The Relationship between Female Directors and Male Muslim Directors on the Firm Performance: Evidence from Malaysia

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Abstract

This study examines the relationship between female directors and male Muslim directors on the firm performance in Malaysia. The sample comprises of 180 listed firms in the trade and service industry in Bursa Malaysia. This study measured the firm performance using Return on Assets (ROA). This study also controlled for audit committee characteristics and board characteristics when examining the association between female directors and male Muslim directors with firm performance. The findings indicate a significant positive relationship between female directors and the firm performance. The Ordinary Least Square (OLS) regression also demonstrated a complementary relationship between female directors, male Muslim directors, and the firm performance, thus suggesting a positive interaction between the variables. This study deduces that female directors are able to perform their monitoring roles effectively in improving the firm's performance, especially when they are accompanied by male Muslim directors. This finding provides supporting evidence for the appointment of 30% of female directors in the listed firms in Malaysia at the beginning of 2016. The finding of this study is significant for the policymakers to justify the need to increase future woman's involvement in becoming part of the firm's board members.

Keywords:

Board of Directors, Corporate Governance, Emerging Economy

INTRODUCTION

In an Asian country such as Malaysia, the role of female is often been downplay especially when they are working together in the team with the male in a male-dominated field such as in the army as well as the board of directors. In the long history of male-dominated board of directors in the Malaysian firms, the appointment of female in the board, in one hand, is considered as a good move by the government to break the monopoly and to provide alternatives. Nevertheless, on the other hands, while the appointment of female in the board

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might work well in the western setting, such move might be seen as taboo in the eastern culture and traditional value of eastern society might undermine the role of female in within this society. Thus, the synergies between female and male Muslim directors are unknown in the Malaysian context. While previous researches have been focused on the impact of female directors on firm performance, none of previous research focused on the interaction between female and male Muslim directors, especially from an eastern culture background such as Malaysia.

This study empirically examines (i) the relationship between female directors and Muslim male directors on the firm performance, and (ii) the interaction effects between female directors and Muslim male directors on the firm performance. The key interest of this study is in female directors' involvement in becoming part of the firms' board members since June 2011. The new policy enactment by Prime Minister Datuk Seri Najib Tun Razak is to promote gender equality by encouraging corporate companies to achieve 30 per cent representation of women in decision-making positions in the private sector. Moreover, the female placement in the board has also been promoted in the Malaysian Code of Corporate Governance (MCCG) in 2017. Therefore, this study considers that this topic is both timely and substantively significant. The placement of female directors in a board is a central to board diversity policies in a firm (Hassan & Marimuthu, 2017). Besides, Malaysia is a Muslim majority country, where the percentage of Muslim is 55%, while another 45% belong to the non-Muslim with diverse ethnicity and religion (Hassan & Marimuthu, 2017).

This study contributes to the previous literature in several ways. First and foremost, unlike previous literature that are focusing on the role of Muslim directors in the board (e.g., Haron, 2018; Shatnawi et al., 2020) or female directors' appointment in the board (e.g., Green & Homroy, 2018; Ararat & Yurtoglu, 2021), this study research examines the interaction effect between both male Muslim directors and female directors, something that has been predominantly neglected by the prior literature. While the placement of female in the high ranked position is considered as a controversial issue in Asian countries (Thompson, 2002), it is important to scrutinise the effective roles of female directors in the Muslim majority country such as Malaysia. Second, this study focus on the Malaysian firms since Malaysia is a unique setting in the sense that it provides a helpful ground for study on the impact of gender and religious diversity in decision making level due to its multicultural culture and society. In Malaysia, where the eastern values are more favourable than the western counterparts, it is crucial to understand the interaction of female and male Muslim directors, where the board environment are usually male dominated (Mumtaz, 2022).

Previous study offers mixed findings on the impact of female directors on firm performance. For example, Ahern & Dittmar, (2012) find that imposing quota of 40% female directors on boards in Norway's public companies results in lower firm value. They attribute the findings to the possibility that the law forces firms to hire younger and less experienced women as directors. Liu et al., (2013) find a positive and significant relationship between female directors and distribution of firm performance in China. The aforementioned findings do not provide significant guidance in the case of Malaysia given that corporate governance practice in Malaysia is weaker than U.S. and other develop countries (Abdul et al., 2013).

In order to find the clear evident about the relationship between female directors and firm performance in Malaysia, this study therefore rely on 180 public listed firms from Trade & Service Industry in Bursa Malaysia. The result indicates that female directors are positively related to the firm performance, thus confirming the Malaysian government effort in the placement of more female on board. Moreover, the OLS regression also shows that there is a complementary relationship between female directors and Muslim director. The result demonstrated that the monitoring roles of the female directors is stronger in the present of Muslim directors in the board. This study acknowledges that the findings of this study will be useful for the policy makers in Malaysia in setting the rules in respect to the placement of female in the decision-making roles in the Bursa Malaysia.

