


# Chapter 12

## Leveraging Women on Boards in Asia: Insights From Thailand

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### **ABSTRACT**

*Diverse boards have been seen as providing impetus for initiating change. This study focuses on the relationship between female representation on boards of directors and its effect on firm performance, based on evidence from the Thailand. The authors use empirical data on SET 100 Index firms observed in 2015 to 2019. The result indicate that at least one female director in the board is associated with the firm financial performance, while the female CEO/Chairman or higher percentage of females in board having no firm performance association.*

### **INTRODUCTION**

Research has shown that men and women behave differently and have different talents and perspectives. With respect to behavioural differences, Croson and Gneezy (2009) based on a literature survey; argue that women differ from men with respect to risk, social and competitive preferences. In particular, they argue that women are more risk-averse, less overconfident and more sensitive to social signals in determining appropriate behaviour. With respect to differences in talents and perspectives, Hillman et al. (2002) find that female directors are more likely to come from non-business backgrounds, are more likely to hold advanced degrees and join multiple boards at

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a faster rate. Singh et al. (2008) report that adding women to the board increases international diversity. They also show that women are significantly more likely to be experienced board members, as they have fulfilled several of these positions, especially in smaller firms.

Brammer et al. (2007) also argue that greater equality of representation provides the firm with benefits that arise from alignment with the demographic characteristics of key stakeholder groups such as customers, employees and investors. However there is not general consensus in the board diversity literature with scholars arguing, appointing female directors in response to regulatory pressure has, at best, a limited effect on firm value (Adams and Ferreira, 2009; Gregory-Smith et al., 2014). We expect that women's prospects and ability to exercise influential corporate leadership may vary based on their social, moral and authoritative status which in turn is determined by culture, societal norms and values as well as religious sensitivity (Grosvold and Brammer, 2011; Adams and Ferreira, 2009; Terjesen and Singh, 2008). Accordingly, acknowledging the socio-economic context within which women exercise their board roles can be informative for identifying the mechanisms through which female directors influence shareholder value. Therefore, we signify the performance implications of gender diversity in the context of developing economies, where less is known about the contextual validity of insights for understanding female corporate leadership contributions in Asia's fast-developing economies.

One positive attribute assigned to female directors is their superior ability, compared to male directors, to recognise and control risk (Erhardt et al, 2003; Carter et al., 2010; Schwartz-Ziv, 2015). Excessive risk taking and poor risk management are commonly cited causes of the recent global financial crisis and it is not surprising that many firms identified by irresponsible risk decisions had boards that consisted mostly of male members. The recent growing participation of women in the corporate arena, both in developed and developing economies, has gained increased attention from scholars, corporate leaders, and policy-makers but evidence of their effectiveness, particularly in Asian economies, is sparse. Therefore, this study seeks to investigate the level of female participation in corporate roles in one of Asia's fastest growing economies, Thailand, and determine whether link between female board participation, reduced enterprise risk and enhanced overall corporate performance exists.

A substantial body of evidence from Western corporate contexts suggests that appointing women on boards of directors has a positive influence on firm outcomes and shareholder value (Erhardt et al., 2003; Nielsen and Huse, 2010; Ahern and Dittmar, 2012). However, the opportunity for women to influence corporate leadership in the context of Asian economy firms has been explored by only limited studies. Thailand presents as an important research environment given it is one of the fastest

developing economies in Asia Pacific and a society where the recognition of female leadership contribution is rapidly evolving.

## **LITERATURE REVIEW**

A considerable body of empirical evidence maintains a positive relationship between female involvement in upper management, particularly the board of directors, and enhanced outcomes for firms. The assertion of a firm-level benefit from gender diversity is based on theoretical streams shared by the sociology, management, organisational and corporate governance literatures. Herring (2009) provides a good summary of the literature and concludes proponents of diversity argue it enhances firm performance for three reasons. Firstly, diversity improves workplace outcomes as, compared to homogeneous work teams; diverse work teams have greater resources and insights for problem solving (Cox, 2001; Adams and Ferreira, 2009). Secondly, innovation depends less on homogeneous individuals than on diverse groups working together and capitalising on their individuality (Page, 2007). Thirdly, diversity can influence customers' perceptions and purchasing practices (Sen and Battacharya, 2001).

