GENDER DIVERSITY IN THE BOARDROOM AND FIRM PERFORMANCE: EVIDENCE FROM INDONESIAN PUBLICLY-LISTED FINANCIAL FIRMS

YENEY WIDYA PRIHATININGTIAS

A THESIS

SUBMITTED TO THE UNIVERSITY OF CANBERRA FOR THE DEGREE OF DOCTOR OF BUSINESS ADMINISTRATION

FACULTY OF BUSINESS AND GOVERNMENT

2012
Abstract

The study has two objectives: first, to examine the impact of the presence of women in the boardroom on firm financial, social and environmental performance; second, to explore the perceptions of women in the boardroom regarding the roles they play in enhancing firm financial, social and environmental performance. Both quantitative and qualitative approaches were utilized. The sample was the Indonesian financial firms publicly-listed in the Indonesian Stock Exchange in 2005-2008. The quantitative data was taken from annual reports of the sample firms and it was analysed using STATA 11. Several women board members were also interviewed to gain further insights and thematic analysis was utilized to analyse this qualitative data. Agency theory, stewardship theory, stakeholder theory, and legitimacy theory were used to explain the link between gender diversity in the boardroom and firm performance. Surprisingly, the result of the quantitative analysis shows that gender diversity has both positive and negative influence on firm financial performance, which was measured by using ROA and Tobin’s Q respectively. There is no link found between gender diversity in the boardroom and firm social and environmental performance. Moreover, the results from the qualitative approach demonstrate that the women board members, especially women directors, believe that they may bring positive effect in organizational improvement, which may then enhance firm performance as a whole. It is found further that women board members in the Indonesian context seem to be the steward of the firms. This means that, gender diversity in this context may not by itself achieve much for firm value although women board members may enhance the profitability of firms as a result of their collaborative work with management. Consequently, firms may need to carefully consider what ‘added value’ is likely to result from the inclusion of women in the boardroom.

Keywords: gender diversity in the boardroom, firm performance, agency theory, stewardship theory, stakeholder theory, legitimacy theory, quantitative approach, qualitative approach
Acknowledgements

I would like to express my deepest appreciation to Professor Milind Sathye, my primary supervisor, for his invaluable support and insight during my study and thesis writing process. My appreciation is also addressed to Professor Deborah Blackman, my secondary supervisor, for her inspiration and encouragement.

I would also need to thank the Indonesian Higher Education General Directorate (Dikti) for the scholarship given to me to pursue my doctoral degree. My deep gratitude is also addressed to the Department of Accounting, Faculty of Economic and Business, University of Brawijaya, the place where I work as a lecturer, for providing opportunity to me to study abroad. I am also thankful to the interview participants, the women board members in several Indonesian publicly-listed financial firms, who provided me with priceless data and experiences.

My greatest gratitude is also expressed to my mother Hajjah Tatik Widjiati, my husband Andi Rizal, and my daughter Nisrina Andini Alifah for their huge and continuous encouragement, assistance, patient, and love during the very long journey to reach my dream. My thankfulness is extended for all family members of my late grandfather S. Hadi Soeparto, who have helped me to take care of my mother and daughter when I was in Australia. Finally, I am thankful to all colleagues at the University of Canberra whom I have spent time together to enjoy the academic and social life.
# Table of Contents

Abstract ............................................................................................................................ i
Acknowledgement ........................................................................................................ iii
Form B............................................................................................................................ v
Form C............................................................................................................................ vii
Table of contents .......................................................................................................... ix
List of tables .................................................................................................................. xiii
List of figures ................................................................................................................ xv
List of acronyms ............................................................................................................ xvii
List of appendix ........................................................................................................... x

## Chapter 1 Introduction .......................................................................................... 1

1.1 Background .......................................................................................................... 1
1.2 Objectives of the study ...................................................................................... 3
1.3 Importance of the study ..................................................................................... 5
1.4 Contribution of the study .................................................................................. 8
1.5 The organization of the thesis ........................................................................... 10
1.6 Chapter summary ............................................................................................... 11

## Chapter 2 Corporate governance in Indonesia .................................................... 13

2.1 Introduction ........................................................................................................ 13
2.2 Indonesia in brief ............................................................................................... 13
  2.2.1 Indonesian economy ................................................................................. 12
  2.2.2 Status of Indonesian women .................................................................... 19
2.3 Corporate Governance in Indonesia .................................................................. 24
  2.3.1 Corporate governance framework ......................................................... 24
  2.3.2 Corporate governance practices ............................................................. 28
  2.3.3 Corporate governance in financial firms ................................................. 32
2.4 Corporate reporting in Indonesia ..................................................................... 35
2.5 Gender diversity of board members in Indonesia ............................................. 36
2.6 Chapter summary ............................................................................................... 40

## Chapter 3 Theoretical perspective, literature review, research questions, and hypotheses development ....................................................................................... 41

3.1 Introduction ........................................................................................................ 41
3.2 Gender diversity in the boardroom ................................................................. 42
3.3 Firm performance ............................................................................................... 44
  3.3.1 Financial performance ............................................................................ 44
  3.3.2 Social and environmental performance ............................................... 45
3.4 The link between gender diversity in the boardroom and firm performance .... 48
  3.4.1 Agency theory ......................................................................................... 49
  3.4.2 Stewardship theory ................................................................................ 53
  3.4.3 Legitimacy theory ................................................................................... 58
  3.4.4 Stakeholder theory .................................................................................. 62
3.5 Theoretical framework ....................................................................................... 65
### Chapter 4 Research methods

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>4.1 Introduction</td>
<td>81</td>
</tr>
<tr>
<td>4.2 Mixed methods research and its application in this study</td>
<td>81</td>
</tr>
<tr>
<td>4.3 Phase 1: Quantitative research method</td>
<td>87</td>
</tr>
<tr>
<td>4.3.1 Sample selection and data collection</td>
<td>89</td>
</tr>
<tr>
<td>4.3.2 Variables</td>
<td>90</td>
</tr>
<tr>
<td>4.3.2.1 Independent variable</td>
<td>91</td>
</tr>
<tr>
<td>4.3.2.2 Dependent variables</td>
<td>95</td>
</tr>
<tr>
<td>4.3.3 Empirical model</td>
<td>102</td>
</tr>
<tr>
<td>4.3.4 Data analysis method</td>
<td>103</td>
</tr>
<tr>
<td>4.4 Phase 2: Qualitative research method</td>
<td>104</td>
</tr>
<tr>
<td>4.4.1 Interviewee selection</td>
<td>105</td>
</tr>
<tr>
<td>4.4.2 Interview method</td>
<td>107</td>
</tr>
<tr>
<td>4.4.3 Data analysis method</td>
<td>108</td>
</tr>
<tr>
<td>4.4.4 Ethics consideration</td>
<td>110</td>
</tr>
<tr>
<td>4.5 Phase 3: Mixing the findings from the quantitative and qualitative research methods</td>
<td>111</td>
</tr>
<tr>
<td>4.6 Integrating conflicting results from quantitative and qualitative methods</td>
<td>112</td>
</tr>
<tr>
<td>4.7 Qualitative data trustworthiness</td>
<td>115</td>
</tr>
<tr>
<td>4.8 Limitations</td>
<td>117</td>
</tr>
<tr>
<td>4.9 Chapter summary</td>
<td>118</td>
</tr>
</tbody>
</table>

### Chapter 5 Findings and discussions of phase 1: Quantitative research method

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>5.1 Introduction</td>
<td>121</td>
</tr>
<tr>
<td>5.2 Descriptive statistics</td>
<td>121</td>
</tr>
<tr>
<td>5.3 Panel data analysis to test hypotheses</td>
<td>126</td>
</tr>
<tr>
<td>5.3.1 Gender diversity in the boardroom and firm financial performance</td>
<td>130</td>
</tr>
<tr>
<td>5.3.2 Gender diversity in the boardroom and firm social performance</td>
<td>132</td>
</tr>
<tr>
<td>5.3.3 Gender diversity in the boardroom and firm environmental performance</td>
<td>133</td>
</tr>
<tr>
<td>5.4 Discussions</td>
<td>135</td>
</tr>
<tr>
<td>5.4.1 Gender diversity in the boardroom and firm financial performance</td>
<td>131</td>
</tr>
<tr>
<td>5.4.2 Gender diversity in the boardroom and firm social performance</td>
<td>141</td>
</tr>
<tr>
<td>5.4.3 Gender diversity in the boardroom and firm environmental performance</td>
<td>145</td>
</tr>
<tr>
<td>5.5 Robustness check</td>
<td>148</td>
</tr>
<tr>
<td>5.6 Chapter summary</td>
<td>151</td>
</tr>
</tbody>
</table>

### Chapter 6 Findings and discussions of phase 2: Qualitative research method

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>6.1 Introduction</td>
<td>153</td>
</tr>
</tbody>
</table>
List of Tables

Table 2.1 : Number of employees based on sectors, 2004-2010 (in millions)......................... 14
Table 2.2 : Number (in millions) and percentage of male and female employees employed in business sectors, 2008-2010.............................................................. 15
Table 2.3 : The growth in GDP of business sectors, 2006-2010 (percentage)......................... 16
Table 2.4 : IDX index, number of listed firms and market capitalization development...... 17
Table 3.1 : Comparison between agency theory and stewardship theory.......................... 57
Table 3.2 : What do stakeholders want?.............................................................................. 63
Table 4.1 : Variables, measures and data sources.................................................................. 100
Table 5.1 : Sample of Indonesian publicly-listed financial firms........................................ 122
Table 5.2 : Percentage of women board members in Indonesian publicly-listed financial firms.................................................................................................................. 122
Table 5.3 : Descriptive statistics............................................................................................ 122
Table 5.4 : Multicollinearity test........................................................................................... 129
Table 5.5 : VIF statistic......................................................................................................... 129
Table 5.6 : Panel data analysis of the relationship between the Blau Index (blau) and Tobin’s Q (tobinsq).................................................................................................... 131
Table 5.7 : Panel data analysis of the relationship between the Blau Index (blau) and Return on Assets (roa)........................................................................................................ 131
Table 5.8 : Panel data analysis of the relationship between the Blau Index (blau) and quantitative dimension of social disclosure (log_sr).................................................. 132
Table 5.9 : Panel data analysis of the relationship between the Blau Index (blau) and qualitative dimension of social disclosure (sr_themes).................................................. 133
Table 5.10 : Panel data analysis of the relationship between the Blau Index (blau) and quantitative dimension of environmental disclosure (er).............................................. 134
Table 5.11 : The GLS result of the relationship between the Blau Index (blau) and Tobin’s Q (tobinsq)............................................................................................................. 148
Table 5.12 : The GLS result of the relationship between the Blau Index (blau) and Return on Assets (roa).......................................................... 149

Table 5.13 : The GLS result of the relationship between the Blau Index (blau) and quantitative dimension of social disclosure (SR)............................................. 149

Table 5.14 : The GLS result of the relationship between the Blau Index (blau) and qualitative dimension of social disclosure.................................................... 149

Table 5.15 : The GLS result of the relationship between the Blau Index (blau) and quantitative dimension of environmental disclosure (er)....................................... 150

Table 5.16 : Panel data analysis of the relationship between dummy variable of the presence of women in the boardroom (dummy) and Tobin’s Q (tobinsq)........ 151

Table 5.17 : Panel data analysis of the relationship between proportion of men and women board members (proportion) and Tobin’s Q (tobinsq)........................... 151
List of Figures

Figure 2.1: Indonesian economic growth, 2006-2010.......................................................... 15
Figure 2.2: The structure of the Indonesian limited liability firm (Two-tier board system).................................................................................................................. 25
Figure 2.3: The Suharto group........................................................................................................ 30
Figure 2.4: Aggregate percentage women on boards in Asian emerging economies (2009-2011).......................................................................................................................... 36
Figure 2.5: Percentage of firms with at least 1 woman director in Asian emerging economies (2009-2011)............................................................................................................. 36
Figure 2.6: Percentage of firms with at least 3 women directors in Asian emerging economies (2009-2011).................................................................................................................. 37
Figure 3.1: Theoretical framework: Gender diversity in the boardroom and firm performance............................................................................................................................... 66
Figure 3.2: Conceptual framework............................................................................................... 80
Figure 4.1: How the study was conducted................................................................................... 88
Figure 6.1: The relationship between women board members and firm performance (based on the themes from data analysis)........................................................................... 189
Figure 7.1: The link between gender diversity in the boardroom and firm financial Performance............................................................................................................................. 199
Figure 7.2: The link between gender diversity in the boardroom and firm social and environmental performance............................................................................................................ 202
**List of Acronyms**

<table>
<thead>
<tr>
<th>Acronym</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>ADB</td>
<td>Asian Development Bank</td>
</tr>
<tr>
<td>ASEAN</td>
<td>Association of Southeast Asian Nations</td>
</tr>
<tr>
<td>BoC</td>
<td>Board of Commissioners</td>
</tr>
<tr>
<td>BoD</td>
<td>Board of Directors</td>
</tr>
<tr>
<td>BPS</td>
<td>Badan Pusat Statistik (Indonesian Statistic Center)</td>
</tr>
<tr>
<td>CAMAC</td>
<td>Corporations and Markets Advisory Committee</td>
</tr>
<tr>
<td>CEO</td>
<td>Chief Executive Officer</td>
</tr>
<tr>
<td>ECGI</td>
<td>European Corporate Governance Institute</td>
</tr>
<tr>
<td>FCGI</td>
<td>Forum for Corporate Governance in Indonesia</td>
</tr>
<tr>
<td>GLS</td>
<td>General Least Square</td>
</tr>
<tr>
<td>IDX</td>
<td>Indonesian Stock Exchange</td>
</tr>
<tr>
<td>ILO</td>
<td>International Labor Organization</td>
</tr>
<tr>
<td>IMF</td>
<td>International Monetary Fund</td>
</tr>
<tr>
<td>KNKG</td>
<td>Komite Nasional Kebijakan Governance</td>
</tr>
<tr>
<td>MoF</td>
<td>Indonesian Ministry of Finance</td>
</tr>
<tr>
<td>MoNDP</td>
<td>Indonesian Ministry of National Development Program</td>
</tr>
<tr>
<td>MoWE</td>
<td>Indonesian Ministry of Women Empowerment</td>
</tr>
<tr>
<td>NCCG</td>
<td>National Committee for Corporate Governance</td>
</tr>
<tr>
<td>OECD</td>
<td>Organisation for Economic Cooperation and Development</td>
</tr>
<tr>
<td>ROA</td>
<td>Return on Assets</td>
</tr>
<tr>
<td>ROE</td>
<td>Return on Equity</td>
</tr>
<tr>
<td>ROI</td>
<td>Return on Investments</td>
</tr>
</tbody>
</table>
List of Appendix

Appendix 1: Summary of prior studies regarding the link between gender diversity in the boardroom and firm performance................................. 245

Appendix 2: Letter of invitation to participate in the research................................. 255

Appendix 3: List of sample firms (financial firms publicly-listed at the Indonesian Stock Exchange examined for period 2005-2008).................. 259

Appendix 4: List of interview questionnaire.......................................................... 261

Appendix 5: Demographic data of interviewees....................................................... 263
CHAPTER 1
INTRODUCTION

1.1 Background

A recent report by the International Labour Organization (ILO) (2009) shows a trend that workforce diversity has been increasing all over the world. In 1998, women’s participation in the developed economies and European Union was 48.3% and rose to 50.4% in 2008. Similarly, in the Middle East it rose from 20.9% in 1998 to 24.7% in 2008; and in Latin America and the Caribbean from 44.2% (1998) to 52.6% in 2008 (ILO 2009). However, there was a decrease in women’s participation in East Asia, from 70% in 1998 to 69.3% in 2008. Further, in South-East Asia and in the Pacific, it has decreased from 59.9% to 58.7% in 2008 (ILO 2009). Interestingly, the Ministry of Women Empowerment of Republic of Indonesia (MoWE) found that in Indonesia the percentage of women in the workforce had increased from 49.2% in 2004 to 51.1% in 2008 (MoWE n.d.).

In the context of women’s participation in top management, the latest census conducted by Catalyst (2011) on Fortune 500’s women boards of directors, women held 15.7% of board seats in 2010, which is a 0.5 percentage point gain over the 15.2% they held in 2009. More than 50% of companies had at least two women on their board of directors, and women held 14.4% of executive officer positions which is up from 13.5 percent in 2009. Further, in 2010, women executive officers held 7.6% of the top earner positions compared to 6.3% in 2009. The above data relates to the women board members in the US.
Several researchers have examined the trend and the impact of the change in workforce diversity, especially in the top management level, on business performance (see for example Terjesen & Singh 2008; Dejardin 2009). In particular, participation by women in top management is expected to have positive impact on firm performance (Robinson 2008). However, there are also claims that diversity at top level management may create greater conflict, lower group cohesiveness, increase employee absenteeism and turnover, and lower quality and performance thus causing a decrease in the value of business (Herring 2009).

The above arguments of the impact on performance of top management due to women’s participation have been ascribed to several attributes of board members. The attributes that impact on the ability of the board members to effectively perform their job include their capabilities and skills (Carter et al. 2007), educational and cultural background (Kusumastuti, Supatmi & Sastra 2007), their possible involvement in multiple directorships, the level of share ownership, and the type of remuneration (Campbell & Vera, 2008). These attributes affect firm performance (Carter et al. 2007). Numerous research studies have been conducted in developed countries such as the US, Australia, the UK, and other European countries to examine whether the gender of board members has significant influence on board performance. The economic case for a gender-diverse board is that it may cause a firm to gain more profit and diverse boards may have unique attributes which add to value for shareholders (Carter et al. 2003).

In the Indonesian context itself, there is no strict rule regarding the composition of board members. NCCG (2006) states that the composition of the board must enable the board to make effective, right, and timely decisions, and to act independently. Consequently, it is interesting to examine whether the composition and the diversity of a board has an effect on
the board’s effectiveness as measured by firm performance. The present study is motivated by the divergence in results about the link between gender diversity and firm performance (for example Bohren & Strom 2006; Campbell & Vera 2008; Smith, Smith & Verner 2006).

Given that past empirical studies have found differences in the impact of board diversity on firm performance, this study focuses on testing hypotheses about the relationship between gender diversity of the board members and firm performance. Further, the study presents results from a qualitative study of Indonesian women board members regarding the role they play in enhancing firm performance. The purpose of the qualitative study was to throw light on the relationship between diversity and performance so as to enhance the understanding of the link between these two constructs.

1.2 Objectives of the study

The current study has two objectives:

1. To examine, in the Indonesian context, the link between women’s participation in top management and its impacts on the financial, social and environmental performance of financial firms.

2. To explore the perceptions of women board members of financial firms regarding the roles they play in enhancing the financial, social and environmental performance of firms.

Specifically, the second objective is aimed to throw further light on the conclusions arrived from examination of the first objective. The study only focuses on one type of firm, which are publicly listed financial firms in Indonesia. The focus is on financial firms as prior studies have been conducted based on the data from non-financial publicly listed firms (Kusumastuti, Supatmi & Sastra 2007; Nuryanah n.d.; Pudjiastuti & Mardiyah 2006).
The underlying assumption of this research is that the presence of women boards may impact firm performance. A diverse workforce has been found to be generally beneficial for business (Herring 2009). However, this is contradictory to other accounts that hold diversity to be either non consequential to business success or actually detrimental by creating conflict, undermining cohesion, and thereby decreasing productivity (Whitaker 1996 in Herring 2009). In the current study, these competing arguments are examined in the Indonesian context by using several theories, namely agency, stewardship, legitimacy, and stakeholder theories. Board diversity also assumes importance in the context of corporate governance (Francoeur, Labelle & Desgagne 2008; Grosvold, Brammer & Rayton 2007; Adams & Ferreira 2007) as such a diversity is considered to be the best practice in corporate governance. The quality of corporate governance itself may be reflected in the share price or the profitability of the firm (Carter et al. 2007; Jurkus, Park & Woodward 2008; Peterson & Philpot 2007). However, it is still inconclusive whether gender diversity of boards affects firm performance positively or negatively. Therefore, the principal objective of this study is to test the effect of gender diversity in the boardroom on firm performance to provide evidence whether the 'value-in-diversity' claim find support in Indonesian publicly listed financial firms.

Moreover, the performance of a firm is not only viewed in terms of financial achievement, but also non financial accomplishment (Webb 2004). Deegan (2002) mentions that the community expectations toward firms have changed, so firms must also adapt and change. The society’s expectations are not assumed to be constant, but rather changing gradually. Therefore, firms should be responsive to the environmental and social changes in which they do business. One way for firms to demonstrate their response regarding environmental and social issues is by disclosing information of environmental and social activities that have been
addressed over the recent year in annual reports published by the firms (Dawkins & Fraas 2008).

Villiers and Straden (2006) state that the disclosure issues in developing countries are interesting to be examined because developing countries have more risk in the environmental and social areas as the relevant stakeholders are believed to be less demanding. Besides that, according to previous research in developing countries that attempts to explore the disclosure activities of firms (Tee, Roper & Kearins 2007; Imam 2000), it is stated that environmental and social reporting is essential because of the existence of multinational enterprises in developing countries. Therefore, the examination of environmental and social disclosure practice in the developing world becomes crucial. The National Committee on Corporate Governance (NCCG) (2006) states that board members’ prime duty is also to ensure the fulfilment of the firm’s social responsibility in preserving the firm’s sustainability.

1.3 Importance of the study

The study is important from several perspectives:

1. Developed versus developing countries perspective: Several studies regarding the relationship between gender diversity in the boardroom and firm performance have been confined to developed countries. From 62 prior studies found, only 6 of them that have used the samples from developing countries; for example Kenya (Barako & Brown 2008), India (Jackling & Johl 2009) and Malaysia (Marimuthu & Kolandaisamy 2009). More empirical evidence gathered from developing countries, such as Indonesia, could help strengthen the theory regarding the relationship between gender diversity in the boardroom and firm performance, and its applicability universally. Besides, most of the developed countries already have advanced policies regarding affirmative action in corporate governance that
supports more women representation in the boardrooms. In contrast, Indonesia does not yet have such policies. The results from this research then will be able to be used as a reference for Indonesian government to establish similar policies. Therefore, this current study is aimed to add to the literature regarding the link between gender diversity in boardroom and firm performance. It will also motivate the establishment of affirmative action policies in the context of developing countries.

2. The link between gender diversity in the boardroom and firm performance: There are divergent opinions regarding the effect of gender diversity of boards on firm performance (Dobbin & Jung 2011). Several empirical studies (see for example, Carter et al. 2007; Carter, Simkins & Simpson 2003; Francoeur, Labelle & Desgagne 2008; Thomsen et al. 2009) find that the presence of women on boards impacts positively on firm performance. It is because women board members more often contribute interactively to build connections with others involved in the conversation to encourage participation, to share power and information, to enhance other people’s self-worth, and to get others excited and energized about their work (Billing & Alvesson 2000). Women board members believe it also brings fresh mindsets to complex issues (Campbell & Vera 2008; Farrell & Hersch 2005; Bathula 2008; Nielsen et al. 2008; Francoeur, Labelle & Desgagne 2008). However, Bohren and Strom (2006) and Adams and Ferreira (2009) find that gender mix in the boardroom is negatively related to firm financial performance due to the lack of cooperativeness between men and women board members, and more time consumed in making decisions. Therefore, the results gained from the
current study may add and strengthen the literature on the link between the two constructs, which are gender diversity in the boardroom and firm performance.

3. Gender diversity and its impact on the economy: The Indonesian government has started to move toward the realization that the involvement of women in all aspects of life, including in the business area, should be increased and elevated. Nearly 49% of Indonesia’s population are women and they are a valuable human resource. Research have proven that women tend to reinvest their income to improve family welfare in terms of food, education, health, and other types of investments and simultaneously this may enhance national welfare through the improvement of tax and GDP (MWE 2011). Additionally, World Bank (2010) have argued that a country can sustain its long-term economic growth and prosperity, improve governance, and increase living standards by employing more women and narrowing the employment gap between men and women. Furthermore, efforts and encouragements have been made by the Indonesian government to enhance the status and the role of women to achieve gender equality at the local and national levels. This includes implementing gender mainstreaming programs into the national development process. This is an indication that women have been acknowledged as part of the nation’s assets and must be empowered to achieve the national development goals. Therefore, research related to gender equality and women empowerment in Indonesia is required to support the government’s efforts to exercise gender mainstreaming programs to maximizing the achievement of national development program and encourage economic growth.
1.4 Contribution of the study

The current study contributes to literature in several ways:

1. The sampling frame of the study consists of financial firms in Indonesia, whereas previous studies have only been concerned with non-financial firms (Kusumastuti, Supatmi & Sastra 2007; Nuryanah n.d.; Pudjiastuti & Mardiyah 2006; Chevalier, Prasetyantoko & Rokhim 2006). Another reason to use financial firms as a sample is that these firms are expected to have more than just legal and monetary economic responsibilities. They are also expected to have ethical, social and discretionary responsibilities which are not legally obligatory but performed out of self-desire (Bank Indonesia n.d.). Because of this, financial firms have obligations to form good corporate governance; one of which includes delivery of stakeholders’ demands and intentions in relation to social and environmental issues as well as the economic ones. Furthermore, Thompson and Cowton (2004 cited in Branco & Rodrigues 2006) state that financial firms are the facilitators of non-financial firms which are believed to cause social and environmental damage. Due to this, lending and investing activities conducted by financial firms such as banks may also lead to equal social and environmental issues compared to non-financial industries.

2. Another contribution of this study is the use of a novel measure of gender diversity, namely the Blau index. The index has increasingly been used in recent studies outside Indonesia as an appropriate measure for gender diversity (Ali, Kulik & Metz 2009). Prior studies in the Indonesian context, which attempt to examine the effect of the presence of women board members, has only utilized dummy variables (Kusumastuti, Supatmi & Sastra 2007), percentage of the
number of female board members (Pudjiastuti & Mardiyah 2006), and the proportion of women board members compared to male board members (Nuryanah n.d.). The Blau index itself has been widely used for measuring racial and ethnic diversity in the social sciences and in policy analysis (Rushton 2008).

3. The study also addresses the impact of gender diversity on the other variables of social and environmental performance; it fills a gap in the Indonesian context. Other studies in the same context have related the implementation of firm social disclosure with firm ownership (Fauzi, Mahoney & Rahman 2007), managerial perspectives (Simon & Fredrik 2009; Fauzi & Idris 2010), and firm performance (Fauzi & Idris 2009). All of these examples of prior research on social and environmental performance of Indonesian firms have not yet addressed the role of board members in legitimizing the existence of firms.

4. This current research provides evidence of the association between gender diversity and firm performance in Indonesia which has a two-tier board system. Most prior studies examined the association between gender diversity in the boardroom and firm performance in a one-tier board system (Carter et al. 2007; Carter, Simkins & Simpson 2003; Francoeur, Labelle & Desgagne 2008; Thomsen et al. 2009). The UK and the US are countries with single board system which basically invests all firm powers to a single Board of Directors (Bohinc 2000). In contrast, in some European legislation the management and supervisory boards are separated, similar to the Indonesian context. Based on the Indonesian firm law, Indonesian limited liability firms should have a Board of Directors and a Board of Commissioners in order to have a clear separation between the management of the
firm and the supervision delivered to the management in the interest of the firm. By doing so, the requirement of checks and balances can be achieved for the purpose of good corporate governance (Tumbuan 2005).

5. Finally, this research is enriched by qualitative data in the form of in-depth interviews with women board members to gain insights into their perceptions regarding the effect of their presence on firm financial, social and environmental performance. Previous studies have relied solely on quantitative data. The decision to take account of qualitative data is related to the aim of this study which is to create a deeper understanding about a certain phenomena that relates to the existence of women board members in Indonesian financial companies. By having both quantitative and qualitative data, a more comprehensive concept can be achieved as the quantitative results are then explained with qualitative presentations, and the qualitative descriptions may have a more meaningful message as they are supported with quantitative data.

1.5 The organization of the thesis

The rest of the thesis is presented as follows. Chapter 2 discusses corporate governance in the Indonesian context. Specifically, the practice of corporate governance, corporate social reporting and gender diversity in the boardroom are described. Chapter 3 presents the theoretical framework and is followed by Chapter 4 which provides the literature review and hypotheses development. Next, Chapter 5 discusses the research methods employed in the study. Since the research is a mixed method study the discussion includes the quantitative and qualitative approaches. The findings and discussions of the quantitative method are provided in Chapter 6, while the results of the qualitative method are discussed in Chapter 7. Chapter 8
incorporates the findings from both the quantitative and qualitative methods. Finally, Chapter 9 presents the conclusions, implications for theory, policy and practices, and the limitations of the study. The suggestions for future research are also discussed in this chapter.

1.6 Chapter summary

This chapter has described the background as well as the objectives and the importance of the current study. As this research is believed to provide benefits to the body of literature and for the business field, the contribution of the study has also been presented. The organization of the thesis is presented at the last part of the chapter to give overview of the content of the thesis. The following chapter will describe Indonesia’s corporate governance, including the board mechanism, in detail. The explanation regarding women’s employment conditions will also be given. The second chapter will support this first chapter to build further understanding about why the current study is important in the Indonesian context.
CHAPTER 2
CORPORATE GOVERNANCE IN INDONESIA

2.1 Introduction
This chapter presents brief information regarding the economy and the status of women in Indonesia. It is followed by an overview of corporate governance, corporate social and environmental reporting and gender diversity of board members in Indonesia. The overview of corporate governance includes descriptions of the corporate governance framework in general and the practices in the context of Indonesian financial firms. The description provides an overview of corporate governance in Indonesia as well as of the status of women in Indonesia.

2.2 Indonesia in brief
This section provides information about the Indonesian economy and the status of women in Indonesia. The description will help in an understanding of the socioeconomic aspect of Indonesia which impacts on its corporate governance practices.

2.2.1 Indonesian economy
The section includes general information regarding the Indonesian population and employment, economy, the stock exchange, and financial firms.

Based on the 2010 census, Indonesia has 237,556,363 residents with a density of 123.76 people/km² (Badan Pusat Statistik (BPS) 2010) and this makes Indonesia rank in the fourth place in the world as the most densely populated. Of the residents, 58% live in Java Islands.
The sex ratio is 1.01, which means that the number of males is 1% higher than the number of women. Of the population, 46% are the workforce. In relation to the workforce, Table 2.1 below shows the number of employees in each business sector during 2004-2010. Since Indonesia is an agricultural country, the agricultural sector has the highest number of employees and the wholesale sector is in second place. The financial sector ranks at the seventh in terms of number of employees.

Table 2.1: Number of employees based on sectors, 2004-2010 (in millions)

<table>
<thead>
<tr>
<th>Sector</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture</td>
<td>40.61</td>
<td>41.31</td>
<td>40.14</td>
<td>41.21</td>
<td>41.33</td>
<td>41.61</td>
<td>41.5</td>
</tr>
<tr>
<td>Wholesale, Hotel and Restaurants</td>
<td>19.12</td>
<td>17.91</td>
<td>19.22</td>
<td>20.56</td>
<td>21.22</td>
<td>21.95</td>
<td>22.49</td>
</tr>
<tr>
<td>Community Services</td>
<td>10.52</td>
<td>10.33</td>
<td>11.36</td>
<td>12.02</td>
<td>13.1</td>
<td>14</td>
<td>15.96</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>11.07</td>
<td>11.95</td>
<td>11.89</td>
<td>12.37</td>
<td>12.55</td>
<td>12.84</td>
<td>13.82</td>
</tr>
<tr>
<td>Cargo and Communication</td>
<td>5.48</td>
<td>5.65</td>
<td>5.66</td>
<td>5.96</td>
<td>6.18</td>
<td>6.12</td>
<td>5.62</td>
</tr>
<tr>
<td>Building Construction</td>
<td>4.54</td>
<td>4.57</td>
<td>4.7</td>
<td>5.25</td>
<td>5.44</td>
<td>5.49</td>
<td>5.59</td>
</tr>
<tr>
<td>Finance, Real Estate and Services</td>
<td>1.13</td>
<td>1.14</td>
<td>1.35</td>
<td>1.4</td>
<td>1.46</td>
<td>1.49</td>
<td>1.74</td>
</tr>
<tr>
<td>Mining</td>
<td>1.04</td>
<td>0.9</td>
<td>0.92</td>
<td>1</td>
<td>1.07</td>
<td>1.16</td>
<td>1.26</td>
</tr>
<tr>
<td>Electrical, Gas and Clean Water</td>
<td>0.23</td>
<td>0.2</td>
<td>0.23</td>
<td>0.18</td>
<td>0.2</td>
<td>0.22</td>
<td>0.23</td>
</tr>
<tr>
<td>Total</td>
<td>93.72</td>
<td>94.95</td>
<td>95.46</td>
<td>99.93</td>
<td>102.55</td>
<td>104.87</td>
<td>108.21</td>
</tr>
</tbody>
</table>

Source: BPS (2010)

Additionally, Table 2.2 presents the number and percentage of male and female employees in each business sector as per 2008-2010 data. Based on Table 2.1 and 2.2, it is obvious that women have a low representation in all business sectors in Indonesia, especially in the financial industry, which only has 1.6% of the total workforce and only (approximately) 29% of it are women. It is evidence that the current research is important to find out whether the low representation of women in the financial sector, symbolized by women board members, matters for firm performance.
Table 2.2: Number (in millions) and percentage of male and female employees employed in business sectors, 2008-2010

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture</td>
<td>25.91</td>
<td>63</td>
<td>26.2</td>
<td>63</td>
<td>26.17</td>
<td>63</td>
</tr>
<tr>
<td>Mining</td>
<td>0.94</td>
<td>88</td>
<td>1.02</td>
<td>88</td>
<td>1.11</td>
<td>88</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>7.13</td>
<td>57</td>
<td>7.22</td>
<td>56</td>
<td>7.83</td>
<td>57</td>
</tr>
<tr>
<td>Electrical, Gas and Clean Water</td>
<td>0.18</td>
<td>90</td>
<td>0.2</td>
<td>91</td>
<td>0.21</td>
<td>91</td>
</tr>
<tr>
<td>Building Construction</td>
<td>5.31</td>
<td>98</td>
<td>5.36</td>
<td>98</td>
<td>5.46</td>
<td>98</td>
</tr>
<tr>
<td>Wholesale, Hotel and Restaurants</td>
<td>10.51</td>
<td>49</td>
<td>10.75</td>
<td>49</td>
<td>11.4</td>
<td>51</td>
</tr>
<tr>
<td>Cargo and Communication</td>
<td>5.47</td>
<td>89</td>
<td>5.53</td>
<td>90</td>
<td>5.14</td>
<td>92</td>
</tr>
<tr>
<td>Finance, Real Estate and Services</td>
<td>1.03</td>
<td>71</td>
<td>1.05</td>
<td>71</td>
<td>1.23</td>
<td>71</td>
</tr>
<tr>
<td>Community Services</td>
<td>7.42</td>
<td>57</td>
<td>7.81</td>
<td>56</td>
<td>8.93</td>
<td>56</td>
</tr>
<tr>
<td>Total</td>
<td>63.9</td>
<td>62</td>
<td>65.12</td>
<td>62</td>
<td>67.46</td>
<td>62</td>
</tr>
</tbody>
</table>

Source: Modified from BPS (2010)

According to the BPS (2011), during the period 2006 to 2010, the average Indonesian economic growth was 5.7%; higher than the average during 2000-2005 which was 4.7%. However, the global financial crisis of 2008 had adverse impact on the economic performance. The yearly data of economic growth during 2006-2010 is given in Figure 2.1 below.

Figure 2.1: Indonesian economic growth, 2006-2010

Source: Badan Pusat Statistik (2010)

Moreover, the investment in various sectors had increased to 8.5% in 2010 as compared to 3.3% in 2009. This was due to the increase in production activities following the recovery of
the global economy as well as the rise in domestic demand. Almost all of the sectors experienced a rise in investment. The estimate of the total Gross Domestic Product (GDP) (purchasing power parity) for 2010 was US$1,029 trillion while the per capita GDP was US$3,015 (BPS 2010). The estimated total of nominal GDP for 2010 was US$706.735 billion while the per capita GDP was US$3,015 (BPS 2010). The growth of the business sectors during 2006-2010 was affected by the global financial crisis which led to the decrease in GDP during 2009 and 2010. The financial sector was one of the sectors that had suffered the most from the global financial crisis but had managed to bounce back in 2010. Table 2.1 below shows Indonesian GDP by sector GDP.

