The Influence of Good Corporate Governance through the Gender Diversity on Firm Performance

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Abstract. The objective of this study is to look at how board size, board gender diversity, independent commissioners, leverage, and firm size affect firm performance in manufacturing companies in Indonesia Stock Exchange and the Philippines Stock Exchange. This study used a quantitative approach with two least square regression analysis models and a sample of manufacturing sector companies listed on the Indonesia Stock Exchange and the Philippines Stock Exchange, with a total of 100 business entities and 480 observations. This study used the presence of female commissioners and the proportion of female commissioners to measure board gender diversity. According to the findings of this study, independent commissioners in Indonesia have a significantly positive effect on return on assets, female commissioners in Indonesia have a significant adverse effect on return on assets, and Tobin's Q, both leverage in Indonesia and firm size in the Philippines have a significant adverse effect on return on assets. Meanwhile, leverage in Indonesia has a significant negative effect on Tobin's Q, as does board size in Indonesia and firm size in Indonesia and the Philippines.

Keywords: Corporate governance · Gender diversity · Financial performance

1 Introduction

In this age of globalization, where technological advances are being made, competition among companies is becoming more challenging, requiring companies to improve corporate governance. Improving corporate governance was among the most important changes a company can make. As a result, improving corporate governance can have an impact on a company's performance. After the crisis in 1998, the government believed poor corporate governance was one of the triggers for the crisis in Indonesia. In response, the Indonesian government formed the National Committee on Corporate Governance Policy in 1999 in order to develop the first Good Corporate Governance Guidelines. This policy is intended to avoid the risk of failure in a company.

Thus according corporate governance theory, the structure of the board seems to have a massive effect on the board's and top management's decisions, which can greatly impact the performance of the company. The board of commissioners and the executive board have a diverse membership. Because decisions are made from different perspectives, the

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board of commissioners and board of directors are expected to be intellectually honest and holistic. The commissioners and executives on the board can be divided by age, ethnicity, and gender.

The number of board members of commissioners has a negative impact on ROA because the smaller the board of commissioners is when making decisions, the better; as a result, supervision becomes effective and leads to better performance and gender [1]. At the same time, another result shows the size of the board of commissioners does not affect ROA [2–5].

Several previous studies have found that the ideal number of commissioners is seven to eight [6] or eight to nine individuals [7]. If there are too few commissioners, there may be a lack of specific skills and knowledge, preventing optimal decision-making. These poor choices will undoubtedly have an impact on the performance of the company. Tobin's benefits from a larger number of commissioners on the board. [1], which is consistent with study findings that show a larger number of members on the board of commissioners is associated with greater intellectual knowledge and can improve decision making [8, 9].

The presence of female commissioners and the proportion of female commissioners can explain gender diversity. The presence of Female commissioners positively affects company performance [3, 5]. Female commissioners tend to be more careful and avoid risk than male commissioners and female commissioners also often propose less aggressive strategies and more sustainable investment criteria [10, 11]. Furthermore, the existence of one or more female commissioners can reduce groupthink among board members, making the group of commissioners heterogeneous (usual groups with groupthink syndrome are groups whose members have the same background, including the same gender), and can promote a more active discussion [12].

The proportion of female commissioners positively affects Tobin's Q [3]. The argument is that female commissioners provide additional benefits to the company, such as advice and suggestions, legitimacy, commitment, communication, and resources, because female commissioners bring repute, credibility, competence, capabilities, and expertise that male commissioners do not [3]. Female commissioners can exert control over a situation because women are more self - reliant, adaptable, broad-minded, and collaborative in organizations. Due to the preceding argument, several companies appoint female commissioners.

However, some results say that the proportion of female commissioners does not affect financial performance [4]. As for the argument, the presence of females on the board of commissioners is nothing more than the fulfilment of governance rules [13]. The presence of females on the board of commissioners is explicitly only to improve the company's policies [14]. The ineffectiveness of females on the board of commissioners is not due to female's knowledge and abilities but because they only fill vacancies on the board of commissioners [15].

