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The Influence of Ethnic, Gender, and Qualification of Directors on Company Performance

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Abstract

This study aims to determine the effect of ethnic, gender and qualification of the board of directors on company performance. Two control variable are quality audit and company age. The sample in this study was taken random at the companies listing on the Indonesia Stock Exchange, which were 266 companies with a study period of 7 years from 2011-2017. Data analysis by used panel data regression. The results of this study indicate that gender has a negative and significant effect on company performance, while ethnic and qualification have no significant effect on company performance. Quality audit and company age have no significant effect on company performance.

Keywords: Company performance, Ethnic of directors' board, Gender of directors' board, Qualification of directors' board

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1. Introduction

Company performance is an achievement from the results achieved by the company in a certain period (Suryani, 2017); (Sanjaya et al, 2020). Good company performance can attract the attention of investors in making investments. One way that companies can do to encourage improved performance is to have a reliable board of directors (Dewi and Dewi, 2016); .Diversity in the board of directors is considered to affect company performance. One of them is ethnic diversity (Rahma and Bawamenewi, 2018). Indonesia has an ethnic diversity of more than 300 ethnic groups, one of which is ethnic Chinese. The Chinese ethnicity is an ethnic minority in Indonesia with an ethnic number of 1.2% but dominantly dominates the Indonesian economy. The ethnic Chinese leadership style is considered successful in improving company performance. Based on the latest data from Forbes 2017, Indonesia's 50 Richest, it is known that almost all of the top fifty richest people in Indonesia are ethnic Chinese. The success of the ethnic Chinese leadership style in improving company performance raises the idea of the importance of understanding their work ethic, their work mechanism, especially the ways of behavior as well as the traits and leadership styles they use (Mulyani, 2016).

The next independent variable is Gender as a board of directors, which is a widely debated public issue in both the national research of Winasis and Yuyetta (2017) and Nurfadilla (2016) and international research (Luo, et al (2018) and (Leszczynska, 2018). According to Moreno-Gomez,et al. (2018) the existence of gender differences on the board of directors will further increase revenue, consumer stock market prices and company innovation. According to Abdul et al. (2018) the more diversity of female board of directors has a positive effect on company performanceal this suggests that female directors provide greater insight and closer monitoring, are more active on corporate boards, and are more likely to ask questions that a male board of directors would not ask (Abad et al, 2017).

In addition to ethnic diversity, gender, qualification is part of the diversity of the board of directors. In the selection criteria for the board of directors, educational background (qualification) becomes an important value in the assessment stage, because qualification becomes a reference for success in a career as a board of directors, it can affect the company's performance improvement in the future. A high educational background is a criterion for companies in choosing a board of directors.According to Kuo et al. (2017), the educational background of the board of directors is an important criterion in corporate governance in coordinating the company so that it can improve the company's performance.The board of directors who graduated from a well-known university with an MBA program are believed to be able to choose a strategy that will bring benefits to the company they lead, Tseng and Jian (2016). On the

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other hand, if the qualifications of the board of directors are only high school graduates and below, they have a sense of inferiority and lack of confidence in making decisions.

Research conducted in Malaysia Mohammad et al. (2016) ethnic focus, and audit committee in Malaysian manufacturing companies. Ethnic has a positive effect on earnings management. The difference between this study and the current one is that Mohammad et al. (2016) used earnings management, while researchers used company performance as the dependent variable. In the independent variables, the current study uses ethnic, gender and qualification variables. Where observations on companies that go public in Indonesia are listed on the Indonesia Stock Exchange (IDX).

Maula and Rakhman (2018) do research on gender diversity in female CEOs, female CFOs, proportion of female commissioners, and proportion of female audit committees through the presence of female executives in Indonesia. Gender has a negative effect on the level of violations of financial reporting rules. There is a direct influence between the values contained in ethnicity and the actions and behavior of the board of directors on company performance. Diversity on the board of directors will quickly respond to the do's and don'ts in the organization. The greater diversity in the members of the board of directors can lead to more conflicts, but this diversity can provide alternative solutions to a problem that is increasingly diverse than homogeneous board members. In addition, the ethnic diversity in the board of directors provides unique characteristics for companies that can improve company performance (Astuti, 2018).