Table 2.3: The growth in GDP of business sectors, 2006-2010 (percentage)

<table>
<thead>
<tr>
<th>Sector</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture</td>
<td>3.4</td>
<td>3.5</td>
<td>4.8</td>
<td>4.0</td>
<td>2.9</td>
</tr>
<tr>
<td>Mining</td>
<td>1.7</td>
<td>1.9</td>
<td>0.7</td>
<td>4.4</td>
<td>3.5</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>4.6</td>
<td>4.7</td>
<td>3.7</td>
<td>2.2</td>
<td>4.5</td>
</tr>
<tr>
<td>Electrical, Gas and Clean Water</td>
<td>5.8</td>
<td>10.3</td>
<td>10.9</td>
<td>14.3</td>
<td>5.3</td>
</tr>
<tr>
<td>Construction</td>
<td>8.3</td>
<td>8.5</td>
<td>7.6</td>
<td>7.1</td>
<td>7.0</td>
</tr>
<tr>
<td>Wholesale, Hotel and Restaurants</td>
<td>6.4</td>
<td>8.9</td>
<td>6.9</td>
<td>1.3</td>
<td>8.7</td>
</tr>
<tr>
<td>Cargo and Communication</td>
<td>14.2</td>
<td>14.0</td>
<td>16.6</td>
<td>15.5</td>
<td>13.5</td>
</tr>
<tr>
<td>Finance, Real Estate and Services</td>
<td>5.5</td>
<td>8.0</td>
<td>8.2</td>
<td>5.1</td>
<td>5.7</td>
</tr>
<tr>
<td>Other Services</td>
<td>6.2</td>
<td>6.4</td>
<td>6.2</td>
<td>6.4</td>
<td>6.0</td>
</tr>
</tbody>
</table>

*Source: MoF (2012)*

The Indonesian economy also has a vibrant stock exchange (Kung, Carverhill & McLeod 2010). The Indonesian Stock Exchange (IDX) actually existed long before the independence of Indonesia in 1945. According to the IDX (2011), the first stock exchange was founded in 1912 in Batavia (now Jakarta, the capital city of Indonesia) during Dutch colonisation. When Indonesia gained its independence, the stock exchange had no activities. Later on, it was re-established in 1977 with the support of the government which was at that time headed by President Soeharto who also set up the Capital Market Supervisory Agency (BAPEPAM).
Then, until 1990, there were no significant activity (see Table 2.4 below) conducted by the stock exchange and the number of public firms was quite small due to the popularity of the banking sector among the residents for investing their money. However, when the stock exchange was privatized in 1992 and was no longer managed by the government, society started to gain interest in it and the number of public listed firms grew significantly. Table 2.4 below exhibits the growth of the IDX index, number of public firms and market capitalization during 1987 to 2010.

Table 2.4:IDX index, number of listed firms and market capitalization development

<table>
<thead>
<tr>
<th>Year</th>
<th>IDX Index</th>
<th>Number of firms</th>
<th>Market capitalization (Rp trillions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1987</td>
<td>82.6</td>
<td>24</td>
<td>0.1</td>
</tr>
<tr>
<td>1988</td>
<td>305.1</td>
<td>24</td>
<td>0.5</td>
</tr>
<tr>
<td>1989</td>
<td>399.7</td>
<td>56</td>
<td>4.4</td>
</tr>
<tr>
<td>1990</td>
<td>417.8</td>
<td>122</td>
<td>12.4</td>
</tr>
<tr>
<td>1991</td>
<td>247.4</td>
<td>141</td>
<td>16.4</td>
</tr>
<tr>
<td>1992</td>
<td>274.3</td>
<td>153</td>
<td>24.8</td>
</tr>
<tr>
<td>1993</td>
<td>588.8</td>
<td>172</td>
<td>69.3</td>
</tr>
<tr>
<td>1994</td>
<td>469.6</td>
<td>218</td>
<td>103.8</td>
</tr>
<tr>
<td>1995</td>
<td>513.9</td>
<td>248</td>
<td>157.4</td>
</tr>
<tr>
<td>1996</td>
<td>637.4</td>
<td>267</td>
<td>193.5</td>
</tr>
<tr>
<td>1997</td>
<td>401.7</td>
<td>306</td>
<td>156.8</td>
</tr>
<tr>
<td>1998</td>
<td>398</td>
<td>288</td>
<td>175.9</td>
</tr>
<tr>
<td>1999</td>
<td>676.9</td>
<td>277</td>
<td>206.7</td>
</tr>
<tr>
<td>2000</td>
<td>416.3</td>
<td>287</td>
<td>226.1</td>
</tr>
<tr>
<td>2001</td>
<td>392</td>
<td>316</td>
<td>231.3</td>
</tr>
<tr>
<td>2002</td>
<td>425</td>
<td>331</td>
<td>268.4</td>
</tr>
<tr>
<td>2003</td>
<td>691.9</td>
<td>333</td>
<td>460.4</td>
</tr>
<tr>
<td>2004</td>
<td>1,000.2</td>
<td>331</td>
<td>679.9</td>
</tr>
<tr>
<td>2005</td>
<td>1,162.6</td>
<td>336</td>
<td>801.3</td>
</tr>
<tr>
<td>2006</td>
<td>1,805.5</td>
<td>344</td>
<td>1,249.1</td>
</tr>
<tr>
<td>2007</td>
<td>2,745.8</td>
<td>383</td>
<td>1,998.3</td>
</tr>
<tr>
<td>2008</td>
<td>1,355.41</td>
<td>396</td>
<td>1,076.5</td>
</tr>
<tr>
<td>2009</td>
<td>2,543.36</td>
<td>398</td>
<td>2,019.4</td>
</tr>
<tr>
<td>2010</td>
<td>3,703.51</td>
<td>420</td>
<td>3,247.1</td>
</tr>
</tbody>
</table>

*Source: IDX Fact Book (2011); Kung, Carverhill and McLeod (2010)*
Referring to Table 2.4 above, it is obvious that the stock market activity has become more significant year by year, particularly in the years following the introduction of new regulations and privatization of the IDX and after the corporate governance reform in 2000. Kung, Carverhill and McLeod (2010) argue that this improvement is due to improved market efficiency.

One type of industry listed on the IDX is the finance industry which consists of financial firms. A financial firm is an organization with the main activity of providing financial services or advice regarding financial products (Law 2010; Madura 2010). According to Bank Indonesia (2010), the Indonesia financial system consists of 1.1% commercial banks, 3.1% pension funds, 8.8% insurance, 4.4% finance companies, 2.7% securities companies, and 0.4% pawnshops. Additionally, based on the industry classification adopted by the IDX, financial firms are classified as commercial banks, financial institutions, securities firms, insurance firms, investment fund or mutual fund firms, and other firms that could not be categorized in one of the prior types (IDX 2011).

The finance industry contributes a significant part to the economy and accepts funds from surplus units and channels the funds to deficit units (Madura 2010), to finance business projects, or to invest in capital markets (Carmichael & Graham 2011). Furthermore, when they are well managed, financial firms may improve economic growth and the wealth of the nation. On the contrary, they may threaten the financial market when they are treated inefficiently and when the companies’ boards make high-risk decisions (Carmichael & Graham 2010). This may cause economic collapse, lack of public trust and reduce investor confidence. Financial firms are a significant part of the economy and it is important to
examine the board structure of financial firms and the impact of board structure on the performance of firms.

### 2.2.2 Status of Indonesian women

Prior to discussing women board members in Indonesian firms, a comprehensive understanding regarding the general conditions of women and employment at the national level is necessary. It is important to know about women in Indonesia because of their powerful social position in Asia (Blackburn 2004). Nonetheless, the high status of women has not been adequately perceived by the government (Wright & Tellei 1993). Consequently, it is still difficult for women to join the public as well as private workforce though both of these sectors have been well developed. Furthermore, inconsistencies and contradictions are still occurring, especially among Moslem communities, in considering the right or wrong actions and decisions made by women based on the religious beliefs (Blackburn 2004). An example is the appointment of Megawati Soekarnoputri as the first Indonesian woman president. Although an important event from the gender equality perspective, there was opposition to the appointment from the religious point of view. Consequently, the progress towards women’s participation in Indonesia had generally been slow and disadvantaged women (Syukrie 2003). Other factors that contribute to the slow development of gender equality in Indonesian are described in the following paragraphs. The effect of this gender inequality on the participation of women is explored next.

Thousands of ethnic or cultural groups in Indonesia, along with their gender conventions, contribute to the slow development of gender equality. Generally, the Asian Development Bank (2002) and Blackburn (2004) divides these groups into three major categories, i.e.:

1. Matrilineal, whereby the inheritance of assets falls to daughters.
2. Patrilineal, by contrast women do not have any ability to inherit assets from the family and are financially inferior to men. They are then not included in the public forum. 

3. Bilateral, which has a higher level of gender equity and women are allowed to have important roles in trade or agriculture but not in the political field. 

In many other ethnic groups in Indonesia, such kind of distinction could not be made so that the power and the role of women are unidentifiable. Therefore, the status of Indonesian women is varied and complicated as well as is their ability to be involved in the public domain, especially in employment. Besides, the cultural dimension is always an important factor in Indonesian women’s life and is considered in employment decisions, legal aspects and economic determinations (Asian Development Bank 2002). Generally, Indonesian working women are those who are not free to make market-based decisions about what will provide the most income or best career for them as individuals (Ford & Parker 2008). Mostly, someone else, such as family members who are closely related to these women, make the decisions regarding the women’s employment or career. 

Besides, during the new order leadership of President Suharto between 1966 to 1998, Indonesian working women were assumed to have little status or power and if women worked, automatically the status of the work was low (Ford & Parker 2008). Many women do very low paid, or even unpaid, work (Ministry of Manpower 2010). It was at the same time that systematized religion as well as public thought that built the general opinions regarding women as employees. Rosidawati (n.d.) argues that in the New Order era, women only had status as the husbands’ partners. Women’s organizations built by the government at that time, such as the organization of male civil servants’ wives called ‘Dharma Wanita’ (Women’s Dedication), do not contribute significantly to the development of Indonesia’s women. Such organizations are only used as the government’s tool to implement its national development
program generally with a top down approach without any specific objective to improve the status of women (Ford & Parker 2008).

Furthermore, Indonesian women in the New Order government have been acknowledged to have both reproductive and productive roles (Ford & Parker 2008). The reproductive role consists of childbearing and childcare, domestic maintenance activities, and community and social obligations. The productive role includes income earning activities. These roles are usually called the ‘double roles’ to describe women’s position in the public domain. Based on these roles, women’s main obligation is to serve their husbands and children and this is greater than the obligation to serve as employees in the income earner role. Consequently, women are stereotyped as wives and mothers, not as income earners, which then implicitly limit their employment and career options (Setyawati 2001 in Ford & Parker 2008). When Suharto fell and the New Order shifted to the Reformation Era, the gender issue was also shifted (Ford & Parker 2008). There has been a shift as well in the percentage of women’s participation in the workforce (Ozbilgin & Syed 2010). So, the status of women seems to change towards betterment, from only domestic carers to more productive roles outside the house.

Over the last two or three decades, women have started taking jobs in the manufacturing sector (Ford & Parker 2008). Further, in recent years women have started assuming professional roles. Women started to work in the white collar jobs as teachers, public servants, managers, and administrators (Sen 1998 in Ford & Parker 2008). These new women’s occupations underpin the beginning of Indonesia’s modernity. With an increasing number of women coming into the workforce, they are now entitled to rights such as menstruation or period leave and maternity leave (Ford & Parker 2008). These issues are specific to women
employees only and required them to be absent from work for longer periods of time and it hampered the flow of work. In recruitment, employers give preference to male employees over female employees. Women in white-collar, middle-level employment do not now use these privileges as they think that these may hamper work productivity and contribute to lower wages for women employees (Lahiri-Dutt & Robinson in Ford & Parker 2008).

However, as the women’s stereotype of the ‘dual role’ has been a cultural perspective for a long time, the shift to the modernity era is still challenging. It is then not surprising to experience considerable underrepresentation of women at higher management levels in any work field since there are only a very small number of women at the top of promotional ladders (Nilan & Utari in Ford & Parker 2008; Blackburn 2004). Nilan and Utari continue arguing that most of women at higher management levels are married with children and are unable any longer to maximize their capacity and capability to manage their careers up to the highest level. The other important reason is that there is still major opposition to women leaders or managers even when Indonesia has experienced a woman president, Megawati Soekarnoputri. Once more, the New Order ideology is still present in the current era and has led to the low number of women leaders or managers in the Indonesian workforce.

Women’s representation in the executive and legislative bodies may be used to reflect women’s status in Indonesia. According to the data provided by the Indonesian Ministry of Women Empowerment (2011), the higher the position in government offices, the lower the number of women in that position. This reflects underrepresentation of women in the decision making process nationwide. It may be due to the dominant factor of the strong patriarchal culture that still exists in Indonesia that makes women the second class of society. Besides,
the domestic role of women may also contribute to the inequality that leads to women’s slow career improvement.

Regardless of Moslem leaders’ rejection of women as potential leaders, Islam is viewed as the provider of the basis for women’s emancipation and Islam is affected by modernization (Robinson 2009). The Indonesian Islamic major reformist organization, Muhammadiyah, established a women group to develop religious education for women as well as to broaden women’s role in public life. Robinson (2009) finds that Muhammadiyah’s breakthrough is followed by other major Islamic parties have started women’s organizations, attract high-profile women members and support gender equity based on Islam. According to Platzdasch (2000 cited in Robinson 2009), the struggle of Moslem women for liberation has been strengthened in spite of some controversies of women’s positions in Islam itself; there is an adjustment to the challenges of modernity. The role of government is then required to cover the need of modernity through exercising regulations and practices to support women’s participation (Robinson 2009).

Despite the challenging issue regarding the under-representation of women in higher level management (Syukrie 2003), there is still a hope in the future that Indonesia will achieve betterments for women. According to the Indonesian Ministry of Women Empowerment (2011) the government is currently waiting for the Law of Gender Mainstreaming to be legislated so that both public and private sectors may have incentives to implement gender mainstreaming in all aspects. Besides, according to the survey conducted by Nilam and Utari (2004 in Ford & Parker 2008), young higher socio-economic level Indonesian women eventually still occupy their dreams to become professional career women, despite this not yet
being fully acceptable in both Indonesia’s social and cultural background. It is due to the belief that being a career woman may possibly under-prioritize women’s reproductive role.

2.3 Corporate governance in Indonesia

This section is divided into four parts. The first part describes the overview of corporate governance mechanism in Indonesia. The second part analyses the weakness found in the implementation of corporate governance, especially before the reform triggered by the severe economic crisis experienced during 1997-1998. Since the sample used in this research was taken from financial firms, part three explores the corporate governance in finance industry. Finally, part four illustrates the social and environmental disclosures in Indonesia.

2.3.1 Corporate governance framework

The term ‘corporate governance’ is defined as the system by which firms are directed and controlled (Cadbury Report 1992 cited in Campbell & Vera 2008 and FCGI 2008). In addition, Turnbull (1997) states that corporate governance constructs all the influences affecting the institutional processes, including those for appointing the controllers and/or regulators involved in organizing the production and sale of goods and services. In the Indonesian context, FCGI (2008) also states that the objective of implementing corporate governance is to create an added value for the stakeholders. Corporate governance also describes the role of the board of executives or the board of directors and the board of commissioners, as well as the role of managers and shareholders. Therefore, it can be concluded from these definitions that corporate governance provides a set of mechanisms through which all parts of a firm, namely management, shareholders and stakeholders, jointly work to achieve the targeted goals while staying in line with the law and fulfilling the needs of stakeholders.
In the corporate governance framework in Indonesia, a firm is required to develop strategic guidance for the implementation of GCG, including the effective monitoring of the management board, and the board’s accountability to the firm and the shareholders (FCGI 2008). This means that the board has a significant role to provide effective support to ensure the success of GCG implementation. In Indonesia, the general structure of the firm is a two-tier system, or two-board system, as shown in Figure 2.2 and described in more detail below.

**Figure 2.2: The structure of the Indonesian limited liability firm (Two-tier board system)**

![Diagram of the structure of the Indonesian limited liability firm](image)

*Source: FCGI 2008*

1) **General Meeting of Shareholders (GMOS)**

The General Meeting of Shareholders represents the owner and is the highest authority in a firm. The GMOS has the power to:

- approve or reject fundamental transactions such as consolidation, merger, acquisition, bankruptcy, or dissolution of the firm;
- appoint and dismiss members of the Board of Commissioners and the Board of Directors;
- access all firm information.
2) The Board of Commissioners (BoC)

The Board of Commissioners’ role is to supervise and to give advice on the management activities undertaken by the Board of Directors. The BoC has the authority to:

- suspend directors and convene a GMOS to consider removal of directors;
- demand and receive information from the Board of Directors about its management of the firm;
- enter the premises of the firm and inspect its records;
- approve or assist in certain transactions as listed in the firm’s articles of association and, together with the Board of Directors, sign the annual report for approval by the GMOS.

The BoC also has duties to:

- provide opinions and suggestions to the GMOS regarding the annual work plan and budget;
- keep up to date with developments in the business of the firm;
- report immediately to the GMOS if the BoC notices a decline in the performance of the firm.

3) The Board of Directors (BoD)

The Board of Directors is responsible for managing the firm in the best interest of the GMOS. The BoD has duties to:

- represent the firm, both in and outside a court of law;
- administer the firm’s books of accounts;
- prepare and sign the firm’s annual report for approval by the GMOS;
- establish and maintain a Register of Shareholders and Minutes of the GMOS.

Indonesia’s two-tier board structure is similar to the two-tier board structure used in Holland and Germany (ECGI 2009).
Furthermore, according to the NCCG (2006), the composition of the board of commissioners and the board of directors shall enable the boards to make effective, appropriate and timely decisions and to act independently. It shall also be of sufficient size that suits the complexity of the business of the firm by taking into account the effectiveness in making decisions. There is no further strict requirement on how to ‘effectively compose’ the membership of the boards. Thus, in effect, the reality is that establishing the mechanism to choose the most desirable composition depends on each firm. The composition of the board can be very diverse and depend on the firm’s needs including gender, educational background, past experience, age, and nationality.

Additionally, according to Indonesian corporation law, a limited liability firm must have a Board of Directors or Board of Management that consists of at least two directors, and a Board of Commissioners or Supervisory Board that consists of at least two commissioners, to ensure the checks and balances mechanism required for good corporate governance implementation (Tumbuan 2005). Generally, the duty of the Board of Commissioners is to supervise the policy of the Board of Directors in managing the firm and to advise the Board of Directors. Some portion of the Board of Commissioners must be the Independent Commissioner(s), appointed by the General Meeting of Shareholders and those who have no relationship with the majority shareholder, any member of the Board of Directors and the other members of the Board of Commissioners. Besides, an Audit Committee must be established by the Board of Commissioners to help them in monitoring financial and non-financial resources of firms and managing the relationship with the internal audit function.
2.3.2 Corporate governance practices

There have been several critics of the effectiveness and the role of the Board of Commissioners and the Board of Directors in Indonesia (Nam & Nam 2004). Kurniawan and Indriantoro (2000) and Arifin (2005) indicate that the criticisms are:

1. The corporate governance application does not define clear duties for a board.
2. The separation between ownership and management is not clearly defined which leads to the tendency of the management to maximize the welfare of the major shareholders only.
3. There is minimum protection for board members when a bankruptcy emerges because all liabilities are transferred to the boards.
4. Many board members lack competencies and independence for many reasons such as close relationships with major shareholders, ownership of a majority of shares, or previous high positions in government.
5. Weak law enforcement. This makes the ratings of Indonesia’s corporate governance implementation to be the lowest among ASEAN countries.

Nevertheless, these criticisms are considered to be common in emerging nations since the corporate governance practices had only started to respond to the call by the international donor agencies such as IMF and World Bank when the financial crisis hit (Heenetigala 2011). Therefore, firms in developing countries are still trying to adopt the most appropriate corporate governance mechanism while making necessary improvements.

In addition, the Indonesian large firms are owned by conglomerates while most of the top ones are established as family businesses. Around 175 groups originated from these family businesses have control of 53% of total assets of the conglomerates (Zhuang & Edwards 2001). Many of these conglomerate-affiliated firms are listed on the Indonesian Stock
Exchange and the majority of them are also family-controlled (Daniel 2003; Maksum 2005). This condition contributes to corruption, collusion and nepotism which means the corporate governance mechanism is difficult to implement. The ‘un-independent’ Independent Board of Commissioners, cross-shareholdings that may create a monopoly in a particular business area (Daniel 2003), the Board of Commissioners or Board of Directors who are family members of the majority shareholders or are controlled by the conglomerates, the low readiness to be transparent in communicating corporate governance aspects to the public, and patrimonialism (the figure of ‘father’ affecting the business, social and political life) where firms are seen to be networks of family ties rather than legal ones (Snape 1999), are all examples of the weaknesses of corporate governance practice in Indonesia.

Many of President Suharto’s close relatives, including his daughters and sons, were among the conglomerates. Figure 2.3 below is an example of this conglomerate relationship. This had created improper management and low performance. It had also worsened the effect of the financial crisis that made Indonesia the most economically damaged country. In relation to this, Dieleman and Sachs (2008), who undertook research on the Salim Group (one of President Suharto’s cronies), found that Salim could shape institutions to their advantage and achieve business goals by aligning with, and influencing, politicians.
Figure 2.3: The Suharto group

Source: Modified from Husnan in Zhuang and Edwards (2001)
Maksum (2005) continues the arguments regarding Indonesian corporate governance by mentioning that good corporate governance principles are difficult to apply. The appointment of family members as board members results in unprofessional and non-transparent management and information. Besides, the conglomerates, which are the owners of major firms, have close relationships with high level government officials that allow the companies enjoy the special privileges and protections from the government (Dieleman & Sachs 2008). These conditions applied before the good corporate governance code was introduced, which was during the economic crisis at 1997-1998. The reform of corporate governance was started afterwards with the support of the International Monetary Fund (IMF), World Bank and the Asian Development Bank (ADB) to solve the problems created by the economic crisis. Indonesia has started to implement an official code of best practice prepared by the National Committee on Corporate governance (NCGG), including regulations of the mandatory Independent Directors and Audit Committee.

The implementation of good corporate governance seems to be only a matter of obeying the regulations, not as a means to optimizing sustainable firm performance (Kurniawan & Indrianto 2000). Besides, there are some limitations to the implementation of good corporate governance (Maksum 2005) such as the limitation of:

1. Laws and regulations in relation to, for example, the protection of minority shareholders and other stakeholders.

2. Cultural behaviour and beliefs, for example, that fraudulent conduct and insider transactions are normal.

3. Politics, especially for state owned companies, which are abused by the politicians.

Fortunately, the Indonesian government has realized this situation and has been striving for corporate governance reform. It has been gradually improving although still much work needs
to be done since there is little progress from their efforts (Lim 2010). One regulation that has been made to respond to the corporate governance reform is the Regulation of Indonesian Bank (Peraturan Bank Indonesia), Number 8/4/PBI/2006 regarding the Implementation of Good Corporate governance for Commercial Banks. Unlike the Firm Law, the regulation states that the Board of Commissioners and the Board of Directors must consist of at least three members each. Among the Board of Commissioners, independent members shall be present and the report of the implementation of good corporate governance must be publicly available.

Currently, the first national priority for Indonesian development planning is the bureaucratic and governance reform in the public and private sectors (Ministry of National Development Planning 2011). This means that Indonesia currently is striving to establish political conditions that will support good governance and minimize the practice of corruption, collusion and nepotism. Additionally, the seventh priority, out of eleven, is the betterment of investment and business climate. The accomplishment of these two priorities may lead to increased corporate governance rating and investment interests.

2.3.3 Corporate governance in financial firms

Before the Asian economic crisis in 1997, corporate governance was not taken seriously by most of Indonesian publicly listed financial firms, particularly the banking sector, and this resulted in inefficient allocation of resources in the economy (Kameyama et al. 2005). A very high concentration of ownership, especially by Chinese Indonesians, is common in all industries in Indonesia. This results in unfair business practices, including the mutually beneficial relationships with high level politicians and government officials (Dieleman & Sachs 2008). Banking, insurance, and other financial services are some types of industries
owned by the conglomerates which are associated with different forms of agency problems; management opportunism, information asymmetry, reliability of firm reporting, and interlocking directorship. A lot of publicly-listed banks during 1990s belonged to conglomerates and were affiliated with each other in the financial sector. These conditions were severely acute before the corporate governance reforms, which was targeted at publicly-listed companies, after the economic crisis in 1997-1998. However, the reforms have not been very successful and more effort is needed. Besides, the boards have not been really functioning in the decision making process due to the lack of formalization of written documents regarding the details of the rights and duties of board members.

In financial firms, especially banks, the major potential issue that arises and mostly happens in relation to corporate governance practice is the agency problem between the firms and the creditors. This is usually called the debt agency problems (Husnan 2000). The problem is due to the financial decisions made by principals through agents which, if the decisions work, would benefit all members of the firms. However, poor decisions could mean creditors would also suffer loss. One way to minimize this problem is to improve the monitoring aspect of the firm’s performance. However, Husnan (2000) argues that this could not be done effectively since the information needed is not available or, if available, the information is not used by the interested parties. The problem may possibly get worse when the firm is one business unit owned by a group or conglomerate because the lending procedure is unusable due to a close relationship issue.

Kameyama et al. (2005) suggest that, until recently, majority shareholders of financial firms had a powerful voice in the nomination and appointment of board members compared to the minority, especially the boards that are not independent due to the fact that they were former
boards or large investors. These firms do not have performance appraisal of their boards and lack significant content in disclosures. Nonetheless, they review their internal control routinely and comply with the current regulations regarding the financial performance.

The government, through the National Committee of Corporate governance, had issued the National Code for Good Corporate governance in 2001 and later on, in 2003, the Committee released the Indonesian Banking Sector Code to strengthen the financial sector (Kameyama et al. 2005). The codes adopted were more or less similar to those applied worldwide, such as those applied by the OECD. However, the corporate governance of banks is a bit different to that of other firms due to the vulnerability nature of the banking industry. Examples are the requirement of Fit and Proper Test for the potential boards, the provisions for the controlling shareholders, and the existence of Audit Committees, Risk Policy Committees, Risk and Capital Committees, Corporate governance Committees, the Syariah Supervisory Board, and a set of stakeholders including employees and customers (NCCG 2006). Besides, banks are the earliest firms that were required to have an audit committee comprising of representatives of the Board of Commissioners or the Supervisory Board, outside auditors and senior members of the internal audit department (Mak 2001).

Moreover, corporate governance in other type of financial firms, such as insurance and securities firms, is generally similar to those in banks since the regulations are still under the banks’ codes (Daniri & Simatupang 2009). Specifically, there is a requirement for boards to possess adequate knowledge and professional achievement in the insurance field. These firms also have to strictly manage their underwriting and claim, as well as risk management. According to the Government Regulation of Republic of Indonesia (Peraturan Pemerintah Republik Indonesia), Number 39 Year 2008 regarding Insurance Firms, these companies are
bound to regulations related to a minimum amount of capital and other regulations linked to financial positions. However, for insurance firms, based on NCCG (2006) regarding the Guidance of Good Corporate governance of Insurance Firms, unlike the Firm Law and Regulation of Indonesia Bank, the members of the Board of Commissioners, as well as the Board of Directors, are not limited to a certain number. The size of the board is adjusted to the complexity of business and the effectiveness of decision making processes. There is also a Government Regulation (Number 39 Year 2008) imposed on insurance firms which ensures that they not lend borrowings to shareholders or related parties or affiliations and to maintain good corporate governance.

2.4 Corporate reporting in Indonesia

Basically, the corporate governance principle in Indonesia has required that listed firms disclose important information for both shareholders and other stakeholders in their annual reports. Annual reports shall contain financial reports (including a balance sheet, income statement, cash flow statement, changes in equity statement, and notes to financial statement), and non financial matters, such as related-party transactions (transactions with affiliations), boards as shareowners, board remuneration, contingent liabilities, policies on risk management, significant changes in ownership, firm social responsibility activities, and governance structures and policies (Nam & Nam 2004; World Bank 2010). Additionally, Herwidayatmo (2000 cited in Arifin 2005) mentions that an annual report of an Indonesian firm must include a summary of important financial data for five years duration, the analysis and discussion by management, the descriptions of investment or disinvestment, transactions with potentials for conflicts of interest, and audited financial statements.
2.5 Gender diversity of board members in Indonesia

The data regarding gender diversity in Indonesia is very limited, even of the total of men and women on boards of the publicly-listed firms. This makes the calculation of gender diversity in the boardrooms complex and time consuming. The only available data is the total number of boards without specifying numbers of each sex. However, in the absence of this data, the number of women on boards is still underrepresented compared to men. According to the 2009 data, the average percentage of women on boards in Indonesia is 4.1% (GovernanceMetrics International 2009). This is not surprising, especially in a patrilineal country such as Indonesia, and is supported by the cultural factors and legal norms which still prioritize the existence of men in business and political fields.

The representation of women in Indonesian boardrooms is relatively low compared to other emerging markets in Asia (GovernanceMetrics International 2009). Figure 2.4, 2.5 and 2.6 provide comparisons of women’s representation in the boardrooms of developing countries in Asia. The figures show that, although the percentage representation of women on Indonesian boards is the second lowest compared to other emerging markets, the number of women on boards in Indonesia is generally increasing moderately year by year. This may reflect an increase in the importance given to improvement of opportunities for women to enter the boardrooms. In relation to this, Kramer et al. (2007) suggest that a critical mass is needed to allow a board to take advantage of gender diversity.
Figure 2.4: Aggregate percentage women on boards in Asian emerging economies (2009-2011)

Source: GovernanceMetrics International (2011)

Figure 2.5: Percentage of firms with at least 1 woman director in Asian emerging economies (2009-2011)

Source: GovernanceMetrics International (2011)
Very few women occupy middle to high level management either in the private or public sector and they are underrepresented in the civil service. Of civil servants, only 38% are women and only 14% are in the higher echelons (ADB 2006). During the period 2004-2010, on average, only 8.3% were women ministers, 3% women governors, 1.8% women mayors, and 4.09% women vice mayors (Poeradisastra 2011). Furthermore, women directors of Indonesian banks represent only 64 women of the total of 382 directors (or 16.75%), while the women on boards in Indonesian state-owned firms was 5 out of 99 directors (or 5.5%). On the 1,879 boards in publicly-listed firms on the Indonesian Stock Exchange, there were only 222 women members (or 11.8%) (Rahayu 2011).

Indonesia currently does not have any laws or regulation imposing gender diversity quotas on boards in private sector. However, the Parliament requires that at least 30% of the legislative
members in general, and the political parties specifically, are women. In contrast, several European countries have recently implemented laws for gender quotas in the business and public sectors since they believe that the presence of women in boardrooms may affect firm performance significantly, especially in boardrooms with at least 3 women (GovernanceMetrics International 2011). For example, France’s National Assembly requires businesses to impose a 20% quota within 3 years and 40% within 6 years. Italy’s parliament commands that at least 1/3 of the membership of boards of public and state-owned companies’ be women. Spain legislates that in 2015 women must represent 9.3% of seats in boardrooms, and in the Netherlands the requirement is that 30% of board members shall be women by 2015 (GovernanceMetrics International 2011).

Because of the current very low representation compared to other Asian developing nations, the current situation in Indonesia regarding women’s representation in boardrooms needs to be examined. This study therefore intends to understand the effect of gender diversity in boardrooms on firm performance and, specifically, to provide evidence as to whether gender diversity in boardrooms provides an advantage for firms. The results of the study may also be used by the Indonesian government as a reference to determine:

1. Whether Indonesia needs to establish law or regulation for gender quotas in the business sector to follow the success of the European countries.
2. To develop a balance within the political sector in the parliament in terms of regulations regarding quotas of women representatives.
3. To create an equivalent position to that of other emerging markets in Asia regarding the number of women in boardrooms.
Chapter summary

This chapter presents background information about the context in which the current research has been undertaken. The chapter starts with a brief description of Indonesian economy and the status of Indonesian women. It is then followed by an explanation of the corporate governance in Indonesia including the corporate governance framework, corporate governance practices generally, corporate governance in financial firms specifically, and corporate social reporting in Indonesia. Finally, a discussion about gender diversity of board members in Indonesia is presented along with data regarding the representation of women on boards of Indonesian firms. The following chapter will provide a theoretical perspective as a basis for understanding the link between gender diversity of board members and firm financial, social and environmental performance.
CHAPTER 3
THEORETICAL PERSPECTIVES, LITERATURE REVIEW, RESEARCH QUESTIONS, AND HYPOTHESES DEVELOPMENT

3.1 Introduction
This chapter presents the concepts and theoretical perspectives adopted for the study. It includes the definitions of gender diversity in the boardroom and firm performance, and the descriptions of the theories used to explain the relationships between the two constructs.

There are three types of firm performance measured in the study, namely firm financial performance, firm social performance and firm environmental performance. Agency theory and stewardship theory are used to define the relationships between gender diversity in the composition of the board and firm financial performance, while legitimacy theory and stakeholder theory are utilized to explain the association between gender diversity in the boardroom and firm social and environmental performance. The theoretical framework is presented in the last part of this chapter.

This chapter also reviews the previous research that has examined the link between gender diversity of board members and firm performance. Firm performance can be divided into firm financial performance and firm social and environmental performance. Reviews of prior studies in this chapter are categorized under: (1) the arguments for and against the economic or business case for gender diversity of boards, which are then used as the basis to conduct research related to board composition; (2) research analyzing the relationship between gender diversity in the boardroom and firm financial performance which consist of positive, negative, curvilinear, and even no relationships; and (3) studies in relation to the impact of gender
diversity of boards on firm social and environmental performance. The reviews include the studies conducted in the context of both developed and developing countries. Based on the literature review, hypotheses are then developed in the last section.

3.2 Gender diversity in the boardroom

The board is an important part of the overall corporate governance mechanism within a firm. As a body responsible for overall policy and strategic direction, the board essentially drives the overall performance of the firm. As a consequence, board characteristics and board composition that includes, for example, the number of independent boards, the tenure of boards, the size of the board, as well as board diversity in terms of gender, age, ethnicity, nationality, educational background, industrial experience and organizational membership, may influence firm performance (Campbell & Vera 2008). For the current study, gender diversity of board members has been chosen as the focus of interest since there is a growing interest among researchers in whether gender of board members matter for overall firm performance (Dobbin & Jung 2011; Fairfax 2011; Fanto, Solan & Darley 2011). Besides, since there is an increasing demand from stakeholders for companies to provide more equal access and opportunity for women to be leaders, it will be interesting to examine whether gender diversity in the boardroom enhances firm performance.

The term ‘diversity’ is generally used to catch all matters of difference in the workplace including differences in social identities, such as gender, race, ethnicity, sexual orientation, class, nationality, and religion, and differences in organizational groups, such as functional or educational background and tenure, and differences in individual characteristics such as idiosyncratic attitudes, values, cognitive styles, and preferences (Ely and Foldy cited in Ely, Foldy & Scully 2003). Gender diversity also refers to consideration of the different skills and
potentials of women and men as equal resources (Walter n.d.; Ely and Foldy cited in Ely, Foldy & Scully 2003). In the context of the working environment, gender diversity refers to the proportion of men and women in the workplace that may affect the way people communicate and work with each other in that area, and influence the organization’s performance (Herring 2009). Specifically, gender diversity in the context of the boardroom refers to the presence of women as board members (Dutta & Bose 2006). The definition provided by Dutta and Bose (2006) has been used for the current study. The proxy used to measure gender diversity in the boardroom is described later in the research methods chapter.