Additional support for board gender diversity is provided by the corporate governance literature. In particular, Stakeholder theory posits that as the board's function is to represent its stakeholders it is more efficient when it is representative of those stakeholders (Huse and Rindova, 2001; Ahern and Dittmar, 2012). Resource dependency theory also holds that board gender diversity increases networks that link the firm to important external resources (Ruigrok et al., 2006). Other researchers argue benefits of gender diversity in upper management come from the enhanced creativity, knowledge and innovation that divergent views of females bring to the board (Carter et al., 2003; Wiersema and Bantel, 1992; Carter et al., 2010); their more inclusive and collaborative management style (Van Knippenberg et al., 2004) and their superior ability to recognise and control risk (Erhardt et al., 2003). Recent Australian evidence is provided by Hutchinson, Mack and Plastow (2014) who report that greater board gender diversity moderates firm risk which in turn improves firms' financial performance.

By recruiting female directors companies may also derive benefits from greater linkage with their external stakeholders (Singh and Vinnicombe, 2004) with the provision of legitimacy highlighted in the gender diversity literature. For example, female directors have been shown to provide a valuable form of legitimacy in the eyes of potential and current employees with female directors also symbolising career possibilities to prospective recruits (Hillman et al., 2007). The appointment of female directors to governance committees has also been shown to be indicative

of a flexible board that includes high ability individuals in governance to enhance firm performance (Smale and Miller, 2015).

In recognition of the abilities and opportunities of women a number of developed countries, such as Norway and Denmark, have mandated regulations that prescribe fixed quota percentages for women on corporate boards (Joana, Janneke and Chantal, 2010; Isidro and Sobral, 2014). While researchers claim that the increased number of women on boards (Vance, 1983; Heidrick and Struggles, 1986; Grosvold and Brammer, 2011; Ahern and Dittmar, 2012) and the increasing number of female Chief Executive Officers (CEOs) is a signal of the transition of women to top executive roles (Spencer, 1984) others argue that though the actual number of women on board has been increasing, proportionately it is still not notable (Gregory-Smith, Main and O'Reilly, 2014).

However, emerging economies are lagging behind in mandating legislation or promoting policies that encourage increased female participation in the board room with participation rates remaining low. While the empirical evidence documents mixed findings on women's ability to influence corporate leadership and performance in the context of western economies, the situation in fast growing Asian economies has barely been examined (Alowaihan, 2004; Afza, 2011; Abdullah et al., 2015). Therefore, the main focus of this study is to examine the extent to which women are appointed to corporate boards in Thailand, the corporate governance characteristics of firms that appoint them and to investigate their impact on firm outcomes.

Yet there are other studies that do not find any significant relationship between female board representation and firm performance. Using a panel dataset of 300 firms from Fortune 1000 firms over the period 1990-1999 with Poisson regression, Farrell and Hersch (2005) found that the addition of female directors to the board has no significant impact on the return on assets. Carter et al. (2010) also found that the number of female directors is not significantly related to Tobin's Q or return on assets in S&P indexed companies. Moreover, Rose (2007) shows there is no significant link between firm performance and board gender diversity with a sample of Danish firms for years 1998-2001. Adams and Ferreira (2009) found that although female directors are more diligent monitors of the firm, they appear to have a negative impact on Tobin's Q. Ahern and Dittmar (2012) found that imposing a 40% female director quota in Norway results in lower Tobin's Q. They argue that the reason might be that the law forces firms to pick younger or less experienced females as their board directors.

The literature on how female board members affect governance decisions is scarce. Adams and Ferreira (2009) document that female directors generally have fewer attendance problems, suggesting that female directors are more active monitors compared their male counterparts.

