Gender Diversity in Board of Directors and Firm Performance: A Study in Indonesia Sharia Banks

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ABSTRACT

The purpose of this study is to examine the influence of the proportion of women as directors, tenure of women as directors, education level of women as directors, and the education background of women as directors on the performance of sharia banking in Indonesia. The sample used in this research is 11 sharia banks in the period of 2011-2015. This research used multiple regression analysis technique. The results show that the proportion of women as directors has a negative effect on the performance of sharia banking in Indonesia. Other variables such as tenure of women, women's education background and firm size have a positive effect on sharia banking performance. Only the women's education level as a director does not affect the performance of sharia banks in Indonesia.

Keywords: gender diversity, board of director, firm performance, governance

1. INTRODUCTION

According to Fauzi (2012), the growth of sharia banking since 2000 to 2013 is always in positive range around 40-46 percent (www.republika.co.id, 2012). According to OJK, sharia banks grew 11.97% in June 2016 (www.sindonews.com, 2016). However, the market share of sharia banks in Indonesia is still very small, 4-5% (Statistics of Sharia Banking, 2016). This shows that the performance of Islamic banking in Indonesia has not reached its peak. The purpose of this study is to examine the influence of the proportion of women as director, the tenure of women as director, women's education level, and women's education background on the performance of sharia banking in Indonesia.

The concept of board diversity states that the board should reflect community structure and represent gender, ethnic, and professional background (Kang, Chen, and Gray, 2007; Carter, D'Souza, Simkins, and Simpson, 2010). Board has an interest in the composition of women due to the differences in perspectives (Milliken and Martin, 1996; Biggins, 1999), the fulfillment of moral obligations to shareholders (Carver, 2002), stakeholders (Keasey, Thompson, and Wright, 1997), corporate philanthropy (Coffey and Wong, 1998), and commercial reasons (Mattis, 2000; Daily and Dalton, 2003). The concept of board diversity in this study refers to the women's position in the directors because according to UU 2007 about Limited Company Law and PBI 2009 the directors have the obligation to carry out the operational activities of the company.

Demographic factors (age, gender, tenure, and specialization) are among the characteristics of directors related to cognitive abilities, values, and perceptions that influence decision making (Marimuthu and Kolaindasamy, 2009). The more complex the decision-making (such as strategic decisions), the more important is the individual characteristics of

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decision-makers (Zee and Swagerman, 2009). These demographic characteristics contribute to the diversity in the board (McIntyre, Murphy, and Mitchell, 2007).

Previous research on women involvement as a member of board in various countries show mixed results (Dahlin et al., 2005). Adnan, Sabli, and Abdullah (2013) examine board's gender diversity and corporate performance in Malaysia. The results of this study are different from Rovers (2013), Vink (2012), Darmadi (2010), Bathula (2008), and Carter, Simkins, and Simons (2003) in which Adnan et al. (2013) can not prove that women involvement as a member of board has a positive effect on company performance. The results of Adnan et al. (2013) research are supported by Wang and Cliff (2009) in Australia; Jamali, Safieddine and Daouk (2007) in Lebanon; Marimuthu and Kolaindaisamy (2009) in Malaysia; and Wicaksana (2010) in Indonesia. Adams and Ferreira (2009) find that in general the effect of women's involvement as a member of board on company performance is negative in the US. Brammer, Millington, and Pavelin (2007) analyze gender diversity in the UK and conclude that board diversity is influenced by company's external business environment. Brammer et al. (2007) find cross section variation of gender diversity across industries. Different results may be caused by different governance structures, laws, and regulations in each country.

This research is still interesting because first, the results of previous research on various sectors and countries show inconsistency. Second, the awareness of the world and especially in Indonesia on gender equality. Third, as far as researchers knew, gender diversity which focused on women as directors does not yet exist in Indonesia sharia banks. The difference of this research with previous research is, this research more focused on demographic characteristics of women as directors in Indonesia sharia banks.

2. THEORETICAL REVIEW AND HYPOTHESIS DEVELOPMENT

According to Jensen and Meckling (1976) the separation between ownership and management of the company will cause agency problems because there is a difference of interests between the owner as the principal and the manager as the agent. According to Eisenhardt (1989) the agency theory is based on three assumptions: (1) human assumption, (2) organizational assumption, and (3) information assumption. The demographic variables chosen in this study are based on previous research and agency theory assumptions. Corporate governance is a concept based on agency theory. Corporate governance deals with how to convince investors that managers will benefit and will not invest in unprofitable projects. Corporate governance deals with how investors can control managers (Shleifer and Vishny, 1997).