The Chinese ethnicity is one of the ethnic groups in Indonesia (Rahma and Candra, 2020). Rows of companies in Indonesia that have the highest profits are mostly led by ethnic Chinese. The characteristics possessed by ethnic Chinese in managing a company are considered to have an influence on the success of companies in Indonesia. Research conducted by Anifowose et al. (2017) found that when people from the same ethnic background dominate the board of directors, it can have a positive effect on firm performance. Mohammad et al. (2017)found that the diversity of ethnic has a positive effect on earnings management, because the presence of directors who are dominated by ethnic Chinese diversity can show that other ethnicities are able to generate good opportunities for the company.

H_1: Ethnic of directors' board affects the company performance

Gender diversity on the board of directors is considered necessary by the company. Differences in male and female leadership styles are considered to have an effect on company performance. According to Abdul et al. (2018) the more diversity of female board of directors has a positive effect on company performance. Women's leadership style is known to tend to be more cautious and more risk averse than men. Women tend to be more ethical in making judgments and behavior than men and women's positions on the board of directors will provide obstacles to the practice of violating financial reporting rules because of the involvement of gender issues in them (Maula and Rakhman, 2018).

Previous research related to gender diversity in board members, there were some differences in the results found. Aluy et al. (2017) conducted a study that focused on the presence of women in top management on banking financial performance and found that the presence of women had a significant effect on financial performance with ROE and NPL as measuring tools. According toAbad et al. (2017), gender diversity on the board of directors is negatively related to the level of information asymmetry in the stock market. Research conducted by Luo et al. (2017) show a negative gender relationship to actual manipulation activities when female board directors have higher ownership. Moreno Research-Gomez et al. (2018) produce findings that gender has a positive effect on the company's business performance.

H_2: Gender of directors' board affects the company performance

The educational background of members of the board of directors is an important value in the assessment stage, because qualification becomes a reference for success in a career as a board of directors, it can affect the improvement of company performance. The higher the educational background, the board of directors is believed to be able to make profitable decisions and solve problems more wisely. Members of the board of directors who have an educational background in business will be better at managing the business and making decisions (Suhardjanto, 2010).

Research conducted by Kagzi and Guha (2018) found that there is a positive linear relationship between the overall board demographic diversity index (board gender, age, ownership, and education) and firm performance. Tseng and Jian (2016) show that qualification has a positive influence on company performance. Companies are more likely to successfully improve company performance when their board members have educational backgrounds in top-ranking universities, foreign universities, and top MBA programs. The educational background of the board of directors does not affect the company's R&D investment, and shows the positive effect of the director's higher education directing the company to invest more in R&D (Kuo et al, 2017).

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H_3: Qualification of directors' board affects the company performance

2. Method

In this study, researchers took a population of 608 publicly traded companies that have been listed on the Indonesia Stock Exchange for the period 2011-2017. The number of samples in this study were 266 samples of publicly listed companies listed on the Indonesia Stock Exchange for the period 2011-2017. Company performance is an important measure of the success of a company (Rahma, Nabawi and Wijaya, 2019). Company performance is a display of the complete state of the company for a certain period of time, is a result or achievement that is influenced by the company's operational activities in utilizing its resources (Istiana et al, 2018). The measurement of company performance in this study uses financial ratios, namely return on sales (ROS) or more commonly referred to as net profit margin. In the research of Miller and Triana (2009), and Fadli (2018), ROS is used to determine the company's ability to generate profits from the company's sales revenue. Here is the formula for ROS:

$$ROS = \frac{\text{Net Profit}}{\text{Net Income}} \text{………..(1)}$$

The ethnics studied were ethnic Chinese and ethnic Javanese and other members of the board of directors in influencing company performance. The measuring instrument used for ethnic is the blau index. Blau index has often been used and recorded as a measure of diversity that is suitable for ethnic, gender and qualification category variables. Bantel and Jackson (1989), Harrison and Sin (2006), Miller and Triana (2009), Anifowose et al. (2017), Carter et al. (2010).