This paper is organized as follows. It discusses the literature review and hypotheses development in the section 2. After that, this paper explains about the research methodology in section 3. Next, the findings are presented in section 4. The fifth section concludes this research and the limitations and future research are discussed in section 6.

LITERATURE REVIEW

Agency theory is the bureau of financial economics that explains the relationship between principals and agents in business (Eisenhardt, 2015). Agency theories are widely applied to describe and explain problems associated with the agency relationship. According to Namazi (2013), the agency relationship exists when single or multiple principles engaged another person to perform a service on their behalf. For the agent to perform the service, the principal must delegate authority to the agent to perform decision-making.

The preeminent matter of agency theory as described by Jensen & Meckling (1976), is to ensure the alignment of the agent's accomplishments that are consistent with the principal's expectation. Based on the conception the agents may have diverse goals that are not consistent with the principles. Two main agency problems were identified: how to align the conflicting goals of principals and agents, and how to reduce information asymmetry between agents and principals (Jensen, 1994; Laiho, 2011).

According to Khan (2011) and Ayuso & Argandona (2007), effective corporate governance mechanisms can reduce the principal-agent problem in organizations. Corporate governance is a system that is designed and applied to direct and control corporations or businesses (Shleifer & Vishny, 1997). The mechanism distributes rights and responsibilities among stakeholders in the corporation. This includes board members, managers, shareholders and other stakeholders (Souster, 2012; Hasan, 2009; Man & Wong, 2013). Proper corporate governance enables a substantial control environment, board member empowerment, and high levels of transparency and disclosure, including upholding shareholders' rights (Carter et al., 2003; Al-Matari, 2012).

Besides strong governance of the board, the presence of a female director on the board is an emerging solution to support corporate governance mechanisms in solving agency problems. Adams & Ferreira (2009) found that female directors are generally associated with higher monitoring activities, thus underline the role of female as one component of corporate governance mechanism. Existing evidence shows that board meeting attendance is positively related to monitoring efforts by a female director. Research by Adams & Ferreira (2009) also shows female directors have fewer attendance problems compared to male directors. Female directors are well prepared for the meeting and they less depend on information from the management (Virtanen, 2013). This attitude of female directors helps to reduce principal-agent problems. From the Malaysian context, the presence of female directors in the board has been promoted in the Malaysian Code on Corporate Governance in 2017, thus highlighting the role of female as one of the corporate governance mechanisms that will be able to mitigate agency cost.

Previous studies also highlighted on the female contribution in the business organization. Amin et al. (2021) reported that the presence of female in the board increased firm's performance. Besides, the presence of female offers higher monitoring to the firms, hence reducing agency cost such as earning management (Al-Absy, 2022) and combating fraud (Wang, Yu and Gao, 2022).

Potential of Female Directors

Professionals believe that companies with female directors deal more adequately with risk. Jianakoplos & Bernasek (1998) and Bart & McQueen (2013) found female more risk averse than male directors. Female directors' characteristics are meticulous about the task or objectives needed to be done (Eagly & Carli, 2003; Guy et al., 2013). Board members with more female directors showcase better dynamic (Goyette, 2010), supportive (Magic & Cruise, 2006; Rampling, 2011; Bell, 2005), and collaborative (Terjesen et al., 2009; Dezsö & Ross, 2012), and the way they communicate with clients and shareholders tend to be more vigorously (Boulouta, 2012; Adams et al., 2011; Farrell & Hersch, 2001). This helps companies to build a stronger relationships with shareholders, thus understanding their role to improve shareholders wealth. Abdul & Barrett (2014) revealed more female directors on the board promote social justice and protect shareholder interest.

Besides, female directors bring a different style to board tasks and better environmental adaptation (Yusoff, & Ramin, 2013; Virtanen, 2013). Female directors are able to attract and absorb superior employees (Dezsö & Ross, 2008; Krawiec et al., 2013). Bianco et al., (2011) found that female directors took more active roles on boards and used board power more than male directors. In board meetings, female are said to listen more openly to other speakers (Abdul et al., 2013; Bernardi & Threadgill, 2010), attend more eagerly to other's needs (Sila et al., 2016; Liu et al., 2013; Skaggs et al., 2012), offer respect and consideration more often, and do more help the group identify mutually satisfactory compromises to solve delicate problems (Virtanen, 2012; Campbell & Vera, 2009; Lückerath-Rovers, 2013; Smith et al., 2006). Moreover, female directors have fewer attendance problems than male directors and allocate more effort to monitoring activities (Adams & Ferreira, 2009). This is said to be due to female's cooperative, polite, sympathetic, and empathetic characteristics (Kramer et al., 2007).

Furthermore, more female directors on the boards may promote creative and innovative ideas (Carter et al., 2010; Dezsö & Ross, 2012). Research shows that Fortune 500 companies with female directors are better than others at identifying and capitalizing on innovative opportunities. Companies with female directors tend to be highly innovative (Carter et al., 2010; Wilson & Altanlar, 2009; Khan, 2011). Female directors introduce new concepts and practices to their industries, establish organizational structures that facilitate innovation, and adopt more progressive management practices than male directors.