Brammer, Millington and Pavelin (2007) and Farrell and Hersch (2001) suggest that gender diversity of firm boards is shaped by a close proximity to stakeholders, such as customers, employees, labor unions and investors as the firm’s external business environment whose demands are for a greater diversity. Broome and Krawiec (2008) assume this is because firms need to signal that they are committed to equality, although it is argued that this practice may lead to a negative reputational cost for the firms as an impact of an inability to give meaning to the diversity (Shin & Gulati 2011). Moreover, Terjesen and Singh (2008) find that in a broader environment, countries with a longer tradition of women’s political representation are less likely to have high levels of women board representation. This is quiet contradictory to the fact that countries with higher representation of women on boards are more likely to have women in senior management and less likely to experience a gender wage gap (Terjesen and Singh 2008). Based on these facts, the environmental factors, including social, political and economic, have a significant part in determining gender diversity in the workplace, notably in the boardroom (Terjesen & Singh 2008).
3.3 Firm performance

The definition of firm performance could vary, depending on the context of its use (Marimuthu, Arokiasamy & Ismail 2009). A wide variety of firm performance definitions have been introduced in the literature (Barney 2002 cited in Mackey, Mackey & Barney 2007). For this research, firm performance includes financial performance and non financial performance. To measure firm financial performance, accounting-based and market-based calculations are used. While non financial performance in the current study refers to a firm’s social and environmental performance which is measured using the proxy of firm social and environmental disclosure in the firm’s annual report. A further description regarding each type of firm performance is given in the following section.

3.3.1 Financial performance

Firm financial performance is generally defined as a measure of the extent to which a firm uses its assets to run the business activities to earn revenues. It examines the overall financial health of a business over a given period of time and can be used to contrast the performance of identical firms in similar industries or between industries in general (Atrill et al. 2009). The main source of data for determining firm financial performance is the financial statements, the product of accounting, which consists of the balance sheet which shows the assets, liabilities and equities of a business, the income statement that records the revenues, expenses and profits in a particular period, the cash flow statement which exhibits the sources and uses of cash in a period, and the statement of changes in the owners’ equity that represents the changes in owner’s wealth. Firm financial performance is commonly reflected in the calculation of financial ratios that show the link between numbers in the financial statements. The financial ratios may include the computation of the profitability, efficiency, liquidity, gearing, and investment of a particular firm.
Moreover, firm financial performance generally may also be reflected in market-based (investor returns) and accounting-based (accounting returns) measures (Griffin & Mahon 1997). Examples of market-based indicators to measure firm financial performance are price per share and Tobin’s Q which indicate the market value or the share value of the firm as well as the financial prospects of the firm in the future. Additionally, what the shareholders have perceived from the returns distributed by the firm is also the driver of the share price. This price may lead to the market value of the firm. Alternatively, accounting-based measures, including profitability, efficiency, liquidity, gearing, and investment ratios, are calculated using the figures from the financial reports and may represent a firm’s financial performance. According to Atrill et al. (2009), the ratios that may be utilized to calculate the firm’s profitability are the return on assets (ROA), return on equity (ROE) and return on investments (ROI). These ratios express the success of a firm in generating profits or returns from the resources owned. However, the profit number is subjective since it is the product of managers’ decisions in choosing the policy from the accounting standards. In contrast, the market-based measure is believed to be more objective because it relies on market responses to particular decision made by a firm (Griffin & Mahon 1997). The choice of whether to use accounting or market-based calculations for measuring a firm’s financial performance depends upon the specific aims of the research.

3.3.2 Social and environmental performance

The terminology of social and environmental performance is originally rooted in the practice of a firm’s social responsibility which has been widely defined in the literature (see for example Coffey & Wang 1998; Webb 2004; Webb et al. 2009; Cramer & Hirschland 2006; Dawkins & Fraas 2008). In the current study, a firm’s social responsibility is defined as a concept whereby companies integrate social and environmental concerns in their business
operations and in their interaction with their stakeholders on a voluntary basis (Commission of European Communities 2001 cited in Deegan 2009). This means that generally a firm’s social responsibility includes two main activities related to social and environmental concerns.

In relation to this, there has been a growing numbers of firms around the world disseminating their firm’s social responsibility performance through firm social reporting (Deegan 2009). However, there are arguments that social reporting activity may decrease shareholders’ wealth or may be used by firms to hide major social or environmental problems (Ullmann 1985; Ingram & Frazier 1980). Basically, social reporting is a communication between a firm and its stakeholder regarding the physical and social environment, through publicly available reports (Deegan 2009). Based on this definition, firm social reporting may include social and environmental reporting which are then used to measure firm social and environmental performance. Descriptions regarding each type of performance are given in the following paragraphs.

According to Orlitzky, Schmidt and Rynes (2003), a firm’s social performance can be measured from firm social disclosures. The measurement is conducted by employing content analysis of annual reports, letters to shareholders, and a number of other disclosures to the public. Content analysis is used to compare units of text, such as words, sentences, paragraphs, and page numbers with specific firm social performance themes for making conclusion regarding the organization’s fundamental social performance (Wolfe 1991 cited in Orlitzky, Schmidt & Rynes 2003). Firm social performance could be defined as the outcomes of firm behavior (Wood 1991; Sethi 1975) linked to firm social responsibilities that fully address the entire range of obligations of the firm, including economic, legal, ethical, and
discretionary responsibilities to the society (Carroll 1979). Therefore, a firm’s social performance is also associated with a firm’s social reporting that consists of monitoring, assessment, and improvement of the business’s impacts on people, communities, societies and transnational environments (Wood 1991).

Additionally, Carroll (1979) argues that the social performance requires a firm to:

1. Assess its social responsibilities.
2. Identify the social issues that must be addressed.
3. Choose a response philosophy.

Essentially, the social performance of a firm also describes the legitimacy of the firm’s behavior towards its stakeholders (Quevedo-Puente, Fuente-Sabate & Delgado-Garcia 2007). In relation to the issue of giving response to the assessment, identification and implementation of a firm’s social responsibility, social reporting is believed to be the media that the firm may utilize for this purpose. This perspective is then in line with the legitimacy theory, which means that publishing social reports to the society may result in gaining license for continuing business activities. This is because firms are part of the society and must depend on it for their existence, continuity, and growth (Sethi 1975). Moreover, the stakeholder theory also supports the existence of firm social reporting because by reporting, firms meet the expectation of the stakeholders to exercise the economic, social and environmental activities, and to provide an account of those activities to them (Deegan 2009).

Similar to the concept of firm social performance, firm environmental performance is particularly targeted to the environmental concerns that a company has taken for the sake of environmental sustainability that has been impacted on by the company’s operational activities. Specifically, firm environmental performance is measurable results based on the
environmental policy, objectives and targets of the environmental management system related to an organization’s control of its environmental aspects (C2E2 2004). The measurement of this performance may be conducted by examining the environmental reports published by firms, much the same as with firm social performance, which is analyzed based on the social performance reports. It is justified by Delmas and Blass (n.d.) that one indicator of firm environmental performance is the organizational processes related to environmental reporting. Likewise, Clarkson et al. (2007) demonstrate that there is a positive association between environmental performance and the level of discretionary environmental disclosures which is consistent with the predictions of the economics disclosure theory that assumes truth-telling. Al-Tuwaijri, Christensen & Hughes II (2004) accordingly agree that ‘good’ environmental performance is significantly associated with more extensive quantifiable environmental disclosures as a representation of the firm’s actions to support its legitimacy (Preston 1981 cited in Hughes, Anderson & Golden 2001). Therefore, it has been empirically proved that environmental disclosure can be used to indicate firm environmental performance.

3.4 The link between gender diversity in the boardroom and firm performance

Several theories that one can draw upon to explain the association between gender diversity in the boardroom and firm performance are discussed in this section. The roles of board members, as well as the effect of gender diversity of board members on firm performance, are described in the theories. The agency theory and stewardship theory are particularly used to define the relationship between gender diversity in the boardroom and a firm’s financial performance, while the legitimacy and stakeholder theory are specified for a firm’s social and environmental performance. The theoretical framework is established based on these theories and is presented in the last part of this section.
3.4.1 Agency theory

The issues regarding the roles of board members in managing firms are extensively discussed in the agency theory (Jensen & Meckling 1976). Specifically, this theory describes the relationship between the principal or the owners of firms and the agents or the managers that should be well managed so that they may act in the best interest of the principal. Jensen & Meckling (1976) define the term ‘agency relationship’ as a contract under which one or more (principals) engage another person (the agent) to perform some service on their behalf. This relationship involves delegating some decision-making authority to the agent. It is hypothesized that the principal will assume that the agent (and all individuals) will be driven by self-interest as the wealth maximizer (Jensen and Meckling, 1976). Therefore, the principal will anticipate that the agent, unless restricted from doing otherwise, will choose to pursue individual self-interest that could have a negative impact on the principal’s economic welfare.

The relationship between the principal and the agent shows the separation of ownership and control in firms (Klein 1983; Fama 1980; Fama & Jensen 1983a; Fama & Jensen 1983b). The conditions of incomplete information and uncertainty then may exist and, as a consequence, agency problems may arise. These problems cannot be eliminated but they can be controlled (Nordberg 2008) and minimized. To minimize the problems, the primary function of the board, to monitor the actions of managers and the agents to protect the interest of principals, should be maximized (FCGI 2005). Monitoring by the board here is essential to reduce what is called an agency cost which incurred when management acts on behalf of its own interest rather than prioritizing the welfare of shareholders (Hillman & Dalziel 2003). When the agency cost is minimized, the firm’s performance is improved (Fama 1980).
The agency theory has also been the underlying concept of corporate governance that analyses the relationships among shareholders, boards, managers, and employees. It emphasizes the responsibilities of managers as the agents of owners and the roles of boards as the representatives of owners (Jensen & Meckling 1976). Improved monitoring of decisions and activities of managers by the boards will result in the greater protection of shareholders (Ragothaman & Gollakota 2009). Currently, the responsibilities of managers have been expanded beyond profit maximization to value maximization (McCarthy & Puffer 2008), which means that the emphasis is not only to the improved financial performance but also the non financial performance such as social and environmental performance. Agency theory can be used to show how the owners of a firm are in a weak position compared to the manager, and, therefore, why a fiduciary relationship that implies both a ‘duty of care’ and a ‘duty of loyalty’ is justifiable (Heath 2009). The implementation of corporate governance in this case then may reflect the exercise of a fiduciary obligation, and it is the responsibility of the boards, as the representatives of firm owners, to create value maximization, not only for the shareholders and stakeholders, but also for the development of an economic system (Andres & Vallelado 2008), through managers.

Specifically, based on the concept provided by the OECD (2004), corporate governance includes a set of relationships between a firm’s management, its board, its shareholders and other stakeholders that provide the structure through which the objectives of the firm are set, and the means of attaining those objectives and monitoring performance are determined. Furthermore, according to the principles of corporate governance (OECD 2004), good corporate governance should provide proper incentives for the board and management to pursue objectives that are in the interests of the firm and its shareholders and should facilitate effective monitoring. Then, based on these principles, the corporate governance framework
should ensure the strategic guidance of the firm, the effective monitoring of management by the board, and the board’s accountability to the firm and the shareholders. At the same time, the board is also responsible for monitoring managerial performance and achieving an adequate return for shareholders (Adams & Ferreira 2007) while preventing conflicts of interest and balancing competing demands on the firm. In addition, boards are expected to take care of, and deal fairly with, other stakeholder interests including those of employees, creditors, customers, suppliers and local communities (OECD 2004). Because of this, the board should acquire adequate knowledge regarding environmental and social standards relevant to this context. This means that the board has an equal obligation to improve the financial, environmental and social performance of a firm.

Since one of the board’s obligations is to ensure that management prioritizes the interests of shareholders, agency theory has suggested that a more diverse board monitors managers better because board diversity increases board independence (Carter et al. 2007). Board independence creates more incentives to monitor management and is positively related to firm performance. Therefore, gender diversity, as one type of board diversity, may enhance the board as a mechanism to control and monitor managers and may increase the independence of the board (Campbell & Vera 2008). However, it should also be noted that when minority board members exist, there is a possibility that their voice may not be heard by the majority so that board diversity might be useless (Westphal & Milton 2000 cited in Carter et al. 2007). Or, when certain board members have high equity ownership in the firm, this ownership may be more powerful compared to having a diverse board to exercise intensive board monitoring (Monks & Minow 2004 cited in Carter et al. 2007). Because of this, board structuring is central to corporate governance (Tuteja 2006). When board diversity is justified to have
significant effect on the quality of monitoring, it is then essential to determine which type of diversity should be applied.

The types of diversity mostly applied in the boardroom are gender diversity (Campbell & Vera 2008; Smith, Smith & Verner 2006; Adams & Ferreira 2009; Jurkus, Park & Woodward 2008; Ali, Kulik & Metz 2009), cultural or ethnic diversity (Kusumastuti, Supatmi & Sastra 2007), educational diversity (Bathula 2008), and board independence (Pudjiastuti & Mardiyah 2006; Jackling & Johl 2009; Chamberlain 2010; Rashid et al. 2010). Among these types of diversity, gender diversity and its relationship with firm performance currently has been noted to gain much attention from researchers as the findings are diverse, ranging from none to positive and negative significant relationship.

The proponents of gender diversity in the boardroom believe that women members, minority members, or independent board members bring unique and important information and knowledge to the board and managers, encourage different and innovative insights in decision making and problem solving, and create an open communication among board members and staffs for topics that have not yet been discussed (Carter et al. 2007, Grosvold, Brammer & Rayton 2007; Verboom & Ranzijn 2004; Fama & Jensen 1983a). In contrast, the opponents view diversity as bringing negative benefit because diversity is claimed to be linked with conflict, diminishing group unity that may cause an increase of employee absenteeism and turnover, and decreasing quality as the firm only pursues diversity without considering the quality of the human resource (DiTomaso, Post and Parks-Yancy 2007 cited in Herring 2009; Adams & Ferreira 2009). There are also researchers who take a neutral stance. Francoeur, Labelle & Desgagne (2008) argue that it is not clear whether diverse board members may
increase or decrease firm performance because, for example, in some cases appropriate decisions are not the product of a diverse board but due to timely leadership style.

In addition, Ali, Kulik & Metz (2009) have demonstrated that the industry type is claimed to moderate the relationship between board diversity and firm performance. These contradicting arguments regarding the link between diversity and its effect on the organization then demonstrate a need for further exploration using a different context based on previous studies. One example is to conduct the research in a developing nation because extensive research has been conducted in developed countries (see for example Smith, Smith & Verner 2006; Adams & Ferreira 2009; Jurkus, Park & Woodward 2008). A more detail description of the arguments for and against gender diversity in the boardroom is presented in Chapter 4.

3.4.2 Stewardship theory

Stewardship theory postulates that agents are stewards who manage the firm responsibly to enhance firm performance (Donaldson & Davis 1991; Muth & Donaldson 1998). Agents as stewards are motivated to act in the best interests of the principals (Donaldson & Davis 1991). It is further argued that the model of a human being is based on a steward whose behaviour is pro-organizational and collectivistic. In the agency theory, these behaviours are believed to have higher utility than individualistic and self-serving behaviours (Donaldson & Davis 1991). Stewardship theory argues that the stewards put the value of the firm higher than their individual interests. The behaviour of stewards is assumed to be collective since their goal is mainly the success of organizations reflected through, for example, a high profitability and sales growth, which leads to the satisfactions of principals due to an enhanced wealth (Davis, Schoorman & Donaldson 1997).
Furthermore, according to Muth and Donaldson (1998) the stewardship theory indicates that higher level management also has non-financial motives that include the demand for achievement and recognition, the intrinsic satisfaction of successful performance, respect for authority and the work ethic. Additionally, when the boards are insiders (those who were previously the managers or the employees of the firms) they are empowered to behave as stewards and to manage companies’ assets accountably. Furthermore, Muth and Donaldson (1998) state that when the boards and managers work together and acknowledge the obligation to enhance a firm’s performance in the future, this develops trust and empowerment, the depth of experience, technical expertise, and ease of communication required for effective board functioning.

Although it contradicts the agency theory, the stewardship model has also been used as one theory that develops corporate governance mechanisms (Turnbull 1997, 2000). However, Turnbull (1997, 2000) also mentions that both stewardship and agency theories are acceptable when the desire of individuals to act as stewards is dependent on the organizational context. It is further explained that these two theories are both supported by psychological analysis which summarizes that:

1. The differences between individuals are significant and important. Thus, it could not be generalized merely that all individuals are individualistic and self-centred.

2. The need for money and approval, or other individualistic needs, is determined and limited by the necessity of maintaining the organization in a state of dynamic equilibrium. Therefore, it is not only individualistic behaviour that exists in human beings.

Furthermore, according to Wearing (1973 cited in Turnbull 1997; 2000), human beings have an interactive relationship with their community, adapt to any changes, and sometimes act
collaboratively. Consequently, there is a tendency for people to work together to achieve particular goals. This collaborative point of view may also be dependent on the cultural background of where the individuals live (Turnbull 1997; 2000).

When applied in the context of a boardroom, stewardship theory considers that board members are motivated by more than personal motivations (Nordberg 2008). This is in line with what has been stated by Abraham Maslow (1943) in the hierarchy of needs; that is the need to achieve self esteem (the fourth hierarchy) and self-actualization (the fifth hierarchy). When the need for self-esteem is satisfied it leads to an appreciation of self-confidence, worth, strength, capability, and adequacy of being useful which are respected and necessary in the real world. For self-actualization, this is associated with the need to achieve self-fulfilment to successfully actualize an individual’s potentials and do more and be better in the field, and finally to become everything that he or she is capable of becoming (Maslow 1943).

Maslow’s theory was refined by Alderfer (1972) by condensing the five hierarchical needs to three types of necessities, namely Existence, Relatedness and Growth (ERG Theory). When applied in the work field, existence is related to physiological factors such as the needs to have sound remuneration and working condition. Relatedness is associated with the necessity to build considerable connection, communication or networks with people in the workplace such as with colleagues, subordinates, supervisors, and customers. Finally, growth is linked to the needs to obtain personal development, to be creative and to achieve the targeted goals. This ERG theory does not recognize any hierarchy as in Maslow’s theory, which means that particular needs do not have to be satisfied after fulfilling the needs in the lower order. The implication provided by this theory for higher level management is that human resource shall be managed in such a way, and supported with appropriate and sufficient policies, that assist
employees to satisfy the existence, relatedness and growth necessities in order to motivate them to contribute their best for the firm.

Therefore, the stewardship theory, supported by Maslow and ERG theories, argues that board members may look after the interests of someone or something larger than their personal self-interests (Nordberg 2008). The board members also have their own needs to have meaningful interactions with the management. By having board members who have these characteristics, it is expected that they may perform better to safeguard the firms’ assets. An example of stewardship theory is a statement given by Peter Weinberg, an executive of a bank, that serving on a board is not, and should not be, a wealth creation opportunity but a chance to play a role in the proper environment of the marketplace (Weinberg 2006 in Nordberg 2008). Stewardship theory then is believed to be able to help board members when making economic decisions for firms.

Several prior studies in the corporate governance area, especially in relation to the board structure or composition with reference to the connection between women board members and firm performance, have used the stewardship theory as one of their theoretical foundations. Ranasinghe (2011), Rovers (2009), Singh, Terjesen and Vinnicombe (2008), Chang (2010), Hussein and Kiwia (2009), Bernardi, Bean and Weippert (2002), and Marimuthu and Kolandaisamy (2009) mainly search for the answer to the research questions: whether based on the stewardship theory the board has functioned well in the firms, whether diversity in board structures affect firm performance, and whether the boards can maintain their independency although they come from inside the firms and they tend to be involved in managers’ activities (Nicholson & Kiel 2007). A summary of the comparison between the agency theory and the stewardship theory is presented in Table 3.1.
Based on the comparison between the agency theory and stewardship in Table 3.1, it seems that the association between gender diversity in the boardroom and firm performance can be explained differently. According to the agency theory, board diversity, which may increase board independence, can be used to establish better control and monitor mechanism. It is because the assumption that an individual tends to be control-oriented, economical and rational, so that a diverse board may contribute different styles of controlling and monitoring to the management. When combined together, board diversity may consequently be effective in developing a sound controlling and monitoring mechanism. Alternatively, based on the stewardship theory, gender diversity in the boardroom may affect firm performance through the assumption that women on boards may act as the stewards or guardians of the firm’s assets, have other than economical needs, and tend to be more involved in management. Therefore, based on this comparison, instead of only examining whether there is a link between gender diversity in the boardroom and firm performance, this study also aims to
analyse further whether it is the agency theory or stewardship theory that can be used to best explain the link in the context of Indonesian publicly listed financial firms. This analysis is conducted by applying qualitative research methods by interviewing several women on boards to understand the role they play in firms.

3.4.3 Legitimacy theory

Legitimacy theory suggests that organizations search continuously to assure that they are seen to do business according to the required standards applied in certain societies (Suchman 1995; Wilmshurst & Frost 2000). It is believed that companies always try to guarantee that their operational activities are accepted as legitimate by outside parties affected by the existence of the firms (Deegan 2009). It is further argued that these standards are not perceived to be fixed, but change frequently, so that firms are required to be responsive to the changing environment in which they operate. Chen & Roberts (2010) consider this theory as an influential theory within the domain of social and environmental accounting research since it is interested in organizations and societal interactions which focuses on whether the value systems of firms are in line with those in the society (Dowling & Pfeffer 1975) and whether the social expectations have been met through the objective of the firms (Suchman 1995).

There has been considerable progress recently in terms of research in the social and environmental disclosure which is linked to legitimacy theory (see for example Gray, Kouhi & Lavers 1995; Yongvanich & Guthrie 2004; Braver & Pavlin 2006; Lodhia 2006; Hossain & Reaz 2007; Gray 2007; Webb et al. 2009). Specifically, Suchman (1995) states that legitimacy is a generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions. Organizations seek this legitimacy to enhance both the stability and the
comprehensibility of organizational activities although it is believed that this process is challenging and proactive strategies are needed to achieve the goal. Suchman (1995) then continues to describe strategies that may be utilized by organizations to gain legitimacy. These include: (a) efforts to conform to the dictates of preexisting audiences within the organization's current environment, (b) efforts to select among multiple environments in pursuit of an audience that will support current practices, and (c) efforts to ‘manipulate’ environmental structure by creating new audiences and new legitimating beliefs. After gaining legitimacy, organizations should also maintain and repair legitimacy when needed. To maintain legitimacy, Suchman (1995) suggests that organizations should perceive future changes and protect past accomplishments. Then for repairing legitimacy, organizations are advised to use strategies similar to the strategies used in gaining legitimacy after experiencing a crisis. Therefore, according to these strategies in building, maintaining, and repairing legitimacy, organizations are assumed to conduct miscellaneous actions to ensure that their operations are appreciated to be legitimate (Dowling & Pfeffer 1975).

Deegan (2009) notes that organizations do not need to do real activities in order to gain legitimacy as long as the society collectively apprehends what the organizations have done that may construct legitimacy. In order to create awareness in the society, disclosing substantial news regarding what has been done by organizations becomes important to build organizations legitimacy. When organizations fail to do so, the legitimacy can be endangered. This might be because organizations cannot disclose information regarding their compliance with society’s needs that might frequently change (Deegan 2009). Because of this, legitimacy is dependent on information disclosure and independent of what the organizations have actually done. When the society’s expectations change, this means that organizations are required to inform it about what they have changed to meet expectations (O’Donovan 2002).
Environmental and/or social disclosures in annual reports or in stand-alone environmental or social reports is then believed to be able to be used to build, maintain and repair legitimacy because this type of disclosures addresses society’s concerns and counteracts criticism and gains societal support (Campbell 2003; Dowling & Pfeffer 1975; O’Donovan 2002; Deegan 2002; Deegan, Rankin & Tobin 2002). Deegan (2009) gives some examples of how to make use of annual reports for legitimacy purposes; such as to provide information to counter bad news that is publicly available, to inform the interested parties about attributes of the organizations that were unknown previously, or to draw attentions to their achievements in winning environmental, community or safety awards while at the same time closing their failure in managing pollution or workplace accidents. Therefore, coherent with Dowling & Pfeffer (1975), Hurst (1970 cited in Deegan 2009) mentions that one of the main objectives of accounting, as well of as financial reports as the product of accounting, is to legitimise the presence of organizations that makes annual reports and other related disclosures.

Furthermore, in relation to one of the main duties carried out by a board of directors, NCCG (2006) clearly states that social responsibility is one task that should be covered. In terms of this task, the board of directors should be able to:

1. ensure the fulfilment of the firm’s social responsibility to preserve the firm’s sustainability, and;

2. have a clear and focused written plan to meet the firm’s social responsibility.

Similarly, OECD (2004) also considers the function and responsibility of the board is to clearly establish required disclosure and communication. The explanation of the duty of the board of directors by NCCG (2006) and OECD (2004) here means that the board of directors is obliged to gain, maintain and repair a firm’s legitimacy by meeting the needs of
stakeholders, especially the society, and then by providing advice to the public about the activities that have been conducted to achieve the requirements.

Besides this, Cramer and Hirschland (2006) claim that there are new demands from society for firms to take into account as these demands are assumed to have major affects on financial performance as well as firm reputation and other intangible assets. The new demands may include, for example, increasing disclosure of firm policies and performance on social and environmental issues and growing attention to firm positions on key public policy questions such as environment and human rights (Cramer and Hirschland 2006). Therefore, the board is required to be proactive and responsive in creating strategic and long term planning to succeed in non financial performance (firm social responsibility achievements). There is an indication though that in the short term, environmental or social programs lead to poor financial performance (Makni, Franceour & Bellavance 2009). However, over the long term there will follow an improved financial attainment (Saleh, Zulkifli, Muhamad 2008; Orlitzky 2001; Aerts, Cormier & Magnan 2008; Orlitzky, Schmidt & Rynes 2003; Konar & Cohen 2001; Klassen & McLaughlin 1996; Al-Tuwajri, Christensen & Hughes 2004; King & Lenox 2001).

Specifically, the legitimacy theory is suitable for use to describe the presence of women in the boardrooms and its link to firm social and environmental performance. This is because women on boards may establish close relationships with external parties, including the society in general, so that they can draw attention to these parties and maintain it for the sake of the legitimacy of the firm (Zahra & Pearce 1989). Additionally, as noted by Eagly, Schmidt and Engen (2003), with the transformational leadership including the communal behaviours, women leaders may be more involved in social and environmental issues than their men
counterparts to provide or maintain a firm’s legitimacy. Gregoric et al. (2009) argue that a firm’s legitimacy may also mean the reduction of the negative effects associated with a firm’s non-compliance with the pressure from the public for female appointments on boards. Therefore, the legitimacy theory provides a relevant basis from several perspectives regarding the association between women’s presence in the boardrooms and a firm’s social and environmental performance, as well as the argument for a firm’s social and environmental disclosures.

3.4.4 Stakeholder theory

Stakeholder theory emphasizes that the organization is a part of a broader social system wherein the organization impacts on, and is impacted by, other groups within society (Freeman & Reed 1983; Deegan 2002). The specific groups within society - called ‘stakeholder groups’- will have different views about the way an organization should conduct its operation. They also have power to push the organization to comply with their expectations. Hasnas (1998 cited in Nordberg 2008) also states that boards should manage the business for the benefit of all stakeholders. A firm’s diversified board would be in a better position to understand societal needs and thereby create a positive image about the firm which could help enhance the wealth of stakeholders and stimulate a firm’s awareness of social responsibility to the community in which it operates (Nordberg 2008). Consequently, gender diversity on firm boards becomes relevant from the perspective of the stakeholder theory as well.

The beginning idea of this theory came from a book titled ‘The Theory of the Growth of the Firm’ (Penrose 1959 cited in Nair, Trendowski & Judge 2008) which mentions that a firm has a set of human resources including the relationships between them. Specifically, the
stakeholder theory maintains that the objectives of the firm should be derived by balancing the conflicting claims of the various stakeholders in the firm, such as managers, employees, stockholders, suppliers, and vendors (Ansoff 1965 cited in Clarke 2004). It should be recognized that these stakeholders may seek to participate in management to create judgments. Clarkson (1994 cited in Clarke 2004) also mentions the same definition of the stakeholder theory; that the purpose of the firm is to create wealth or value for its stakeholders by converting their stakes into goods and services. The table below exhibits a summary of expectations of companies’ stakeholders that should be covered by the accountability of firms.

Table 3.2: What do stakeholders want?

<table>
<thead>
<tr>
<th>Type of stakeholder</th>
<th>Stakeholders’ expectations</th>
<th>Firms’ accountability</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employees</td>
<td>Remuneration, employment security, conditions, training</td>
<td>Firm reports, employment news, bargaining information</td>
</tr>
<tr>
<td>Shareholders</td>
<td>Dividends and share price appreciation</td>
<td>Annual report and accounts, merger and takeover information</td>
</tr>
<tr>
<td>Customers</td>
<td>Quality, service, safety, value for money</td>
<td>Sales literature, advertising, servicing</td>
</tr>
<tr>
<td>Bankers</td>
<td>Liquidity and solvency of firm, value of security, cash generation</td>
<td>Cover ratios, collateral, cash forecasts</td>
</tr>
<tr>
<td>Suppliers</td>
<td>Stable and enduring relationship</td>
<td>Payment according to terms</td>
</tr>
<tr>
<td>Government</td>
<td>Compliance with law, jobs, competitiveness, accurate data</td>
<td>Reports to official bodies, press releases</td>
</tr>
<tr>
<td>General public</td>
<td>Safety of operations, contribution to the community</td>
<td>Safety reports, press reports</td>
</tr>
<tr>
<td>Environment</td>
<td>Benign operations, substitution of non-renewable resources</td>
<td>Environmental reports, compliance reports</td>
</tr>
</tbody>
</table>


The stakeholder theory, as proposed by Freeman and Reed (1983), states that the concept of stakeholders in firms can be utilised to comprehend the duties of board members to build effective behaviour which is preferable to structural change through legislation. They believe that the stakeholder concept has implications on three levels: as a management theory, as a
process for practitioners to use in strategic management, and as an analytical framework. From this point of view, stakeholder theory becomes a timely yet adolescent, controversial and yet important idea (Laplume, Sonpar & Litz 2008). They call it timely because firms are the prominent organizations that impact on the life of society. However, it is also adolescent since the empirical validity has not yet been comprehensively established. Furthermore, it is controversial too, as it challenges the previous assumption that the only value that should be considered by firms is the maximisation of shareholders’ wealth. Lastly, it is important as it tries to answer questions about how organizations affect society ((Hinings & Greenwood 2003 and Stern & Barley 1995 cited in Laplume, Sonpar & Litz 2008). In further development, the stakeholder theory is found to support the theoretical basis of research that measures firm performance, both financial and non financial (social and environmental performance), which is due to the stakeholder management (Laplume, Sonpar & Litz 2008).

Particularly, based on the stakeholder theory board members are expected to exercise several roles in relation to social responsibility. According to Hung (2011), these roles include managing the interests of the stakeholders of the organization. This role is called an organization-oriented role. Secondly, board members assist in protecting the interests of their organization as stakeholders in society (a society-centered role). The organization-centered roles consist of direction-setting roles which reflect the performance dimension and guardian roles as the conforming dimension. Then, the society-centered roles accommodate the social networking role at the inner circle, and the social participation role in the outer circle. Board members who are able to administer these roles adequately are likely to enhance organizational, societal and environmental welfare (Hung 2011).
In relation to the obligation of the boards to satisfy stakeholders’ needs, based on the arguments supporting the economic or business case of gender diversity in the boardroom, women are believed to have the ability to do this task. It is because, for example, women understand the market more so that they may be able to listen to customers’ requirements of the products and services (Burke and Mattis 2000), or due to women’s possession of a transformational leadership style (Eagly, Schmidt and Engen 2003) they are able to listen more to the needs of the employees. Therefore, the stakeholder theory is relevant for use as a basis to explain the link between gender diversity in the boardroom and a firm’s non-financial performance.

3.5 Theoretical framework

To summarize the theories used in this study to understand the relationship between gender diversity in the boardroom and firm performance, a theoretical framework is presented in Figure 3.1 on the following page. It is important to note that this framework is used for the quantitative part of this research to test the theories. The qualitative part is applied in this research to support and complement the results achieved from the quantitative method.
Figure 3.1: Theoretical framework: Gender diversity in the boardroom and firm performance

- **Agency Theory**
  - Bring fresh perspective on complex issues
  - Better strategy formulation and problem solving
  - Accommodate unique and important information and knowledge to the board and managers
  - Create an open communication between board members and staffs

- **Stewardship Theory**
  - Act as stewards
  - Begin the career as insiders, therefore have greater understanding of the firm’s operations
  - Collectivistic works with management
  - Support and assist management

- **Stakeholder Theory**
  - Meet the pressure from stakeholders
  - Signal commitment toward organizational reform
  - Enhance communication with stakeholders
  - Promote good policy

- **Legitimacy Theory**
  - Reduce the negative effects associated with firm’s non-compliance with public pressure
  - Meet firm’s need for legitimacy
  - Involve more in social and environmental issues
  - Develop transformational leadership

**Source:** Modified from Francoeur, Labelle and Desgagne (2008); Eagly, Schmidt and Eagen (2003); Zahra and Pearce (1989); Chang (2010); Singh, Terjesen and Vinnicombe (2010)
3.6 Arguments for and against gender diversity in the boardroom and its impact on firm performance

This section discusses the arguments in favor and against gender diversity in the boardroom and its impact on firm performance. Several studies are identified to support the arguments of divergent opinions regarding this matter.

1. Arguments in favor of gender diversity in the boardroom

Carter et al. (2007; see also Singh and Vinnicombe 2004 cited in Smith, Smith & Verner 2006) note that there are good reasons, that are in line with the principle of agency theory, for having diversity in board membership. One of the reasons is that a more diverse board will be able to make decisions based on the evaluation of more alternatives, especially if there is a representation of women. Women may have different life and work experiences than men, so that they may have a better understanding in different areas. This may consequently improve the innovation, creativity and quality of the decision-making process of the board, produce higher quality problem-solving, enhance leadership effectiveness, improve better understanding of the market place of the firm, and build effective global relationships (Robinson & Dechant 1997; Gregoric et al. 2009; Broome, Conley & Krawiec 2011b; Smith, Smith & Verner 2006; Campbell & Vera 2010). Moreover, a more gender-diverse board may also improve the image of the firm; therefore it may create positive impacts in firm performance and shareholder value over a long period.

There is substantial evidence from previous research which provides support for the hypothesis that there is a positive correlation between board gender diversity and firm financial performance. Adams and Ferreira (2002 cited in Carter et al. 2007), Thomsen et al. (2009) and Carter, Simkins and Simpson (2003), all find that Tobin’s Q, as the indicator of
financial performance, is positively related to the percentage of female directors on the board. Accounting-based firm financial performance such as ROA, ROE and other comparisons between accounts in financial reports, are also found to be positively affected by gender diversity of board members (Smith, Smith & Verner 2006; Dominguez, Sanchez & Alvarez 2010a; Vera & Martinez 2010; Clarke 2010 cited in Suk 2011).

2. Arguments against gender diversity in the boardroom

Nevertheless, Fairfax (2011) claims that the business case has proved ineffective since she believes that there is no ‘pure’ business case of board diversity. She argues that board diversity is actually related to moral or social case, which is not an economic rationale. The examples of moral or social case are to gain legitimacy from stakeholders (Carter et al. 2010), to signal a commitment to enhance women’s opportunity to sit in the boardroom (Joy 2008), to advise and counsel, and links to the firm’s external environment (Dunn 2010), to indicate a firm’s social responsiveness (Council on Economic Priorities 1986 & Miles 1987 cited in Fryxell & Lerner 1989), to respond to a greater demand for diversity (Farrell & Hersch 2001), and to meet institutional pressures from government or political groups (Dominguez, Lavarez & Sanchez 2008).

Furthermore, there are other debates regarding the diversity in boardrooms. Diverse boards may take more time to make decisions and may experience more conflicts (Smith, Smith & Verner 2006). Even women board members do not support the inclusion of more women on boards (Broome, Conley & Krawiec 2011b). In relation to the investment area, Jianakoplos and Bernasek (1998) conclude that women show relatively more risk aversion then do men which results in a lower level of personal wealth and firm financial performance in the stock market. A heterogeneous team also exhibits many communication problems and a low level of
identity; hence a heterogeneous team may be dysfunctional for building a solid team (Earley & Mosakowski 2000). In conjunction with this, Williams and O’Reilly (1998 cited in Campbell & Vera 2010) claim that a heterogeneous group is less cooperative and so tends to generate more psychological disagreement.