The presence of independent commissioners has a positive impact on firm performance [1]. The presence of independent commissioners can act as a check on the directors' or managers' or shareholders' actions [16]. The independent board of commissioners also functions as a check and balanced mechanism because the independent board of commissioners ensures that the company does what is best in the owners' interests

and does what is best for the interests of the shareholders. In contrast to this study, some results reveal that independent commissioner have no effect on company performance [3, 5]. This is presumably because the company's independent commissioners are merely a requirement to meet standards. Independent commissioners do not provide adequate oversight and do not use their autonomy to scrutinize the directors' policies [17].

Based on the explanation above, this study will use independent variables: the size of the board of commissioners, the presence of female commissioners, the proportion of female commissioners, and independent commissioners. This study also uses two control variables: firm size and debt.

2 Research Methods

This study used a sample of manufacturing sector companies in Indonesia Stock Exchange and the Philippines Stock Exchange. As the dependent variable, Tobin's Q was used to assess financial performance. The board of commissioners, the presence of females on the board of commissioners, the percentage of females on the board of commissioners, and independent commissioners were the independent variables. The presence of females was measured with one if there is a female and zero if no female. Debt control variables used debt ratio proxies, while company size used the natural logarithm of total assets.

This study separated the tests on two independent variables, namely the presence of female commissioners and the proportion of female commissioners.

Model (1):

$$Tobin^{'}sQit = \alpha + \beta 1\alpha.UDK1it + \beta 2.DWOCB + \beta 3.KIND3it + \beta 4.LEV4it + \beta 5.FSIZE5it + e \quad (1)$$

Model (2):

$$Tobin^{'}sQit = \alpha + \beta 1b.UDK1it + \beta 2.PWOCB + \beta 3.KIND3it + \beta 4.LEV4it + \beta 5.FSIZE5it + e \quad (2)$$

Note:
Tobin's Qit: market value at firm on period t
UDK*it*: Number of commissioner at firm i on period t
WOCBit: The presence of females in board for firm i on period t
PWOCBit: Percentage of females in board for firm i on period t
KIND*it*: Percentage of independent commissioner for firm i on period t
FSIZEit: Firm size for firm i on period t
LEVit: Debt ratio for firm i on period t
e: Error
β: Regression coefficient
a: Constant coefficient

3 Results and Discussion

This study used a sample of 480 observations for Indonesian manufacturing companies and 100 observations for the Philippines manufacturing companies. The Chow and Haussmann tests were carried out using panel data, where the model was interpreted as the fixed effect model.

Based on Table 1, as can be seen, the number of board of commissioners has a detrimental affect on Indonesian companies. These results indicate that a smaller board size can create a higher value in the capital market than a larger board size [1, 18].

These results also show that when a company has a small board of commissioners, the coordination will be more significant, and communication will be more effective, resulting in better decisions. The research findings for Philippine companies demonstrate that the number of board of commissioners is not an important factor. According to the study findings, the average of commissioners in Philippine companies reached approximately nine people, that is higher than the ideal range. If the amount of commissioners becomes excessive, they will face social problems [19–21]. If the size of the board of commissioners is increased with the excuse of increasing monitoring, it will only result in higher costs such as slower decision making, the result of less honest discussions about managerial performance, and bias when taking risks [7].

The presence of female commissioner's variable has a significant negative effect on companies in Indonesia. The presence of female commissioners negatively affects firm value [22]. Female commissioners usually tend to avoid risk to reduce a company's risk in making investment decisions [23]. These results are considered to affect firm performance because managing an increasingly competitive firm negatively requires the ability to act quickly on market changes. Different results are found for companies in the Philippines. The variable presence of female commissioners is not significant. A

Table 1. Results for Model 1

a	Indonesia		Philippines	
	Coeff.	Prob.	Coeff.	Prob.
Const	10.57	0.00***	210.90	0.00***
UDK	−0.12	0.02**	0.23	0.48
DWOCB	−0.18	0.07*	−0.25	0.76
KIND	−0.45	0.17	8.28	0.27
LEV	0.62	0.01**	5.26	0.29
FSIZE	−0.29	0.03**	−7.23	0.00***
R-squared	0.91		0.59	
Adj. R. Sq.	0.88		0.47	
F Stat.	39.23***		3.72***	

Note: *** Sig at $\alpha = 1\%$; ** Sig at $\alpha = 5\%$; * Sig at $\alpha = 10\%$

female board of commissioners is not effective in improving firm performance because females' presence is only considered a compliment in corporate governance [24].