Gender of directors' board according to the research of Abad et al. (2017), Miller and Triana (2009), and Carter et al. (2010) the measuring tool used for the gender of the board of directors is the blau index. The calculation of the measuring instrument for measuring the blue index with gender variables in this study uses male and female categories.

Qualification of directors' board according to research by Kagzi and Guha (2018), Ooi et al. (2017), and Kaczmarek et al. (2012) conducted research on the diversity of the board of directors, one of which diversity being studied was qualification. In this study, the measuring instrument or indicator used is the blau index with categorical variables < S1, S1, S2, and S3.

$$\text{Blau Index} = 1\text{-} \sum_{i\text{-}1}^{n} P^2 \text{……….(2)}$$

Quality Auditas a control variable In this study, the indicators used in audit quality are dummy. If the company uses a quality audit from one of the big four then it is given 1 (one) and if not then it is given the number 0 (zero) (Wahab et al, 2018). Company Age (CA) also as a control variable in this study was measured by distance from years obeservation to years of establishment (Luo et al., 2017). Data analyzed using Eviews is used to analyze the influence of ethnicity of the board of directors, gender of the board of directors, qualification of the board of directors on company performance with quality audit and company age as control variables. The regression equation model is stated as follows:

ROS = α + 1 EDDit + 2 GDDit + 3 QDDit + 4 QAit + 5CAit + e ....(3)

Information:

ROS =Return on Sales (Y)
α =Constant
EDD = Ethnic Board of Directors (X1)
GDD =Gender Board of Directors (X2)
QDD =Qualification Board of Directors (X3)
QA =Quality Audit
CA =Company Age
e =Standard Error

3. Result and Discussion

Result

After the required data was collected, it was processed using program Eviews 9.

Table 1.Descriptive Statistics Results

	ROS	EDD	GDD	QDD	QA	CA
Mean	0.15	0.36	0.16	0.34	0.37	35.99
Med	0.07	0.44	0.00	0.44	0.00	34.00
Max	1.90	0.27	0.55	0.76	1.00	96.00
Min	-1.76	0.00	0.00	0.00	0.00	4.00
Std Dev	0.39	0.65	0.19	0.21	0.48	14.75

Data processed by authors

ROS ranged from -1.76 to 1.90 with a median value of 0.07 and a mean of 0.15 with a standard deviation of 0.39. EDD data ranged from 0.00 to 0.27 with a median value of 0.44 and a mean of 0.36 with a standard deviation of 0.65. The GDD data ranged from 0.00 to 0.55 with a median value of 0.00 and a mean of 0.16 with a standard deviation of 0.19. QDD data ranged from 0.00 to 0.76 with a median value of 0.44 and a mean of 0.34 with a standard deviation of 0.21. The QA data ranged from 0.00 to 1.00 with a median value of 0.00 and a mean of 0.37 with a standard deviation of 0.48. CA data ranged from 4.00 years to 96.00 years with a median value of 34.00 years and a mean of 35.99 years with a standard deviation of 14.75 years.

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From the results of the normality test, it can be seen that the Jarque-Bera value is 5.839 with a probability of 0.054. Because the probability value is 0.054 > 0.05, it can be said that the residuals in this research model are normally distributed. The results of the mutilinearity test showed that each independent variable and control variable used had a correlation coefficient below 0.80 so it can be concluded that each independent and control variable used was free from multicollinearity symptoms. Heteroscedasticity test shows that the resulting probability value is 0.554 > 0.05.

Table 2. Hausman Test Results

Test Summary	Chi-Sq. Statistics	Chi-Sq. df	Prob.
Cross-section random	11.082586	5	0.0498

Data processed by authors

Based on the test results in table 2, it can be seen that the Chi-square probability is 0.0498 less than 0.05, so the model used should be the Fixed Effect model.

