conference, Bath, England. Retrieved from http://bafa.conferencespot.org/bafa-62247ann-1.3014954/t002-1.3015544/f002-1.3015545/a014-1.3015651/ap036-1.3015654