Female Directors and Firm Performance

Prior studies examine the relationship between female directors and performance from all over the world including China (Liu et al., 2013; Cheng et al., 2010; Lam et al., 2013), Italy (Bianco et al., 2011), Swedish (Adams & Funk, 2011), Sri Lanka (Wellalage & Locke, 2012), UK (Dowling & Aribi, 2013; Sila et al., (2016), Netherlands (Tran et al., 2021; Luckerath, 2011), US (Rampling, 2011; Adams & Ferreira, 2009; Muller-Kahle & Schiehll, 2013; Kimball et al., 2012), Nigeria (Akpan & Amran, 2014), and India (Wellalage & Locke, 2012).

Studies from China provide mixed findings with respect to the association between female directors and firm performance. Liu et al., (2013) examine the relationship between female directors and firm performance, of 500 listed firms in China during the years 1999-2011. They found that Boards with more than three female directors have a strong influence on a firm's performance compared to boards with two or fewer than that. Another study by Cheng et al., (2010) investigated the impact of board diversity and performance using 5, 339 firms from the China Stock Market from the year 1999 to the year 2005. They found that gender diversity has mixed impacts on different performance indicators. Their finding demonstrated that female directors have a positive influence on the change in earnings per share (EPS) when compared to male directors in a firm. However, their result also indicates that female directors have a negative influence on a firm's change in return on assets (ROA) and the ratio of the market value of equity to book value of equity.

From the US perspective, Adams & Ferreira (2009) found that the board gender diversity better improves firm performance in a legal person-controlled environment than in a state-controlled environment. Rampling (2011) examine the relationship between gender diversity and firm performance in the UK, the US and Australia during the year 2000 to 2012. Their findings reported that board diversity has a direct influence on earnings before interest and tax and net profit after tax but has a lower influence on the return on asset, return on equity and return on total capital of a firm's performance.

In Europe, Tran et al., (2021) examine the relationship between female directors and firm performance using 21 Western European financial institutions. Their findings reported a negative relationship which exhibits that the presence of female directors on the board has reduced firm performance. Smith et al., (2006) which was used data from the 2,500 largest Danish firms observed during the period 1993 to 2001 to define the relation between female directors and a firm's performance. The results indicate that female directors have a positive effect on a firm's performance when they have higher education and are elected by the company staff.

A similar study was conducted by Bart & McQueen (2013), Kimball, Palmer & Marquis (2012), Muller-Kahle & Schiehll (2013) to investigate female directors role in firm's performance. They found that female directors have a significant influence on firm performance. Female directors appear to make a better decision on the firm performance compared to men (Bart & McQueen, 2013). Furthermore, when a firm involves female directors on its board, it tends to engage in more environmentally friendly policies and practises (Kimball et al., 2012).

Recent evidence suggests that a firm's board of management is interested in appointing female directors in their board but the actual problem was they cannot exhibit different leadership style that is used to seeing from male directors. The boards are more preferred to choose a director whose actions and behavioural assign more commonly match personal stereotypes of director leadership (Larcker, Miles & Tayan, 2014). There is some empirical evidence for this statement. Dezsö & Ross (2008) find that having a female as a director has a neutral or negative effect on firm performance. However, they indicated female participation in senior management below the director level has a stronger positive influence on firm performance when measured by Tobin's Q.

From South East Asian perspective, several studies have been carried out in examining the impact of female directors and firm performance. In Malaysia, Ahmad, Raja Kamaruzaman, Hamdan & Annuar (2020) study the influence of female directors on firm performance. Using Top 200 Malaysian firms, they found that the appointment of female director is negatively correlated with firms' performance. A study in Indonesia by Marpaung, Koto, Hafiz & Hamdani (2022) demonstrated no relationship between female directors' appointment and firm's performance. Another study in this area, Papangkorn, Chatjuthamard, Jiraporn &

Cheuykamhang (2019) found that there is a positive relationship between female director's and firm performance in Thailand. This suggest that the findings on female appointment in the board is conflicting from the perspective of South East Asia.

HYPOTHESIS DEVELOPMENT

Female Directors and Firm Performance

Incorporating females into a nation's economy is fundamental for a society to prosper. Female directors are naturally more risk-averse and middle-of-the-road in making investment decisions (Sila, Gonzales & Hagendorff, 2016; Phillips, 2012; Dowling & Aribi, 2013; Jianakoplos & Bernasek, 1998). Bart & McQueen (2013) found female directors highly develop in Complex Moral Reasoning (CMR) compare to male directors on board and therefore female directors can make a fair decision effectively. Female directors personify significant bearing in reducing the incidents of real earning management. Thus, firms with at least three female directors have better earning quality (Strydom & Au Yong, 2012). Furthermore, female directors are more accessible to learning, more analytical and vigorously devote effort to figure out the viewpoint and reasoning of others (Adams & Ferreira, 2009; Carter, Simkins & Simpson, 2003; Bart & McQueen, 2013; Simpson et al., 2010). Consequently, this enables them to view more preferences, choices and outcomes.