Yet, Vinnicombe (2011) and Oakley (2000) believe that there are several stereotypes faced by women that make them kept away from the boardroom. These include deficiency of qualifications, lack of confidence, particular personal characteristics and behaviors such as less aggressive and assertive communicating styles, being women, not being involved in the political field, and women’s obligations to family - especially to husbands and children. The stereotypes then may possibly influence the way how men on boards work with women on boards and affect the overall firm performance. Vinnicombe (2011) objects to these ideas by providing evidence on her book “Women with Attitude” (2003) that women are raised to be confident persons by their parents so that they currently feel very assertive about their capability in doing their work. Vinnicombe (2011) also finds that women nowadays have high standards of performance and perfectionism that make motivated to get promoted in the workplace.

3.7 Gender diversity in the boardroom and firm financial performance

This section outlines the research examining gender diversity in the boardroom and firm financial performance, in the context of developed and emerging nations. It includes a review of the results found in the literature. This section is divided into three parts to classify the results obtained, due to the fact that the results found from prior studies are varied. It is not only positive link, but also negative, curvilinear and even no relationship. The first part of this section describes prior research with the result that gender diversity of boards impacts
positively on firm financial performance. In contrast, the second part explores the research with negative results. Finally, in the last part, the research with no significant and curvilinear association between gender diversity in the boardroom and firm financial performance is discussed.

1. Studies with a positive link between gender diversity in the boardroom and firm financial performance

Verboom and Ranzijn (2004) suggest that there is a relationship between the number of women at the top management layer and the bottom-line performance of a firm. They divided the sample companies in The Netherlands into three groups with regards to the percentage of women in the boardroom; groups with low, average and high representation of women. This research shows that there is a trend towards an increase in the Total Return to Shareholders in the case where there are a greater number of women on boards. The evidence from the US (Gul, Srinidhi & Ng 2011), Australia (Bonn 2004), Norway (Gregoric et al. 2009), Denmark (Smith, Smith & Verner 2006), Spain (Vera & Martinez 2010), Canada (Francoeur, Labelle & Desgagne 2008), the UK (McKinsey & Company 2011), and the Netherlands (Rovers 2011) also confirm that women in the boardrooms impact positively on financial performance.

The latest study by Gul, Srinidhi and Ng (2011) shows that there is high stock price informativeness of firms with high diversity of boards after controlling for corporate governance, earnings quality, institutional ownership, and acquisition activity. Further, they find that a stronger association is detected in firms with weak corporate governance, which may mean that the presence of women substitutes for the gap of corporate governance implementation. Johansen (2008) has echoed this research finding for the sample of a balanced panel of 1,604 firm-year observations. While in the background of small and
medium enterprises, gender diversity of boards has a positive effect on firm performance, although women directors tend to serve on firms with less financial risk, smaller size, but larger boards (Vera & Martinez 2010). These studies were of the developed market, hence, it is found that the board mechanism, and consequently the corporate governance, becomes more effective when women serve on the board because they are able to advance the controlling and monitoring functions of the boards.

2. Studies with a negative link between gender diversity in the boardroom and firm financial performance

Interestingly, not all studies have a statistically significant positive result regarding the association between gender diversity of board members and firm financial performance. Bohren and Strom (2006) find that gender mix in the boardroom is negatively related to financial performance of non-financial firms listed on the Oslo Stock Exchange and almost always in a statistically significant way. This means that a gender diverse board results in ineffectiveness of the decision making process of the board and this is in line with the argument against the business case of gender diversity of board members. Adams and Ferreira (2009) obtained similar results from the US firms; that the average impact of gender diversity on firm performance is negative which may be driven by gender quota and firms’ fewer takeover defenses.

3. Studies with curvilinear or no link between gender diversity in the boardroom and firm financial performance

Instead of the linear link, a nonlinear relationship between gender diversity of board members and firm performance is also found (Richard et al. 2004). This means that the relationship is more complex and curvilinear. In Richard et al.’s (2004) study, firms with high strategic
innovation, with high or low group diversity, have high productivity. Next, firms with a high level of risk taking have a hyperbolic relationship between productivity and group diversity, and a moderately diverse group has better performance than others. It may be said that groups with no or high diversity produce poorer performance than the moderate one because there is possibly too much contention in a heterogeneous group and low aggressiveness in a homogenous one.

Several studies have also found evidence that board diversity does not link to firm performance. For example, Carter et al. (2010) reveal that in the context of major US firms there is no significant relationship between gender diversity in the boardroom and firm financial performance. Similarly, Shrader, Blackburn and Iles (1997), using a sample of 200 US firms, conclude that there is no link between the proportion of women on boards and firm accounting-based financial performance. Farrell and Hersch (2005) additionally find no association between the addition of women in the boardrooms of Fortune 100 firms and market reaction on this addition. Reasons underlying this result are varied. The possibilities could be women on boards usually are assigned to handle jobs that have less substantial impact to firm financial performance and they serve the board for only short period of time so that the consequence to performance is undetectable (Shrader, Blackburn & Iles 1997). Moreover, women are the minority among men dominated boards so that their voices are not heard (Rosener 1995 cited in Shrader, Blackburn & Iles 1997).

In the Indonesian context, Pudjiati and Mardiyah (2006) find that there is no significant relationship between the presence of women in the boardroom and firm financial performance. They use only non-financial companies as their sample and focus only on the proportion of women in board membership without any consideration about a more
comprehensive way to measure gender diversity of the boards. Bonn, Yoshikawa & Phan (2004), who conducted research comparing Japan and Australia, suggest that there is no link between the ratio of female directors and firm performance in Japan due to the very small portion of women on boards (0.86%). In contrast, they find that the link is positive in the Australian context.

3.8 Gender diversity in the boardroom and firm social and environmental performance
In terms of the social and environmental performance, Coffey and Wang (1998) argue that greater diversity in corporate governance will enhance a firm’s social performance. The board diversity thesis also states that there is a positive relationship between outsider representation on a firm’s board and a firm’s philanthropy as a manifestation of a social responsibility dimension (Wokutch & Spencer 1987 cited in Coffey & Wang 1998). This argument is associated with the assumptions that charitable donations are altruistic, insiders are preoccupied with short-term economic outcomes, philanthropic giving is consistent with long-term economic outcomes, and board diversity will increase decision-making effectiveness. Barako and Brown (2008), who carried out research into 40 Kenyan banking firms, suggest that board representation can fundamentally improve firm communication; a higher level of representation by women, combined with representation of independent directors, significantly improves disclosure regarding firm social performance. The relationship between women in the boardroom and a firm’s social performance is also developed by Webb (2004) who argues that socially responsible firms have characteristics associated with effective board structures, for example, the presence of women directors.
A recent study conducted by Mallin and Michelon (2011) to test the influence of board reputation on firm social performance using the proxy of the proportion of women directors as the board diversity variable, also has significant positive findings. This study suggests that a high proportion of women in the boardroom lead to higher overall social performance, better community performance, better employee relations, and improved human rights. This means that women board members have the ability to improve the human relationship aspects, such as two ways communication with employees and concerns for employees’ wellbeing as well as to improve the understanding of stakeholders’ needs that may lead to increased services delivered to the public to gain better legitimacy and higher firm social responsibility performance (Mallin and Michelon 2011). In relation to this, Gul, Srinidhi and Ng (2011) provide a supplementary finding in their research; that gender diversity in the boardroom increases the informativeness level of stock price through the mechanism of increased public disclosure in major firms.

Mallin and Michelon (2011) confirm claims by Eagly, Schmidt and Engen (2003) that female leaders in general are more transformational than male leaders. A Transformational leadership style demonstrates qualities that:

1. Motivate respect and pride.
2. Communicates values, purpose, and importance of organization’s mission.
3. Exhibit optimism and excitement about goals and future states.
4. Examine new perspectives for solving problems and completing tasks.
5. Focus on development and mentoring of followers and attends to their individual needs.

This transformational leadership by women board members may help them to deal with social problems and deliver the needs of various stakeholders. It could also have an influence on
decision making processes for specific organizational practices such as firm social responsibility and environmental politics (Nielsen & Huse 2010).

3.9 Research approach used in prior studies

The commonly used approach to examine the relationship between gender diversity in the boardroom and firm performance is the quantitative approach. Specifically, statistical analysis is undertaken to find the strength and direction of the relationship. Moreover, firm performance is usually measured by financial achievement. Appendix 1 summarizes some of the seminal studies in this area.

The Table in Appendix 1 shows that the literatures exploring the relationship between gender diversity and firm performance has lacked research that uses qualitative approach to make sense of the quantitative results, financial firms as the sample, the Blau Index as a more comprehensive measure of gender diversity, and social and environmental performance as other measures of firm performance. Therefore, the current study fills the gap by providing a more comprehensive methodology and covering the aspects that have not been widely covered previously.

3.10 Research questions

Following from the theoretical framework and review of prior studies, the current study addresses the following research questions:

1. Does gender diversity in the boardroom influence the financial performance of Indonesian publicly-listed financial firms?
2. Does gender diversity in the boardroom influence the social performance of Indonesian publicly-listed financial firms?
3. Does gender diversity in the boardroom influence the environmental performance of Indonesian publicly-listed financial firms?

4. What are the perceptions of women in the boardroom of Indonesian publicly-listed financial firms regarding the role they play in contributing towards their firm’s financial, social and environmental performance?

It is clear that research questions 1, 2 and 3 require a quantitative approach since they seek to discover if a relationship exists between gender diversity in the boardroom and firm performance. Research question 4 requires a qualitative inquiry because it asks about the perceptions of women board members and involves interpretation of the perceptions. For the quantitative part, several hypotheses are developed and presented in the next section.

3.11 Hypotheses development

Based on the above comprehensive review of literature, the following hypotheses, which refer to research questions 1, 2 and 3, are formulated:

**Research Question 1: Does gender diversity in the boardroom influence the financial performance of Indonesian publicly-listed financial firms?**

Prior research presents empirical evidence of positive significant relationship between the presence of women in the boardroom and firm financial performance (Carter et al. 2003; Carter, Simkins & Simpson 2003; Francoeur, Labelle & Desgagne 2008; Thomsen et al. 2009 and Verboom and Ranzijn 2004). This positive link is supported by the agency theory, which postulates that a more diverse board monitors managers better because board diversity increases board independence which creates more incentives to monitor management (Carter et al. 2007) which in turn can favourably influence firm financial performance. Board
diversity thus positively relates to firm financial performance. Therefore, consistent with the positive link supported by the agency theory, the following hypotheses to answer research question 1 are developed:

*H1a1*: Gender diversity in the boardroom (as measured by the Blau index) has a positive relationship with firm financial performance (as measured by Tobin’s $Q$).

*H1b1*: Gender diversity in the boardroom (as measured by the Blau index) has a positive relationship with firm financial performance (as measured by Return on Assets).

However, negative link between gender diversity in the boardroom and firm financial performance is also found (for example, Bohren and Strom 2006; Adams and Ferreira 2009). According to the stewardship theory this may happen because board members may have other than economical needs (see for details in this chapter on Section 3.4, page 52-57 about stewardship theory) and tend to be more involved in management (Muth & Donaldson 1998) which may decrease their independency. Consequently, the following alternative hypotheses, grounded in the stewardship theory, are developed:

*H1a2*: Gender diversity in the boardroom (as measured by the Blau index) has a negative relationship with firm financial performance (as measured by Tobin’s $Q$).

*H1b2*: Gender diversity in the boardroom (as measured by the Blau index) has a negative relationship with firm financial performance (as measured by Return on Assets).

**Research Question 2**: Does gender diversity in the boardroom influence the social performance of Indonesian publicly-listed financial firms?

**Research Question 3**: Does gender diversity in the boardroom influence the environmental performance of Indonesian publicly-listed financial firms?
Prior studies find an association between the proportion of women in the boardroom and a firm's social and environmental performance. The more gender diverse a boardroom is, the better the social and environmental performance the firm has (Coffey and Wang 1998; Barako and Brown 2008 and Webb 2004). In line with these findings, this research argues that it is likely that gender diversity in the boardroom, as measured by the Blau index, may influence firm social and environmental performance. However, due to the developing significance of environmental matters, there is a need to distinguish a firm’s environmental performance from a firm’s social performance. Hence, the following hypotheses for research questions 2 and 3 are formulated:

**H2a:** Gender diversity in the boardroom (as measured by the Blau index) has a positive relationship with firm social performance (as measured by the quantitative dimension of social disclosure).

**H2b:** Gender diversity in the boardroom (as measured by the Blau index) has a positive relationship with firm social performance (as measured by the qualitative dimension of social disclosure).

**H3:** Gender diversity in the boardroom (as measured by the Blau index) has a positive relationship with firm environmental performance (as measured by the quantitative dimension of environmental disclosure).

The relationships between variables, as depicted in the hypotheses, are shown in Figure 3.1. It should be noted that several control variables are also considered to measure the strength and the direction of the relationship between independent and dependent variables.
3.12 Chapter summary

This chapter presents the theoretical basis used to understand the link between gender diversity in the boardroom and firm financial, social and environmental performance. The agency theory and stewardship theory are the underlying theories of the relationship between gender diversity of board members and firm financial performance. Moreover, the association between gender diversity of board members and firm social and environmental performance is explained in the legitimacy theory and stakeholder theory. Prior studies that used these theories to examine the relationship between the two constructs are reviewed and it is followed by the development of hypotheses in the next chapter. This chapter also reviews prior research in relation to gender diversity in the boardroom and its link to firm performance. Many relevant studies in developed nations, and a few in emerging countries, have been examined. Research questions and hypotheses are then developed. It was found that there are diverse opinions and findings regarding the association of the two constructs, including positive, negative, curvilinear, and no relationship. Following from the prior studies, several of the variables are used to measure the strength and direction of the relationship. The next chapter presents the research methodology and discusses both quantitative and qualitative approaches.
Figure 3.2: Conceptual framework

**Independent Variable**
- **Gender Diversity:** Blau index

**Control Variables**
- **Firm Size:** Logarithm of total assets
- **Debt level:** Ratio of total debt to total assets
- **Board size:** Logarithm of total number of board members

**Dependent Variable**
- **Firm Financial Performance:**
  - **Tobin’s Q**
- **Firm Financial Performance:**
  - **Return on Assets**

**Independent Variable**
- **Gender Diversity:** Blau index

**Control Variables**
- **Firm Size:** Logarithm of total assets
- **Debt level:** Ratio of total debt to total assets
- **Board size:** Logarithm of total number of board members

**Dependent Variable**
- **Firm Social Performance:**
  - **Number of words (quantitative dimension) of social responsibility disclosure**
  - **Proportion of themes (qualitative dimension) of social responsibility disclosure**

**Independent Variable**
- **Gender Diversity:** Blau index

**Control Variables**
- **Firm Size:** Logarithm of total assets
- **Debt level:** Ratio of total debt to total assets
- **Board size:** Logarithm of total number of board members

**Dependent Variable**
- **Firm Environmental Performance:**
  - **Number of words (quantitative dimension) of environmental responsibility disclosure**
CHAPTER 4
RESEARCH METHODS

4.1 Introduction

This research used both quantitative and qualitative methods. A quantitative approach was adopted because the research aimed to test theory by examining the relationships between the variables (Hair et al. 2003; Bryman 2008; Nachmias & Nachmias 2008). Meanwhile, a qualitative methodology was also employed as the study explored sense-making by participants regarding a particular matter (Creswell 2008), to uncover information and to explore silent voices (Creswell 2007). This chapter describes both quantitative and qualitative approaches applied in the study.

4.2 Mixed methods research and its application in the study

Johnson, Onwuegbuzie & Turner (2007) argue that mixed methods research is one of the three major research paradigms, or research approaches, which consists of quantitative research, qualitative research, and mixed methods research. Mixed method research is increasingly being utilized in current research practice. Mixed methods research is an intellectual and practical synthesis based on qualitative and quantitative research. It recognizes the importance of traditional quantitative and qualitative research, but offers a powerful third paradigm choice that often leads to the most informative, complete, balanced, and useful research results (Johnson, Onwuegbuzie & Turner 2007). Furthermore, mixed methods study is a research paradigm which involves with the philosophy of pragmatism and produces beneficial research findings. This type of research is then believed and justified to be able to deliver powerful and understandable results. Therefore, by employing mixed methods
research in the study, it was expected that the link between gender diversity of board members and firm financial, social and environmental performance would be clearly understood, not only from the quantitative perspective but also from the qualitative point of view.

Greene et al. (1989 cited in Bryman 2006) suggest other justifications for combining quantitative and qualitative research. These include:

1. Triangulation: convergence, corroboration, correspondence of results from different methods.
2. Complementarity: elaboration, enhancement, illustration, clarification of the results from one method with the results from another.
3. Development: the results from one method are used to develop or inform the other method.
4. Initiation: the discovery of paradox and contradiction, new perspectives of frameworks, or the recasting of questions or results from one method with questions or results from the other method.
5. Expansion: extend the breadth and range of enquiry by using different methods for different inquiry components.

Referring to these justifications, the current study initially adopted mixed methods in order to search for triangulation as the qualitative inquiry following the quantitative method aimed to look for confirmation of results. Nevertheless, upon completion of the data analysis stage, it was found that the combination of the approaches resulted in complementarity and development, whereas the qualitative results provided enhancements, clarifications and explanations of some unexpected results from the quantitative approach. This study benefited from these results since each method generated unexpected and contrasting outcomes, so that
combining each other was fruitful (Bryman 2006). The phenomenon of contrasting results is not new in this context, as, according to Bryman (2006), previous mixed methods research in various fields has divergent findings when quantitative and qualitative approaches were used. The more specific explanation of the divergent findings will be discussed in Chapter 8.

Moreover, there is also considerable potential to combine the two approaches in order to provide a powerful resource to clarify policy or practice (Ritchie & Lewis 2003), to gain better understanding of phenomenon than if just one method had been used (Bryman 2008), and to provide the detail about individual experiences behind the statistics (Grbich 2007). Most importantly, the quantitative and qualitative approaches are combined to develop strengths that offset the weaknesses of both quantitative and qualitative research (Creswell & Clark 2011). In terms of the weaknesses of the quantitative approach, Lewis-Beck, Bryman and Liao (2004) state that the summary drawn from the research findings are too restrictive, may not tell the story the way it should be told, and may contain statistical fallacies especially in regression studies of the relationships between variables. Specifically, Pierce (2008) categorizes the weaknesses into five criticisms, i.e.:

1. It is arguable that it can be applied in the social world.
2. This approach is too abstract, remote and impersonal to deeply comprehend and explore the complex social world.
3. Sometimes it does not meet the high standards of the natural sciences in which the variables to measure the concepts are too many and questionable as to whether they represent the object appropriately.
4. Quantitative study focuses more on those deemed to be measurable variables rather than more important issues.
5. Finally, its reliance on observation limits the range and depth of research.
Pierce (2008) suggests several ways to overcome the weaknesses of the quantitative approach, such as:

1. To conduct a qualitative research to obtain rich data.
2. To carefully manage sample and statistical analysis to increase the level of applicability of the study and to produce findings within a particular confidence level.
3. To check and control the accuracy of questionnaires used in a survey prior to fieldwork.

Additionally, Pierce (2008) also raises several criticisms imposed by a qualitative study; for instance, it lacks the intellectual and operational rigor of quantitative approach so that the data and findings are highly unreliable and biased since the researcher is contaminated by participating with the subjects. Moreover, misinterpretation is possible as the researcher is unable to show whether the interpretation is accurate. However, these criticisms have been defended by arguing that qualitative research is thoroughly and critically conducted by providing full transcripts and other records of interviews as well as other means of data collection activities for audit purposes and for external examination (Pierce 2008).

Considering these strengths and weaknesses, it is worthwhile to conduct a qualitative study to follow up and complement the quantitative research that has been done at the earlier stage. In the context of the current study, by applying a qualitative approach, experiences of women board members in exercising their roles in firms can be captured and understood. Additionally, the findings from this approach can also be utilized as a lens to contribute additional insights in explaining further the findings previously obtained in the quantitative approach which is unable to do these tasks. The quantitative approach only examines the strength and direction of relationship between the presence of women on boards and firm
performance. As an introduction, before explaining the research findings in depth, it was found from the quantitative approach that the existence of women on boards tended to decrease the shareholders value. Most studies found a positive association between gender diversity in the boardroom and firm performance. As previous studies were mainly quantitative in nature, the performance of the firm and the contribution of women board members as pursued by them were not captured by prior studies. The added value of this research is that besides examining the link between these two constructs statistically, it also enriches the findings by incorporating perceptions of women board members. Thus, relationship between gender diversity in the boardroom and firm financial performance can be explored in depth by conducting a qualitative study.

Several other authors have also provided beneficial frameworks for maximizing the strengths of the combination of the two approaches (Creswell & Clark 2011; Bryman 2008; Ritchie & Lewis 2003). Each framework represents possible sequential links between the conduct of qualitative and quantitative studies, such as: qualitative research may precede statistical enquiry, may affirm statistical investigation, or may be used in some form of follow up study. This current study follows the last of these possible designs, using qualitative study as a follow-up and a complement to statistical enquiry (the quantitative approach). As a consequence, the quantitative part had a larger portion than the qualitative inquiry. The ‘follow up’ framework is a particularly powerful technique for combining the quantitative and qualitative approaches (Ritchie & Lewis 2003), as the statistical method that has been conducted in the first stage often requires further detail and in-depth explanations.

This current study had been conducted by applying a quantitative method prior to the qualitative approach, so that the relationship between gender diversity in the boardroom and
firm performance could be sought by utilizing statistical tools before conducting the interview with women board members. Gender diversity was quantified by using the Blau index and the firm financial performance was measured by calculating the Tobin’s Q and Return on Assets. This will be further explained in this chapter. The two constructs were then regressed to find the strength and the direction of the relationship. This quantitative approach resulted in new understanding (Bryman 2006) in terms of whether the existence of women board members may increase or decrease a firm’s financial performance. However, the findings from the quantitative approach stopped here as this type of study was unable to supply any further explanations and supporting evidence from the objects of the research.

In order to gain explanations and evidence as well as to make sense of the quantitative results, a qualitative method was required. In the context of the current research topic, questions regarding why or how any relationship between variables did or did not exist, the logic behind the phenomena, or what the perceptions of the research objects were regarding their roles in enhancing firm performance, were able to be answered by applying a qualitative approach. By doing so, a better understanding of the link between the presence of women in the boardroom and firm performance was gained. These rationales in taking mixed inquiries were called ‘offset’, which referred to offsetting the weaknesses of each method to draw on the strengths of both, and ‘completeness’, which was associated with a more comprehensive account of the area of enquiry (Bryman 2006).

Specifically, numerous mixed methods researchers have indicated that quantitative and qualitative methods may be conducted at different stages of the research process, such as during the formulation of research questions, sampling, data collection, and data analysis (Bryman 2006). This research administered both methods at all the stages. Quantitative and
qualitative research questions were formulated at the first stage to achieve comprehensive findings at the end of the research. The quantitative research questions dealt with whether the presence of women board members could affect firm performance, while the qualitative research question was related to the perceptions of women board members regarding their roles in enhancing firm performance.

Then, at the sampling and data collection stages and to answer the quantitative research questions, only listed financial firms and the annual reports of these firms were analyzed. To observe the qualitative inquiry, several women board members of the sample were interviewed. Next, from the quantitative data, a particular statistical tool was utilized to analyze the data, and from the interview results, thematic analysis was employed. The analysis results from both methods were then integrated to support each other. 4.1 below summarizes the phases of research methods used in the study. It is a practice in mixed methods area that the use of dominant method is indicated in capital. Accordingly, in this thesis the mixed methods approach can be depicted as ‘QUANTITATIVE → Qualitative’. The more detailed description for each research method used in the current research is given in the next sections of this chapter. Then, it is continued with specific descriptions regarding the quantitative approach, including sample or participant selection, data collection and data analysis.

4.3 Phase 1: Quantitative research method

Quantitative research is a formal, objective, rigorous, and systematic process for generating information about new situations, events, or concepts of the world by examining relationships between concepts or ideas (Burns & Grove 2003). This type of research is mostly conducted to test theories that consist of concepts which describe specific phenomenon experienced by
particular populations for which the researcher wants to draw conclusions (Lewis-Beck, Bryman & Liao 2004). Specifically, the concepts are then transformed to variables to be measurable, generalizable and replicable by researchers (King, Keohane & Verba 1994 cited in Thomas 2003), and separated from personal involvement with the research subject so as to maintain objectivity (Glesne & Peshkin 1992 cited in Thomas 2003). The relationships between variables are later predicted and developed through hypotheses that will be tested.

Figure 4.1: How the study was conducted

QUANTITATIVE

Data from Annual Reports

Statistical analysis using STATA to test Hypotheses 1, 2 and 3

QUANTITATIVE results (answers Research Questions 1, 2 and 3)

Qualitative

Data from interview with women boards

Thematic analysis conducted manually

Qualitative results (answers Research Question 4)

Integrate the QUANTITATIVE and Qualitative results

Mixed-Methods results

Phase 1

Phase 2

Phase 3
One type of quantitative research is correlational research which involves the systematic investigation of relationships between or among two or more variables and uses correlational statistics to determine the degree or strength and type (positive or negative) of the relationships (Burns & Grove 2003). This current study applied a quantitative approach prior to the qualitative one in order to initially determine whether there was any relationship between gender diversity of boards of Indonesian publicly listed financial firms and firm financial, social and environmental performance. Theoretical and conceptual frameworks to represent the testable theories have been developed in Chapter 3 and 4. A theory, in the context of quantitative study, consists of an integrated set of defined concepts and relational statements that present a view of a phenomenon and can be used to describe, explain, predict, or control the phenomenon (Burns & Grove 2003). The concepts are then operationalized or proxied to variables, and hypotheses are formulated to predict the strength and direction of the relationships. The hypotheses are tested by using a particular statistical tool. To do so, statistical analysis using STATA 11 software was conducted. This process was conducted to answer and draw conclusions to research questions 1, 2 and 3 which aimed to develop preliminary understanding in the Indonesian context.

The following sections describe the data and methods for the quantitative method applied to the current research. It includes explanations regarding the sample, empirical model, and the data analysis method.

### 4.3.1 Sample selection and data collection

The sample used in this study was all financial firms listed on the Indonesian Stock Exchange (IDX). The financial firms consisted of banks, insurance companies, securities companies, financial institutions, and other types of financial firms. The data consisted of companies in
the years 2005 to 2008 (four years in a row). Because of this, the research is referred to as a panel or longitudinal study, since the data was collected over a period of time, and was summarized statistically (Hair et al. 2003). The objectives of the longitudinal research were to observe, monitor and assess variations and developments in a situation or set of variables over a given period of time, in order to provide detailed and in-depth understanding of phenomena (Collis & Hussey 2009 and Menard 2007 cited in Stokes 2011).

The years 2005 to 2008 were selected due to the availability of data required to test the hypotheses. Besides, the study was started in 2009 when the latest data available on that time was annual reports in 2008. There was also Global Financial Crisis happened at the end of 2007 until around 2009, so that it would be interesting to find out whether this might affect the end results of the study. Additionally, since Pudjiastuti and Mardiyah (2006) have used the data from 2000 to 2004 to examine the relationship between board structure and firm performance in the Indonesian context, the current study aims to continue the examination for the following years. Financial firms publicly listed on the Indonesian Stock Exchange in 2005 to 2008 were taken for the sample. There were 65, 64, 68, and 67 firms in 2005, 2006, 2007, and 2008 respectively. The more detailed description regarding the sample is given in Appendix 3. The data was collected from the Indonesian Capital Market Directory (ICMD) and the Fact Book published by the IDX, as well as from the sample firms’ annual reports. A more detailed picture of the data source is given in Table 5.1.

4.3.2 Variables

This section addresses the dependent, independent and control variables used in the current research. These variables were adopted from previous research in the corporate governance field which examined the relationship between board structure and firm performance. The
summary of the variables is presented in Table 5.1 at the end of this section. Prior literature predominantly discusses one type of firm performance (financial performance) in relation to the presence of women in the boardroom. They rarely examine the effect of the gender diversity of board members on firm non financial performance. Due to this, the variables used for measuring the non financial performance have not been taken from previous studies. The definitions for the independent and dependent variables, i.e. gender diversity of board members and firm financial, social and environmental performance, have been presented in Chapter 3. The descriptions of variables provided in the following sections are related to the measurements of the variables and the justification for choosing them.

4.3.2.1 Independent variables

1. Variable of interest

The independent variable used in this study was gender diversity in the boardroom and Blau index was chosen to measure the diversity because of its ability to take into account both the number of two gender categories, which are men and women, and the balance of distribution of board members among them (Vera & Martin 2011). This characteristic could not be found when dummy variable, percentage, or proportion of women in the boardroom was utilized to measure gender diversity in the boardroom. The boardroom here refers to the combination of the Board of Commissioners and Board of Directors, as the decisions made by the members in both boards are assumed to have an impact on the performance of the firms measured in this study. Thus, the total number of the boards is the sum of members of the Board of Commissioners and members of the Board of Directors.

The Blau index is a generally known proportion calculation to measure variability and to determine the level of diversity among a group of individuals (Pitts 2005; Chemers, Oskamp
& Costanzo 1995); in this case to compute the variation in genders in boardrooms. The Blau index has also been used in recent studies by Harrison et al. (2002), Bunderson and Sutcliffe (2002), Richard et al. (2004), Campbell and Vera (2008) and Sacco and Schmitt (2005) to measure group diversity, including gender as one type of diversity, in examining its influence on organization or firm performance. Therefore, the Blau index was believed to be appropriate to be used in the study to measure gender diversity in the boardroom.

Blau (1977 cited in Harrison & Sin 2006) suggests that diversity reflects vertical or hierarchical differences and refers to the great number of different statuses in a population distribution. The fundamental idea adopted for the index is that the diversity is at a minimum when an object in a population has a similar status with others and in contrast, it is at a maximum when every object has a different status. The Blau index is then widely used in measuring diversity variables by applying the following formula (Harrison & Sin 2006):

\[
\text{Blau index} = 1 - \sum_{i=1}^{n} P_i^2
\]

where \( P \) is the proportion of group members in the \( i \)th category and \( n \) is the total number of board members. Referring to this formula, the values of the Blau index can spread from zero (the minimum value), that occurs when each object in the group has similar category, to positive one (the maximum value), when equal portions of each category are present in a group. However, the maximum value of the Blau index may vary based on the total number of categories. When there are only two categories, for example, men and women as the categories for gender diversity, the maximum value of the Blau index is 0.5 if a similar number of men and women are present in an observed group. When more categories are applied, the maximum value of the Blau index gets closer to one. Therefore, in the current
study, if it was found that the Blau index was 0.5, it meant that the gender diversity of the group was at a maximum, and on the other hand, when the value was 0, the group was totally homogenous.

2. Control variables

The control variables used in this study were firm size proxied by the natural logarithm of total assets, leverage measured by total debt divided by total assets, and board size calculated by the natural logarithm of total number of board members which is the sum of Board of Directors and Board of Commissioners. The selection of these control variables was based on prior work by Campbell and Vera (2008), Pudjiastuti and Mardiyah (2006), Webb (2004), Bathula (2008), Carter et al. (2007) and Dahya and Connell (2007), which generally suggest that those control variables have relationships with firm performance. In particular, Yermack (1996 cited in Carter et al. 2007) argues that there is a negative relationship between board size and Tobin’s Q. Moreover, Campbell and Vera (2008) confirm that firm leverage does not have any effect on Tobin’s Q and firm size has a negative link to Tobin’s Q. Thus, by controlling these variables, their influence on dependent variables was considered. The following sections are the explanations for each control variable.

a. Firm size

Firm size, proxied by total assets, is commonly used as a control variable in corporate governance research (see for example Heenetigala 2011; Campbell & Vera 2008; Carter, Simkins & Simpson 2003; Chen, Dyball & Wright 2009; Carter et al. 2007; Radlach & Schlemmbach 2008). These studies have found that firm size positively affects firm financial performance. In the present study, firm size was measured by the natural logarithm of total
assets of the firms. The natural logarithm was used to normalize the data and minimize the value of standard deviation (Hair et al. 2006).

b. Leverage

Leverage or financial gearing is used to evaluate the gearing or long-term financial stability or solvency of a business (Atrill et al. 2009). The leverage exists if a firm is partly loaned or financed by external parties, such as bank or other financial institutions, to cover capital adequacy, to escalate the dividend paid to shareholders, or to expand the business. The level of the financial gearing, usually called leverage, is essential to examine the risk faced by firms in managing loan or debt since the higher debt involves higher interest expense. As leverage directly influences firm performance, it is included as one of the control variables in this study. Accordingly, leverage was measured by the ratio of total assets to total debt.

c. Board size

Board size, that is the number of board members, is also known to influence firm performance. According to the agency theory (Jensen & Meckling 1976), a smaller board size is preferable to efficiently and productively manage the decision making process, especially in a demanding economic situation. Moreover, small board size will not be a burden for the firm’s expenses and will increase the size of dividends paid to shareholders. In this research, board size was measured by the natural logarithm of total number of board members, which are members of the Board of Commissioners and the Board of Directors. Board size has also been used as a control variable in prior studies, such as Bathula (2008), Campbell and Vera (2008), Adams and Mehran (2001), Rose (2006), and Kiel and Nicholson (2003).
4.3.2.2 Dependent variables

The dependent variables used in the current research were firm financial, social and environmental performance of Indonesian publicly-listed financial firms. Each of the dependent variables was tested independently. Firm financial performance was measured by using Return on Assets to represent the accounting-based performance and Tobin’s Q to reflect the market-based performance. Firm social and environmental performances were measured by calculating the number of words and number of themes of social and environmental disclosures in firm annual reports. The calculation of number of words was the quantity dimension, while the calculation of number of themes was the quality aspect of social disclosures. In the following paragraph, each of the independent variables and the way it is measured is described.

Return on Assets (accounting-based financial performance)

Return on assets (ROA) is the basic measure of firm financial performance that represents the association between the net profit before interest and taxation earned and the assets owned by the firm (Atrill et al. 2009).

\[
\text{Return on Assets} = \frac{\text{Net profit before interest and tax expenses}}{\text{Total assets}}
\]

ROA is used in order to measure both the efficiency and the effectiveness in using the assets (the inputs) to earn income (the outputs).

The ROA has been used widely as a variable in prior research which attempt to examine the relationship between board structure or composition, as the mechanism of corporate governance practice, and its influence on firm financial performance (see for example: Adams...
& Mehran 2001; Adams & Mehran 2004; Jackling & Johl 2009; Andres & Vallegado 2008; Nicholson & Kiel 2007). Furthermore, ROA is a measure of the quality of corporate governance implementation in securing and motivating higher management efficiency (Heenetigala 2011). Specifically, prior studies examining the relationship between the presence of women board members and their effect on firm financial performance have also utilized ROA as the dependent variable (Hillman & Cannella Jr. 2007; Thomsen et al. 2009; Shrader, Blackburn & Iles 1997; Adams & Ferreira 2004, 2009; Dobbin & Jung 2011, Gregoric et al. 2009; Cabo, Nogues & Mangas 2010)

Tobin’s Q (market-based financial performance)

Tobin’s Q was used to proxy the market-based financial performance of firm. This measure is commonly defined as firm value or market value of the firm and this definition was used for the study. Prior studies have used this variable to measure firm market-based financial performance (Campbell & Vera 2008, 2010; Carter et al. 2007, 2010; Gul, Srinidhi & Ng 2011; Adams & Ferreira 2009; Dominguez, Sanchez & Alvarez 2010a, 2010b; Hillman & Cannella Jr. 2007). It has especially been used in the studies that have examined the relationship between women board members and firm financial performance. Tobin’s Q was calculated by summing the book value of total debt and the share price times the total numbers of outstanding shares and dividing by the book value of total assets. Following from Campbell & Vera (2008, 2010), Tobin’s Q is calculated as follows:

\[
\text{Tobin’s Q} = \frac{\text{Book value of total debt} + (\text{share price x total numbers of outstanding shares})}{\text{Book value of total assets}}
\]

Tobin’s Q was originally introduced by James Tobin (1978) to calculate the ratio of market value to replacement cost. It is a measure of the impact of financial markets on the ability to
purchase goods and services. Later on, this measure was used for other purposes because it implicitly uses the correct risk-adjusted discount rate, imputes equilibrium returns, and minimizes distortions due to tax laws and accounting conventions (Wernerfelt & Montgomery 1998). With these characteristics, therefore, Tobin’s Q can be used as an alternative to accounting-based measures which can be manipulated by management through changes to the applied accounting methods.