OECD (1997) argues that corporate governance can reduce conflict of interest and reduce agency problems. According to Carse (2000) strong corporate governance is a necessary standard in bank management. This is because most of the funds in the bank are owned by creditors and depositors. Failure in bank management will not only affect shareholders, but also other banks.

The relevance of gender diversity and firm performance according to Credit Suisse (2012) are: (1) showing better corporate signal, (2) greater effort among firms, (3) diverse leadership skills, (4) wider access on existing talent, (5) better reflection on decision making, (6) better improvement in the implementation of corporate governance, and (7) risk aversion. Some research results showed that team diversity can improve perspectives and cognitive abilities (Hambrick, Cho and Chen, 1996), and improve networking, resources, creativity, and innovation (Di Tomaso, Post and Parks-Yancy, 2007). In addition, different occupation

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levels are more effective at problems solving and implementation of change (Bantel and Jackson, 1989). According to Fairfax (2006), three or more women on board would strengthen corporate governance. Women influence board governance through three things: (1) bringing different perspectives on board discussions, (2) decreasing the avoidance toward the discussion in difficult issues in the board, and (3) creating more open and collaborative discussions.

Carter, Simkins, and Simpson (2003) examine the effect of women and ethnic proportions on company performance. They find a positive effect of board diversity on performance with a sample of 638 firms from Fortune 1000 in 1997. Carter et al. (2010) repeats his research with 641 samples from Fortune 500 in 1998-2002. The results show that the proportion of women as boards has a positive effect on ROA and has no effect on Tobin's Q. These results are supported by Erhardt, Werbel, and Shradel (2003), Smith, Smith, and Verner (2005), and Prihatiningtyas (2012) in Indonesia; Virtanaen (2012), Abdullah, Ismail, and Nachum (2013) in Malaysia, examine the effect of demographic diversity in board of directors on financial performance company. Virtanen (2012) finds that female directors play a more active role and use more power than male directors. Abdullah et al. (2013) in Malaysia finds that the inclusion of women as directors has positive effect on accounting performance as measured by ROA. A Dutch research conducted by Lukerath-Rovers (2011) find that firms with women as directors have better performance as measured by ROE. The result is supported by Bathula (2008) research in New Zealand which find that gender diversity affects company's performance positively. The same result is found by Campbell and Vera (2009) in Spain. Based on the results of these prior studies, the hypothesis of this study is:

H_1: The proportion of women as directors positively affects the performance of sharia banking in Indonesia.

According to Hambrick and Mason (1984), strategic choice taken by the senior manager level is a result of cognitive and behavioral characteristics. Board-adopted values and cognitive orientations affect strategic decision-making process, so strategic decisions reflect belief, assumption and values of the board. Board decision making uses cognitive characteristics of education, functional background and tenure (Milliken and Martin, 1996).

Work experience as one of demographic characteristics extends and enriches information resources and strengthens decision-making capacity (Dutton and Duncan, 1987). Work experience is needed to find opportunities, consider strategic alternatives, strengthen team ability to identify and deal with existing environmental conditions (Wiersma and Bantel, 1992).

Goldsmith (2012) examines board tenure and company performance in US. The samples of the research are 282 financial sector companies. The results show that board tenure supports consistent, sustainable, and profitable corporate performance. According to Ellison and Mullin (2014) people who enter the company at the same time will share better communication. Ellison and Mullin (2014) examine small companies in the US during 1995-2002. Revenue is used to measure performance.

Ely (2004) examines tenure and company's performance by distributing questionnaires to 486 bank branches. The results indicate that tenure affects the performance of bank. Luo, Kanuri, and Andrews (2013) examine the work experience and company's performance in US. They use 356 companies as samples in the period of 2000-2010. The results show that the more experienced and the more expert, especially in relation to

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employee relations but less response to market changes. It affects the company's performance.

Wan Yusoff (2010) finds that only 3.5% of independent directors are women and experience in corporate management is an integral part of board effectiveness in Malaysia. Poon, Yap, and Lee (2013) state that board seniority has a positive effect on company performance because senior boards are more knowledgeable, creative, and innovative. Generally, board in Malaysia has less than nine years experience as board (Securities Commission Malaysia, 2011). Several previous studies have found a positive influence of work experience on company performance (Bantel and Jackson, 1989; Hambrick, Cho, and Chen, 1996; Smith et al., 1994). This indicates that diversity can strengthen the perspectives and information as well as decision-making capacity. Based on previous research, the research hypothesis is:

H_2: Tenure of women as directors positively affects the performance of sharia banking in Indonesia.