Previous studies have reported that there is a significant positive relationship between female directors on board and a firm's performance (for example, Carter et al., 2003; Dezsö & Ross, 2012; Smith, Smith & Verner, 2006; Farrell & Hersch, 2005; Tsui, Gul & Srinidhi, 2011; Liu, Wei & Xie, 2013; Lückerath-Rovers, 2013). So, the following hypothesis is expected.

H1: There is a positive relationship between female directors and firm performance.

Male Muslim Directors and Firm Performance

Religiosity is one of the personal characteristics that influence the ethical decision-making process of the directors on the board (McGuire, Omer & Sharp, 2012). According to (Haron, 2018), the existence of Muslim directors on the board should stimulate sound corporate governance due to the strong ethical behaviour that shaped the foundation of this religion, hence requiring less monitoring. Therefore, Muslim directors tend to make a decision that will benefit the firms rather than their personal interest, through improving the firm performance (Haron, 2018) since they believed that all actions taken in this world will be accountable to Allah in the hereafter (Shatnawi, Hanefah, Eldaia & Sakarneh 2020). In line with this view, Haron (2018) found that the appointment of Muslim directors to the board improves firm performance in the context of Malaysia.

Alkdai & Hanefah (2012) points out that the existence of more Muslim Directors on the corporate board of directors increases the diversity of the backgrounds, skills, opinions and experience of its members, which may increase the effectiveness of the decision-making process. In Islam, ethics conduct all aspects of life (Arslan, 2009; Beekun, 1997). The conditions for everlasting success in Islam are the same for all Muslims. Muslims obey Islamic instructions in managing their business circumstances or in carrying out their daily tasks (Ali et al., 2013; Arslan, 2009; El-Gamal, 2006; Rafiki & Wahab, 2013). Generally, the values, ethics and belief of Muslim Directors influence their customer satisfaction and a firm's performance. Hence, the following hypothesis is expected.

H2: There is a positive relationship between male Muslim directors and firm performance.

Female directors, male Muslim directors and firm performance

From the Islamic viewpoint, the Al-Qur'an recognize the capability of females in decision-making roles in the organization. For example, the Surah An-Naml (The Ants) in the Quran, explains in great detail how the Queen of Saba' (some scholars call it Balqis) conducted the meeting with her ministers (Rahman, 2018). It appears that the ministers (i.e., top-level management) in the country of Saba' respect her intellectuality and capability in handling tough decisions (that is whether they want to engage in the war with Prophet Sulaiman or not). This situation underlines the leadership quality of the Queen of Saba' as a wise ruler who chose to consult with others while making an important decision (Elius, 2011). Moreover, in the same surah (that is Surah An-Naml), Al-Quran also recognized the command that was given by the Queen of Ants, that led the ant's colony.

From the history of Muslims during the time of Prophet Muhammad, the contribution of females in many areas has been substantially recognized (Waraich, Fayaz & Khan, 2021). In this regard, the Holy Qur'an derives the initiatives on women empowerment in the history of Muslims, especially through the compulsory requirement for all Muslims to seek knowledge and rights in leadership and financial independence (Waraich et al., 2021). Through the Quran, females acquire wisdom, and intellect and be a better version of themselves (Waraich et al., 2021). This suggests that the house of Islam offers supportive roles in establishing females to be in a leadership positions.

Moreover, Islam is a religion that upholds brotherhood as one of the virtuous behaviours. There are plenty of *hadith*[1] mentioned about this. For example, according to Khan (1984), it is recorded in Sahih Al-Bukhari, No. 2422, that Abdullah ibn Omar reported that The Messenger of Allah peace and blessings be upon him, said, ***"****The Muslim is a brother to another Muslim. He does not wrong him, nor surrender him. Whoever fulfils the needs of his brother, Allah will fulfil his needs. Whoever relieves a Muslim from distress, Allah will relieve him from distress on the Day of Resurrection. Whoever covers the faults of a Muslim, Allah will cover his faults on the Day of Resurrection****."*** In this instance, we believe that in the synergies created in the presence of Muslim directors that spread the brotherhood and cooperative behaviours, female directors are able to perform their tasks efficiently, hence increasing firm performance.

Therefore, the current researchers believe that the presence of female directors on the board will be able to improve board effectiveness, especially when the board are dominated by male Muslim members. A male Muslim director who understands his religion, will be able to understand that it is his responsibility to cooperate and to work together with the female directors and also not to undermined her opinion and suggestion. Thus, this study predicts that the role of female directors on the board will be stronger when there they are surrounded by Muslim boards. Therefore, the hypothesis is;

[1] According to the Merriam-Webster dictionary, hadith is "a narrative record of the sayings or customs of Muhammad and his companions". In the house of Islam, there are only two main sources of the teaching that have been recognized by God Almighty that is the Holy Quran and the hadith.