Tobin’s Q has been used as a performance measure in western and developed nations in the United States or Europe which have stable and strong capital markets. It should be noted that, since the stock exchange in the Indonesian context has been in the development stage with semi-strong efficiency (Kung, Carverhill & McLeod 2010) and growth indication (Franken 2011), the market-based performance may not accurately reflect the performance of a firm (Jackling & Johl 2009). Thus, there is a possibility that the analysis does not produce an accurate result. However, it is still worthwhile calculating firm financial performance using both accounting and market-based measures for comparison purposes, both in terms of the type of financial performance measure itself and also to compare the results with prior studies in developed nations. Keeping this in view, ROA, an accounting-based measure, was also used.

Number of words and themes of social and environmental disclosure (quantitative and qualitative dimensions of social and environmental performance)

To measure the social and environmental performance, the quantities as well as the quality of social responsibility disclosures in firms’ annual reports were analyzed using content analysis. Other measures of social and environmental performance such as performance rating given by independent bodies, capital intensity, social and environmental costs, and research and
development for social and environmental consideration are not used due to the minimum data availability in the Indonesian annual reports. Besides, previous studies, for example Branco and Rodrigues (2006, 2008) also use social and environmental disclosure in annual reports to measure non-financial performance of Portuguese banks.

According to Krippendorf (2004), content analysis is a research technique to make replicable and valid inferences from data to their context which involves particular processing procedures. Content analysis is also a method of codifying the text or the content of a piece of writing into various groups or categories depending upon selected criteria (Weber 1988 cited in Milne and Adler 1999). In line with this, firms’ social and environmental disclosures were used as either a proxy for social or environmental responsibility activities or just generally as a measure of disclosures made by firms in annual reports (Milne & Adler 1999), since annual reports are believed to be a good instrument to measure comparative positions and trends in reporting (Guthrie et al. 2004). To conduct an effective content analysis, Guthrie et al. (2004) suggest that:

1. The categories of classification must be clearly and operationally defined.
2. Objectivity must be clear to categorize items to particular categories.
3. The information must be ensured to be quantifiable.
4. A reliable coder must be available to maintain consistency of analysis.

Referring to these requirements, the research was managed as follows:

1. The category used to classify the content of annual reports concerning firm social responsibility activities was based on the work of Branco and Rodrigues (2008). They establish the category of social and environmental activities conducted by firms. The details of these categories are given in the note section under Table 5.1.
2. The social disclosure in this research refers to social reporting related to information of firm’s human resources, product and customer and community involvement, and other concerns of stakeholders. For the environmental disclosure, it refers to information regarding activities on preserving or maintaining environment sustainability.

3. In this study, the unit chosen to quantify the content of disclosure was words for the quantitative dimension and themes for the qualitative consideration.

4. The content analysis was conducted by the researcher only to maintain the consistency.
Table 4.1 below summarizes the variables as well as the data source, and the measures used in this study.

### Table 4.1: Variables, measures and data sources

<table>
<thead>
<tr>
<th>No.</th>
<th>Variables</th>
<th>Type</th>
<th>Measures</th>
<th>Data Sources</th>
<th>Data Needed</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Financial Performance</td>
<td>Dependent</td>
<td>- Tobin’s Q</td>
<td>Annual reports of sample firms, downloadable from the website of the Indonesian Stock Exchange (<a href="http://www.idx.co.id">www.idx.co.id</a>)</td>
<td>Balance sheet, Income statement</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>- Return on Assets (ROA)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2.</td>
<td>Social Performance</td>
<td>Dependent</td>
<td>- Number of words of social responsibility disclosure *</td>
<td>Annual reports of sample firms, in the section of Management Reports and non-financial data</td>
<td>Disclosures related to social responsibilities</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>- Number of themes of social responsibility disclosure *</td>
<td>CSR reports</td>
<td></td>
</tr>
<tr>
<td>3.</td>
<td>Environmental Performance</td>
<td>Dependent</td>
<td>- Number of words of environmental responsibility disclosure **</td>
<td>Annual reports of sample firms, in the section of Management Reports, non-financial data, and CSR Reports</td>
<td>Disclosures related to environmental concerns</td>
</tr>
<tr>
<td>4.</td>
<td>Gender Diversity</td>
<td>Independent (variable of interest)</td>
<td>Blau index</td>
<td>Annual reports of sample firms, in the section of: Biography and background of Board Members, Notes to Financial Statement</td>
<td>Total number of women board members, Total number of board members</td>
</tr>
<tr>
<td>5.</td>
<td>Firm Size</td>
<td>Control</td>
<td>The natural logarithm of total assets</td>
<td>Annual reports of sample firms, downloadable from the website of the Indonesian Stock Exchange (<a href="http://www.idx.co.id">www.idx.co.id</a>)</td>
<td>Balance sheet</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Cross checked to the Indonesian Capital Market Directory and the Fact Book published by the Indonesian Stock Exchange</td>
<td></td>
</tr>
<tr>
<td>6.</td>
<td>Debt level or Leverage</td>
<td>Control</td>
<td>Ratio of total debt to total assets</td>
<td>Annual reports of sample firms, downloadable from the website of the Indonesian Stock Exchange (<a href="http://www.idx.co.id">www.idx.co.id</a>)</td>
<td>Balance sheet</td>
</tr>
<tr>
<td>No.</td>
<td>Variables</td>
<td>Type</td>
<td>Measures</td>
<td>Data Sources</td>
<td>Data Needed</td>
</tr>
<tr>
<td>-----</td>
<td>-----------</td>
<td>-------</td>
<td>-----------------------------------------------</td>
<td>------------------------------------------------------------------------------------------------</td>
<td>--------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Indonesian Stock Exchange (<a href="http://www.idx.co.id">www.idx.co.id</a>)</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>- Cross checked to the Indonesian Capital Market Directory and the Fact Book published by the Indonesian Stock Exchange</td>
<td></td>
</tr>
<tr>
<td>7.</td>
<td>Board Size</td>
<td>Control</td>
<td>The natural logarithm of total number of board members</td>
<td>Annual reports of sample firms, in the section of:</td>
<td>Total number of board members, including Board of Directors and Board of Commissioners</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>- Biography and background of Board Members</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>- Notes to Financial Statement</td>
<td></td>
</tr>
</tbody>
</table>

Notes:
* Human resources disclosure includes issues such as employee profiles, remuneration, employee share ownership, training and education, employment of minorities or women, employee health and safety, employee assistance or benefits, employee morale, and trade union information. Products and consumers disclosure encompasses disclosures related to product quality (for example, third party recognition for the quality of the firm’s products), types of products or services, consumer relations (for example, handling customer complaints) and awards received for customer service, IT usage, and product development. Community involvement disclosure includes disclosures related to public health, charitable donations and activities for public wealth, support for education, support for public health, support for art and culture, support for religious activities, and support for sport activities.

** Environmental disclosure includes environmental policies, environmental management systems and environmental awards (including ISO 14001 and Eco Management and Audit Scheme—EMAS), lending and investment policies, sustainability, conservation of natural resources and recycling activities, and disclosures concerning energy efficiency.

*** The disclosure themes analyzed in the research were based on the work of Branco and Rodriques (2008) and Scholtens (2009).
4.3.3 Empirical model

As the study used panel or longitudinal or cross-sectional time-series data, it is important to consider whether to use fixed or random effects models for the analysis. According to Reyna (n.d.) the fixed effects model explores the relationship between predictor and outcome variables within an entity, in this case the firm, and each entity has its own individual characteristics that may or may not influence the predictor variables. On the other hand, random effects have the rationale that the variation across entities is assumed to be random and uncorrelated with the predictor or independent variables included in the model (Reyna n.d.).

Thus, the following research models were developed:

1. **Fixed effects model**

   \[
   \text{Firm Performance (TOBINSQ/ROA/SR/SR\_THEMES/ER)}_{it} = \alpha + \beta_1 BLAU_{it} + \beta_2 \text{FIRM SIZE}_{it} + \beta_3 \text{BOARD SIZE}_{it} + \beta_4 \text{LEVERAGE}_{it} + \varepsilon_{it}
   \]

2. **Random effects model**

   \[
   \text{Firm Performance (TOBINSQ/ROA/SR/SR\_THEMES/ER)}_{it} = \alpha + \beta \text{BLAU}_{it} + \beta \text{FIRM SIZE}_{it} + \beta \text{BOARD SIZE}_{it} + \beta \text{LEVERAGE}_{it} + \mu_{it} + \varepsilon_{it}
   \]

where:

- **TOBINSQ** = firm financial performance (market-based: Tobins’ Q)
- **ROA** = firm financial performance (accounting-based: ROA)
- **SR** = firm social performance (quantitative dimension of social disclosure: number of words)
SR_THEMES = firm social performance (qualitative dimension of social disclosure: number of themes)

ER = firm environmental performance (quantitative dimension of environmental disclosure: number of words)

α = Constant (the intercept, or point where the line cuts the Y axis when X=0)

β = Regression coefficient (the slope, or the change in Y for any corresponding change in one unit of X)

ε = Within-entity error

μ = Between-entity error (due to the belief that there are differences across financial firms, i.e. banks, insurance firms, securities firms, financial institutions, and other financial firms, that may influence the dependent variable)

i = entity

t = time

4.3.4 Data analysis method

Multiple regression analysis was employed to test hypotheses H1a, H1b, H2a, H2b, and H3. Multiple regression is a statistical analysis to examine relationship between several independent variables with a single dependent variable (Hair et al. 2003). The statistical software used to run the multiple regressions was STATA version 11 as it was able to analyze panel data which is collected from a longitudinal study. The Hausman test was conducted beforehand to choose whether to use fixed or random effects to run the multiple regression analysis. Multicollinearity and heteroscedasticity tests were also run to ensure that there was no correlation problem between the variables tested.
4.4 Phase 2: Qualitative research method

Contrary to the quantitative research, a qualitative study stresses the socially constructed nature of reality, a bond between the researcher and what is studied, and the researcher emphasizes the value-laden nature of inquiry and interprets meaning to the social reality experienced by the research participants (Denzin & Lincoln 1998 cited in Bergman 2008). The data in this method is collected through words and subjectivity is embedded in the analysis process. It can involve a variety of empirical materials such as case study, personal experience, introspection, life story, interview, observational, historical, interactional, and visual texts that describe routine and problematic moments and meanings in people’s lives (Denzin & Lincoln 1994 cited in Thomas 2003).

According to Pierce (2008), the strength of this approach is its ability to understand and explain the complexities of social life via in-depth interviews, observation, and induction processes to identify the interpretative lens that the participants adopt. Therefore, the dominant powers and institutions frame the view and tint the lenses. Furthermore, the qualitative approach is able to catch what individuals have or have not said in a group and to conduct research involving minorities (such as homosexuals or lesbians, drug users, gang-members, terrorists, or women employees in ‘men’s working environment’) who may be missed by quantitative researchers due to their small number. The qualitative study thus consists of a normative dimension and a greater focus on verbal and other communications that a quantitative method does not possess (Pierce 2008).

The use of qualitative approach in accounting, especially in relation to gender, is not new. For example, Dambrin and Lambert (2012) who write a reflection paper about the rarity of women at the highest position level in accounting career based on their experiences at many
accounting conferences. Prior to this, Dambrin and Lambert (2008) study about the relationships between the glass ceiling in auditing area and motherhood by conducting interviews with 24 male and female auditors of varied position levels to reveal the difficulties faced by auditor mothers. Particularly, Hammond (1997) argues that accounting research suffers from a lack of attention in research regarding the relationship between gender and accounting. The experiences of women in accounting profession have also been studied by Komori (2008).

The next section details the qualitative approach used for the study. This includes interviewee selection, the data collection method, the data analysis method, the ethical issues related to the data selection process, and limitations in the conduct of the qualitative inquiry.

4.4.1 Interviewee selection

Similar to the quantitative approach, the sample for the qualitative approach was women board members of Indonesian publicly listed financial firms including banks, insurance companies, financial institutions, and brokerage firms. Specifically, the firms which have women directors and or women commissioners were chosen and then plans to have interviews with the women were set. However, the targeted numbers of women on boards who would be interviewed was not set because the major issues in this process were gaining access to conduct the research in the firm and to hold interviews with the top level management. The demographic characteristics of the women were identified during the interview sessions in order to indirectly have a reasonable background that supported the responses given. The demographic background was age, educational experience (both formal and informal), work experience, ethnic or cultural background, and tenure when engaged as a member of a Board of Directors or Board of Commissioners.
These women were contacted first either formally or informally. In the first place, as a formal way, letters of introduction and invitation were sent via email to the Corporate Secretary of potential firms. These formal letters are presented in Appendix 2. When possible, formal e-mails were also sent to the firms to ask if it would be possible to interview their women board members. Furthermore, as the informal way, networks were used to approach the potential interviewees. Alternatively, direct phone contacts were made to the firms to introduce the aim of the study and to ask permissions for interviews.

There were seven women successfully interviewed, that consisted of three women on the Board of Commissioners of different banks, two on the Board of Directors of a bank and a securities firm, and two on the Board of Directors of different insurance firms. Each participant was interviewed for approximately 90 minutes. The interview results with these seven women had provided rich data available for analysis to give insights into the results from the quantitative approach. As a comparison, a previous qualitative study conducted by interviewing women directors of Fortune 1,000 firms, only managed to have six participants (Zelechowski & Bilimoria 2003). Moreover, Huse and Solberg (2004) only successfully interview eight women on boards of more than one hundred firms. In the current research, the small number of participants was due to several reasons, i.e.:

1. Small population of women on boards in the Indonesian financial firms (only approximately 11% on average from the total number of boards in the industry - see Chapter 6).

2. The issue of difficulty and resource limitations in getting access from the firms to have interviews with their boards.

However, the voices of the seven women are believed to be representative enough to personify the rest since their perceptions captured during the interviews outlined all the
substances required. Additionally, it was a very rare opportunity to get in touch and take information from these women in the Indonesian context. Thus, although having only seven interviews, the data achieved is believed to be adequate.

4.4.2 Interview method

In the context of qualitative research, interviews can provide access to the meanings people have from their experiences and to obtain knowledge of the social world (Miller and Glassner 1997 cited in Ritchie & Lewis 2003). There are several methods to conduct interviews. One of them is the face to face interview. According to Somekh and Lewin (2005) and Mason (2002), there are some advantages in conducting face to face interviews: the interview helps the respondents to be motivated to participate, has high response rates, has few ‘don’t knows’ or ‘no answers’, helps the researcher to observe more, and assists the interviewer to control the data. Moreover, in terms of the intensity of the interview, an in-depth or unstructured interview is one method of data collection used in qualitative research which reproduces a basic process by which to construct the social world (Ritchie & Lewis 2003). Additionally, there are some advantages that make this type of interview beneficial (Ritchie & Lewis 2003):

1. The in-depth interview is intended to combine structure with flexibility.
2. It is interactive in nature.
3. It encourages the researcher to use a range of techniques to achieve depth of answers.
4. The in-depth interview generates new knowledge.

Referring to these advantages, the interview method chosen for the research was in-depth face to face interview which enabled the data exploration in depth and breadth and in a flexible, interactive and generative way (Ritchie & Lewis 2003).
4.4.3 Data analysis method

Data analysis in qualitative research is a continuous process. The important aspect of this process during the data collection period is establishing files and coding field notes (Nachmias & Nachmias 2008; Silverman & Marvasti 2008; Carol 2007). This study adopted the approach of thematic analysis (Bryman 2008; Grbich 2007) in examining the qualitative data. This approach provided a framework for the thematic analysis of qualitative data and it provided one way of thinking about how to manage themes and data (Bryman 2008).

In the early stages of fieldwork, simple categories based on the characteristics of the participants being observed and the events that occurred were developed. In the study, every interview was tape-recorded, transcribed and analyzed by the researcher using thematic analysis. The transcription results were coded based on the occurrence of themes and categories. The transcripts were also compiled as a set of specific information that emphasized the personal perceptions of women’s presence in the boardroom. The important parts of the transcription were translated from Bahasa Indonesia to English.

When searching for themes, the researcher looked for several things. According to Ryan & Bernard (2003 cited in Bryman 2008) the examples are, repetitions (topics that recur again and again), indigenous typologies or categories (local expressions that are either unfamiliar or are used in an unfamiliar way), metaphors and analogies (the way in which participants represent their thoughts in terms of metaphors or analogies). Furthermore, transitions (the way in which topics shift in transcripts and other materials) as well as similarities and differences (exploring how interviewees might discuss a topic in different ways or differ from each other in certain ways or exploring whole texts like transcripts and asking how they differ) were assessed. The other important aspects were linguistic connectors (examining the
use of words), missing data (reflecting on what is not in the data by asking questions about what interviewees, for example, omit in their answers to questions), and theory-related material (using social scientific concepts as a springboard for themes).

The answers were classified into theoretical categories based on the similarities and differences. The analysis was conducted in two main stages, i.e.:

1. The researcher analyzed the transcript and determined the series of categories of descriptions that described the main ideas of the diversity inside the series of transcriptions.
2. The researcher then examined the transcription based on the initially assigned categories, edited the categories and the relationships, and returned to the transcription and categories until a fixed series of categories and links were established.
3. Most importantly, the themes drawn from the interviews were obtained by following the data in the transcript. This was done because the answers given were not only a response to the question, but also frequently consisted of the spontaneous descriptions. The data then became very rich in information.

The researcher became familiar with the data by reexamining the transcriptions more than once and selecting statements which were indicative of the main themes of the data. There was also a closer examination to decide the similarities in meaning in the categories.

Since there were only seven women board members interviewed, the transcripts were still manageable to be manually analyzed. By conducting the manual analysis, it was easier to make sense of the data by not only relying on the themes, but also by linking the themes to enable a more valid and reliable interpretation of the data. It was found that the most
challenging part in this process was to understand what the interviewees really meant when they discussed certain issues. There were possibilities that the actual meanings of what they said were implicitly sent to the interviewer or hidden behind the words. In several interviews, the interviewees had only given examples and had not described the answers directly and clearly to respond to questions. In this situation, active and critical thinking was required to clarify and decompose the interviewees’ delivered answers.

4.4.4 Ethics consideration

This qualitative study requires excessive interest in individual glimpses and circumstances, and this makes ethical matters undeniable. Additionally, with the expansion in the scope of the issues investigated by social researchers, and the greater sophistication and penetration of the methods of research and analysis, researchers have to be more aware of ethics in conducting social science research (Nachmias & Nachmias 2008). Secrecy, privacy and consent were important ethical requirements in this research. All data used in this study was kept confidential. The research did not use any information which might be disadvantageous to the participants. No personal or workplace identities disclosed in the research report. The terms of, for example, “the woman director of a bank”, or “the women commissioner of an insurance firm” is used to relate to specific participants to make sure that their identities were kept confidential.

Efforts were made to acquire informed agreement from the participants and to take care of their secrecy. Before the process of collecting data, the initial introductory letter and participants’ information and informed consent form were distributed to the targeted participants. A concise presentation was given to the participants to give general explanation about the aims and procedures of the research. It was stated clearly in the information sheets
and consent forms that the identities of the participants were to be kept secret. Informed consent is absolutely important whenever participants are exposed to substantial risks or are asked to forfeit personal rights (Nachmias & Nachmias 2008). Informed consent included four elements: competence, voluntarism, full information, and comprehension. The names of the participants were not put in the research report. The participants’ individual information was also kept safe by utilizing coded numbering sheets and coded numbering of data in order that no name or workplace could be identified. To protect participants’ privacy, the coding system could only be accessed by the researcher. The data accumulated were only available to the researcher and the supervisors. Secrecy of answers was ensured in all situations.

The educational and social backgrounds of the participants were also taken into account in this research. The researcher respected their values, concepts, considerations, and principles and looked at the issues and perceptions from their point of views. Attempts were made to safe the participants from harm and threat and to ensure that the researcher respected their honor and pride. To enhance the confidence of participants, all the documents and interview process were administered in Bahasa Indonesia. This attempt was considered most appropriate as the mother tongue is naturally the first language of the interviewees. The list of interview questions is provided in Appendix 4.

4.5 Phase 3: Mixing the findings from the quantitative and qualitative research methods

Integrating quantitative and qualitative approaches in mixed methods research is challenging as each method inherently has different ways to answer research questions. Consequently, when they are conducted at the same time, unpredicted results may be obtained (Bryman 2006). Additionally, Bryman (2006) also finds that the prominent fields contributing to mixed
methods research are dominated by social psychology, management and organizational behavior. Hence, the application of this kind of research method is typically new in the accounting discipline especially with the topic of the relationship between gender diversity in the boardroom and firm performance. As a result, difficulties may arise at each stage of the research, particularly in integrating the results and when the results are contradicting each other since there are no specific exemplars that could be used as references.

For integrating the results from quantitative and qualitative research methods, Erzberger and Kelle (2003 cited in Bergman 2008) suggest several strategies as a guideline:

1. Design and implementing comparable topics or questions for both arms.
2. Transform the data so that it can be more easily compared.
3. Use matrices to organize both sets of data into one table.

The current research adopted the second strategy by quantifying the qualitative data so that the integration with the results from the quantitative method might be easier. It was conducted by determining which themes were frequently mentioned by the interviewees and then using the themes as the supporting arguments of the results from the quantitative method.

### 4.6 Integrating conflicting results from quantitative and qualitative methods

It is important to remember that the quantitative and qualitative approaches may result in incompatible findings which cannot be easily anticipated (Stainton-Rogers 2008). However, it is believed that the combination of the results may generate a more complete insight of the relationship between gender diversity of board members and firm performance than only using a quantitative approach such as used in prior research (see for example Adams &
Ferreira 2004; Campbell & Vera 2008; Smith, Smith & Verner 2006; Shrader, Blackburn & Iles 1997).

The process of conducting mixed method research confirms what has been stated by Johnson, Onwuegbuzie and Turner (2007); that an intellectual and practical synthesis of both qualitative and quantitative research will provide the most informative, complete, balanced, and useful research results. According to them, researchers should follow the logic of mixed methods taken from qualitative or quantitative research that assists in creating arguable and advantageous findings. This course of action then relies on the ability to combine the logic to address the research questions, and the comprehension of societal and environmental facts and requirements so that the research may generate warranted and superior answers to the questions, especially in a situation where a nexus of contingencies exist (Johnson, Onwuegbuzie and Turner 2007).

Nevertheless, Bryman (2006) claims that although the multi-strategy research is applicable, the results are not always predictable and this should be recognized by the researchers in the first place. This recognition was not a part of this study and some results were unexpected. There was a belief at the beginning of the research that the analysis of interview results would confirm the results from the quantitative analysis. It came as a surprise that the qualitative research generated contradictory results to those generated by the quantitative method. This became the most important lesson learnt from conducting mixed methods research; that quantitative and qualitative approaches have different emphasise when viewing the results obtained. On one side, qualitative research focuses on a relatively open-ended approach to the research process and repeatedly produces surprises, changes of direction and new insights (Bryman 2006). On the other side, quantitative research is a technical application that may
generate novel understanding about what has been researched. Bryman (2006) then continues that when the two approaches are applied together, there is a potential, or likelihood, that unanticipated outcomes may occur. Therefore, the researchers should put extra efforts into examination of the rationale for combining the quantitative and qualitative approaches and the way to the approaches will be used. Furthermore, Bryman (2006) suggests that the consideration of disconnection needs to be recognized in the methodological writings.

The concept given by Bryman (2006) above is strengthened by Nevo and Nevo (2009) who suggest that blending contrasting research methods in a distinct study may raise problem of what should be done if the findings of one method conflict with the other. Moreover, the inconsistent findings and inferences are more problematic when the results have to be used to make policy recommendations (Bogdan & Biklen 2006 cited in Nevo and Nevo 2009). This is evident in the Indonesian context where the government currently attempts to improve women’s participation in political and business arenas. When the results of the current research is disseminated in the public domain, there must be contesting comments in many areas in making sense of whether it is good or not to give access to women as there is a possibility that women decrease the performance of organizations. Therefore, Nevo and Nevo (2009) propose that the inconsistencies of findings in mixed methods research should be merged together and the researchers should acknowledge that there is a complexity in the phenomenon under investigation. This merger, of course, is difficult and various barriers should be overcome.

As noted by Teddlie and Tashakkori (2003), the potential methodological limitations and problems should be addressed clearly since the conflicting results may be justified in terms of the methodological aspects that lie behind the quantitative and qualitative studies. They assert that the inconsistencies may provide further information that might be lost in the first place,
which may then create new possibilities in theoretical perspectives. This becomes an important lesson too, especially when courage was needed to write (in the chapter of quantitative findings and discussions) that Tobin’s Q and ROA, which so far have been utilized by previous researchers to measure financial performance of firms, were not appropriate to be used to find the effect of corporate governance implementation on firm performance (Dybvig and Warachka 2010).

In conclusion, it is worthwhile to acknowledge once more that there have been considerable lessons learnt about all aspects of conducting a mixed methods study. The different points of view of quantitative and qualitative inquiries should be considered in the first place and when inconsistencies occur in the interpretation stages, it should be believed that these inconsistencies are not essentially contradictory. It is a matter of how to make these discrepancies become logical and to admit that further analysis, with more rigorous effort, should be undertaken. Lastly, there must also be a willingness to emphasize that the research limitations exist so that these might affect the explanations as well as the conclusions.

4.7 Qualitative data trustworthiness

Generally, the concept of validity is best supported by looking at the consistency between the research purpose, the question, and the methods used (Newman et al. 2002 cited in Mertens & McLaughlin 2004). Robust consistency leads to the credibility of research findings and assists the readers to build trust, confidence and support for the research. However, regarding applying mixed methods design in research, especially research with small samples selected purposively (as in the qualitative part of the current study, the credibility of the research is questionable. This is due to the fact that in a mixed methods study, which uses two contrasting paradigms with different ways to view the world, results are combined together to
collect data and draw conclusions. Because of this, to increase the trustworthiness of data and to improve the quality of conclusions by minimizing the bias in them, it is acknowledged that the qualitative portion is complimentary to the quantitative part and the qualitative data is not able to stand alone (Mertens & McLaughlin 2004), especially when the number of interviewees is only seven. The qualitative part in this case is utilized as the lens for the quantitative component for making sense of the whole part of the findings. The quantitative part therefore will only be clear and coherent when it is linked and locked with the qualitative component in this research.

Moreover, in conducting interviews to get reliable data, the validity of interview analysis was assessed. This process was done to ensure the analysis measured what it set out to measure (Fink & Litwin 1995). In relation to this, the analysis should be able to catch the women board members’ perceptions regarding the role they play in enhancing firm performance. Consequently, the analysis results should also reflect the women’s answers during the interviews. The most common technique to ensure validity is respondent validation. Respondent validation (or member validation) is a process in which the researcher provides the findings to the participants so that they can find corroboration between the findings, the perspectives, and their experiences (Bryman 2008). However, because of their extremely busy lives, as per the responses given by the women when asked about the validation process, they mostly declined to reread the interview results and examine the analysis outcomes. They believed that the researcher was reliable enough to make sense of the transcripts. They only required the final results of the research, which was the completed thesis, to be sent to them as reference. They presumed that the thesis would be able to give them insights about the effect of their presence as a minority on firm performance. As an alternative, the concept of face validity was used. Face validity considers whether the measurement or the analysis
undertaken is measuring what the researcher says it is measuring (Fink & Litwin 1995; Tashakkori & Teddlie 2003), i.e. what does “on the face of it” look like. The researchers consider the logic and the coherence of the findings based on their expectation of the research and their understanding of the analysis results.

4.8 Limitations

The borderline of the research is limited to a comprehension of the participants’ perceptions of the impact of their presence on firm financial, social and environmental performance. The selected participants were women members of the Board of Commissioners or Board of Directors. This study explored their beliefs that their existence in the boardroom enhanced firm performance. It investigated the women’s efforts to manage the firms and that made them different from the men in creating added value. This research did not attempt to generalize to the role of women on boards of companies. It only acquired the women’s perception regarding their impact on firm value. Because this research is a self-reporting study, confirmation about the women’s perceptions was needed by involving data collected from the male members of the boards. However, this was considered to be outside the scope of the research. Thus, it would be important to examine the perceptions of men about women members and their impact on firm performance in later research.

The research is limited to women in the boardroom of public listed financial firms in Indonesia, such as banks, insurance companies and brokerage firms. As the research only investigated the perceptions of women on boards in a particular type of business, the results are confined to those in the sample. As a consequence, there was no effort to generalize the findings to other business formats. Nevertheless, the aim of this study, that is to explore
women board members’ perceptions of the impact of their presence on firm performance, is well fitted as a means to develop future research.

This study also had a technical constraint. As the targeted participants were busy people, there were only few engaged in the study. In addition, the interview process was unable to be conducted beyond two hours to get wide range of data. Furthermore, the other consequence to having to interview busy people was that the researcher had to agree with the meeting schedule based on the requests of the participants. This required a large amount of time, cost and good time management.

4.9 Chapter summary

This chapter has discussed the research methodology. A mixed methodology was chosen as it gave more comprehensive and robust research results. A quantitative approach was applied in the first stage to statistically examine the strength and direction of relationships between gender diversity in the boardroom and its impact on firm performance. Tobin’s Q and ROA were employed to measure market-based and accounting-based firm financial performance. The number of words and the proportion of themes in social and environmental disclosures in firms’ annual reports were the measures for firm social and environmental performance. Gender diversity in the boardroom was proxied by the Blau index. Firm size, leverage, and board size were used as control variables. A qualitative study was the next stage whereby the results were used as a lens to make the results achieved from the quantitative approach clearer, more sensible, and understandable. An in-depth interview was the media to gather information and the interviewees consisted of seven female board members (either directors or commissioners). Finally, the last stage was incorporation of the results from the quantitative and qualitative approaches to obtain a comprehensive understanding of the link
between gender diversity in the boardroom and firm performance. The findings and discussions of the quantitative approach are discussed in the following chapter.
CHAPTER 5
FINDINGS AND DISCUSSION OF PHASE 1:
QUANTITATIVE RESEARCH METHOD

5.1 Introduction
This chapter presents the findings and a discussion of the statistical analysis of the relationship between gender diversity in the boardroom and firm financial, social and environmental performance. The analysis includes the descriptive statistics and the analysis of panel data using fixed and random effects. The analysis of panel data is used to test hypotheses and to examine the strength and direction of the relationships between the dependent and independent variables. All of the analysis results, including the acceptance or the rejection of the hypotheses, are then discussed and summarized in the following sections.

5.2 Descriptive statistics
Descriptive statistics explain the primary characteristics of quantitative data acquired during the data collection process to summarize the data (Hair et al. 2003). Descriptive statistics was useful to describe the features of gender diversity in the boardrooms and the performance of Indonesian publicly listed financial firms. Table 5.1 and 5.2 on the following page present the summary of descriptive statistics of the sample. Table 5.3 shows the descriptive statistics of the variables then followed by the discussion of each variable.
Table 5.1: Sample of Indonesian publicly-listed financial firms

<table>
<thead>
<tr>
<th>Type of firm</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bank</td>
<td>23</td>
<td>26</td>
<td>28</td>
<td>28</td>
<td>105</td>
</tr>
<tr>
<td>Financial institution</td>
<td>9</td>
<td>9</td>
<td>10</td>
<td>11</td>
<td>39</td>
</tr>
<tr>
<td>Securities</td>
<td>10</td>
<td>10</td>
<td>10</td>
<td>9</td>
<td>39</td>
</tr>
<tr>
<td>Insurance</td>
<td>12</td>
<td>12</td>
<td>11</td>
<td>11</td>
<td>46</td>
</tr>
<tr>
<td>Other</td>
<td>8</td>
<td>7</td>
<td>9</td>
<td>8</td>
<td>32</td>
</tr>
<tr>
<td>Total</td>
<td>62</td>
<td>64</td>
<td>68</td>
<td>67</td>
<td>261</td>
</tr>
</tbody>
</table>

Table 5.2: Percentage of women board members in Indonesian publicly-listed financial firms

<table>
<thead>
<tr>
<th>Gender</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Men</td>
<td>495</td>
<td>501</td>
<td>498</td>
<td>495</td>
<td>550</td>
</tr>
<tr>
<td>Women</td>
<td>54</td>
<td>60</td>
<td>72</td>
<td>67</td>
<td>562</td>
</tr>
<tr>
<td>Total %</td>
<td>9.82%</td>
<td>10.68%</td>
<td>12.61%</td>
<td>11.92%</td>
<td>11.26%</td>
</tr>
</tbody>
</table>

Table 5.3: Descriptive statistics

<table>
<thead>
<tr>
<th>Variable</th>
<th>Mean</th>
<th>Std. Dev.</th>
<th>Min</th>
<th>Max</th>
</tr>
</thead>
<tbody>
<tr>
<td>blau</td>
<td>0.18</td>
<td>0.16</td>
<td>0.00</td>
<td>0.50</td>
</tr>
<tr>
<td>tobinsq</td>
<td>1.01</td>
<td>0.26</td>
<td>0.24</td>
<td>1.83</td>
</tr>
<tr>
<td>ROA</td>
<td>2.83</td>
<td>7.08</td>
<td>-40.40</td>
<td>41.38</td>
</tr>
<tr>
<td>SR</td>
<td>1,848.72</td>
<td>2,258.40</td>
<td>13.00</td>
<td>11,113.00</td>
</tr>
<tr>
<td>log_SR</td>
<td>2.92</td>
<td>0.62</td>
<td>1.11</td>
<td>4.05</td>
</tr>
<tr>
<td>SR_themes</td>
<td>0.30</td>
<td>0.20</td>
<td>0.04</td>
<td>0.80</td>
</tr>
<tr>
<td>ER</td>
<td>12.20</td>
<td>45.71</td>
<td>0.00</td>
<td>426</td>
</tr>
<tr>
<td>log_er</td>
<td>0.22</td>
<td>0.59</td>
<td>0.00</td>
<td>2.40</td>
</tr>
<tr>
<td>log_assets</td>
<td>12.25</td>
<td>1.03</td>
<td>8.63</td>
<td>14.55</td>
</tr>
<tr>
<td>log_board</td>
<td>0.90</td>
<td>0.19</td>
<td>0.48</td>
<td>1.34</td>
</tr>
<tr>
<td>DAR</td>
<td>0.66</td>
<td>0.27</td>
<td>0.01</td>
<td>1.44</td>
</tr>
</tbody>
</table>

1. **blau (Blau Index)**

The Blau index reflects the diversity in the gender of board members. It refers to the proportion of men and women board members. From 2005 to 2008, the value of the index on average was 0.18, with a minimum value of 0 and a maximum of 0.5. The minimum value of 0 means that there were firms in which all the board members were men. In contrast, the
value of 0.5 means there were firms in which there were an equal number of male and female board members. The mean value of 0.18 indicates underrepresentation of women on the boards of Indonesian financial firms.

2. *tobinsq* (*Tobin’s Q*)

*Tobin’s Q* is a market-based financial performance measure, or usually referred to as the firm value. In terms of the share value, a firm with the value of *Tobin’s Q* higher than 1 is assumed to have a promising future. The mean value of *Tobin’s Q* from 2005 to 2008 was 1.01. The minimum and the maximum values were 0.24 and 1.83 respectively. This result means that, on average, from 2005 to 2008 the value of Indonesian financial firms reflected relatively positive signs of developing in the future.