Table 3. Panel Data Regression Test Result

Variable	Coefficient	Std.. Error	t-Stat.istic	Prob.
C	-2.269	0.469	-4,835	0.000
EDD	0.224	0.240	0.935	0.349
GDD	-0.586	0.251	-2.332	0.019
QDD	0.212	0.234	0.907	0.364
QA	0.486	0.331	1.468	0.142
CA	-0.009	0.011	-0.838	0.401
R2	0.687			
Adj R2	0.623			
F Value	0.000			

Data processed by authors

Discussion

The results of the analysis show that the Ethnic Board of Directors (EDD) has a regression coefficient of 0.224 and a tstatistic of 0.935 with a probability value of 0.349 greater than 0.05 or (0.349 > 0.05). This shows that the ethnic variable has no significant effect on company performance as proxied by Return on Sales (ROS).

The results of this study are not in line with the research conducted by Anifowose et al. (2017) and Mohammad et al. (2017) where people from the same ethnic background dominate the board of directors, it can have a positive effect on company performance. While the research conducted by Hassan and Maran (2018) has similarities from this research, namely that there is no influence of ethnic diversity on company performance.

The next variable is gender. Judging from the results of the analysis, it shows that the Gender of the Board of Directors (GDD) has a regression coefficient value of -0.586 and a tstatistic of -2.332 with a probability value of 0.019 which is smaller than 0.05. This shows that the gender variable has a negative and significant effect on company performance as proxied by Return on Sales (ROS). The results of this study are in line with research conducted by Aluy et al. (2017),Abad et al. (2017), Luo et al. (2017)and Moreno-Gomez et al. (2018)produce findings that gender has a significant effect on company performance.

The third variable is qualification. Based on the analysis results show that the Qualification of the Board of Directors (QDD) has a regression coefficient value of 0.212 and a tstatistic of 0.907 with a probability value of 0.364 greater than 0.05. This shows that the qualification variable has no significant effect on company performance with return on sales (ROS) as a measuring tool.

The results of this study are not in line with research conducted by Kagzi and Guha (2018), Tseng and Jian (2016) and (Kuo et al, 2017)which states that there is an influence of the qualification of the board of directors on company performance, while the research conducted by Astuti (2017) has similarities from this research, namely the qualification of the board of directors has no significant effect on company performance.

The control variables used in this study are quality audit and company age. The results of the analysis show that Quality Audit (QA) has a regression coefficient of 0.486 and a tstatistic of 1.468 with a probability value of 0.142. This shows that the quality audit variable has no significant effect on company performance with Return on Sales (ROS) as a measuring tool.

The results of this study are not in line with research conducted by Meidona and Yanti (2018) that quality audit has a significant effect on company performance. In contrast to the research conducted by Heryan and Adiwijaya (2013) that public accounting firms have no effect on company performance. Analysis result shows that the company age (CA) has a regression coefficient of -0.009 and a tstatistic of -0.838 with a probability value of 0.401. This shows that the company age variable has no significant effect on company performance with return on sales (ROS) as a measuring tool. The results of this study are in line with the results of research conducted by Research conducted Astuti and Erawati (2018), and Indrayenti (2016) show that company age has no effect on company performance.

4. Conclusion

Based on the analysis by discussing the results of hypothesis testing, several important conclusions can be proposed which are the core answers to the problems discussed in this study, namely gender has a negative and significant effect on company performance as proxied by Return on Sales (ROS). This result shows that the higher the gender diversity of the board of directors in the company, the lower the company performance. This is because of the differences in the leadership styles of men and women. The leadership style of women who tend to avoid high risk in the decision-making process compared to men. So women tend to miss opportunities that should be able to improve company performance (Ramadhani and Adhariani, 2017). Suggestions for further researchers should add other variables that can also affect the company's performance, the number of observations in the study and extend the research period.

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