H3: There is a complementary relationship between female directors and Male Muslim directors on firm performance.

METHODOLOGY

Sample and data

Data for this research obtained from annual report of 180 companies. Each annual report downloaded from Bursa Malaysia website. This research focused on trade and service industry for year 2012. This study concentrated on Trade and Service industry since it represents the highest percentage of the Gross Domestic Product (GDP) in Malaysia, that is 57.7% in 2019 (MIDA, 2021). This study selected 2012 as the base for year selection since in 2011, the cabinets of Malaysia had approved the policy of 30% appointment of women in the board starting 2016 (Ahmad et al. 2019). In this instance, the one year lagged (that is the year 2012) after the cabinet approvals or post-announcement on the government policy might be able to see the companies move. This study used single year in our analysis since corporate governance data such as board composition are mainly subject to stickiness bias, hence, the results for a single year study or multiple years are likely the same. This study used STATA software when we run our statistical analysis in this study.

Model Development

In examining the association between female directors and Muslim directors on firm performance, the following equation model is used:

$$\text{ROA} = \beta_0 + \beta_1\text{ACSIZE} + \beta_2\text{ACIND} + \beta_3\text{ACMEET} + \beta_4\text{ACEXP} + \beta_5\text{BODSIZE} + \beta_6\text{BODMEET} + \beta_7\text{BODIND} + \beta_8\text{FEMALE} + \beta_9\text{MUSLIMMALE} + \beta_{10}\text{FEMALEAC} + \beta_{11}\text{FIRMSIZE} + \beta_{12}\text{LEVERAGE} + e$$

When the researchers examine the interaction between female directors and Muslim performance, the interaction term FEMALE*MUSLIMMALE was included in the model in order to capture such interaction. Therefore, this study uses the following equation model:

$$\text{ROA} = \beta_0 + \beta_1\text{ACSIZE} + \beta_2\text{ACIND} + \beta_3\text{ACMEET} + \beta_4\text{ACEXP} + \beta_5\text{BODSIZE} + \beta_6\text{BODMEET} + \beta_7\text{BODIND} + \beta_8\text{FEMALE} + \beta_9\text{MUSLIMMALE} + \beta_{10}\text{FEMALEAC} + \beta_{11}\text{FIRMSIZE} + \beta_{12}\text{LEVERAGE} + \beta_{13}\text{FEMALE*MUSLIMMALE} + e$$

Whereby;

Variables		Measurement
ROA	=	Return on asset (total income divided by total asset)
ACSIZE	=	Number of audit committee members in a year

ACIND	=	Percentage of independent directors in audit committee
ACMEET	=	Number of audit committee meeting in a year
ACEXP	=	Percentage of audit committee members with accounting expertise
BODSIZE	=	Number of members on board
BODMEET	=	Number of board meeting in a year
BODIND	=	Percentage of independent directors on board
FEMALE	=	Percentage of female directors on the board
FEMALEAC	=	Percentage of female directors in audit committee
MUSLIMMALE	=	Percentage of male Muslim directors on the board
FIRMSIZE	=	Natural log of total asset
LEVERAGE	=	Debt to total asset ratio
FEMALE*MUSLIMMALE	=	Interaction term between female directors and male Muslim directors
e	=	Error terms

Control Variables

This study controlled for governance variables since prior literature demonstrated that the board of directors play an important role in monitoring the firm's governance and performance. It has been shown by previous studies that board size (Chancharat et al. 2019; Shukeri et al., 2012; Guest, 2009; Kyereboah-Coleman & Biekpe, 2006; Bonn et al., 2004; Guo & Kga, 2012; Nazar, 2012; Velnampy, 2013), board independence (Sanda et al., 2008; Schøler & Holm, 2013; Johari et al., 2009; Francis et al., 2012; Swan & Forsberg, 2014; Bhagat & Black, 2001), board meeting (Brick & Chidambaran, 2007; Bathula, 2008; Ntim & Osei, 2011; Hahn & Lasfer, 2007; Francis et al., 2012) are effective mechanisms in monitoring the management.

In regards to board size, several studies demonstrated the positive relationship between board size and firm performance including Shukeri, Shin & Shaari (2012) and Johl, Kaur & Copper (2015). Large board size is expected to be able to supply diverse idea, creativity and resources for the board to manage its business complexity, hence increasing firm performance.

With respect to board independent, Fauzi and Locke (2012) argue that the presence of independent board members increases board oversight and monitoring, which eventually lower the agency problem and increasing company's performance. Previous studies that reported positive relationship between board independent and performance are including Gulzar and Zongjun (2011) and Scholer and Holm (2012).

Concerning the board meeting, high board meeting frequency is expected to increase board discussion on monitoring (Azar, FaribaHabibi & Botyari, 2014) and setting the firm's strategy (Francis, Hasan, and Wu, 2012). From the lens of agency theory, diligence board will be able to increase monitoring, hence improving the performance.