## **HYPOTHESES DEVELOPMENT**

Within a corporate governance framework, the composition of corporate boards is crucial to aligning the interest of all stakeholders, to providing information for monitoring and counselling, and to ensuring effective decision-making (Becht, Bolton and Röell, 2002; Hermalin and Weisbach, 2003). Gender diversity, together with board size, age dispersion and the share of directors chosen by the employees, all relate to board decision-making processes (Bøhren and Strøm, 2007).

In western economies diversity issues have taken centre stage on account of the following reasons; first, many institutional investors are implementing diversity aspects as part of their investment practices and commitment to diversity in employment is part of socially responsible investment indices (Yasser, 2012). Also board gender diversity is desired by customers, employees and other stakeholders since it demonstrates the sensitivity of management to stakeholder preferences, aspirations and concerns (Ibid, 2012). Lastly, board gender diversity has been the subject of discussions for best practices in corporate governance.

Smith et al. (2006) found that female employee elected directors have a positive impact on firm performance, while female shareholder elected directors have the opposite effect. A significant part of the shareholder elected female directors is found to have family ties to firm owners.

Carter et al. (2003) explain the relationship between board gender diversity and firm performance based on the agency theory and they posit that board gender diversity enhances the board's ability to monitor top management. In addition to this, they argue that increasing the number of female directors may increase board's independence since women tend to ask questions that male directors may not ask.

In addition, Smith et al. (2006), posit that board gender diversity enhances problem solving as a variety of perspectives arise hence more alternatives are evaluated in the process. Furthermore, a more gender diverse board may also improve a firm's competitive advantage provided it improves the image of the firm and if this has a positive effect on customers' behaviour and thus on a firm's performance (Smith et al., 2006). Based on the above arguments, we hypothesise that:

**Hypothesis 1:** Does gender diversity in a firm impact positively on firm performance?

Since the marketplace itself is diverse, higher proportionate of female directors will make it easy for firms to penetrate these markets. Robinson and Dechant (1997) also noted that a higher percentage of female directors in boards increase creativity and innovation. This view therefore states that the attitudes, beliefs and cognitive functioning of humans are not distributed in a random pattern but appear to be systematically distributed with variables like gender, race and age. It is further

noted that diversity especially in terms of gender leads to greater problem solving. This is because many alternatives are carefully evaluated in terms of pros and cons.

Carter et al. (2003) examined the relationship between board gender diversity and firm value for the Fortune 1000 firms. Using Tobin's Q as a measure of firm value, they found statistically significant positive relationships between the percentage of women on the board of directors and firm value as well as presence of women on the board of directors and firm value. In line with these findings, this research argues that it is likely that higher percentage of female directors in the boardroom, as measured, may influence firm performance. Brammer et al. (2007) suggest that higher female proportion in boards is shaped by a close proximity to stakeholders, such as customers, employees, labour unions and investors as the firm's external business environment whose demands are for a greater diversity. Broome and Krawiec (2008) assume this is because firms need to signal that they are committed to equality, although it is argued that this practice may lead to a negative reputational cost for the firms as an impact of an inability to give meaning to the higher diversity (Shin and Gulati, 2011). Lindstädt et al. (2011) show that positive significant performance effects of female supervisory board members are only attained in firms with a high proportion of females in the workforce or in firms in the business to customer (B2C) business. Torchia et al. (2011) document that having three or more women on boards positively influence firm innovation through board strategic tasks. We propose the following hypothesis:

**Hypothesis 2:** Does female proportion in a firm impact positively on firm performance?

We also find that women directors with senior corporate experience are associated with higher firm performance relative to women directors with non-corporate or junior corporate backgrounds. This is consistent with women directors with senior corporate experience having greater monitoring and advising capability and being better informed given their background and business connections. This may also indicate that women directors with senior corporate experience are able to elicit value adding incremental monitoring efforts from other board members.

