RESEARCH BRIEF

Center for Executive Succession

WOMEN ON BOARDS IN EMERGING MARKETS POSITIVELY AFFECTS FIRM PERFORMANCE, BUT NEGATIVELY AFFECTS SHAREHOLDER VALUE

Research that will appear in the *Strategic Management Journal* shows that female Board representation influences firm performance in emerging market firms. Specifically, increasing female representation on the Board resulted in increased firm ROA, but was negatively related to Tobin's q values. These results suggest that in emerging markets investors may view female Board representation negatively.

Key Takeaways:

- Increased female representation on the Board of emerging market companies increases Board-level activism.
- Increased female representation on the Board of emerging market companies increases firm accounting performance.
- Increased female representation on the Board of emerging market companies reduces shareholder performance.

Using data on 841 firms listed in 2008 on the Main Board in Bursa, Maylasia, researchers found that organizations with more women on the Board had higher ROA, but lower Tobin's q values. The authors attributed these findings to the possibility that higher ROA resulted from firms who used untapped human capital more effectively (i.e., including women on Boards). However, the lower Tobin's q values for these same firms is thought to reflect the continuing unfavorable view held by many Malaysian investors regarding the role of women in influential business positions.

The research team also found more complex relationships noting that in general the percentage of women on the Board needed to reach between 10% and 30% before results are noticed, and in this sample this was a very rare occurrence.

Their analysis statistically controlled for Board size, Firms size, the number of Chinese directors, nonexecutive directorship, and audit committee size. The authors warn that these results suggest that in some parts of the world, while adding women to the Board can positively affect organizational performance, it may require further education of the market to ensure that investors understand the benefits of diversity and inclusion in executive decision-making.

Source: Abdullah, S.N., Ismail, K.N.I.K & Nachum, L (2015). Does having women on Boards create value? The impact of societal perceptions and corporate governance in emerging markets. *Strategic Management Journal*, In Press.

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