The researchers of this study also controlled for audit committee characteristics since these variables appear to have a significant relationship with firm performance (Fariha et al., 2022). Altin (2024) meta-analysis study found that audit committee characteristics such as audit committee size and audit committee independence and audit committee financial expertise are positively related to firm performance. This study also control for firm characteristics and leverage using the natural log of total assets and debt-to-asset ratio respectively.

The control variables are included in the regression model in order to avoid misspecification bias or omitted variables issue since they potentially influence firm performance, according to prior literature. This study controlled for firm size since Boumol (1959) claim that investment opportunity is higher in large firms, thus increasing their tendency to perform better. This study included debt-to-asset as a proxy for leverage since it is a reliable mechanism in lowering the agency cost (Sulong, Gardner, Hussin, Sanusi and Mcgowan, 2013).

FINDINGS AND DISCUSSION

Descriptive Statistics

Table 1: Descriptive statistics

VARIABLES	MEAN	MIN	MAX	25%	50%	75%
BODSIZE	7.644	4	14	6	7	9
BODIND	46.19	23.08	83.33	37.5	43.65	55.56
BODMEET	6.167	1	14	5	5	7
FEMALE	7.848	0	60	0	0	14.29
MUSLIMMALE	42.27	0	100	16.67	33.33	71.43
ACSIZE	3.311	2	5	3	3	4
ACIND	87.56	33.33	100	70.83	100	100
ACMEET	5.35	1	21	4	5	6
ACEXP	78.19	0	100	33.33	50	100
FEMALEAC	44.35	0	100	22.88	39.66	55.06

Table 1 shows the average size of the board (BODSIZE) is 7.644. The board of directors had at least up to 4 people and the most crowded was about 14 people. The average value of this shows a significant reduction when compared to a study conducted by Adams and Ferreira (2009). The average board of their study is a total of 9.38, and the amount of the board at least and at most is 3 and 39 people. For the percentage of the audit committee on board (BODIND), the minimum value amounted to 23.08% while the maximum value amounted to 83.33%, with an average value of 46.19%. This is a very significant turnaround compared with a study conducted by Adams and Ferreira, (2009) where the average gets is 39%, the lowest percentage of 0% and the highest percentage of 100%.

Board meetings (BODMEET) are carried out at a minimum of 1 time and the maximum number of Board meetings is by 14 times. The average of Board meetings stood at 6.167. The average percentage of female directors on the board (FEMALE) is 7.848% where there is also a company which does not have female directors on the board, while the most populous number of female directors on the board is about 60%. A study conducted by Adams et al. (2011) also shows that there are companies that do not have female directors on board, while the most populous percentage of female directors on board is 100%. Besides, for a percentage of Muslim directors on the board (MUSLIMMALE) there are also companies that do not have Muslim directors on the board. Meanwhile, there are also companies that have 100% Muslim directors on the board. The average percentage of MUSLIMMALE is 42.27%.

The average size of the audit committee (ACSIZE) is 3.311 where the least number is at 2 and the most populous at 5. The average value of this shows a significant increase when compared to a study conducted by Chapple et al. (2012). The average size of their study is a total of 2.79, and the amount of the board at least and at most is 1 and 6. For the percentage of independent directors in the audit committee (ACIND) the lowest value is 33.33% and the maximum value is 100% with an average value of 87.56%. The average number of audit committee meetings (ACMEET) is 5.35. The audit committee meetings are carried out at a minimum of 1 time and a maximum number of 21 times.

This number shows a significant improvement with the study conducted Chapple et al. (2012) where the average number of audit committee meetings consists of 2.81 with a minimum value of 0 and a maximum value of 13. Furthermore, for ACEXP the maximum percentage of the audit committee with accounting experts is 400 and the minimum value is 0%. The average value for ACEXP is 78.19%. For the percentage of female directors in the audit committee (FEMALEAC) the average value is 44.35% with a maximum value of 555.42 and a minimum value of 0%.

Pairwise Correlation

Table 2 shows the Pairwise Correlation for the dependent and independent variables used in the regression analysis. This study finds that the correlation between the independent variable is not exceeding to 80% wherein the highest correlation is at 38% which is between BODSIZE and ACSIZE. This indicates that the data gathered from the study is not pose by the multicollinearity problem.

The researchers run the OLS regression and the results are provided in Table 3. In Panel A, the researchers run the OLS regression using pooled data, while in Panel B and C, the sample were divided into large and small firms (based on median) and OLS was performed on large firms (Panel B) and small firms (Panel C). The analysis was performed for each dataset in two stages. In the first model of each panel, the researchers included main variables and control variables in the regression, while in the second model, the researchers included the interaction term FEMALE*MUSLIMMALE in the regression in order to examine the impact of the interaction between FEMALE and MUSLIMMALE to the firm performance.

