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A study on the effects of good corporate governance – gender diversity on the company performance

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ABSTRACT: This research aimed at evaluating the effect of Female Directors and Independent Director towards the performance of a company measured by accounting-based and market-based. This research used a sample of 1720 years of observation consisting of 344 companies listed in the Indonesian Stock Exchange. The result shows that Female Director and Independent Director have a significant positive impact on the company performance based on the accounting-based. The second measurement shows that Female Director and Independent Director have a significant positive impact towards the company performance according to the market-based.

Keywords: good corporate governance, gender diversity, accounting based, market based

1 INTRODUCTION

Shleifer &Vishny (1997) state that corporate governance is a mechanism which can protect the minority from the expropriation conducted by the managers and controlling shareholders by focusing on the legal mechanism. Poor company performance due to the lack of protection on the investor and the lack of transparency in the company's financial report caused an asymmetry of information between the principal and agent side which show that there could be embezzlement of the fund invested by the investor. (Carter *et al.* 2003). If a company lost its trust from the investors and stakeholders, the investment would decrease causing the drop in the company's value. Poor company performance due to unachieved market efficiency may cause the loss of business opportunities (Randøy et al. 2009).

In order to cope with the agency problem, Good Corporate Governance (GCG) was conducted through the active participation of the entire elements of the company. According to Adams & Ferreira (2009) the role of female director in the practice of Good Corporate Governance (GCG) is their nature of being more careful in making decisions, more detail, and punctual in finishing the company's financial report. Ming & Eam (2016) research shows that there is no evidence showing the significant relationship between gender diversity and a Malaysian company's performance. The result also suggested that non-executive director has a low negative impact on the company performance. Independent directors and board size also have an insignificant impact on company performance. Kılıç & Kuzey (2016) research points out that female directors have significant positive effect towards the company performance in Turkey because women have a different experience and perspective in life, so they can have better relationship with female customers, female staff, and other females in the society (Dang et al. 2013). Although the company in Turkey showed male dominance was bigger in company board of directors, this research shows that the existence of female director gave positive impact towards the company performance. Terjesen *et al.* (2015) scrutinize positive relation between the number of female directors and the structure of the independent board of directors towards the company performance, while the effect of female director marginal was higher than the independent directors..

In that research, scientists concluded that gender variety may affect company performance. It was shown by the increasing number of a female board member of directors can improve the effort to monitor in order to make a decision in the company performance. The statement is similar to the one found by Kılıç & Kuzey (2016) and Terjesen et al. (2015) who believe that gender variety has a significant positive effect on the company performance measured using ROA. Adams & Ferreira (2003) conclude the results of gender variety and its positive relation on the company value using Tobin's Q as a measurement. Ming & Eam (2016) research states a different result from the two previous research. Gender variety had an insignificant negative relation towards the company performance. The variables used in measuring the company performance were Return on Asset (ROA) and Tobin's Q.

Furthermore, this research tested the effect of gender diversity on company performance. This research used independent variables such as female directors and independent directors, and the control variables used were the size of the company and leverage. The dependent variables for this research were the company performance measured by accounting-based measurement, return on asset (ROA), and market-based measurement, Tobin's Q.

2. RESEARCH METHODS

The research object was the whole company in the non-financial sector listed in the Indonesian Stock Exchange on within 2012-2016. The samples used were 344 companies with 1.720 years of observation. The dependent variable in this research was the company performance measured using return on asset and Tobin's *Q*, while the independent variables in this research were female directors and the size of the board of directors, and the control variables were the size of the company and leverage. The company performance was the reflection of the ability of a company to generate profit measured by accounting-based, ROA, and market-based, Tobin's.

Female Directors were part of the board of directors seen from the number of directors who are female. Independent directors were measured by the number of directors who are not the member of management, majority shareholders, and company officials who are directly or indirectly related to the majority shareholders of a company. Control variable of the size of the company was measured using the natural log of the total asset, while leverage was measured by the total debt divided by the total asset. The testing was conducted using data panel regression. After doing the Chow and Hausmann testing, the model that was analyzed then was fixed effect model.

3. RESULTS AND DISCUSSIONS

Table 1. Regression Test Result (ROA-Accounting Based)

Independent Variable	Coefficient	Significance
Female Directors	0.0151	0.0008***
Independent Directors	0.0043	0.0002***
Size of the company	0.0010	0.4577
leverage	-0.1449	0.0000***
R-Squared		0.9355
Adjusted R-Squared		0.9191
Prob (F-Statistic)		0.0000

Note ** : significance at 5%
*** : significance at 1%

Female director variable had a regression coefficient of 0.0151 with the significance level of 0.0008. It means female director has a significant positive effect on company performance variable based on accounting-based, ROA. This result was supported by the research conducted by Kilic & Kuzey (2016) and Terjesen *et al.* (2015) who found that there was a significant positive relation between female director and the company performance. (Bilimoria & Wheeler 2000). Adams & Ferreira (2009) induce that female director is more diligent in observing and demand more audit efforts than male directors. Therefore, female directors can cause the improvement of the company performance.