Literature (for example, Bliss and Potter, 2002, Wei, 2007), notes that women, in addition to being more risk averse, worry more about the way the company money is spent and normally extract less personal benefits from the company than men. Laakso (2010) complement this information, stating that women make more ethical decisions in the workplace than men on CEO position. Based on the above, our first null hypothesis is proposed:

**Hypothesis 3:** Does female CEO/Chairman impact positively on firm performance?

## **METHODOLOGY**

The focus of the study is a sample of the largest 100 companies listed on the Stock Exchange Thailand for the years 2014-2019. This allows for a sufficient lag for firms to adjust their board nomination practices and enables a comparison of Thailand corporate governance pre and post the Code. As previously mentioned the revised Code of Corporate Governance had a particular emphasis on increasing female presence on Thai boards<sup>1</sup>.

The final sample comprises 500 observations over five consecutive years with each company investigated for increases in female board member appointment. Using annual reports for data collection is preferred as these reports are audited, have been published and are publicly available. Furthermore, annual reports of public listed companies are presented uniformly and disclosures must comply with SET. There were 843 companies listed in the main market on Thailand as of 31st December 2018, from which 100 large companies are taken for this study for each of five consecutive years.

The study employs non-financial data relating to the sample of 100 listed companies and data gathered from the SET website. We employ financial measures for performance including ROA (return on asset) and ROE (return on equity). These are derived from the relevant firm financial reports. Data on gender diversity and other board characteristics are also obtained from the audited annual reports. In this study, we also control for board size (total number of board members) and firm size (natural log of total assets held by the firm). We use three measures of female board representation, i.e. the number of female directors, the percentage of female directors and a dichotomous variable that equals 1 when a female is CEO or Chairman and 0 otherwise.

## **FINDINGS**

In order to increase female participation in board rooms, governments and regulators around the world have recently started intervening (Credit Suisse, 2012; Isidro and Sobral, 2014), Thailand among them. However there is scarce empirical research on the issue in Thailand and in other developing economies. To date, our preliminary findings suggest that as few as 9% of our sample of 100 large Thai firms disclose the existence of female directors on the board. The presence of female CEOs, the proportion of female board members and their influence on firm performance will be examined in the next stage of this study.

Earlier studies have also found minimal presence of women on boards including Loscocco et al. (1991), Fischer et al. (1993), Prasso (1996), Butner and Moore (1997),

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Fasci and Valdez (1998), Ahern and Dittmar (2012), Alowaihan (2004) and Shaw et al. (2009). In addition we will investigate corporate governance characteristics of those firms that appoint female directors with an important focus on the examination of the influence of female board members on firm performance, measured in terms of ROA and ROE. Building on the work of extant studies, we examine how (H1) female presence on board and (H2) the percentage of female board members and (H3) the presence of a female CEO/Chairman status on firm performance.

Descriptive statistics explain the primary characteristics of quantitative data acquired during the data collection process to summarize the data (Hair et al. 2003). Table 1 presents the statistics of the gender diversity and performance. We see from the table that, the mean values of gender diversity in board is 28%, 34%, 27%, 38% and 28% from 2015 to the 2019 respectively. While the female percentage in board is 5.5% on average and CEO/Chairman status of female is 5% with a standard deviation of 18.5%.

*Table 1. Descriptive statistics*

<i>Variables</i>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>Total</b>	<b>S.D.</b>
<i>Gender Diversity in Board</i>	0.28	0.34	0.27	0.38	0.28	0.31	0.44
<i>Female Proportionate in Board</i>	5.2	5.6	5.1	5.9	5.2	5.5	11.12
<i>CEO/Chairman Gender Status</i>	0.04	0.05	0.04	0.06	0.04	0.05	0.185
<i>Firm Size</i>	5.26	5.35	5.27	5.36	5.42	5.38	1.65
<i>Board Size</i>	8.71	8.90	7.89	8.05	8.12	8.41	3.26
<i>Return on Assets</i>	2.32	3.15	2.89	2.99	2.83	2.94	4.31
<i>Return on Equity</i>	5.69	7.05	6.21	6.66	5.89	6.32	5.58

The ROA reflects the profitability of firms based on accounting numbers taken from the financial reports. The ROA is a ratio of net income and total assets. On average, from 2015 to 2019, the value of ROA was 2.94%. However, the ROE is a ratio of net income and total equity. On average, from 2015 to 2019, the value of ROE was 6.32% with a standard deviation of 5.58.