When OLS was performed using pooled data (Panel A), Model 1 demonstrated that the percentage of female directors on the board (FEMALE) (coef=0.368, t=2.05, $p<0.050$) was significantly positively related to firm performance. This finding confirms the hypothesis of this study that there is a positive relationship between female directors and firm performance (H1). This result corroborates by previous studies including Liu et al. (2013) and Adams and Ferreira (2009) which also revealed a positive association between female directors and firm performance. In this model also, it was discovered that other variables such as BODSIZE, BODIND, BODMEET, MUSLIMMALE, ACSIZE, ACIND, ACMEET, ACEXP, FEMALEAC, FIRM SIZE and LEVERAGE were insignificant to the model.

Pairwise Correlation

Table 2: Pairwise Correlation[2]

No	Variables	1	2	3	4	5	6	7	8	9	10	11	12	13
1	BODSIZE	1.00												
2	BODIND	**-0.37**	1.00											
		0.00												
3	BODMEET	**0.23**	**0.10**	1.00										
		0.00	*0.19*											
4	FEMALE	**0.02**	**-0.08**	**-0.01**	1.00									
		0.74	*0.29*	*0.86*										
5	MUSLIMMALE	**0.13**	**0.20**	**0.34**	**0.10**	1.00								
		0.07	*0.01*	*0.00*	*0.17*									
6	ACSIZE	**0.38**	**0.00**	**0.28**	**0.00**	**0.33**	1.00							
		0.00	*0.96*	*0.00*	*0.97*	*0.00*								
7	ACIND	**-0.00**	**0.35**	**-0.08**	**-0.00**	**-0.17**	**-0.29**	1.00						
		0.97	*0.00*	*0.26*	*0.99*	*0.02*	*0.00*							
8	ACMEET	**0.24**	**0.15**	**0.42**	**0.03**	**0.10**	**0.26**	**0.03**	1.00					
		0.00	*0.04*	*0.00*	*0.69*	*0.19*	*0.00*	*0.67*						
9	ACEXP	**-0.04**	**-0.22**	**-0.04**	**0.09**	**-0.14**	**-0.05**	**-0.24**	**-0.03**	1.00				
		0.62	*0.00*	*0.64*	*0.24*	*0.06*	*0.50*	*0.00*	*0.69*					
10	FEMALEAC	**0.02**	**-0.09**	**-0.01**	**0.70**	**0.10**	**-0.01**	**0.01**	**-0.06**	**0.07**	1.00			
		0.77	*0.22*	*0.89*	*0.00*	*0.19*	*0.94*	*0.84*	*0.41*	*0.35*				
11	MUSLIMAC	**0.08**	**-0.01**	**0.12**	**0.05**	**0.78**	**0.22**	**-0.13**	**0.03**	**-0.15**	**0.05**	1.00		
		0.30	*0.87*	*0.10*	*0.49*	*0.00*	*0.00*	*0.09*	*0.71*	*0.04*	*0.48*			
12	FIRMSIZE	**0.13**	**-0.19**	**0.07**	**0.05**	**-0.04**	**0.03**	**-0.01**	**-0.04**	**-0.00**	**-0.04**	**-0.07**	1.00	
		0.08	*0.01*	*0.37*	*0.51*	*0.63*	*0.73*	*0.93*	*0.60*	*0.95*	*0.56*	*0.37*		
14	LEVERAGE	**-0.07**	**0.10**	**0.08**	**0.00**	**0.20**	**-0.07**	**0.10**	**0.04**	**-0.04**	**0.06**	**0.20**	**-0.06**	1.00
		0.34	*0.20*	*0.27*	*0.96*	*0.01*	*0.36*	*0.18*	*0.57*	*0.61*	*0.43*	*0.01*	*0.45*	

[2] Figures in **bold** are the correlation coefficients while the figures in *italic* are the significant level.

Ordinary Least Square (OLS) Regression

Table 3: OLS Regression on Female Directors, Muslim Directors and Firm Performance