3. *ROA (Return on Assets)*

The ROA reflects the profitability of firms based on accounting numbers taken from the financial reports. The ROA is a ratio of net income and total assets. On average, from 2005 to 2008, the value of ROA was 2.85%. The maximum value was 41.38% and the minimum was -40.40%. The result shows that there was a large gap in terms of accounting profitability among the firms during those years. This may be due to extraordinary large losses experienced by firms in a particular year.

4. *SR and log_SR (quantitative dimension of social disclosure)*

The social disclosure was computed by doing a content analysis of the annual report for relevant years of the firms. The quantitative dimension of social disclosure was proxied by the number of words used by firms to report their socially related activities with the stakeholders during a particular year. The words which reflected the themes adapted from the
work of Branco and Rodríguez (2008) were counted. The minimum number of words was 13 and the maximum was 11,113. The mean value was 1,849 words with a standard deviation of 2,258.40. Researchers have argued that firms who engage more in social disclosure are those with greater size (Alrazi, Sulaiman & Ahmad 2009; Broberg, Tagesson & Collin 2010) or which need to gain legitimacy from the public due to their past faults or the nature of the business which may harm the community (Deegan 2002, 2009). Further, because the standard deviation of this variable was very large, it was decided to normalize the data (Hair et al. 2006; Baltagi 2001) by applying the natural logarithm of the number of words of social disclosure. This resulted in the new figure of standard deviation of 0.62, with the minimum value of 1.11 and the maximum value of 4.05.

5. **SR_themes (qualitative dimension of social disclosure)**

The quality of the content of a social disclosure can be assessed by examining the themes emerging from the annual reports of firms (Guthrie et al. 2004; Ernst & Ernst 1978 cited in Milne & Adler 1999). The value of the quality was from the calculation of proportion between the number of themes that emerged with the standardized themes of the firm social disclosure based on the work of Branco and Rodrìques (2008). The mean of this value was 0.3 with the minimum value of 0.04 and the maximum of 0.8. These results show that all the firms had made some social disclosures. However, none of the firms had made full disclosures.

6. **ER and log_ER (quantitative dimension of environmental disclosure)**

To recall, the environmental performance was only measured by using the quantitative dimension of content analysis, which was the total number of words utilized to disclose environmental matters in the annual reports. A qualitative analysis was not conducted due to
the minimum themes used by firms to disclose their environmental considerations. The
decision for not using a qualitative analysis was based on the preliminary examination of
environmental disclosures in the annual reports of samples prior to conducting content
analysis. This decision had been supported by the descriptive analysis of the word counts of
the environmental disclosures which had the mean value of only 46 words with the minimum
value of 0 and the maximum of 426 words. This indicates that many Indonesian financial
firms do not make any environmental disclosures in their annual reports and if they do, the
quantity is still minimal. This may be due to their belief that the firms do not harm the
environment, unlike firms which produce hazardous externalities for the surroundings, such
as the mining, chemical and tobacco industries.

Therefore, the sample firms assume that there is no need to have specific and visible actions
for the environment. This view is based on the interview results with interviewees from an
insurance firm and a securities firm (see Chapter 7). Moreover, due to a large standard
deprivation, which was 45.71, the logarithm of the data was calculated. By doing so, the data
was normalized (Hair et al. 2006; Baltagi 2001). The standard deviation was then reduced to
0.59, with the minimum value of 0 and the maximum of 2.40. The normalized data was then
used to analyse the relationship between gender diversity in the boardrooms and firm
environmental performance.

7.  log_assets (logarithm of total assets)
The natural logarithm of total assets was the representation of the firm size. The value of total
assets was logged in order to normalize the data so that the standard deviation was not too
large (Hair et al. 2006; Baltagi 2001). The maximum value of the logarithm of total assets
from 2005 to 2008 was 14.55 and the minimum value was 8.63. The mean value was 12.26.
8. **log_board (logarithm of total board members)**

The board size was represented by the logarithm of total board numbers. The number of board members in the current study was the total numbers of directors and commissioners since the Indonesian corporate governance applies the two-tier board system. The mean value of the logarithm of total board members was 0.19, with the minimum value of 0.48 and the maximum of 1.34. If it was not logged, the minimum number of boards was 5 and the maximum was 14.

9. **DAR (debt to assets ratio or leverage)**

The leverage is measured by the debt to assets ratio. The smaller the value of this ratio, the more viable the firm is in terms of its ability to pay debt using its assets. When the value of the ratio is larger than one, the financial performance of the firm may be questionable since it clearly has a potential to not be able to pay the debt even after liquidating all of the assets. However, a small value of the ratio is also not a positive indicator since it demonstrates the inability of a firm to manage its assets to increase its income (Attrill et al. 2009). The mean value of the debt to assets ratio from 2005 until 2008 was 0.66. The maximum value was 1.44 and the minimum was .00083. Several Indonesian publicly listed financial firms were seen to have a value of more than one but many others had few debts compared to their assets.

5.3 **Panel data analysis to test hypotheses**

Hypotheses were tested using longitudinal or panel study analysis provided by STATA version 11. This analysis is a regression tool for a longitudinal research which could not be run using SPSS. To have a valid result from STATA, the use of fixed or random effects should be considered. Fixed effects explore the relationships between predictor and outcome
variables within an entity which has its own individual characteristics that may or may not influence the predictor variables (Reyna n.d.). When fixed effects are utilized, the impact or bias of the individual to the predictor or outcome is controlled since there is an assumption that the correlation between an entity’s errors exists. However, this model may be too complex to be used because too many dummy variables are required for the specification to reflect the time effects considered in this model. That is why a fixed effects model is also called a least squares dummy variable model (Yaffee 2003). The use of dummy variables in a fixed effects model may then trigger the occurrence of multicollinearity problems and finally bias the statistical results.

To find out whether to adopt fixed or random effects, the Hausman test was conducted (Baltagi 2001). The results showed that both effects may be utilized to run the panel data analysis. When fixed effects are used, it is statistically assumed that the results are only applicable to the sample. By contrast, by using random effects the results can be used to reflect a larger population (Yaffee 2003). In addition, Reyna (n.d.) and Hardy and Bryman (2004) suggest that a fixed effects estimator cannot be used maximally to examine time-consistent causes of dependent variables because it is designed to analyse the causes of changes within an entity. In this current study, the dependent variable, which is the firm performance, is assumed to be affected by gender diversity in the boardroom. Gender is an example of a time-consistent characteristic. Gregoric et al. (2009), in the Nordic context, and Dominguez, Sanchez and Alvarez (2010a), in the Spanish context, also utilized random effects in analysing their panel data to find the link between gender diversity of boards and firm performance.
In contrast, unlike the fixed effects model, the random effects model assumes that the variation across entities is random and uncorrelated with the independent variables included in the model (Reyna n.d.). Furthermore, it uses information on all entities and all variables on each entity, even if they are constant over time (Hardy & Bryman 2004). Moreover, random effects assume that there is an error specified in the model and not correlated with the predictors so that the time-consistent variables may play a role as explanatory variables (Reyna n.d.). Since, in the context of the current study, it is believed that there are differences in the nature of the samples which may affect the dependent variable, the random effects may be more appropriate to be used and the error term is also recognized. For this reason both effects were used to analyse the data and the result was chosen from an effect which gave more valid information to construct the findings. This is supported by Hardy & Bryman (2004), who suggest that reporting the results of both estimators may be the preferred solution rather than depending on only one estimator. Specifically, the result for each analysis is presented in the following sections.

Before conducting a panel data analysis to test hypotheses, multicollinearity and heteroscedasticity tests were administered. The Spearman matrix was utilized to diagnose multicollinearity and the Breusch-Pagan Lagrange Multiplier was chosen to check heteroscedasticity. Moreover, the Hausman test was also carried out to determine whether to use the fixed effects or random effects estimator to analyse panel data. The result of the multicollinearity test is shown in Table 5.4. As can be seen from the table, the independent variables in the study have weak correlations since none of the values are more than 0.8. The Variance Inflation Factor (VIF) statistic shows that all the values were less than 10. According to Gujarati (2003), if the VIF value exceeds 10, multicollinearity exists. The results of the VIF statistic are given below.
Next, Breusch-Pagan Lagrange Multiplier was employed to check the existence of heteroscedasticity. According to Baltagi (2001), heteroscedasticity is common in a panel data analysis. The result of the heteroscedasticity diagnostic shows that: Prob>chi2 = 0.00, which reflects the presence of heteroscedasticity. However, this result also means that instead of using a fixed effects estimator, random effects usage is also acceptable and it shows differences in the nature of sample firms. To recall, the sample consists of banks, insurance firms, securities firms, financial institutions, and other type of financial firms. These differences of firm types were detected by the Breusch-Pagan Lagrange Multiplier test.

The result of the Hausman test itself shows that: Prob>chi2 = 0.00, which suggests the use of fixed effects instead of random effects. However, since both the results from Breusch-Pagan Lagrange Multiplier and Hausman tests are significant, it can be concluded that either of the fixed effects or random effects model can be usable. All panel data analysis in the current study therefore was conducted by using fixed effects as well as random effects. The results which provide the most significant relationships between the dependent and independent

Table 5.4: Multicollinearity test

<table>
<thead>
<tr>
<th></th>
<th>blau</th>
<th>log_board</th>
<th>log_assets</th>
<th>log_dar</th>
</tr>
</thead>
<tbody>
<tr>
<td>blau</td>
<td>1.00</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>log_board</td>
<td>0.03</td>
<td>1.00</td>
<td></td>
<td></td>
</tr>
<tr>
<td>log_assets</td>
<td>-0.02</td>
<td>0.72</td>
<td>1.00</td>
<td></td>
</tr>
<tr>
<td>log_dar</td>
<td>0.02</td>
<td>0.48</td>
<td>0.64</td>
<td>1.00</td>
</tr>
</tbody>
</table>

Table 5.5: VIF statistic

<table>
<thead>
<tr>
<th>Variable</th>
<th>VIF</th>
<th>1/VIF</th>
</tr>
</thead>
<tbody>
<tr>
<td>log_assets</td>
<td>2.37</td>
<td>0.42</td>
</tr>
<tr>
<td>log_board</td>
<td>2.30</td>
<td>0.44</td>
</tr>
<tr>
<td>log_dar</td>
<td>1.13</td>
<td>0.89</td>
</tr>
<tr>
<td>blau</td>
<td>1.01</td>
<td>0.99</td>
</tr>
<tr>
<td>Mean VIF</td>
<td>1.70</td>
<td></td>
</tr>
</tbody>
</table>
variables and accommodate the value of Prob>chi2 (for random effects) or Prob>F (for fixed effects) less than 0.05, were chosen as the basis of discussions. With the value of less then 0.05, the model is appropriate to use since they are tests to examine whether all the coefficients in the model are not zero (Reyna n.d.). The sections below present the analysis of results.

5.3.1 Gender diversity in the boardroom and firm financial performance

As indicated in Chapter 5, the firm financial performance was measured by using Tobin’s Q (the market-based performance) and ROA (the accounting-based performance). Interestingly, based on the results generated by STATA, the relationships between gender diversity in the boardroom and firm financial performance was quite mixed. The results are shown on Table 5.6 and 5.7.

The relationship between the Blau Index and Tobin’s Q was significant and negative at the 1% significance level. The control variables that seem to influence Tobin’s Q were the board size and the leverage. The board size and leverage significantly and positively associated with the Tobin’s Q at the 10% and 5% level of significance respectively. The firm size did not influence Tobin’s Q. Based on these results, H1a was rejected. This means that the more gender diverse is the board of a firm, the lower the market value of the firm. However, the larger the size of the board of the firm, the higher the Tobin’s Q, and the higher the value of debt to assets ratio, the higher the market-based financial performance of the firm. It should be noted here that random effect was utilized to analyze the relationship between the Blau Index and Tobin’s Q. The result from a random effects test is applicable to a wider population (Reyna n.d.) Therefore, the result in Table 5.7 may also be applicable to non financial firms.
Table 5.6: Panel data analysis of the relationship between the Blau Index (blau) and Tobin’s Q (tobinsq)

| tobinsq | Coef. | Std. Err. | z    | P>|z| | [95% Conf. Interval] |
|---------|-------|-----------|------|------|------------------------|
| blau    | -0.33 | 0.12      | -2.73 | 0.01* | -0.56 to -0.09         |
| log_board | 0.24 | 0.14      | 1.67  | 0.09*** | -0.04 to 0.52        |
| log_assets | -0.03 | 0.03      | -0.98 | 0.33 | -0.08 to 0.03          |
| dar     | 0.19  | 0.08      | 2.39  | 0.02**  | 0.03 to 0.35          |
| _cons   | 1.04  | 0.26      | 3.99  | 0.01* | 0.53 to 1.55          |

Notes: *, ** and *** denote significance at the 1%, 5% and 10% levels, respectively.
Variables: tobinsq (Tobin’s Q), blau (Blau Index), log_board (logarithm of total board members), log_assets (logarithm of total assets), and dar (debt to assets ratio)

Table 5.7: Panel data analysis of the relationship between the Blau Index and Return on Assets (roa)

| roa     | Coef. | Std. Err. | z    | P>|z| | [95% Conf. Interval] |
|---------|-------|-----------|------|------|------------------------|
| blau    | 14.94 | 8.09      | 1.85 | 0.07*** | -1.02 to 30.90        |
| log_board | 55.38 | 10.96     | 5.05 | 0.01* | 33.75 to 77.01        |
| log_assets | 0.77 | 1.44      | 0.54 | 0.59 | -2.06 to 3.61          |
| dar     | 5.59  | 4.51      | 1.24 | 0.22 | -3.31 to 14.49        |
| _cons   | -62.89 | 18.50    | -3.40 | 0.01* | -99.40 to -26.38      |

Notes: *, ** and *** denote significance at the 1%, 5% and 10% levels, respectively.
Variables: roa (Return on Assets), blau (Blau Index), log_board (logarithm of total board members), log_assets (logarithm of total assets), and dar (debt to assets ratio)

The results of the analysis show that Blau Index and ROA had a significant and positive relationship at the 10% significance level. The board size was the only control variable that positively affects the ROA at the 1% significance level. Neither the firm size nor the leverage influenced the ROA. Referring to these results, H1b was accepted since there was a positive significant relationship between the Blau Index and the ROA. These were the results of an analysis using fixed effect. Contrary to random effect, the results from fixed effect could not be generalized to a wider population (Baltagi 2001; Reyna n.d.) - it is specific to the samples only.
5.3.2 Gender diversity in the boardroom and firm social performance

The firm social performance in the current study was measured both quantitatively and qualitatively by using total number of words and total number of themes of social disclosure respectively. The analysis run by STATA showed different results between the quantitative and qualitative dimension. The details are given below in Table 5.8 and 5.9.

Table 5.8: Panel data analysis of the relationship between the Blau Index (blau) and quantitative dimension of social disclosure (log_sr)

|               | Coef.  | Std. Err. | z    | P>|z|   | [95% Conf. Interval] |
|---------------|--------|-----------|------|-------|---------------------|
| blau          | 331.18 | 690.17    | 0.48 | 0.63 | -1,021.53 to 1,683.88 |
| log_board     | 2,971.98 | 872.98   | 3.40 | 0.01* | 1,260.97 to 4,682.99 |
| log_assets    | 720.29 | 148.96    | 4.84 | 0.01* | 428.33 to 1,012.26  |
| dar           | 470.89 | 463.36    | 1.02 | 0.31  | -437.27 to 1,379.05 |
| _cons         | -10,005.03 | 1,500.71 | -6.67 | 0.01* | -12,946.37 to -7,063.69 |

Notes: *, ** and *** denote significance at the 1%, 5% and 10% levels, respectively.
Variables: sr (total number of words of social disclosure), blau (Blau Index), log_board (logarithm of total board members), log_assets (logarithm of total assets), and dar (debt to assets ratio)

The results showed that the Blau Index and Total Number of Words of Social Disclosure did not have any statistical relationship. However, the control variables of board size and firm size both positively and significantly influenced the quantitative dimension of social disclosure at the 1% significance level. This means that the larger the firm and the board size, the greater the quantitative dimension of social disclosure managed by the Indonesian publicly listed financial firms. The control variable of leverage did not show any significant relationship with the total number of words of social disclosure. Based on these findings, H2a was rejected because there was no association between gender diversity in the boardroom and the quantitative dimension of firm social performance. It should be noted that this result was from a random effect test of panel data regression.
Table 5.9: Panel data analysis of the relationship between the Blau Index (blau) and qualitative dimension of social disclosure (sr_themes)

|          | Coef. | Std. Err. | z    | P>|z|  | [95% Conf. Interval] |
|----------|-------|-----------|------|------|-------------------|
| blau     | 0.07  | 0.06      | 1.05 | 0.29 | -0.06            |
| log_board| 0.24  | 0.08      | 2.99 | 0.01**| 0.08             |
| log_assets| 0.07  | 0.01      | 4.66 | 0.01* | 0.04             |
| dar      | 0.09  | 0.04      | 2.12 | 0.03**| 0.01             |
| _cons    | -0.78 | 0.14      | -5.66| 0.01* | -1.05            |

Notes: *, ** and *** denote significance at the 1%, 5% and 10% levels, respectively

Variables: sr_themes (proportion of themes of social disclosure), blau (Blau Index), log_board (logarithm of total board members), log_assets (logarithm of total assets), and dar (debt to assets ratio)

The association between the Blau Index and Total Number of Themes of Social Disclosure was not significant. However, several control variables had significantly and positively influenced the qualitative dimension of social disclosure, such as firm size, board size and leverage. The findings show that the larger the size of board and firm and the higher the leverage, the more social disclosure themes put in the firm annual reports. Consequently, H2b was rejected. Random effect was used to test this relationship with the STATA panel data regression.

5.3.3 Gender diversity in the boardroom and firm environmental performance

In contrast to the firm social performance, the firm environmental performance in this study was measured by utilizing the quantitative dimensions of content analysis. The results of panel data analysis are indicated in Table 5.10. The table presents positive significant relationships between the quantitative dimension of environmental disclosure and two control variables, which are board size and firm size, at the 5% significance level. These results are similar to the results for social disclosure already indicated above. The larger the board and the firm size, the greater the environmental disclosure. However, the link between the Blau Index and the quantitative dimension of environmental disclosure was not significant. Thus,
H3 was rejected. This panel data analysis was run by adopting random effects with the value of Prob>chi2 equal to 0.00, which means that the model is acceptable.

Table 5.10: Panel data analysis of the relationship between the Blau Index (blau) and quantitative dimension of environmental disclosure (er)

| Variable | Coef. | Std. Err. | z     | P>|z| | [95% Conf. Interval] |
|----------|-------|-----------|-------|-----|----------------------|
| blau     | -5.26 | 18.26     | -0.29 | 0.77| -41.05 30.53         |
| log_board| 45.34 | 23.27     | 1.95  | 0.05**| -0.26 90.94         |
| log_assets| 9.83 | 4.31      | 2.28  | 0.02**| 1.38 18.29         |
| dar      | -7.64 | 13.14     | -0.58 | 0.56| -33.40 18.12         |
| _cons    | -143.00 | 40.42   | -3.54 | 0.01*| -222.23 -63.78       |

Notes: *, ** and *** denote significance at the 1%, 5% and 10% levels, respectively. Variables: er (total number of words of environmental disclosure), blau (Blau Index), log_board (logarithm of total board members), log_assets (logarithm of total assets), and dar (debt to assets ratio)

5.4 Discussions

Based on the panel data analysis presented in the previous sections, a discussion of the results regarding the association between gender diversity in the boardroom and firm performance in the context of the Indonesian publicly listed financial firms is provided in this section. The discussions of each performance, namely financial, social and environmental performance, are presented in separate sections as follows.

5.4.1 Gender diversity in the boardroom and firm financial performance

The following sections are the discussions of the findings regarding the link between gender diversity in the boardroom and firm financial performance based on the results of the panel data analysis.
Hypotheses:

H1a : *Gender diversity in the boardroom (as measured by the Blau index) has a positive relationship with firm financial performance (as measured by Tobin’s Q [market-based financial performance])*

Decision : Rejected

Discussions:

Homogenous boards in terms of gender may result in more timely decisions with minimum conflicts (Bohren & Strom 2006). Additionally, it is likely that women may not have been in board positions long enough to have much impact on firm financial performance (Rosener 1995 cited in Shrader, Blackburn & Iles 1997). This had been supported by the findings from the qualitative approach; of seven interviewees, three were newly appointed board members. Moreover, the effect of gender diversity on firm performance is stronger in companies with a weak governance mechanism since severe monitoring performed by more gender-diverse boards is particularly valuable for these firms. By contrast, in firms where good governance mechanisms are already in place, gender diversity of boards may lead to over-monitoring and ultimately reduce firm value (Volkart & Noldeke 2008). Therefore, higher levels of gender diversity will not necessarily result in better performance.

Alvarez, Sanchez and Dominguez (2010) also find a negative influence of overall female presence on boards on firm financial performance. This is possibly due to the simultaneous effects of other diversity variables, such as age, culture, education, training, previous working experience, or other relevant aspects that may influence performance. It should be noted that gender is only one part of diversity. Other variables related to diversity may also influence firm financial performance. There is also an argument that diversity increases board conflict (Dobbin & Jung 2011). This may result in lower Tobin’s Q.
Furthermore, the consequences of gender diversity in the boardroom are actually still little understood (Adams & Ferreira 2004). More diverse boards may require additional mechanisms to encourage teamwork among members. Boards with more women members may face challenges in which boards must establish ways to work collaboratively. Moreover, when firm risk is high, firms will choose to have a less diverse board to minimize conflict and encourage high collaboration among homogenous board members in terms of gender. Thus, increasing the gender diversity of the board may be expensive for firms. Therefore, enhancing gender diversity in the boardroom may not necessarily develop the performance of the firm. Because of this, Fairfax (2011) argues that it is also possible that firms do not rely too much on the empirical evidence provided by research regarding the benefits of having gender diverse board due to the inconclusive results.

Referring to the stewardship theory, the role of board members is to support and assist the management in managing the resources given and to improve the organizational performance. Additionally, based on stewardship theory, board members who used to be part of management teams are preferable because they are more knowledgeable about how management works and, consequently, understand how to support them (Nicholson & Kiel 2007). However, this may then be perceived by the investors as the focus on the organizational performance rather than on maximization of investors’ wealth.

The presence of women board members increases the frequency of board meetings and women board members have good attendance rates at the meeting (Christensen, Kent & Stewart 2010). However, this could be appreciated by the market as a low efficiency or higher business risk although the board meeting may have been perceived by the women board members as a measure of carefulness. There could also be a significant fear among
investors that women board members may tend to be more involved more than men board members in ‘other than shareholders’ wealth maximizing’ activities such as firm social responsibility, or in the long-term value of the firm, or in enhancing stakeholder relationships (Langevoort 2011). This means that the presence of women board members may shift the primary commitment from maximizing short term shareholders value to long term non financial goals such as sustainability of the firm.

The appointment of women board members may also influence stock performance negatively due to investor bias (Dobbin & Jung 2011). Changes in the boardroom quiet naturally leads to changes in investors’ behaviour. The investors here are believed to decrease the value of firms with women board members. Firms with good performance are more likely to appoint women board members (Dobbin & Jung 2011), but unfortunately these appointments may have a negative effect on performance. Most prior research has started with the assumption that the effects of gender diversity in the boardroom result from changes in the efficiency of monitoring by board members that impact on the profit directly and on share performance indirectly. However, it seems that the presence of women does not improve, but rather hurts, firm performance. Dobbin & Jung (2011) suggest that when women board members influence share price due to changes in board efficiency and monitoring, the effect on both profit and firm value move in a similar direction. However, in the current study, profit did not go in the same direction as the firm value, which may mean that investor bias may exist. On one hand, women board members may influence profits positively, but the investors still put a negative value on the women board members.

Another reason underlying the negative link is the emergence of the Global Financial Crisis (GFC) during 2007-2009 that might decrease the investment level on emerging market such
as Indonesia. As can be seen on Table 2.4 (p. 16), the IDX index falls dramatically from 2,784.58 in 2007 to 1,355.41 in 2008, and the market capitalization drops significantly from Rp1,998.3 trillions in 2007 to Rp1,076.5 trillions in 2008. By that time, the top 10 firms with the highest market capitalization on the stock exchange are dominated by banking such as Bank Mandiri and Bank Central Asia, as well as mining industry namely Bumi Resources, Adaro Energy and PGN, as well as plantation area such as Astra Agro Lestari and telecommunication namely Telkom and Indosat (Titiheruw, Soesastro & Atje 2009). However, only the telecommunication industry that has a better financial performance since it is owned domestically. Other sectors with the high market capitalization such as banking, mining and plantation are believed to be affected significantly by the global financial crisis. Because of the volatile and unstable condition in the stock exchange, the capital market is vulnerable and this may impact the share price. Further, this affects the calculation of Tobin’s Q which uses the closing price of shares to reflect the market value of equity.

Finally, the weaknesses of corporate governance in Indonesia may also contribute to the negative link between gender diversity of boards and firm financial performance. This is due to the fact that many Indonesian boards, including the Independent Board of Commissioners who are assumed to be outsiders and independent from the firms, are affiliated with the major shareholders who control the firms (refer to Chapter 2: Overview of corporate governance in Indonesia) (Kurniawan & Indriantoro 2000). The major shareholders may also be concentrated to several business groups who have strong relationships with high level government officials so that privileges and priorities are given to the groups. This phenomenon causes the gender diversity variable or other variables related to the composition of board members, such as the independency status or other type of diversity, does not affect the Tobin’s Q as the measure of firm financial performance. This means that it is not a matter
of gender diversity of board members, but it is the corporate governance implementation through the board mechanism which causes the negative effect on Tobin’s Q.

**H1b**: Gender diversity in the boardroom (as measured by the Blau index) has a positive relationship on firm financial performance (as measured by Return on Assets [accounting-based financial performance])

**Decision**: Accepted

**Discussions**: The positive association between gender diversity in the boardroom and firm financial performance supports agency theory. Past accounting performance is associated with the due care and control exercised by the board to maximize the performance of the management to create wealth for the shareholders (Jensen & Meckling 1976). Moreover, Adams and Ferreira (2009) mention that women behave differently than men and these behaviours improve monitoring. They also believe that women are more involved in monitoring committees and women board members have better attendance records which, in turn, improve men’s attendance. This behaviour may lead to higher ROA.

Furthermore, this result confirms the business case of gender diversity in the boardroom (Carter et al. 2007, Singh & Vinnicombe 2004 cited in Smith, Smith & Verner 2006, Robinson & Dechant 1997; Gregoric et al. 2009; Broome, Conley & Krawiec 2011a; Smith, Smith & Verner 2006; Campbell & Vera 2010) as indicated earlier in the literature review chapter. In short, the presence of women board members may enhance firm financial performance. It is because women board members may:

1. Improve the decision making process based on the evaluation of more alternatives.
2. Have different life and work experiences than men, therefore may consequently have a better understanding in different areas.

3. Enhance innovation, creativity and quality of the decision-making process of the board.

4. Produce higher quality problem-solving.

5. Enhance leadership effectiveness.

6. Improve better understanding of the market place of the firm.

7. Build effective global relationships.

**Control variables:**

**The relationship between board size and firm financial performance**

Firms with larger board size have better financial performance, as measured by both Tobin’s Q and ROA. This is supported by Adams & Mehran (2004) and Ntim (2009). The complexity of business may make a larger board more desirable because there is a need to have a board member responsible for specific task. However, this may ignore the corporate governance concept to maintain smaller boards to create cost efficiency. Therefore, this result may be applied with caution to specific industries only, such as the finance industry, especially banks (Adams & Mehran 2004). Moreover, board size has a positive impact on firm value due to the increasing effectiveness in the decision making process through the diversification and various experiences and expertise of board members in large boards (Adams & Mehran 2004). Similarly, the marginal costs of monitoring the managerial activity have been observed to decrease as the board size increases (Arslan, Karan & Eksi 2010).
The relationship between leverage and firm financial performance

There is a positive relationship between leverage and Tobin’s Q. According to Alvarez, Sanchez and Dominguez (2010), the positive effect of leverage on Tobin’s Q is applicable to low-growth firms. Leverage plays an important role in motivating management to operate more in favour of stockholders’ interests, providing a positive relationship with firm value. The presence of women board members may decrease the level of debt due to a tendency for high risk avoidance behaviour of women. The low level of debt may result in low control by external financing entities. This is also in line with the finding of Sanda, Mikailu and Garba (2005) that leverage has significant positive influence on firm financial performance as measured by Tobin’s Q. It indicates that there is a tendency for firms with high leverage to perform better since the debt providers might monitor the firms to protect their interests.

5.4.2 Gender diversity in the boardroom and firm social performance

The sections below are the discussions of the findings regarding the association between gender diversity in the boardroom and firm social performance according to the results of the panel data analysis.

Hypotheses:

H2a : Gender diversity in the boardroom (as measured by the Blau index) has a positive relationship with firm social performance (as measured by number of words [the quantitative dimension] of social disclosure)

Decision : Rejected

H2b : Gender diversity in the boardroom (as measured by the Blau index) has a positive relationship with firm social performance (as measured by the qualitative dimension of social disclosure)
Decision : Rejected

Discussions :

The result that there is no relationship between gender diversity of board members and firm social performance is incongruent with both legitimacy and stakeholder theories. According to legitimacy theory, boards should satisfy the current demands of the society. This may include increasing disclosure of firm policies and performance on social and environmental issues (Cramer and Hirschland 2006). This means that the boards have significant involvement in preserving the legitimacy of firms. Going back to the discussions of the business case, it is believed that board diversity may lead to maximizing the board mechanisms to achieve particular goals. Thus, board diversity may also affect the firms by maintaining legitimacy through satisfying the current demands of the society. Additionally, based on the stakeholder theory, a diversified firm board would be in a better position to understand societal needs and thereby create a positive image about the firm which could help enhance the wealth of stakeholders and stimulate firm awareness of social responsibility to the community in which it operates (Nordberg 2008). A reasonable explanation for the insignificant relationship between gender diversity of boards and firm social performance in the context of Indonesian publicly listed financial firms is the lack of priority given to social matters by the board members. Specifically, the women board members may not be involved very much in the decision making process related to social disclosures in annual reports.

Moreover, the insignificant relationship between gender diversity of board members and firm social performance in this study is contradictory to prior studies conducted by Coffey and Wang (1998), Barako and Brown (2008), Webb (2004), Williams (2003), Schnake, Williams and Fredenberger (2006), and Mallin and Michelon (2011) who argue that the presence of women in the boardroom leads to relatively higher social performance. This may be because
of the different proxy used to measure social performance. The previous studies mostly utilized means such as corporate social responsibility rankings provided by government or not-for-profit organizations and firm spending on charity or philanthropic activities to measure firm social performance. In the current study, the firm social performance was measured by the length and the depth of firm social disclosures in annual reports. This was necessary because the data related to a firm’s spending on philanthropic activities is difficult to get and is mostly unpublished in annual reports in the Indonesian context.

Dawkins and Fraas (2008), in their research regarding firm social responsibility and disclosure, even analysed the relationship between firm social performance, measured by firm social performance ratings provided by a professional organization, and environmental disclosures in annual reports. Therefore, different variables used to proxy firm social performance may lead to different research findings. Additionally, Teen (2009) thinks that the association between corporate governance and firm performance, especially that association measured using the quantity or quality of firm disclosures in annual reports or other public documents, could not be proven in research. This is because the disclosures are not audited and monitored by regulators which may cause the resources to be misleading.

**Control variables:**

**The relationship between firm size and firm social performance**

The statistical results reveal that there was a positive significant relationship between firm social performance and firm size. The findings confirm the study conducted by Sanchez, Sotorrio and Diez (2011) who argue that the larger the firm, the greater the availability of resources spent on social matters. Additionally, the larger the firm the larger the demand from the stakeholders for the firm to manage the business responsibly (Brammer & Pavelin 2006).
The relationship between board size and firm social performance

There was a positive significant relationship between board size and firm social performance. This result is contradictory to Schnake, Williams and Fredenberger (2006) who find no significant interaction between the number of women on boards of directors and board size of firms in financial and material sectors in the US, and firm social performance. They believe that too few women in larger boards may result in insignificant impact on firm social performance. It means that the larger the board size the more women board members should be present on the board. However, in the Indonesian context, board size (without considering the presence of women board members) does matter in terms of firm social performance. This result confirms the finding of Pearce and Zahra (1992) that larger a board size increases a firms’ ability to understand and respond to diverse stakeholders, including the demand to act responsibly towards the environment.

The relationship between leverage and firm social performance

There was also a positive significant relationship between leverage and firm social performance. This finding supports Broberg, Tagesson and Collin (2010) who suggest that debt ratio (or leverage) is positively correlated with the content of information in voluntary disclosures as the measure of firm social performance. This means that firms with high leverage tend to disclose more on social responsibility than do firms with low leverage. It also confirms the agency theory (Jensen & Meckling 1976) that a high leverage enhances agency costs because debt providers tend to protect their interests by establishing agreements and contracts. Therefore, by having more disclosure, firms may decrease agency costs as the uncertainty for the debt provider is decreased.
5.4.3 Gender diversity and firm environmental performance

The following sections discuss the findings regarding the relationship between gender diversity in the boardroom and firm environmental performance based on the results of the panel data analysis.

**Hypothesis:**

H3: Gender diversity in the boardroom (as measured by the Blau index) has a positive relationship with firm environmental performance (as measured by number of words [the quantitative dimension] of environmental disclosure).

**Decision**: Rejected

**Discussions:**

Unlike firm social performance, firm environmental performance in the current study is measured only by the quantitative dimension using the total number of words of environmental disclosure in annual reports. This is due to the fact that the environmental disclosure, in the context of Indonesian publicly listed financial firms, is generally underdeveloped compared to the social disclosure. The firms mostly have only disclosed generic information regarding their environmental concerns and the quantity of the disclosure itself is far from those made for the social disclosure. For this reason, to save time and effort, the qualitative dimension of environmental disclosure was not measured.

The H3 predicts that gender diversity in the boardroom, measured by the Blau Index, has a significant positive relationship with firm environmental performance as measured by the quantitative dimension of environmental disclosure in annual reports. The findings of the panel data analysis show that there is no significant relationship between environmental disclosure and gender diversity of board members. Therefore, H3 is rejected. Nonetheless, the
analysis also suggests that there are positive significant relationships between total numbers of environmental disclosure and board size and firm size as the control variables. Leverage, as another control variable, does not link to the environmental performance of firms.

The finding in the context of Indonesian publicly listed financial firms in terms of the environmental disclosures in annual reports is in line with the result of a research study regarding environmental reporting practices in Malaysia (Alrazi, Sulaiman & Ahmad 2009). It argues that the extent of environmental reporting as measured by the number of environmental sentences in the Malaysian context indicates a low quality of disclosure, although there is an increasing trend over several years of examination in terms of the quantity of environmental reporting. However, this study does not consider any of a firm’s characteristics, corporate governance mechanisms being one of them, in relation to the environmental reporting practice. Moreover, Ten (2007) demonstrates that industry sensitivity in relation to environmental issues has also contributed to the disclosure of more environmental policies and activities in annual reports to satisfy government as a powerful stakeholder who imposes strict regulations and penalties.

The environmentally sensitive firms are those in the mining and resources, energy, building and forest or paper products, transport or logistics, steel and heavy metal, and chemical industries (Ten 2007). Since financial firms are not included in the environmentally sensitive industries, it is reasonable that both the quantity and quality of environmental disclosures in annual reports are relatively low. This can be shown in the descriptive statistics given in the previous section regarding the quantity of environmental disclosures of Indonesian publicly-listed financial firms. Due to this lack of quantity of environmental disclosures in annual reports, there is a possibility that the panel data analysis could not capture any significant
relationship between gender diversity in the boardroom, as the independent variable, and environmental disclosures in annual reports, as the dependent variable, even though the statistical model is valid.

**Control variables:**

**The relationship between firm size with firm environmental performance**

It was found from the panel data analysis that firm size had a positive significant relationship with firm environmental performance measured by number of words of environmental disclosure in annual report. This result is in line with studies conducted by Broberg, Tagesson and Collin (2010), Brammer and Pavelin (2006), Webb et al. (2009), Huang and Kung (2010), and Haniffa and Cooke (2005). These studies find that larger firms have larger business activities that may have greater impact on the environment. Therefore, larger firms have greater pressures from stakeholders to disclose more about their environmental responsibilities to finally obtain legitimacy to maintain the firm’s going concern.