The results of correlation coefficient analysis (Table 2) indicate that gender diversity is positively associated with the return on assets. Except that, there is no association with the variables in the data set.

Table 3 indicates the regression analysis of the gender diversity issue of the Thai 100 indexed companies. The result indicate that at least one female director in the board is positively associated with the firm financial performance in line with the results of Adams and Ferreira (2009) and Wei (2007). The higher percentage of



Table 2. Correlation coefficient analysis

	Variables	1	2	3	4	5	6	7
1.	<i>Gender Diversity</i>	1						
2.	<i>Female Proportionate</i>	0.10	1					
3.	<i>Female CEO/Chairman</i>	0.59	2.32	1				
4.	<i>Board Size</i>	1.26	0.89	0.69	1			
5.	<i>Firm Size</i>	1.11	0.10	0.22	-.51	1		
6.	<i>ROA</i>	0.02**	0.32	-.46	0.56	0.43	1	
7.	<i>ROE</i>	0.19	0.22	0.59	1.17	0.66	0.33	1

female directors and female as CEO or the chairman of the board is not associated with any performance indicator by taking the performance as ROE and ROA. The corporate landscape of Thailand is different from the European context and the presence of the female CEO/Chairman and the selection criteria of different gender are also different from the European constitution as examined by Smith at al. (2006). However, firm size is also having a positive association with the firm financial performance. There is no apparent effect on the firm financial performance by changing the board numbers.

## DISCUSSION AND IMPLICATIONS

The role of females as board members and top corporate executive in a company, CEO, in driving firm performance has become a very topical issue, especially in the

Table 3. Regression analysis

	ROA	ROE
<i>Gender Diversity</i>	0.12**	0.85
<i>Female Proportionate</i>	0.42	1.10
<i>Female CEO/Chairman</i>	0.97	1.08
<i>Board Size</i>	2.39	2.15
<i>Firm Size</i>	2.28**	1.97**
<i>R<sup>2</sup></i>	36%	42%
<i>Adj. R<sup>2</sup></i>	31%	34%
<i>F-Statistics</i>	5.125	6.235
<i>Prob.</i>	0.00	0.00

current times of economic catastrophe in which largely attributed to unsound risk management practices, there is debate if the global economic picture would have looked less grim, had there been more women on boards of directors in the distressed financial institutions. The results of this study suggest that female directors not only contribute more types of expertise than male counterparts do but also offer particular sets of expertise currently missing in the incumbent corporate boards. Therefore, adding women directors, with their unique skill contribution, to corporate boards would increase heterogeneity of board skills. This skill heterogeneity increase would, in turn, enhance the overall advisory effectiveness of the board and improve firm value (Kim and Starks, 2015).

This study uses social identity theory and resource dependence theory to examine factors in relation to female presence in the corporate board rooms in a fast-growing developing Asian economy, Thailand. We examine the social identity aspect of gender diversity in establishing a theoretical foundation for listed firms in Thailand where board diversity has been emphasised by the regulators.

In providing empirical evidence for the drivers of and benefits of gender diversity on corporate boards in an emerging economy, our findings evidence several implications for practice, policy, theory and the future research agenda. These findings in particular will allow policy makers and stakeholder groups to evaluate current board diversity recommendations and provide evidence to firms to strengthen their corporate governance through greater female participation.

## **LIMITATION AND FUTURE RESEARCH**

Even though the sample focuses on Thai large firms whose practices should be expected to comply regulations the transferability of our findings to other jurisdictions may be limited by the idiosyncratic characteristics of Thailand. If preliminary findings of no relation between female presence on board and performance hold we suggest future research to investigate the relationship in other emerging economy firms.

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## ENDNOTE

- <sup>1</sup> The board should establish a policy formalising its approach to boardroom diversity. The board through its Nominating Committee should take steps to ensure that women candidates are sought as part of its recruitment exercise. The board should explicitly disclose in the annual report its gender diversity policies and targets and the measures taken to meet those targets.