VARIABLE	PANEL A POOLED-DATA		PANEL B LARGE FIRMS		PANEL C SMALL FIRMS	
	Model 1 Coef (t-statistics)	**Model 2 Coef (t-statistics)**	**Model 1 Coef (t-statistics)**	**Model 2 Coef (t-statistics)**	**Model 1 Coef (t-statistics)**	**Model 2 Coef (t-statistics)**
Main Variables						
FEMALE	**0.368**** **(2.05)**	-0.150 (-0.62)	0.0417 (0.29)	-0.0227 (-0.15)	**0.7408*** **(1.79)**	0.0099 (0.02)
MUSLIMMALE	0.065 (0.61)	-0.021 (-0.19)	**0.118**** **(2.54)**	**0.1009*** **(1.92)**	0.476 (1.23)	0.3804 (0.99)
FEMALE*MUSLIMMALE		**0.011*** **(1.78)**		0.00198 (0.50)		0.0125 (1.56)
Control Variables						
BODSIZE	2.075 (1.34)	2.122 (1.35)	-0.272 (-0.44)	-0.265 (-0.42)	3.143 (1.26)	3.153 (1.26)
BODIND	-0.156 (-0.71)	-0.159 (-0.73)	**-0.244**** **(-2.14)**	**-0.237**** **(-2.03)**	-0.513 (-1.05)	-0.551 (-1.13)
BODMEET	-2.380 (-1.15)	-2.325 (-1.13)	**-1.304*** **(-1.98)**	**-1.27*** **(-1.87)**	-5.430 (-1.23)	-5.213 (-1.20)
ACSIZE	3.156 (1.16)	2.804 (0.98)	1.097 (0.60)	1.065 (0.57)	6.77 (1.26)	6.037 (1.09)
ACIND	-0.027 (-0.26)	0.001 (0.01)	-0.048 (-0.65)	-0.0447 (-0.61)	-0.513 (-1.05)	-0.551 (-1.13)
ACMEET	-1.015 (-1.11)	-1.128 (-1.12)	**1.753**** **(2.01)**	**1.655*** **(1.82)**	-1.563 (-1.01)	-1.623 (-0.96)
ACEXP	0.012 (0.44)	0.022 (0.80)	-0.0029 (-0.22)	-0.0017 (-0.14)	0.332 (0.50)	0.0453 (0.71)
FEMALEAC	0.029 (0.26)	0.070 (0.57)	-0.005 (-0.05)	-0.0227 (-0.15)	-0.2107 (-0.91)	-0.917 (-0.42)
FIRMSIZE	1.899 (1.10)	1.935 (1.12)	-0.541 (-0.63)	-0.5502 (-0.64)	2.093 (0.69)	2.2322 (0.73)
LEVERAGE	-0.036	-0.041	**-0.128****	**-0.1311****	-0.0062	-0.013

	(-0.16)	(-0.19)	**(-2.35)**	**(-2.30)**	(-0.03)	(-0.06)
_cons	-33.07 (-1.11)	-32.15 (-1.09)	32.22 (1.49)	32.523 (1.49)	-30.49 (-0.64)	-29.168 (-0.62)
N	180	180	90	90	90	90
R^2	0.1165	0.1290	0.2923	0.2944	0.1819	0.1931

When the researchers add the interaction term FEMALE*MUSLIMMALE (coef=0.011, t=1.78, p<0.10) in the regression in Model 2, the interaction term exhibits a significant positive association to firm performance. These findings suggest that there is a complementary relationship between FEMALE and MUSLIMMALE to firm performance. In other words, the monitoring effect of FEMALE is stronger when they are surrounded by MUSLIMMALE in improving firm performance. Therefore, our H3 is accepted.

With respect to large firms, Panel B (Model 1) reported that MUSLIMMALE (coef=0.118, t=2.54, p<0.05) is positively related to performance. This suggests that an increase in MUSLIMMALE improves firm performance in large firms. In Model 2 (Panel B), when the researchers add the interaction FEMALE*MUSLIMMALE in the regression model, the interaction term is insignificant. However, MUSLIMMALE (coef=0.1009, t=1.92, p<0.10) maintained to be significantly related to firm performance in Model 2.

In regards to small firms (Panel C), the result exhibits that FEMALE (coef=0.7408, t=1.79, p<0.10) is positively related to firm performance in Model 1. However, the main variables are insignificant in Model 2 when the interaction term was added in the regression. This suggests that in small firms, the interaction between FEMALE and MUSLIMMALE does not contribute to the increase in firm performance.

CONCLUSION

This study examined the impact of female directors as well as Muslim directors on the board. The researchers also investigated the moderating effect of a female director and a Muslim director on the firm performance. This study controlled for audit committee characteristics (ACSIZE, ACMEET, ACIND, ACEXP) and board characteristics (BODSIZE, BODIND, BODMEET) in all of the regression models, in order to avoid omitted variables. This study also controlled for leverage and firms' size in the model.

Using 180 listed firms in the trade and services industry during the year 2012, this study found supporting evidence that the percentage of female directors on the board (FEMALE) is significantly positively related to firm performance. This finding confirms the proposed hypothesis that there is a positive relationship between female directors and firm performance. Moreover, the interaction term FEMALE*MUSLIMMALE is positively related to ROA (firm performance), thus suggesting that the monitoring roles of female directors are stronger in the presence of Muslim directors on the board. This study, therefore, would like to suggest that firms should appoint more female directors and Muslim directors to the board. Further analysis also exhibits that a high percentage of Muslim directors on the board is associated with higher firm performance, in large firms, while a high percentage of female directors on the board improves firm performance in small firms' groups.

This study has some limitations. First, the entire population comprises only 180 firms, which is relatively small. Future research should increase the number of samples and use panel data to examine the association between female directors and Muslim directors on firm performance. Second, this study only relies on ROA as a proxy for a firm's performance. This could be extended by using market-based performance such as Tobin's Q and Economic Value Added. Future studies should examine the impact of Muslim directors and female directors on a firm's quality of reporting issues such as fraud, earnings quality, earnings management and firm disclosure.

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