Higher education qualifications provide wider knowledge, stimulation to consider alternatives, and strengthen problem solving (Cox and Blake, 1991). Board with education level like Ph. D becomes the source of innovative ideas of policy development, deeper analysis, and provides unique perspective on strategic issues (Westphal and Milton, 2000).

According to Singh et al. (2008) women bring different international perspectives on the board. Smith, Smith, and Verner (2005) examine the involvement of women as a board member and company performance in Denmark with a sample of 2500 companies in 1993-2001. The results of their research indicate that the level of women education as a board member has a positive effect on company performance. This is supported by Idea (2013) who show that the level of education (Ph.D) affects company's performance (ROA, ROE, and Tobin's Q) in the US.

Wan Yusoff (2010) states that women in Malaysia are educated women. Knowledge and education qualifications are an integral part of board effectiveness in Malaysia. This is supported by Virtanaen (2012) research in Finland. Based on that research, the hypothesis of this research is:

H_3: Women's education level as directors positively affects the performance of sharia banking in Indonesia.

Several studies have documented the influence of skill-based leadership diversity, including education background on company performance (Milliken and Martin, 1996). Different education backgrounds provide different perspectives and skills, strengthen problem-solving skills and strategic decision-making, resource access capabilities (Roberson, 2006). As a team, the board of directors combines competence and ability to represent social capital collectively and add value to governance functions (Carpenter and Westphal, 2001). Qualification of individual board members is required for decision making. According to Research Association of Certified of Accountants (ACCA), women who have board position when they have financial education background would support their subsequent career success (Seally and Doherty, 2012). The results show that 45% of women who have a position as a board in FTSE 100 are financially qualified and 65% of those percentages have a financial education background. The reasons for women with financial education backgrounds to get a position in board are: (1) financial qualification improves credibility, (2) they have greater confidence, (3) career in finance is usually structured, with clear roles, more accessible, and more attractive to women, (4) they have their own network and contacts

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for future career development, and (5) their qualification of accounting skills is relatively needed anywhere.

Education qualifications are included in the corporate governance evaluation index. Several previous studies documented the positive influence of education background on corporate performance (Ljungquist, 2007). Yermack (2006) finds reactions of sensitive stock prices on professional board qualifications such as accounting and finance specializations, related to company performance. Wan Yusoff and Armstrong (2012) state that the most important skills as a board member are financial and accounting expertise as well as technical expertise especially in business and management. According to Talmud and Izraeli (1999), women as board member in a trading company in Israel have better skills than men. The Women Director Program in Malaysia introduces a program to train women as a board so they can have expertise by providing training in board duties. Several previous studies have found a positive influence of board education background on corporate performance (Bantel and Jackson, 1989; Hambrick, Cho, and Chen, 1996; Smith et al., 1994). This indicates that diversity can strengthen perspectives and information as well as decision-making capacity. Based on that research, the hypothesis is:

H_4: The women's education background as directors positively affects the performance of sharia banking in Indonesia.

3. RESEARCH METHODS

The population of this research is all sharia banking in the period of 2011-2015. The sampling frameworks are as follows:

a. Companies that publish annual report or corporate governance report in 2011-2015.
b. Companies that publish annual report or corporate governance report which contain the information about the proportion of women, tenure of women, women's education background, and women’s education level as directors as well as financial performance of the company.

Based on these frameworks, the samples of this study are 11 banks with a research period of five years, so there are 55 observations in this study.

Firm performance in this research is measured using ROE (return on equity). ROE shows how much profit a company generate based on its capital (Azim and Taylor, 2009). Previous researchers have used ROE as to measure financial performance, such as Endraswati, Suhardjanto, and Krismiaji (2014), Huang (2013), and Bhagat, Bolton, and Subramaniam (2011).

The proportion of women as directors is the number of female directors compared to the total members of the Board of Directors (Frieze, Olson, and Good, 1990). The measurement refers to Frieze et al. (1990).

Tenure of women as directors refers to the number of years serving as the member of Board of Directors in the company. This measurements used by Adams and Ferreira (2009).