**The relationship between board size and firm environmental performance**

According to the results of the panel data analysis, board size was positively linked to firm environmental performance. It is in contrast with previous research which found that board size is negatively associated with strategic choice perspectives such as environmental responsibility (Judge & Zeithaml 1992). It is argued that large boards may face problems such as difficulties of coordination and organization, low motivation, and slow decision making processes (Herold 1979, Hackman & Morris 1975, Lauenstein 1977, & Reed 1978 cited in Judge & Zeithaml 1992). However, these arguments are not relevant in the context of Indonesian publicly listed financial firms. This means that larger boards of Indonesian
publicly-listed financial firms, in contrast, are able to motivate more involvement in strategic
decision making, especially in terms of environmental performance.

5.5 Robustness check

To check the robustness of findings described in previous sections, a sensitivity analysis was
carried out. Sensitivity analysis is a study to manage uncertainty of output of a particular
statistical model to finally achieve a higher degree of confidence in the quality and reliability
of results (Saltelli, Planas & Jesinghaus n.d.). A General Least Square (GLS) regression using
STATA version 11 was performed to check of whether the results might be different if the
panel data sets are assumed to be a pooled cross-section of the combination of four years of
observations. The results of the statistical test are provided in the following tables.

Table 5.11: The GLS result of the relationship between the Blau Index (blau) and
Tobin’s Q (tobinsq)

|       | Coef.  | Std. Err. | z     | P>|z|  | [95% Conf. Interval] |
|-------|--------|-----------|-------|------|---------------------|
| blau  | -0.04  | 0.015209  | -2.64 | 0.01*| [-0.07, -0.01]     |
| tobinsq| 0.07   | 0.08      | 0.88  | 0.38 | [-0.09, 0.23]      |
| log_board| 0.02   | 0.02      | -1.13 | 0.26 | [-0.05, 0.01]     |
| log_assets| -0.02  | 0.03      | -0.69 | 0.49 | [-0.07, 0.04]     |
| log_dar  | -0.02  | 0.03      | -0.69 | 0.49 | [-0.07, 0.04]     |
| _cons   | 0.36   | 0.15      | 2.47  | 0.01 | [0.08, 0.65]      |

Notes: *, ** and *** denote significance at the 1%, 5% and 10% levels, respectively
Variables: tobinsq (Tobin’s Q), blau (Blau Index), log_board (logarithm of total board
members), log_assets (logarithm of total assets), and dar (debt to assets ratio)
Table 5.12: The GLS result of the relationship between the Blau Index (blau) and Return on Assets (roa)

| blau    | Coef.  | Std. Err. | z     | P>|z|   | [95% Conf. Interval] |
|---------|--------|-----------|-------|-------|----------------------|
| roa     | 0.00   | 0.00      | 0.44  | 0.66  | -0.00                |
| log_board | 0.05  | 0.08      | 0.65  | 0.51  | -0.11                |
| log_assets | -0.01 | 0.02      | -0.67 | 0.50  | -0.04                |
| log_dar | -0.03  | 0.03      | -1.18 | 0.24  | -0.09                |
| _cons   | 0.24   | 0.14      | 1.73  | 0.08  | -0.03                |

Notes: *, ** and *** denote significance at the 1%, 5% and 10% levels, respectively

Variables: roa (Return on Assets), blau (Blau Index), log_board (logarithm of total board members), log_assets (logarithm of total assets), and dar (debt to assets ratio)

Table 5.13: The GLS result of the relationship between the Blau Index (blau) and quantitative dimension of social disclosure (log_sr)

| blau    | Coef.   | Std. Err. | z     | P>|z|   | [95% Conf. Interval] |
|---------|---------|-----------|-------|-------|----------------------|
| log_sr  | 2.78e-06| 6.86e-06  | 0.41  | 0.69  | -0.00                |
| log_board | 0.00  | 0.00      | 0.97  | 0.33  | -0.00                |
| log_assets | -0.02 | 0.02      | -1.01 | 0.31  | -0.052               |
| log_dar | -0.03  | 0.03      | -0.62 | 0.53  | -0.12                |
| _cons   | 0.37   | 0.18      | 2.04  | 0.04  | 0.01                 |

Notes: *, ** and *** denote significance at the 1%, 5% and 10% levels, respectively

Variables: log_sr (logarithm of total number of words of social disclosure), blau (Blau Index), log_board (logarithm of total board members), log_assets (logarithm of total assets), and dar (debt to assets ratio)

Table 5.14: The GLS result of the relationship between the Blau Index (blau) and qualitative dimension of social disclosure (sr_themes)

| blau    | Coef.  | Std. Err. | z     | P>|z|   | [95% Conf. Interval] |
|---------|--------|-----------|-------|-------|----------------------|
| sr_themes | 0.07  | 0.08      | 0.87  | 0.38  | -0.08                |
| log_board | 0.00  | 0.00      | 0.94  | 0.35  | -0.00                |
| log_assets | -0.02 | 0.02      | -1.19 | 0.23  | -0.06                |
| log_dar | -0.03  | 0.05      | -0.70 | 0.49  | -0.13                |
| _cons   | 0.40   | 0.18      | 2.24  | 0.03  | 0.05                 |

Notes: *, ** and *** denote significance at the 1%, 5% and 10% levels, respectively

Variables: sr_themes (proportion of themes of social disclosure), blau (Blau Index), log_board (logarithm of total number of boards), log_assets (logarithm of total assets), and dar (debt to assets ratio)
Table 5.15: The GLS result of the relationship between the Blau Index (blau) and quantitative dimension of environmental disclosure (er)

|       | Coef. | Std. Err. | z     | P>|z|   | [95% Conf. Interval] |
|-------|-------|-----------|-------|-------|---------------------|
| er    | -0.00 | 0.00      | -0.67 | 0.50  | -0.00 - 0.00        |
| log_board | 0.01  | 0.00      | 1.26  | 0.21  | 0.00 - 0.01         |
| log_assets | -0.01 | 0.02      | -0.83 | 0.41  | -0.05 - 0.02        |
| log_dar   | -0.03 | 0.05      | -0.63 | 0.53  | -0.12 - 0.06        |
| _cons   | 0.32  | 0.17      | 1.92  | 0.06  | -0.01 - 0.65        |

Notes: *, ** and *** denote significance at the 1%, 5% and 10% levels, respectively
Variables: ER (total number of words of environmental disclosure), blau (Blau Index), log_board (logarithm of total board members), log_assets (logarithm of total assets), and dar (debt to assets ratio)

Generally, the summaries of the robustness check above show that the results are similar to those previously performed using panel data analysis whereby almost all of the hypotheses are rejected. The only difference is in the result of the GLS analysis of the relationship between the Blau Index and ROA which shows no significant association. This may be evidence of the relatively low reliability of accounting numbers provided by firms in financial reports. It is believed that financial statements reflect considerable involvement by management in deciding which policies or standards should be used in treating the accounts.

The robustness check was also administered for other measures of gender diversity in boardrooms, namely the proportion of women compared to men on boards and a dummy variable with the value of 1 if a boardroom has women board members and the value of 0 if there are no women in the boardroom. These tests are aimed to examine whether the regression using other proxies of gender diversity in the boardroom will have similar results. The summaries of the analysis are given in Table 5.16 and 5.17 below. According to these tables, it appears that no matter which proxy is used, gender diversity in the boardroom is negatively linked to market-based financial performance of firms.
Table 5.16: Panel data analysis of the relationship between dummy variable of the presence of women in the boardroom (dummy) and Tobin’s Q (tobinsq)

|            | Coef. | Std. Err. | z    | P>|z|  | [95% Conf. Interval] |
|------------|-------|-----------|------|-----|------------------------|
| dummy      | -0.15 | 0.06      | -2.52| 0.01*| -1.27                  |
| log_board  | -0.21 | 0.25      | -0.83| 0.41 | -0.70                  |
| log_assets | -0.06 | 0.03      | -1.86| 0.07***| -0.12                  |
| log_dar    | 0.03  | 0.05      | 0.71 | 0.48 | -0.06                  |
| _cons      | 1.86  | 0.42      | 4.41 | 0.01 | 1.03                   |

Notes: *, ** and *** denote significance at the 1%, 5% and 10% levels, respectively.

Variables: dummy (0 if no women board members, 1 if there is/are woman/women board member/s), blau (Blau Index), log_board (logarithm of total board members), log_assets (logarithm of total assets), and dar (debt to assets ratio)

Table 5.17: Panel data analysis of the relationship between proportion of men and women board members (proportion) and Tobin’s Q (tobinsq)

|            | Coef. | Std. Err. | z    | P>|z|  | [95% Conf. Interval] |
|------------|-------|-----------|------|-----|------------------------|
| proportion | -0.70 | 0.22      | -3.14| 0.01*| -1.14                  |
| log_board  | -0.34 | 0.25      | -1.34| 0.18 | -0.83                  |
| log_assets | -0.06 | 0.03      | -2.02| 0.05***| -0.12                  |
| log_dar    | 0.02  | 0.05      | 0.47 | 0.64 | -0.07                  |
| _cons      | 2.01  | 0.42      | 4.76 | 0.01 | 1.18                   |

Notes: *, ** and *** denote significance at the 1%, 5% and 10% levels, respectively.

Variables: proportion (proportion of women compared to men boards), blau (Blau Index), log_board (logarithm of total number of boards), log_assets (logarithm of total assets), and dar (debt to assets ratio)

5.6 Chapter summary

The chapter presents the findings and discussions from quantitative analysis. Five hypotheses were examined. These were H1a, H1b, H2a, H2b, and H3. Gender diversity of board members was found to have positive and significant association with firm profitability. It was also found that gender diversity in the boardroom negatively linked to firm value. Furthermore, there was no evidence of a significant relationship between gender diversity of board members and firm social performance. Finally, no significant association was found between gender diversity in the boardroom and firm environmental performance. The research results presented in this chapter will be supported with the findings and discussions of the qualitative research method in the following chapter.
CHAPTER 6

FINDINGS AND DISCUSSION OF PHASE 2:
QUALITATIVE METHOD

6.1 Introduction

In this chapter, several main findings from thematic analysis are presented. It should be noted once more that the results from this qualitative approach are not meant to generalize the situations in the whole country. However, the results are used to throw lights or to clarify the conclusions gathered from the quantitative methodology. The results from the quantitative method are the major part of the thesis while those from the qualitative approach are the minor element to support the quantitative results. The descriptions of the interviewees’ demographic data are given on Appendix 5.

The findings are, first, gender does not matter in the appointment of board members although the availability to do board roles did differ between men and women. Secondly, women board members behaved differently compared to men in a similar position. And thirdly - which is the most essential finding for the current study - the presence of women board members affected firm performance. However, before exploring these themes further it is essential to distinguished between descriptions given by women commissioners and women directors because, based on the interviews, the women commissioners admitted that they exercised different roles compared to of the roles of the directors in companies.

All women commissioners mentioned that they were not involved in daily company activities and did not make decisions on firm business as these are under the jurisdiction of the board of
directors. Nevertheless, they emphasised that they had responsibilities to supervise and give advice to the board of directors as well as to ensure that the directors were working to meet the visions, missions and ethical principles of the corporations. Thus, firm performance may be directly related to the performance of directors rather than to the combined actions of the directors and commissioners. As a consequence, in discussing the role of interviewees in enhancing company performance, the focus is on the descriptions provided by women directors; those from women commissioners are used as supplements and evidence to explore other issues raised.

Specifically, the findings are as follows:

1. With regard to the women’s presence in the boardroom, both women directors and commissioners explicitly stated that their gender was not the factor to be considered. They were appointed not because they are women but because of their adequate and appropriate level of education and experience, the equal opportunity given by the corporations, their personal motivation or desire, and their family supports and backgrounds.

2. Regarding their behaviour in exercising their role as board members, the women directors stated that they acted differently from men directors in general although some women directors considered that a man’s working style and personality traits were also essential to their success in the workplace. This means that while the women directors praised their particular ‘female’ characteristics and behaviour which may have positive effects on the companies as well as on their career advancement, they also admitted to exercising similar working styles as men did that would have affected firm performance. At the same time, the women also believed that men perhaps also exercise a working style similar to a woman’s style in running their
directorship roles. In contrast, the women commissioners implicitly suggested that they felt no difference between their supervising and advising styles and those of the men commissioners although they sometimes felt that they behaved in a slightly different fashion from men.

3. All the women directors perceived their presence in the boardroom to have affected company performance in terms of financial aspects, although the effect was claimed to be indirect. They claimed that the direct effect of their presence was enhancement of team or departmental performance which, combined with the performance of other departments chaired by men, resulted in a positive company performance as a whole. The enhanced team or departmental performance was assumed by the women directors to be one element that led to enhanced company performance as a whole, so that they did not deem it appropriate to judge company performance simply on the contribution of women board members.

These three main themes are explored separately in the following section.

6.2 Does gender matter in the appointment of board members?

In this section, interview data regarding the perceptions of the interviewees of the reasons why they were hired are presented and analysed. On analysing the answers to interview questions, two main reasons emerged; personal and environmental factors that did not have any single relationship with their gender. Before presenting the explanations regarding the participants’ appointment as board members, it is worth noting that they also claimed that in their respective corporation’s history it was unusual for women to be employed in the positions they held. The Independent Commissioner of a bank mentioned that the company only had a few women and, in particular, to higher-level management positions. In relation to
her current role, she also stated that the reason why she had not retired yet (she was 70 years old) was because it was not easy to find someone suitable to replace her and the director; especially a woman. The company only had one woman director.

The unusual presence of women on this company’s board was also the case in other interviewees’ corporations. The Independent Commissioner of another bank had experienced a similar situation in the company which only had one woman director and one woman commissioner over a long period of time. The directors of the insurance companies, a security company, and banks researched in this study pointed out that the presence of women as board members was quite rare and usually where women were appointed, they had a ‘woman-specific role’ in areas such as human resource, marketing and finance. Even the Director of Corporate Banking of a bank was the first woman director in the history of the company.

Environmental and personal factors in the appointment of women board members are described in the following sections. Additionally, this section also discloses findings regarding the different availability men and women have to perform board roles. The different availability implies that although gender was not considered by firms during the appointment process, the candidates’ consideration regarding their gender and their roles in social life have affected the decision about whether or not to join a board.

6.2.1 Environmental factors

In this section, two environmental factors that lie behind the appointment of the women to boards are delineated. The first factor is the equal opportunity policies in the corporations; the second factor is the focus on gender mainstreaming prescribed by the Indonesian government in recent years to improve the level of national development.
The first factor external to the women’s own professional qualifications that lie behind their appointment is the promotion of equal opportunity by firms. This is referred to here as an ‘environmental factor’. In other words, the firm’s growth strategy supports the idea of women as leaders and no longer considers gender as a hindrance to climb the ladder to the highest position. The women interviewed believed that Indonesian firms have now provided equal opportunity both for men and women to join management teams. One director explained that the company she worked for had broadened the opportunity for anyone who wished to join the high-level management team as long as he or she met the requirements.

*Everyone in this company had equal opportunities to nominate him or herself to be a director, no matter the gender, as long as he or she passes the fit and proper test and has the requirements needed. I was not appointed to be a director here as the mechanism hold by this company is a bit different with other corporations*. In other companies, the shareholders or the president director choose the one who will be the member of the board of directors. But here, in this company, I am part of a packet that consists of seven people who nominate themselves to be the Board of Directors. We run a campaign on that time (The Director of a securities company).

This view is also echoed by the President Director of an insurance company who gave the story behind her appointment 18 years before. It was not a coincidence that she was suddenly appointed as a director; it was because of her experience in working with the company and her knowledge of the industry that led her to that position. This last point is significant. It suggests that 18 years ago, when the issue of gender mainstreaming had not yet been extensively acknowledged, women had been admitted to boards.

*At that time, my President Director was going to retire. And I was the person that he trusted a lot to handle everything in this company. Then I was offered to replace him. At the first time he requested, I rejected it as I thought that I was not ready enough to have the position and I had never been a director before with such a huge responsibility. But I was assured by him that I would be able to do the job. Then I considered the offer again. And with the consideration I had that I knew this company from the very simple thing up to the most complex one and I also knew how it operated, finally I accepted the offer (The President Director of an insurance company).*

The Independent Commissioner of a bank expressed the additional opinion that, in terms of opportunity for a certain job level, there was no tendency to choose one sex over another. Everyone was treated equally.

*In this company, everyone is paid for performance. So, it is based on your own merit and not because someone is a man or woman then he or she is nominated to a higher job position. There is
A Director of Corporate Banking had a similar opinion to that given by the Independent Commissioner above. She gave this statement:

We, as women, may achieve this position [as a board member] because of our performance. We have to thank God that even in Indonesia, gender is not considered as a problem. It is the same case in this bank. As you may see, everyone has an opportunity as long as he or she has the required performance. That’s the first important point. Of course, in order to arrive in a certain level of position, there should be minimum requirements. Especially in a high profile company such as this bank, job requirements are essentials. So this means that there should be no different between men and women (A Director of Corporate Banking).

The four perspectives given by these two women directors in recalling the circumstances of their appointment are in line with the 2009 report of the Corporations and Markets Advisory Committee (CAMAC) (Spearritt & Butcher 2010). CAMAC investigates board diversity, including ways of promoting an environment that motivates Australian corporations to accommodate diversity in governance. CAMAC operates in a manner that Spearritt and Butcher (2010) describe as having a focus on a more robust and open approach to board appointments, and encourages initiatives for the development of women in executive management as the most effective ways to foster a governance culture that embraces diversity in the composition of corporate boards. What this means is that corporations have the obligation and critical role of establishing an environment that stimulates the need to hire well-experienced board members, regardless of gender, ethnicity or race, and who are dedicated in their work for the corporations’ benefit.

The second environmental factor that has influenced the appointment of the women board members is the policy of gender mainstreaming and delivering equal opportunity for women in all aspects of life. This was addressed by the Indonesian government through Presidential Instruction Number 9 Year 2000. It provides the Guidelines of Gender Mainstreaming in National Development, in which gender equality is conceived as a condition in which men
and women have equivalent opportunities and rights as human beings to exercise their roles in politics, the economy, social and cultural life, and national defence, and equivalence in benefiting from the outcomes of national development. Gender mainstreaming establishes a framework with a gendered perspective for planning, designing, implementing, monitoring and evaluating the policy and program of national development in order to achieve gender equality and fairness in family and social life.

With reference to mainstreaming in the Indonesian context, when an independent board member of a bank was questioned why the bank chose her instead of a man, she answered:

_Hmmm, I don’t know the answer. Because I think I am not a feminist. For me, there is no difference between man and woman, as in Indonesia the issue of gender mainstreaming has been [going on] for a long time. When I joined the previous bank [the bank which this lady had worked for before joining the current company], about thirty years ago, that was around 1970s, the opportunity has been equal. We have equal opportunity. So for me, there is no different between man and woman as long as we can perform and the company will basically recognise our contributions (Independent Commissioner of a bank)._ 

This statement gives evidence that the Indonesian government has continuously supported Indonesian women having more access to education, business and politics. Statistical data support this, such as the increase in women’s literacy from 86.8% in 2004 to 98.76% in 2007, the slight increase in women’s employment from 49.21% in 2004 to 49.52% in 2007, and the major increase in women’s representation in the legislature from 29 women (6.3%) in 1977 to 101 women (18%) in 2009 (Susenas 2004-2007, in the Ministry of Women Empowerment’s presentation, n.d.).

### 6.2.2 Personal factors

Apart from the environmental factors described previously, personal factors are also crucial. Four personal factors are defined in this section as the background to the appointment as board members. The first factor is personal decision to pursue the career with the support of
close family members. The second factor relates to educational requirements as well as the appropriate management skills needed. The third factor is the effect of the women’s early life experience on career advancement. Finally, the fourth factor is the availability to do board roles. Each of these factors will be described further.

The choice to be a leader or to take a career opportunity was one substantial personal factor that lay behind the appointment as a board member. Additionally, as the interview transcript below shows, the support of family members to allow the wives or mothers to be company leaders was significant.

Fortunately, I am surrounded by family members who always understand and support my career path. I am a Christian, while my husband is a Moslem. We did fine with this [difference in beliefs], as he is not too fanatic about this matter. He let me raise my two children as Christians and his family members do not consider this as a problem at all. He also gave me opportunity to develop a career outside the house. I am grateful for this, as I think his understanding has motivated me to reach better career achievement. Without all of this, it is impossible for me to have a position as a board member (An Independent Commissioner).

Thus, personal choice to accept board membership may not be enough without the approval and support of the family members, especially of the husband and children.

The supportive behaviour of husbands towards wives with high career ambitions has also been pointed out by Lebanese career women in their interviews with Tlaiss & Kauser (2011). This implies that the responsibilities of being mothers and wives do not constrain women from reaching high positions, as long as their families are fully supportive. Morgenson (2007) emphasised that when husbands failed to support their wives in their climb onto higher career levels, these men were part of the challenges that women faced. Another interviewee mentioned her family background as having a great effect on her career path, as the character and working behaviour she has acquired were the products of her family lifestyle and educational experience.

In my family’s house, if I may say, it is the girls who struggle a lot for their life. We are educated to be strong. In [contrast], the boys are only easy going guys. So I think, it is not because of gender so that men must be strong and women are not demanded to be strong. Anyone could be a strong person (Director of Business Development of a securities company).
Still related to the role of the family to the career success, she also mentioned:

_I come from Jogja [a city in Central Java]. That is probably the other factor which supports my achievement. In the Javanese culture, women should be obedient. We should say ‘yes’ in every situation. But I don’t. When I studied abroad, I learn to say ‘no’. This is my life. It is really good to think about this. Because sometimes our culture cause women can not develop themselves. However, in certain points, this culture has positive effects to our way of life. In Javanese culture, sometimes when I was still a little girl, my Mom used to say: ‘No, don’t say that, it’s not a good word!’, or ‘Don’t hurt other’s feeling’, or don’t say this, don’t say that. So I think that has a significant part in my achievement. How we can place ourselves, that’s the part of my accomplishment (Director of Business Development of a securities company)._

The perception that the relatively small number of women board members is due to a deficiency of intelligent, knowledgeable women, is not valid in the Indonesian context. Nevertheless, a contrary view is given by Simpson, Carter and D’Souza (2010) who suggest that women may be highly educated with experience in medicine or academe, but they do not have enough experience to be directors. This view was supported with data the authors produced showing that the probability of women directors coming from a business background with experience as CEO of other firms was low. But an earlier study conducted by Singh, Terjesen and Vinnicombe (2008) and supported by Simms (2010) has argued that, in terms of human capital, women do not lack the appropriate management skills for appointment as directors. However, human capital assets brought by women directors to the job may be different from those attributed to men because of their growth of knowledge, skills and experience. This difference may add the value of diversity to corporate boards. This study also has shown that the human capital contributed by women board members is fairly similar to that produced by their male counterparts in terms of education, reputation and board or career experience, although there is a slight difference regarding the age – where male directors tend to be younger.

Other personal factors that led to nomination as a board member were the possession of appropriate and adequate management ability and the technical skills required to handle the
job given. These capabilities might have been acquired from previous working experience, formal and non-formal education, or from these women’s family backgrounds. Below is an interview transcript which illustrates this observation.

*Before being a director, I worked in this company for ten years. Then I moved out and worked in a multinational corporation. When I was working in the new company, the company that I worked for called me back to work again for it. I think it was just because after working in a multinational company, I had different knowledge and point of view. Because it was clear that everything in the multinational company was different with local corporations. So, I think that’s why this company called me back, and I also think that it is not because of the gender but because of the qualification (Technical Director of an insurance company).*

This account shows that previous work experience and additional knowledge achieved from this experience supported the movement to the director’s position. Regarding the formal requirements needed to reach the highest position in an organisation, DeGrosky (2010) points out that peoples’ formative experiences contribute to their leadership capacity.

The supplementary findings from the interviews revealed that the participants’ life stories have meaningfully contributed to their career rise – the third factor behind the women’s appointment as board members. The life stories mostly consisted of their past and current family conditions. This is not surprising as the life of a woman normally is associated with her social role as a daughter, a mother and as housewife in a family. Because of this, although it was not explicitly asked in the interviews, they seemed very willing to recount their life, as they believed that their life experience had built their personal character in a way that helped them to attain their high positions in corporations.

Some of the interviewees admitted that they experienced a childhood that was far from wealthy. Their parents work very hard to support the family. The interviewees had formed in their minds that their mothers had to support their fathers in earning income and this visualisation had indirectly built a consciousness in these women’s minds to do the same in
the future. They developed the desire to become independent women who could bring extra
income to the family.

I had an unfortunate childhood experience. When I was still in Junior High School, my father
passed away. I had three younger sisters. Because of that, I and my mother worked really hard.
However, with that kind of condition, my mother still believed that education for her children was
the highest priority. It was a must for four of us to go to school. Whatever it takes, we have to be
educated girls. As I am the oldest daughter, at that time I chose a college which was cheap and
would ease me to get some work after I graduated. I took the course of education majoring in
English teaching because I thought that I could earn money easily by giving English courses to
children. Then, one day I tried my luck by applying for a job in one major company in Indonesia
and I was accepted. So, before graduating from the faculty of education, I accepted the job as I
had huge responsibilities to my family members. I worked and worked day by day and I forgot to
finish my study in the faculty of education. Therefore, I don’t have any bachelor degree. But, I love
to read and learn by myself about management and leadership. I also attended workshops,
seminars and trainings to enrich my knowledge (A director of an insurance company).

A similar expression was given by another woman director, mentioning her mother as the role model during her struggle in her teenage years:

When I was just a little girl, I lived in a farming field in a rural area. Until I was in a junior high
school, my family lived without electricity so we had to use traditional lamps. When I was on the
first year of junior high school, my father passed away. He fell on the ground when working on the
farm. I have 10 brothers and sisters in total and when my father died, none of us had started to
earn income. Because my mom was left with 10 children, she struggled by herself to take care of
these 10 children by sewing our own clothes, preparing daily meals, and continuing my father’s
business. At that time, I saw the reality of life that I had to face a heavy burden. At the age of 13, I
started to think that women were faced with overwhelming facts that they have to survive in life.
Since then, I helped my mom to do farming work every early morning. I believed that when I
helped my mom, I could learn something from her about how to live a life and how to be
disciplined (A woman director of a bank).

A woman independent board of commissioner gave an account corresponding to the above
statements, saying that she had to work diligently at an early age to help her parents to
manage a grocery store. Her mother was her role model as she had shown great dedication to
the family along with working in the business. The woman commissioner went to an
elementary school outside the city, sent there by her parents so that she could be more
independent and gain more experience in life. Thus, she had started in her childhood to learn
how to be responsible for herself and to maintain the trust given by others. As she was the
oldest child in the family, she also had responsibilities for raising her brothers and sisters. She
then got used to being the leader in the family which later on proved to be useful in her role
as a corporate leader. The early childhood experience of the participants seems to have substantially influenced their adolescent life. As pointed out by DeGrosky (2010), a person’s formative experiences contribute to leadership capacity. In the present research it seems that the women board members’ childhood backgrounds affected their leadership characteristics as well as working styles.

Finally, the last personal factor is the availability to do board roles. Flannery (2010) believes that although finding and recruiting qualified and available female directors will continue to be a challenging process, it is not an impossible. The Independent Commissioner of a bank said:

*Only few women can eventually move up to higher position because it is a matter of choice. It is a choice for women to be a housewife who take cares of family and do job outside the house only to support the family finance, not as the main source of income. Most of the women are married so that the family expense is supported by both husband and wife. Although the women have good job performance, they choose not to take jobs with major and demanding responsibilities. They want balance life. That’s life. I really appreciate this case (The Independent Commissioner of a bank).*

The notion of ‘available’ female directors here should be highlighted because women with good qualifications are not always available. A CEO of a major corporation in the United States, when interviewed by Ellig & Lang (2008), stated that he would love to put women in the board but unfortunately he just could not find them. In replying to this, Elling & Lang (2008) suggested that the qualified woman director candidate was somewhere out there and it was the obligation of the company to find her in the right places and with the right process.

The Independent Commissioner (in the same interview as quoted above) emphasised that:

*Women have the opportunity to be promoted and moved to other cities. But they usually do not take the opportunity as they do not want to leave the family. Based on my experience, to make it simple, from twenty women and twenty men at the beginning of the recruitment process for lower management position, those who are able to move up continuously to higher level positions are men. The challenge given by the company is too hard if the women have married. I emphasise once more that these women have their choice and not because they are incompetent. So actually, I believe that Indonesia has huge number of qualified women, but these women are faced with choices and their choices are not likely to be career women. ... Many of them are ambitious. The opportunity is given to them and they can perform well. Thus, in my opinion, the reason why these*
women can reach the highest position is because the opportunity is there and they take it (The Independent Commissioner of BM).

Her point regarding this internal limitation was that women faced work challenges like those described by Spearritt and Butcher (2010) who queried why Australian businesses carried on having men instead of women as executives and in board positions. The reasons included long working hours, extended travel requirements and ‘clubby’ social networking, which tend to favour men with fewer family duties than women (Lewis & Simpson 2010). Harvey and Allard (2009) argue that women in high-powered careers and with major family responsibilities cannot do both at the same time. Forty-nine per cent of women in high-level jobs did not have children. In contrast, men in successful jobs tend to have wives and children.

Simms (2010) is also of the view that the trend to uncompromising working conditions discourages women who possibly would not want to sacrifice their lifestyle or opportunity to raise a family, to be on a corporate board. This point was raised by an Independent Commissioner in an interview – that the understanding of family members, especially of husband and children, was essential to her success as a board member. Furthermore, the understanding of the rest of women board members’ management teams was also important. Women board members as social human beings with family responsibilities need support through company policy (Orser & Leck 2010; Beard et al. 2010) and a cultural shift towards a balance work-family life (Lewis, 2010) is required. Therefore, although the opportunity for women to pursue the highest management position has been opened up by government policy as well as by the firms, and while women have claimed to have adequate and appropriate technical ability and experience, the choice of women to join the boardroom or not to join is limited by the perceived risks and consequences that would affect their personal and family life.
6.3 Do women directors behave differently from men directors?

In this section, interview data from the participants regarding their perceptions of whether or not gender made a difference in their careers are presented and analysed. From analysing the data, the second theme relating to the women’s behaviour in exercising their role as board members was developed. However, the women directors and women commissioners in the interviews had contrasting views. The women directors stated that generally they acted differently to men directors while the women commissioners suggested that no difference existed between their supervising and advising styles and those of their male counterparts. In the following sections, the different perceptions of women directors and women commissioners are analysed in order to understand why these differences existed.

The interview results presented differences in the behaviour of women directors and women commissioners. This was possibly due to the difference in the roles they exercised. The Indonesia Code of Good Corporate Governance (NCCG 2006) stipulates the different roles for the Board of Commissioners and Board of Directors. The Board of Commissioners is prohibited from participating in any operational decision-making. There is a special condition in which the Board of Commissioners can make decisions regarding matters as stipulated in the articles of association or laws and regulations; that is, decisions that are within its supervisory function. Decisions about operational activity remain the responsibility of the Board of Directors. Thus, the authority of the Board of Commissioners is limited to their supervisory and advisory function (NCCG 2006). The duties of the Board of Directors include five main tasks in the areas of management, risk management, internal control, communication, and social responsibility (NCCG 2006).
According to statements given by a woman commissioner of a bank interviewed for this research, the main duty of the Board of Commissioner was to supervise and monitor the Board of Directors. As she did not have any obligation to exercise a more complex management role and all Board of Commissioner members conducted similar functions, even though there were different types of directorship in a company, she saw herself as having done the job in the same way as the men commissioners did. She further argued that company performance may be reflected on the performance of the directors:

BoC [Board of Commissioner] in the Indonesian context do not conduct operational activities, so we only act as the supervisory board of the BoD [Board of Director], only do the monitoring activities, and only give advice to the BoD. Because of that, the company performance can be directly related to the performance of the BoD as they give direct contributions to the company. We do not do the executions. So if you [the researcher] need to understand how the company may achieve the financial goal, the increase in market shares and also the other business development, you may ask about it directly to the BoD, as we are not involved in those activities. What we want to make sure is whether all types of activities have been done by the BoD, and do not result in high risk-taking capacity. So, it is more in terms of whether their activities have been conducted correctly as planned, not breaking the rules and standards, in sufficient control systems, in appropriate risk management, and in line with ethical norms. In short, we want to protect in such a way that the business plan is in accordance with what have been committed (A woman commissioner of a bank).

Other women commissioners expressed their different duties compared to directors in the same way. They underlined the importance of separating the roles of commissioners and directors to highlight the direct effect of directors’ performance on company performance. As one woman commissioner stated at the beginning of the interview:

Ok, so you [the researcher] want to understand the link between women board members and company performance. Then I can say that you talk to a wrong person. It is not me that you need to talk to. Go to the directors. Talk to them. I don’t have the capacity to describe about company performance. It’s their job! (A woman commissioner of a bank)

The explanation in this section about the difference between men and women board members is therefore more related to dissimilarities in personal characteristics, competence, and working style and the decision-making process, rather than to gender differences.
The participants also expressed their perceptions of being women on a board. The differences in personal characteristics compared to men, the ability to manage teamwork, and the desire to contribute something to their surroundings emerged as the women directors’ perceptions of their existence and the type of contributions they made to the corporations. A more comprehensive explanation of each theme is shown below.

When asked the question whether she behaved differently compared with men board members, the Independent Commissioner of a bank replied:

*My presence here as a commissioner is due to the trust and understanding given by the company’s owner. Besides that, there is also a good cooperation and teamwork delivered by other commissioners, directors and colleagues who contribute to the company success. I feel that no one has tried to deceive anyone else. ... It is just a coincidence to be a woman commissioner because I am well-matched with the owner. The board members here support each other and I am complementary to the men* (Independent Commissioner of a bank).

In other words, she did not find any difference in working style or between herself and male commissioners, emphasising the nature of teamwork among them. The Director of Corporate Banking also indicated the same perception, although it is more implicitly stated:

*In my opinion, the relationship between board members in this bank is well maintained. We have solid networks. That is one success factor of this bank. And this is not an easy matter in such a large company like this bank* (A Director of Corporate Banking).

However, in relation to team performance in her department (corporate banking), she indicated that:

*When I first came into this department, I found that there was no performance growth. And I said, how come? It is impossible to have no growth like this in our business. And after one month working here, I achieved a record breaking growth. The achieved number was beyond targeted. And I said, the one who succeeded in this record breaking was you [the team and subordinates]. I only pushed you from behind and monitored what you had done. I did not have any direct involvement in doing the job. You [the team and subordinates] did the job* (A Director of Corporate Banking).

It was clear from the interviews that women directors exhibited working styles and personal characteristics more different to women commissioners than had been previously thought. However, it should be noted that the woman director tended to use the word “you” and “we” to point out that when there was improvement in company performance, it was not solely
because of the performance of any particular director with his or her specific characteristics, but rather the result of a continuous improvement as a team and subordinates driven by the leader. Adams, Hermalin and Weisbach (2010) write that directors generally serve as a source of advice and counsel, provide some sort of discipline, and act in crisis situations. What has been described by the Director of Corporate Banking quoted above is an example of a crisis situation which needed urgent action. Yet, it was not the director herself who conducted the necessary tasks. She only performed the role of strategist and monitored the implementation of the strategy executed by managers or lower-level management.

Other descriptions by the interviewees of their presence as women directors were of their working style and performance in comparison with the men in general. A survey of senior executives by the Economic Group and Korn Ferry International (Ely et al. 2003) found that the five most commonly found characteristics in women managers were that they are empathetic, supportive, nurturing, relation-building, and sharing. Moreover, women executives were claimed to have greater interpersonal skills and more likely to adopt participatory and democratic styles; men were seen to exhibit more direct and task-oriented approaches (Ely et al. 2003). Furthermore, women were seen to possess a high level of circumspection, tended to be risk-averse, and more scrupulous than men (Kusumastuti, Supatmi & Sastra 2007). These personal characteristics seem to have emerged during the interviews for this research.