Variable of Independent directors had the regression coefficient of 0.0043 with the significance level of 0.0002. This result is supported by Kilic & Kuzey (2016) and Abdullah (2014) who found that independent directors have significant relation towards company performance. This shows that the number of independent directors may affect the company performance. Jensen & Mecking (1976) explain that the bigger the number of independent directors, the better the company in observing and controlling the actions of the board of directors. Furthermore, independent directors will also give strict sanctions towards the directors who have decreased performance (Stiles & Taylor 2001). Therefore, the existence of independent directors will cause the improvement of the company performance.

The variable of size of the company had a regression coefficient of 0.0010 with the significance level of 0.4577. This result is supported by Ming & Eam (2016) who proved that the size of the company does not affect company performance. The size of the company asset was not the focus of investors in

making investments, but they focus on the ability of the company to return investment. In fact, it had no effect on the company performance. The company that owns a big asset does not guarantee its performance in generating a bigger profit. Investors believe that big companies do not always make a high return on investment. On the other hand, a small company may be able to give a high return on investment to the investors.

The variable of leverage had the regression coefficient of 0.1449 with the significant level of 0,0000. This result is consistent with the research conducted by Ming & Eam (2016), Kilic & Kuzey (2016), and Terjesen *et al.* (2015). It can be explained logically that the smaller the debt of a company, the more independent the company, or the company does not rely on external funding. This shows that the company can operate on internal funding which makes the company funding more efficient. Therefore, the company becomes stronger because it is not easily affected by the business environment. Moreover, the smaller debt can reduce the interest that needs to be paid by the company. Therefore, the fund which should be used to pay the interest can be used for operational funding or other investment to improve the company performance.

Table 2. Regression Test Result (Q-Market Based)

Independent Variable	Coefficient	Significance
Female Directors	-0.0290	0.0494**
Independent Directors	0.0904	0.0000***
Size of Company	-0.5602	0.0000***
leverage	1.2242	0.0000***
R-Squared		0.9382
Adjusted R-Squared		0.9226
Prob (F-Statistic)		0.0000

Note ** : significance at 5%
*** : significance at 1%

The variable of female directors had the regression coefficient of -0.0290 with the significant level of 0.0494. It means that the variable of female directors has a negative significant relation towards the company performance based on the market-based, Tobin's Q. Ferreira (2010) who found that female directors have a negative effect on the company performance since there are not enough qualified women for the position in the top-level management. AlShammari & AlSaidi (2014) conclude that female directors have a negative effect on company performance because first, the existence of women in the company is simply a role in company management. Second, the law on gender variety is still very limited. Third, there is a strong criterion of family relationships as a requirement to be a member of the board of directors.

The variable of Independent directors had the regression coefficient of 0.0904 with the significance level of 0.0000. It means that Independent directors have a significant positive relation on the company performance based on market-based, Tobin's Q. This result is consistent with Fich & Shivdasani (2006) who found that independent directors have a significant positive impact on company performance. Setiyarini & Lilik (2014) prove that the number of independent directors can create more objective management and put fairness on several interests including the company's and stakeholder's interests as the main principle in the decision making by the board of directors.

The variable of the size of the company had a regression coefficient of - 0.5602 with the significance level of 0.0000. The result of this research is supported by Ming & Eam (2016) who proved that the size of the company has significant negative relation towards the company performance based on market-based, Tobin's Q. Tertius & Christiawan (2015) conducted a research which shows that the size of the company has a significant negative relationship to the company performance based on market-based, Tobin's Q. This was due to the big companies has not been supported by a good management. The size of the company cannot be used as a guarantee that the company has a good performance. A big size company tends to be difficult to move in a fast-moving business environment.

The variable of leverage had a regression coefficient of 1.2242 with the significance level of 0.0000. This research is similar to Warrad *et al.* (2013). This implies the theory of MM II (tax shield) which stated that the use of debts can be used to minimize tax because the interest can be used as a tax reduction. Therefore, the value of a company that uses debts is higher than the value of the company that does not use debts.

4. CONCLUSION

Based on the hypothesis testing, the variable female directors and independent directors had a significant positive impact on the company performance based on accounting-based while the variable of size of company had a positive but insignificant impact on the company performance based on accounting-based, and the variable of leverage had a significant negative impact on the company performance based on accounting-based. According to market-based, the variable of independent directors had a signifi-

cant positive impact on the company performance while the variable of female directors had a significant negative impact on the company performance, and the size of the company also had a significant negative impact on the company performance. Meanwhile, the variable of leverage had a significant positive impact on company performance.

The recommendation for investors is that they should choose a company that has gender diversity, such as female directors and independent directors, in the board of directors because it will improve the supervision function in running the company, so the company performance may improve, and the stock price of the company listed in the Indonesian Stock Exchange may also increase. This research has some limitations, such as a lack of a number of variables, the length of the study, and the objects of the research have not covered other developing countries. Therefore, it is expected that further research can be done by adding more variables.

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