The level of women's education as directors is the level of women's education, at either undergraduate or post-graduate level (Cox and Blake, 1991; Wierseman and Bantel, 1992; Westphal and Milton, 2000; Smith et al., 2005; Wan Yusoff, 2010; Idea, 2013). Measurement of women’s education level as the directors performed through dummy variable in which: Post-graduate level with 1 and other level with 0.

Women’s education background is the field studied by female board member, whether it is economics, business, and financial or the field unrelated to it. Education background is measured using dummy variable in which economics, business, or finance is 1 and thers field is 0. This measurement refers to Yermack (2006), Sealy and Doherty (2012).

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This research uses size as control variable with total asset as its measurement. Total assets reflect what the company owns: current assets and fixed assets (Li and Hanifa, 2008). This measurement is also used by Azim and Taylor (2009), and Adam and Ferreira (2009).
The model used in this research is:

$$PERF = a_0 + b_1PWD + b_2TWD + b_3LEWD + b_4BEWD + b_5SIZE + e$$

Note :
PERF : Firm performance of sharia banking
PWD : Proportion of women as directors
TWD : Tenure of women as directors
LEWD : Level education of women as directors
BEWD: Background education of women as directors
SIZE : Company Size
Data are analyzed using multiple regression analysis after passed classical assumption test.

4. DATA ANALYSIS

Based on Table 1 Descriptive Statistics below, the proportion of women as directors in sharia banking in Indonesia is 17%. Regulations in Indonesia, especially GCG on Sharia Banks have not clearly set the proportion of women as directors. This causes the inclusion of women as directors in the banking sector in Indonesia is still weak. Important and strategic positions are still dominated by men. When compared with other countries, the involvement of women as the Board of Directors, particularli in the sharia banking in Indonesia is still far behind.

Table 1
Descriptive Statistics

Variables	N	Min	Max	Mean	St Deviation
Proportion of Women in BoD	55	0.00	0.67	0.170	0.19
Tenure of Women in BoD	55	0.00	9.50	2.610	3.06
Education Level of Women in BoD	55	0.00	1.00	0.400	0.34
Education Background of Women in BoD	55	0.00	1.00	0.290	0.43
Firm Performance	55	-0.32	0.64	0.087	0.14

Source: The Data

The regulation regarding women involvement in the public sector in Indonesia is 30% quota for legislative members for women. The involvement of women in 2012 is only 12%. According to a survey by Unleashing Women Leadership and Femina Magazine, 6% of women in Indonesia hold positions as directors and 6% of women are at commissioner level. Women for Economy Forum that monitors APEC countries emphasizes the importance of increasing the involvement of women at the executive level (kompas.com, 2012). In 2000, the proportion of women on corporate boards is monitored only by US. The conditions are much different now, other countries (Norway, Spain, Finland, France, The Netherlands, US, Australia, and Austria) monitor the proportion of women in corporate boards through positive action, legalitation and quotas (Women on Boards, 2009).

Tenure is measured using the number of years someone has served as a board of directors. Two point six years of tenure as director for women is not considered as a long time period. According to Huang (2013) company's performance increased when the directors have nine years experience as director and the performance will continue to improve until 12 years, in which afterward, company performance will start to decline. According to

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CNN news quoted by Huang (2013), investors do not like too many old board of directors because the longer they serve in the company, the more dependent and less effective they are in performing their functions. Regulation in UK states directors should be replaced and reviewed after six years. The research results by Spencer Stuart reveal that the company in Fortune has a seven years working period for director and company in S & P 500 with a working period of 6.5 years.

The result of average level of women's education as directors does not violate the rules of PBI in 2009 and the Law of PT in 2007. Both regulations have not regulated the requirements of education level in sharia banking and conventional banking. According to Spencer Stuart's research, the percentage of directors with MBA degree in S & P 500 is 41% and 97% of undergraduate level in the year of 2006. Companies incorporated in the S & P 500 mostly have directors with undergraduate level education.

According to Table 1, the average education background of women as directors is only 0.29. It means that majority education background is not in economics, business and financial filed. The results of this study do not violate the regulation of the PBI in 2009 and the Law of PT in 2007 because the regulation does not clearly regulate the requirement of education background as directors in particular and both in banking industries and limited corporation in general. When compared to US based on Spencer Stuart's research that in 2006, 33% directors at the S & P 500 has education background in engineering, 11% in business administration, and 13% in economics.