The independent commissioner variable shows an insignificant result in Indonesia and the Philippines companies. The company's establishment of independent commissioners may be merely a requirement to meet standards. [25]. In addition, the minimum number of members of independent commissioners is only 30% of the total board members or equivalent to minority share ownership. The size may not be sufficient for an independent board of commissioners to carry out the policies taken by the board of commissioners [26], which all commissioners must approve the decision-making process. According to Article 108 paragraph 4 of Law Number 40 of 2007 Concerning Limited Liability Companies, if the composition of the board has more than one person, every member of the board of commissioners cannot act by itself but it must depend on the decisions of all board members of commissioners. As a result, an independent commissioner is not always effective in running the company.

Debt has a substantial positive impact on the financial in Indonesian firms. Debt can increase the company's value because interest costs on debt can reduce tax payments [27]. Therefore, the company's cost of capital will also be reduced to increase the company's value. The study results for companies in the Philippines show that the results are not significant. The size of the liabilities has no bearing on the valuation of the company. In the capital market, stock price movements and company value-added are obtained from market psychological factors [28]. Investors are not concerned with the company's high or low debt because they are concerned with how the organizations manage funds productively to create added value [29].

Firm size is negatively impact on firms in Indonesia and the Philippines. The negative relationship is consistent with organizational theory, which states that the larger the firm, the higher the costs to be borne by the firm [3, 30].

Table 2. Results for Model 2

	Indonesia		Philippines	
	Coeff.	Prob.	Coeff.	Prob.
Constant	10.66	0.00***	211.09	0.00***
UDK	−0.13	0.02**	0.21	0.50
DWOCB	−0.98	0.07*	−1.79	0.77
KIND	−0.40	0.17	8.48	0.27
LEV	0.60	0.01**	5.29	0.29
FSIZE	−0.29	0.03**	−7.23	0.00***
R-squared	0.91		0.59	
Adj. R. Sq.	0.88		0.47	
F Stat.	39.55***		3.72***	

Note: *** Sig at $\alpha = 1\%$; ** Sig at $\alpha = 5\%$; * Sig at $\alpha = 10\%$

Firm size is essential for investors and creditors to deal with risk. In investing, the larger the company size, the greater the risk the company will face. Table 2 changes the presence of female variable in Model 1 into the percentage of females on the board of commissioners. The results show consistency in both the cases of Indonesia and the Philippines.

4 Conclusion

From the explanation above, the findings show that the board size of commissioners, the presence of female board members, firm size, and debt, all of these factors have a positive impact on Tobin's Q for Indonesian businesses. While for companies in the Philippines, only firm size affects performance. The theoretical implication of this study shows that the presence of female commissioners negatively affects firm performance [22]. However, in the Philippines case, the presence of female commissioners does not show a significant effect [24]. The size of the board of commissioners also shows a significant negative result for Indonesia [6, 18], and not significant for the Philippines [20, 30]. Independent commissioners for Indonesia and the Philippines reveal the same results, which are insignificant. These results support the findings of [2].

The study's findings have a practical implication in that a smaller board of commissioners will result in greater coordination and more effective communication, resulting in better outputs or decisions. This better decision also impacts the company's market value for the better. In addition, female commissioners tend to avoid risk to reduce the company's risk at the time of decision making. His decision makes the company's performance low because the ability to act quickly on market changes is needed in managing an increasingly competitive company. Therefore, female commissioners need to learn a lot to overcome their weaknesses. Meanwhile, the presence of independent commissioners in the company can monitor management policy behaviour to ensure that each policy continues to run in the interests of shareholders and enables to avoid collusion among top management. This study can be used to increase understanding of good corporate governance on firm performance with gender diversity. Nevertheless, it has limitations, namely the year of research used, the number of variables that are limited to Indonesia and the Philippines, and the lack of persistence tests conducted in Indonesia and the Philippines. Further research will likely expand the amount of research years and variables by examining other companies and conducting persistence tests in countries that will be the subject of future research.

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