Based on Table 1, the average performance measured from ROE is 8.7%. It means that sharia banks can earn profit 8.7% from equity. ROE in conventional banks is 15% in the period 2011-2013. This shows that the performance of sharia banks is much different from the performance of conventional banks based on their ROE value. The results of hypothesis testing in this study are shown in Table 2 below:

Table 2
Gender Diversity in BoD and Firm Performance: A Study in Indonesia Sharia Banks

Variables	Coefficient	Prob.
Constant	0.963	0.005
Proportion of Women in BoD (PWD)	-0.487	0.001***)
Tenure of Women in BoD (TWD)	0.034	0.000***)
Education Level of Women in BoD (LEWD)	0.146	0.427
Education Background of Women in BoD (BEWD)	0.081	0.085*)
LnSize	0.035	0.002***)
Adjusted R-squared	0.319	
F-statistic	7.312	0.000***)

*, ***, ***) shows significant level at α = 10 %, 5 % and 1%.

According Table 2 above the adjusted R-squared is 31.9%, it means that 31.9% of sharia banking performance variations can be explained by the variation in the proportion of women, tenure, education level, education background and firm size while the remaining 68.1% is explained by other variables outside the model.

The F test has significance level of 0.000. The probability of significance is smaller than 0.05, so women proportion, tenure, education level, education background, and firm size can predict the performance of sharia banking in Indonesia.

Proportion of women as directors (PWD) has coefficient value -0.487 (negative) and significant at 0.001 indicates that the proportion of women as directors have negative effect

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on the performance of sharia banking. The value of significance level is less than 0.05 so this variable influence is significant. This result might be caused by the domestic and culture in Indonesia. According to Napasri and Yukongdi (2015) the main obstacle for Asian women relate to gender stereotyping. This result supports research conducted by Farrel and Hersch (2005) in US, Wicaksana (2010), Darmadi (2011), Darmadi (2013) in Indonesia, Chapple and Humphrey (2014) in Australia and differ from Joecks, Pull, and Vetter (2013) in Germany and Campbell and Vera (2007) in Spain. Carter, D'Souza, Simkins, and Simpson (2010) did not find significant relationship between gender and financial performance in US.

Variable tenure of woman as directors (TWD) has coefficient value of 0.034 (positive) and significant at 0.000, which indicates that tenure of women as directors have positive effect on performance of sharia banking. The value of significance level is less than 0.05 so this variable has significant effect on performance. This result supports research conducted by Finkelstein dan Hambrick (1996), Ely (2004), Wan Yusoof (2010), Poon, Yap, and Lie (2012), and Goldsmith (2012).

The education level of women as directors (LEWD) has the coefficient value of 0.146 (positive) and significant at 0.427, which indicates that education level of woman as directors (LEWD) does not have positive effect on sharia banking performance. The value of significance level is far above 0.05 so this variable has no significant effect on performance. This might be due to female directors with post-graduate level education is still limited in Indonesia sharia banks. The result is not in line with Smith et al. (2005) and Wan Yusoff (2010).

The variable education background of female directors (BEWD) has coefficient value of 0.081 (positive) with the level of significance at 0.085, which indicates that education background of female directors have positive effect on sharia banking performance. The value of significance is far below 0.10 so this variable has significant effect on performance. This result is in line with Seally and Doherty (2012) and Wan Yusoff and Armstrong (2012). Mahadeo, Sooborayen, and Hanuman (2012) find that there is heterogeneity in terms of education background in Mauritius.

Size as control variable in this research has positive effect on performance of sharia banking which is shown by coefficient value of 0.035 (positive) and level of significance of 0.002. The value of significance level is smaller than 0.05 then the size of the company affects the performance of sharia banking.

5. CONCLUSION

Tenure, education background and firm size have a positive effect on sharia banking performance, while the proportion of women as directors affects the performance of sharia banking negatively. The implications of this research are the recommendation to The Financial Services Authority especially to make regulation regarding the involvement of women as director, minimum work experience, education level and education backgrounds as directors. The results of this study support the agency theory.

The limitation of this study is the limited number of sharia banking in Indonesia, which is only 11 banks in 2015. The opportunity for future research resides in the sharia implementation in rural financing banks, sharia microfinance institutions or small and medium enterprise in Indonesia or by employing different method. Future research also can try to capture the reason why the education level has the negative effect on firm performance through qualitative method.

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