One woman commissioner interviewee pointed out that they just felt like ordinary women, that nothing was special about them. Meanwhile, the women directors claimed that, to some extent, they had different working styles compared to those of men which lead to different results compared to men. The Independent Commissioner of a bank argued that since she was
first appointed as a board member (25 years earlier), she had not perceived anything she did as different from what the men did. She considered herself as just a ‘common person that was created by God’ to serve others and that hers was a complementary role to men in general, but especially in the company. However, she did mention that other commissioners or directors commented on her flexibility in problem-solving and this was one reason why they asked her to stay in the company even though she was 70 years old. In contrast, other women directors mentioned their characteristics as being different from those of men, but that men may also possess these attributes.

According to my working experience in the service company, people always believe that woman seems to be calm and weak. But actually, woman is not weak. In many cases, woman is more assertive than men. Although woman is more assertive, she still has empathy. So in her leadership style, she is assertive but not authoritarian, and conservative but not in doubt. However, this characteristic could not be generalised, despite my opinion that generally woman is more loyal, highly dedicated, always stay in the right track, and straight to the point (President Director of an insurance company).

In addition to the above statement, the Director of Business Development of a securities company cited other women-specific characteristics that made their presence acknowledged by other board members and senior staff in the company.

I never differentiate the roles between men and women. As I am the only woman director in a ‘men world’, people have always asked me whether I face difficulties in working with men. I think I don’t experience those difficulties. I am not working in a field which needs physical ability. I never face any hindrance or limitation because of my gender. In contrary, I feel that being a woman is a benefit for me. But I have to highlight that this is only my personal point of view. A woman is more persistent, tend to be more precise in examining something, and also a hard worker. Besides that, women don’t only produce correct results but also beautiful outcomes. So there is an aesthetical value behind the results. ... I also feel that I have a different touch in my department compared to the previous man director in this department. We now have different face (Director of Business Development of a securities company).

It is worthy of note that the Independent Commissioner of a bank mentioned the combined views of the Independent Commissioner of another bank and both the President Director of an insurance company and the Director of Business Development of a securities company.

Actually, I believe that there are no specific differences between men and women. They both may have capability in doing the jobs given. But I also believe that each gender has its own characteristics, since every person has his or her own strengths. There might be a factor of gender, such as attention to details. But this could not be generalised, that attention to details is
possessed more by women. So I see this as: ‘care’. Hence, in actualising women’s leadership or managerial style, women tend to show their care, not only the commitment because I believe that men and women have similar commitments and greater awareness to the surroundings. This might be because women should also do detailed household work. So women are more multi-tasking. In my experience, usually women branch managers have always taken care of the details, for example, in customer services. That is why usually the front-liners and customer services mostly are women as they are assumed to be able to give more attentions to customers. But once more, it is not always like that. There are also men with such kind ability. But in general, women have more attentions. Then, when women deliver services, the services come from the hearts. But I think the more detail ways are stereotyped more to women (Independent Commissioner of a bank).

It can be concluded from statements given by the interviewees that they tended to associate the working styles of women with stereotypes of women although, to some extent, they also admitted that men could have the same characteristics as women. Because women board members were working in a men’s world, they believed that the presence of women would give a different ‘colour’ to board teams so that work could be done more conscientiously.

**6.4 Does the presence of women directors affect firm performance?**

This section addresses the theme of what the participants in this research thought about the link between their presence on the board and their firm’s performance. The general outcome from the interviews was that the women directors acknowledged being able to affect firm performance. An example given was their influence in the decision-making process in board meetings when financial matters were discussed. Besides the involvement of their department’s team members and other subordinates, the women saw themselves as having influenced the quality of the company’s financial situation.

In the area of non-financial performance, the interview results showed that women board members’ influence was not significant compared to their influence on financial matters. Nevertheless, some of the interviewees raised issues touching on non-financial matters as they did not define non-financial performance as social and environmental performance. Rather, they perceived non-financial concerns as being connected to the norms, ethics or moral values that should be embraced and implemented in all parts of the organisation. One
interviewee indicated that non-financial performance mattered in achieving good financial performance. For example, the performance of subordinates may affect company financial performance significantly and, in the case of an insurance company, the performance of claims management may be directly linked to the firm’s public image, which in turn may influence the company’s financial performance in the future.

In order to be more specific in explaining the relationship between the presence of women board members, especially women directors, and company performance, supporting evidence is given in the following two sub-sections. The first section relates to the definitions provided by the interviewees regarding firm performance. The second part explains the role of women board members, especially women directors, in enhancing firm performance in terms of directing, monitoring and team-leading functions.

6.4.1 Definitions of ‘firm performance’ by the interviewees

In this study, two types of performance have been examined; financial and non-financial performance, the latter consisting of social and environmental performance. Questions regarding the interviewees’ perceptions about company performance were raised. The following answers were given by a woman director, which can be summarised as a view that there should be growth in financial performance with her presence. However, it is not only the matter of growth, but the quality of the growth which, in the interviewer’s mind, was a more important consideration:

Based on my very personal opinion, as a human being, I must be able to deliver benefits for others in my surroundings, in all aspects of life, so not only limited to the jobs that I do, but also in the social environment that I live. My aim is that my presence should bring benefits. When I am at home, I should give benefits to my family members and also with my social community. It is the same case when I am at the company. I want this company to share benefits with its clients, its employees, its shareholders, its stakeholders, and other parties who may take benefits from this corporation. Automatically, when we talk about performance, we have to grow, and this could not be denied. A company could not only be measured by its financial position, but the quality of the growth should be considered as well. This means that not only growing, but also growing with quality. For me, in an insurance company, the growth should be above average. When this
The answers given by another woman director were more direct than those given by the woman President Director. The Technical Director of another insurance company mentioned that in an insurance firm the aspect that should be considered was not only the operation, but also the investment. Because of that, discussing the performance of an insurance company meant discussing its operations as well as its investments. She was the one who was responsible for the operational aspect as she guarded the claims and the underwritings. Therefore, she had to ensure that the underwriting surplus was always in a positive amount, as it was the indicator of good health of an insurance company. This interviewee’s response was surprising when her perception of non-financial performance was asked of her. She described it as follows:

*Non-financial performance means the claim services which influence the financial performance a lot. If the claim services are poor, the company image may be threatened. We have to ensure that it doesn’t happen by maintaining honest and friendly employees. These employees are also our back line customer services. The front line customer services are dealt by the marketing department. When customers make their claims, they would recognise directly how the company performance is. This employee performance should be tightly maintained (The Technical Director of an insurance company).*

From this response, it seems that her perception of non-financial performance was still related to financial performance. As the performance of board members generally is measured by firm financial performance, it would seem logical to presume that the main consideration of board members is financial growth. It is then not surprising that the response given by the Director of Corporate Banking of a bank regarding company non-financial performance was also associated with the performance of her team members that led to the improvement of financial results.

Another woman director also mentioned her responsibility to maintain the values of the company which she believed should be shared, understood, and implemented among the
employees, from the lowest up to the highest level of management. This was necessary to preserve the going concern of the company as well as to sustain the trust given by customers. What was indicated was in line with one benefit of having diversity on the board claimed by Herring (2009) who wrote that diversity can lead to an increase in opportunity for creativity and the quality of the product of group work and this may extend beyond team and workplace functioning and problem-solving. Moreover, the concept of agency theory and the relationship between board diversity and the firm’s value may also be relevant here. As mentioned by Carter, Simkins and Simpson (2003), the main purpose of having board members is to establish a mechanism to control and monitor managers. The more diverse a board is, the more independent it is in effective monitoring. This concept is exemplified in the interview transcript below.

One day, I admonished a subordinate because he did not have any idea regarding a business letter sent by a client for a credit approval. This is not right as it would impact the financial performance! This is the example of a non-financial matter. My concern is in the managers. Have they ever asked their staff to see them to discuss clients’ matters in detail? I think the most important thing to make the financial performance better is the improvement of non-financial performance. I do these things here. I have been asking them to work, discuss and solve relevant issues together. I drive them to change their mind set as I am sure that the non-financial performance should be fixed first so that we can achieve the targets. I fix the organisation, the human resources and the work mechanism. All of these would result in the enhancement of financial performance (The Director of Corporate Banking).

Another woman director noted a different matter regarding company non-financial performance. She urged the importance of sharing benefits with the community, one of stakeholder which may be influenced by company decisions.

We [the company] have a special program relating to social concerns. From each new established policy, we put aside certain amount of money and then we collect it to conduct social activities. In each year we do social programs twice. What we have done so far are giving scholarships, free health services, school renovations, and tree planting. These are our programs. I myself do some other activities such as programs in insurance associations and other social activities. ... As we think in the first place that this company should contribute something to the community, we focus our programs on education and the environment. We have a special team which plans and conducts the activities. This team brings the plan to me and I approve it when I am sure that it would be worthwhile and I would also give my suggestions if it needs some improvements (The President Director of an insurance company).
Besides that, she also indicated the responsibility of an individual to take care of the environment. The production process of the service company did not damage the environment; it was human beings who usually contributed to environmental catastrophes. Therefore, on some occasions she motivated the employees to contribute positive efforts during work hours in the company for the environment, for example by separating recyclable from non-recyclable waste.

The responses regarding non-financial performance manifested both resource dependence theory and agency theory, to explain the relationship between board diversity and the implementation of corporate social responsibility (Bear, Rahman & Post 2010). In this conceptual framework, board members have two main duties: (a) supplying important resources of legitimacy, advice and guidance for the firm (Hillman & Dalziel 2003); and (b) monitoring on behalf of the shareholders (Jensen & Meckling 1976). Combining these two theories in this research, one may deduce that board members, in doing the monitoring function, would require necessary and adequate experience and competence to analyse management, and business policies and their effects on corporate social responsibility (Hillman & Dalziel 2003). Furthermore, the resources provided by the diversity among the board may then enhance the potential for understanding and problem-solving to effectively improve corporate social responsibility (Bear, Rahman & Post 2010).

The technical director of an insurance company gave a different opinion. She agreed that companies should be aware of the necessity to provide social services to the community. However, she assumed that financial corporations did not have any obligations to practise environmentally oriented actions because the business operations of financial firms, unlike
manufacturing firms, were only concerned with providing services to people and did not create wastes harmful to the environment.

6.4.2 The role of the women directors in enhancing firm performance

This section presents interview data related to the women directors’ perceptions of their role in improving company performance. Additionally, it also addresses the main idea of research question 4: *What are the perceptions of women in the boardroom of the Indonesian public-listed financial companies regarding the role they play in enhancing firm financial, social and environmental performance?* A previous section described the link between the presence of women directors and their different behaviours to increased firm performance. In this part of the chapter is a discussion mainly about the essential aspects of women board of directors’ perceptions of their functions as outlined in three groups of descriptions; directing, monitoring and team-leading functions. What has been presented in previous sections is supplementary information on the women’s presence and role as board directors.

Under the OECD Principle of Corporate Governance (OECD 2004) a key role of board governance consists of reviewing and guiding corporate strategy, major plans of action, risk policy, annual budgets and business plans, setting performance objectives and monitoring corporate performance. Simply put, this role is a directing function. All board members are expected to perform this principal role in order to achieve company targets at the end of each financial year. The interview results from this research seem to show that the presence of women board members has added value to this function because they possessed specific capabilities, especially in terms of the directing function. The following interview transcript illustrates how a woman board member exercised her directing function in a way that reflected her personal characteristics to finally reach the targeted performance.
I feel that this company nowadays has gained better improvement. The company performance in 2009 is better than in 2008 in terms of the underwriting results as we are now stricter in exercising our policy. It is not awkward but it is conducted seriously. As the consequence, the loss ratio was going down, which means that the claim amounts are much less than before. Then, in terms of procedures, I make lots of more organized guidelines for staff as so far we lack such kind of directions. The previous director had not been able to establish guidelines because of certain reasons. Because of that, he could not focus on the details. As a result, a lot of employees feel that they have not been well taken care of. And with my presence currently, I am able to listen to aspirations from employees regarding what should be improved so that we can sit together to solve the problems (The technical director of an insurance company).

The research in the area of organisational culture effectiveness proposes that open and flexible organisation may lead to excellent company performance, as the culture of the company demonstrates the firm’s competence to manage change in the business environment (Jurkus, Park & Woodard 2008). A more open and flexible culture is assumed to be able to accommodate self-motivating workspaces and opportunities for employees to have effective communication. The personal relationship with subordinates may then become the essential factor to be maintained in order to establish an open and flexible organisational culture. As mentioned by the woman technical director previously, a two-way communication with employees by developing an ability to listen and to give solutions is critical for a good director. The woman director of Business Development had also echoed this conception.

I think women have another additional ability which is to maintain personal relation. Our human relations might be better than men in general. I usually ask all heads of division to sit together in a meeting to discuss current issues. I used to be a subordinate so that I know how it feels to be a lower management staff. Because of that, I am not authoritarian. I understand well that when a leader is authoritarian, he or she tends not to get inputs or suggestions from subordinates as they become reluctant to approach their bosses. I have been in such kind of situation and I felt the same thing. Therefore, when I have the position as a director now, I try to be better than my previous boss (The director of Business Development of a securities company).

Another woman director of an insurance company also expressed the same opinion; that intensive communication and interaction with employees may drive positive self-esteem among employees.

I find that there is a different directing style between me and the previous director. He... how to say it... only focused on driving this company to gain profit without any direct involvement. In contrast, I tend to involve myself in the business. Although there are many managers below me, I maintain good interaction with employees, which means that although I don’t directly control, I always communicate with them. By doing so, I could follow the development of this company and direct the necessary actions. The previous director didn’t do this. Besides that, I also establish
some activities to push employees’ motivations. I understand well that only doing routine jobs would be such a boring thing. So I force them to do physical exercises or do something else that may advance their creativity and initiative (A women president-director).

This statement is supported by Karakowsky & Siegel (1999), Myaskovsky, Unikel, & Dew (2005) and Wood (1987, cited in Wegge et al. 2008) that male directors tend to be aggressive, inflexible, and job-oriented, while female directors tend to behave intimately, and be cooperative and process-oriented. Therefore, communication and personal involvement in the directing function become essential in managing the relationship between the executives and the subordinates to achieve the expected results from the policy established by the corporation.

Another example of the directing function of board members that may enhance company performance was stated by a director of a bank who mentioned directing her team along a certain track which finally reached the targeted point. Her ability to drive and direct the team was crucial as she did not do the job by herself. She was the one who established the policy and made the decision for the direction. Her staff implemented the policy according to the plan she set. This was how she described her directing role:

*I have to totally dedicate my profession to this company because this is my job. I establish the very detailed plans and strategies because by doing so we may be the winner. These kinds of challenges should always be brought up to our team. I have to show them that we have challenges to conquer, which means that if we want to win the challenge, I have to direct my carriage full of talented people to the track. That is the example of what I do and show to the management wherever I work.... The reality is that women are also able to do this directorship job, which, in the history of this bank, women had never done before. So, I always say that women should be given the opportunity to demonstrate their abilities. If I can do the job, I am sure that other women would also be able to do the same thing (A director of Corporate Banking)*

It is evident that the stereotype of women tending to be very detailed in planning something (Ely et al. 2003) is one important factor in maintaining and enhancing company performance. The detailed plans are assumed to include all aspects related to achieving certain goals, so that by having these the step-by-step guidelines reduce the risk of incorrect job performance; it also gives the impression that every single step taken had been carefully thought out.

178
In contrast, some authors have stated that the presence of women who add diversity to an organisation may also lead to negative consequences, such as increased disagreements and employee turnover, thus decreasing harmony among colleagues (Milliken & Martins 1996; Hare 1976, cited in Wegge et al. 2008). Nevertheless, almost no interviewees related any negative consequence caused by their presence on the company board. A woman director even claimed that the concept of directing included motivating employees or subordinates psychologically to be fearless, creative, innovative, hard-working, and competitive, while at the same time respecting them for all the experience and knowledge that they have.

I always motivate my subordinates and fire up their spirits by saying: “Yes, you can!” If they reply: “No, we can’t” then I say: “That’s impossible!” Then I start to show them that I can do it and convince them that it is important to present our good image to other people. If I can do it, you guys will also be able to do it. Competition is a challenge. If we can win a competition, it will be our pride. If we only do ordinary things, there will be no difference between us and ordinary people. We are special. We have to show that we are above-average people. We live in a different world now. The competition is enormous in every aspect of life (A woman director of a bank).

The comment above denotes several positive attitudes involved in the women’s directing function, such as intensive personal relations, attention to detail, assertiveness, initiative, and ambition. The response above also shows that respect for subordinates or employees should be maintained so as to instil pride among them which may boost their motivation for subsequent tasks. DeGrosky (2010) also finds this important after having an interview with Dr. Eleanor Concepción "Connie" Mariano, the Filipino-American to become the first military woman to serve as the White House physician to the president and the first female director of the White House Medical Unit. According to the interview, Dr. Mariano suggested that a director should always maintain appropriate relationships with subordinates while paying respects to them (DeGrosky 2010).

Moreover, regarding the monitoring role, the agency theory (Jensen & Meckling 1976) suggests that it is the responsibility of the board members to monitor the managers’ behaviour
and performance to ensure that their daily business activities on behalf of the shareholders are going well (Jensen & Meckling 1976). With reference to the monitoring function, what the interviewees conducted during their directorship was mostly related to directing function. To make sure that company policies were implemented widely in all sections of the corporations, they exercised the monitoring function through intensive communication with managers.

In monitoring the implementation of company policy, I do not go directly to staffs although in some occasions I chat a lot with them. It doesn’t mean that my monitoring mechanism is spreading the distance between me and the staffs, though. I always open to them. But in terms of monitoring process, I follow the existed rules. I have a General Manager below me. Below the General Manager, some managers exist. I call them regularly to sit with me and I ask about the progress of the tasks given. I also ask them to make strategic planning. They have it and I use it as a performance measure. I have to know what these guys want to do so that we can discuss it together. So this becomes the written guidance for us to move. The second thing is that this company has a two-way appraisal mechanism once in a year. In this appraisal session, it is not only me who assess the managers, but in turn, they have their voice to give opinion or suggestion for the company. Based on this mechanism, I would be able to assess the managers but also their bosses indirectly. So at the end of the process I would gain information that I have not had before regarding, for example, a not-yet-implemented system or unmatched procedures. I can dig more information from this appraisal system (A technical director of an insurance company).

It is implied from the interview results that the monitoring system established by the company may also contribute to the monitoring function of the directors. The monitoring system itself is well-implemented when the directors have sufficient two-way communication skills to exercise the monitoring role. According to Rigg and Sparrow (1994), women are described as people-oriented, working with and through other people, including staff and clients. Additionally, based on their research results regarding the impact of gender on management style Rigg and Sparrow believe that in their approach to decision making, women make decisions based on familiarization. Besides that, there is a greater tendency for women to use communication to connect or establish a rapport (Tanen 1992 cited in Rigg & Sparrow 1994). Therefore, it is not surprising that Indonesian women directors utilize their communication skills to develop relationships with staff in order to gain more information for monitoring purposes, and thus finally be able to make appropriate decisions in the future.
Another interviewee also mentioned the importance of building close relationships with customers in monitoring the performance of the company, especially the conduct of the managers to achieve the end-of-financial year target. The connection-building with customers or clients raised in the following interview is also a women specific working style - as mentioned in the previous paragraph.

*I usually ask the clients [customers] to walk around in this building [the company's building] to show them, for example, the dealing room, the treasury room, or other rooms which certain decision making process are made inside the rooms. I just want to show them that this company is open for them and ensure them that they are part of the company. Some of the clients, after having walking around with me, they said that they really appreciated the opportunity to look closer what has happened in the company because when they became customers 25 years ago, no one took them to walk around the building. So I just wondering, have those guys [the previous directors] had not treated their customers well? This kind of thing is simple, but very essential. We sell services to them. If we don’t have selling points, the clients would not have recognized this. If we are able to maintain our close relationship to customers, they will be loyal to us. (The woman director of Corporate Banking).

What she did was a simple thing; giving the customers an opportunity to experience the daily routine of the company. However, the impact to the clients’ trust and loyalty to the company is very large. At the same time, she also received information from the clients that this simple activity which had positive results had not ever been conducted by previous directors. This could also be an example of exercising the monitoring function through other’s presence. The interviewee continued to explain thus:

*It is not difficult to monitor numbers, however it is not easy to monitor something related to cultures and values. Up to now, when I conduct a meeting, I would not only ask those who are linked to the performance that I need to monitor. I involve everyone including the internal audit, the human resource personnel and the compliance staff. From those people I received lots of information. They usually are surprised when I talk to them, as previously they have never been asked to be involved and they did not know what and how works should be done (The director of Corporate Banking).

This concept is similar to what has been described previously, that women directors seem to be involved more in the monitoring function by including managers and staff from other departments to work together in order to ensure that every aspect relating to company targets has been accomplished, and everyone has taken part to successfully enhance company performance.
Furthermore, the interview questions asking about the interviewees’ perspectives regarding their existence as women board members produced interesting responses. They generally indicated that their existence should not be considered as exclusive and as standing alone apart from the attendance of men. Moreover, they generally emphasized the linkage between teamwork and company performance. The better the teamwork performance, the better the company performance was. Hence it cannot be simply concluded that the increase in company performance is associated directly to the presence of women board members. One interviewee noted that:

*I could not compare myself with other directors. We have different fields. As I am now the director of business development, the [functions of] marketing, research, and market development are all under my responsibilities. Thus, in terms of marketing, I can see that the touch is different. We have a new face in this company. However, if I am asked to compare my performance with other directors, I could not do so as it is a different issue (a director of Business Development of a securities company).*

Although she mentioned that her existence could not be directly linked to the company performance as a whole, she admitted that she had contributed something of worth to her department’s performance. On the other hand she further noted that company performance as a whole could not be associated merely with the existence of a particular individual. As she stated:

*In my opinion, I do not see that there is a direct positive relationship between the presence of women board members and company performance. When we work for a company, it is a taboo to say that it is me who generates money for the company, as different departments in the company have a share in contributing to company success. For example, there is the director of finance who manages the company income, and there is the director of marketing who always spends lots of money for marketing activities, but in return the company will earn money as the result of it. Because of that, the company success is derived from the combination of the performance of all directors and not only from single director (director of Business Development of a securities company).*

As a team leader, women board members tended to see themselves as partners with other team members. They chose to place themselves on the same level as their subordinates and tried to motivate the team members as much as possible so that the end result would be that
of a team and not because of the existence of the women leaders. This concept was given by a
director as follows:

I am the youngest among other directors and even my subordinates in this company. However, I
don’t want to act as if I am older than them. No. Outside the company, we are friends. When there
is a new message from the management that should be shared to them, I sit with them and I always
say that we are a team. My success is their success and my failure is their failure as well (the
director of Business Development of a securities company).

This interview result is not surprising as females are believed to be more people-oriented,
more likely to value friendship and equality, put more value on work satisfaction, and respect
their colleagues (Dio et al. 2005 and Ferriman et al. 2009 cited in Gilbert et al. 2010; Merrick
2002). Fortunately, it seems that the work traits of the women board member have assisted
their ability to accelerate team performance that simultaneously advances company
performance. This is consistent with a research finding concerning the link between gender
composition and group performance, i.e. that gender diversity is associated with higher team
performance (Wegge et al. 2008).

Likewise, Rigg & Sparrow (1994) found that women were likely to put an emphasis on team
management as well as providing a service. They further suggested that, regarding team
leadership, women’s approaches tend to focus on a responsibility for and understanding of
people, trying to expand them, and using that knowledge and insight as a resource for
managing and adopting a participative approach. This idea is reflected in one segment of the
interview transcript below.

By asking staff from other departments to join the team and even work until 12 or 1 am, they know
that we have many things to be done in a team. They then feel the convergence in the teamwork
when managing clients. I say to them that we could not work separately. Each person has a
responsibility to contribute his experience and knowledge to handle clients. We all have equal
positions. (A woman director of a bank).

Most importantly, according to the transcript above, the participation of staff from other
departments was crucial not only to ease the process of achieving targets, but also to develop
a sense among the employees that they were needed in the firm. This situation fitted with
what Rosener (1990) found in her study of the different leadership styles of men and women. She concluded that women were more likely than men to try to make people feel part of the organization by motivating, encouraging, sharing power and information, enhancing self-esteem, and developing personal contacts. These characteristics are termed ‘transformational’ and ‘interactive’ leadership styles (Rosener 1990). Wolfram & Mohr (2010) suggest that the minority status of women board members compared to male counterparts may shape the transformational leadership style of female leaders.

Another assertion by a woman director concerned the responsibility of the team leaders is to utilise the unique qualities of each staff member and to combine all to establish a powerful team. She noted that setting the example and motivating employees in her team to search for solutions as soon as a problem came up, instead of only waiting for instructions from the team leader, was significant. She believed it was improper for a team leader to just get furious and blame others for unexpected mistakes, and it was inappropriate as well for staff to depend wholly on further actions by the leader. The leader was obliged to initiate the search for solutions to the problems while the staff was needed to be creative and to contribute to their maximum capacity. Therefore, efforts should be made by the team leader to maximise the creativity of team members. Such kind of effort was recognised by a woman leader as shown in the statement below.

This company has several activities for staff to improve and furnish their creativity. This is amazing as we never imagined that they actually have huge talents. If they are not given opportunity to show their creativity, we would never know about that and the company may lose magnificent amounts of intangible assets. We also continuously run family gathering event which is organized by staffs including the theme, activities and agenda. There would be interactions among them, practice of building a solid teamwork, openness and harmony (A woman director of an insurance company).

Nevertheless, the cost of diversity in teamwork should be acknowledged in terms of team performance. Thomsen et al. (2009) indicated that diversity may decrease teamwork
performance as a more diverse team means lower team loyalty because loyalty is derived from the similarity among group members (Zander 1979 cited in Thomsen et al. 2009). The decreased team performance may also be the outcome of conflict which is more likely in a more diverse team. The role of team leader becomes significant in encouraging discussion about diversity among team members, especially when the team leader has a different personality from the majority of team members. A woman director indicated this as one of her roles.

My subordinates say that I am a fussy person, but they also say that I always bring the spirit of togetherness among them. And because I am a very detail-conscious person, they always feel that they are chased. Probably this happens because I am a woman. I always explain to my team that I have such kind of working style. But at the end of the day, they are happy with my working style as a leader because the team is able to meet the requirements. ... Even though I have older men subordinates, I always try to respect them. And when I get upset with them, I just want to be upset about their working performance, not to hurt their feelings, as I know that I work in a team with diverse members (A director of a securities company).

The concept of a leader who is able to manage diversity is supported by Dreachslin (2007) who talks of team leaders with the ability to encourage and participate in management of different individual characteristics as having an advantage in decreasing conflict in diverse teams.

6.5 Summary of analysis results

The evidence from the interviews with women board members presented in this chapter suggest that as well as in being teamwork leaders in their departments, the presence of women in the boardroom affects company performance in terms of the directing and monitoring functions. Specifically, the women board members emphasised more the significance of company financial performance rather than social and environmental performance due to the fact that their performance was measured in monetary accomplishments. However, it is important to note that the participants also claimed that they did not see any direct relationship between their presence in the boardroom and company
performance but admitted that they were able to enhance their team performance that possibly led to advanced company performance as a whole. The main reason for claiming this was because they believed it was the teamwork performance that affected the firm performance, not their individual achievements. The women board members acknowledged the presence of the men board members who worked together with them in a solid team to achieve the targeted goals; they assumed that there was equality with men in terms of the ability to do given tasks.

Additionally, the interviewees revealed that they possibly exercised different directing and monitoring styles compared with men although they also believed that men may act in the same way. They mentioned several characteristics, such as persistency, personal and interactive communication, detailed and thorough planning, motivating and encouraging others, as the ways they directed and monitored and led their teams. By doing so, the women directors felt that they were able to drive the staff in their departments to the appropriate track to achieve the goals, and the women commissioners presumed that they were able to supervise the directors without neglecting the firm’s values.

The analysis of the interviews also provides supplementary results regarding the factors that triggered the appointment of the interviewees to become board members, the corporate governance issue, the differences in availability of men and women to be board members, and the interviewees’ stories of life. There were two main factors affecting their appointments as board members, i.e.:

1. The environmental factor, which referred to the open and equal opportunity given by corporations and the Indonesian government for women to access the highest positions.
2. The decisions made by the women to be available during selection processes with adequate understanding regarding the consequences of having to cope with their family responsibilities while they exercised their board roles. The availability of women to be appointed as board members was a crucial issue as women had other substantial roles in their life aside from being career women. Societal expectations are that women should attend to their domestic household needs such as taking care of husbands and children. Therefore, it is reasonable if women choose to dedicate themselves to their families instead of serving the corporations with demanding requirements.

Moreover, regarding the corporate governance issue, all women board of commissioners remarked during the interviews that company performance was directly related to the Board of Directors, rather than to the Board of Commissioners. They claimed that the board directors were the ones responsible for the daily operation of their firm as the directors had directing and monitoring roles. The duty of the Board of Commissioners was mainly to supervise the Board of Directors, to ensure that the directors were moving in the right direction according to the vision, mission and values of the company. Thus the women commissioners believed that company performance would be influenced only by the performance of the directors and not by the performance of the commissioners. Nonetheless, as indicated in the guidance of corporate governance implementation (FCGI 2007), that the term ‘board’ refers to both boards of Commissioners and Directors, the number of women commissioners needed to be included in the calculation of board diversity index. Further, these women board members seem to prioritise financial performance rather than non-financial one. Most of them define non-financial performance as the requirements to achieve higher financial performance, such as teamwork effectiveness and claims management in

187
insurance firms. The non-financial performance here is generally not defined as social and environmental performance although the interviewees consider this matter as important to be addressed by the firms. Finally, it is clear from the research data in this study that in the telling of their life stories, the women board members cherished their childhood and memories as important experiences that shaped their current work characteristics as well as leadership styles. The summary of analysis results with the themes generated can be seen in Figure 6.1 below which presents a clear relationship between the presence of women board members and firm performance.

6.6 Chapter summary
This chapter presented the findings on the perceptions of women board members regarding their role in enhancing firm financial, social and environmental performance. The findings are; firstly, gender does not matter in the appointment of board members although the availability to do board roles did differ between men and women. Secondly, women Board of Directors behaved differently to men in a similar position. And thirdly, which is the most important finding for the current study, the presence of women Board of Directors affected company performance. The different results from the quantitative method and the qualitative method are given in the next chapter, as well as a more extensive explanation of the results from the mix of both methods.
Figure 6.1 The relationship between women board members and firm performance (based on the themes from data analysis)

**Board members appointment factors:**

*Environmental factor:*
Equal opportunity provided by firms and government

*Personal factors:*
- Adequate and appropriate education and experience
- Personal motivation or desire to pursue career advancement
- Family background and supports from closest family members
- Availability to do board roles

**Presence of women Board of Commissioners**
- Supervisory and monitoring role

**Presence of women Board of Directors**

- Exercise different behaviour compared to men directors

**Theme 1:** Gender is not an appointment factor

**Theme 2:**
Women directors exercise different behaviour to men directors

**Theme 3:**
The presence of women Board of Directors affects firm performance

**Enhanced firm financial performance**

Moderated by advanced team or department performance
CHAPTER 7
QUANTITATIVE AND QUALITATIVE FINDINGS:
A HOLISTIC VIEW

7.1 Introduction
This chapter describes the combined results from the quantitative and the qualitative methods. From the combined results of the quantitative and qualitative research there appears a statistically positive significant relationship between the Blau Index and ROA, as well as a negative link between the Blau Index and Tobin’s Q which can be supported and explained by the descriptions given by the women board members during the interviews. The descriptions can also explain the insignificant link between the Blau Index and number of words and proportion of themes of social disclosures in annual reports and the insignificant relationship between the Blau Index and number of words of environmental disclosures in annual reports. The chapter starts with the explanation regarding the differences and similarities of the results of the quantitative and qualitative approaches and this is followed by a discussion of the results from mixed methods.

7.2 The different and similar results between quantitative and qualitative methods
Given the results of quantitative and qualitative methods that have been presented in the previous chapters, some general comments are made about the different and similar results found. The following discussion is about the differences and similarities related to each research question; which is the link between gender diversity in the boardroom and firm financial, social and environmental performance. The more comprehensive explanation regarding the mixed results from both quantitative and qualitative methods, including
enriched information achieved from combining both methods to answer the main research question, is presented in the following section.

1. Gender diversity in the boardroom and firm financial performance

The results from the quantitative method indicated that there was a negative significant relationship between the Blau Index and Tobin’s Q. However, it was found that a positive relationship existed between the Blau Index and ROA. Therefore, a more diverse boardroom may result in lower market value but higher profitability. The results of the qualitative method signified that the women board members, especially women directors, believe that there is a positive relationship between their presence and enhanced firm performance. The link was assumed to be indirect although this was moderated by advanced team or department performance. What they believed was that they might have enhanced their department’s performance through their leadership capacity and this then might contribute to the performance of the firm as a whole.

2. Gender diversity in the boardroom and firm social performance

The quantitative results suggest that there is no significant relationship between gender diversity in the boardroom and firm social performance. This result is strengthened by the results from the qualitative method, which indicate that the women board members did not involve themselves too much in terms of firm social responsibility reporting. What the interviewees understood regarding non-financial performance or simply ‘social performance’ was mainly related to non-financial activities for which they were responsible in order to enhance firm financial performance. Although some of the interviewees mentioned social reporting conducted by the firms they worked for, these reporting activities were not seen to be part of their contribution but had been the policy of the firm in general.
3. Gender diversity in the boardroom and firm environmental performance

Similar to the results regarding the link between gender diversity in the boardroom and firm social performance, it was found that neither quantitative nor qualitative methods reflect a significant link between gender diversity in the boardroom and firm environmental performance. The interviewees believed that they had to be responsible for environmental sustainability. However, due to the nature of the firm’s activities, which concerned services to customers without polluting the environment, they believed that the firm should not be involved intensively in environmental activities (although some firms for which the interviewees worked had also mentioned greening the environment in their annual reports).

7.3 Results from the mixed methods

The mixed results from quantitative and qualitative analyses are described in this section to satisfy the research questions. The explanations include the association between gender diversity in the boardroom and firm financial performance, firm social performance, and firm environmental performance.

1. Gender diversity in the boardroom and firm financial performance

The information acquired from the interviews with several women board members shed additional insights on the results of the statistical analysis. The quantitative results indicated that there was a positive significant relationship between gender diversity in the boardroom as measured by the Blau Index and firm financial performance as measured by ROA. In contrast, the results showed negative significance when the firm financial performance was measured with Tobin’s Q. On the other hand, the qualitative results suggest that, generally, the women directors believe their presence may enhance firm performance financially as a result of their working styles and leadership which are different from the working styles and leadership of
men directors. While the women commissioners considered their corporate behaviour to be similar to that of men commissioners, they indicated that they should not be connected to firm performance as they do not make business decisions in their firm’s daily operation. Therefore, one may surmise that the higher the Blau Index and associated higher ROA may be explained by the presence of women directors who exercised a working approach and team-leading style different from that of men directors’. Furthermore, these women board members seem to act as the stewards of the firms, who protect the assets of the firms and work together with the management to achieve the business goals. Thus, the finding that gender diversity in the boardroom positively affected the firm’s ROA may be explained by the reasoning provided by the women directors; that the differences in their personalities compared to men, the way they act as stewards, their formal and non-formal education and family background, and their previous working experience, make them even more capable to manage the firms.

Nevertheless, as mentioned in the previous paragraph, the relationship between the Blau Index and firm financial performance became negative when Tobin’s Q was employed. This finding could not be supported by the qualitative results since no there was no information in the interview transcripts that mentioned the negative effect of the existence of women board members. All of the interviewees described the internal performance of firms; firm revenue, outcome of teamwork, employee relations, departmental working performance, services delivery, and customer relation. Firm performance relating to the market value of shares and future prospects of the firm were not acknowledged at all. This may mean that the interviewees were not aware of other types of financial performance reflected in the market value of the firm and that they had so far only focused on internal performance.
Additionally, this may be because the women board members did not act based on the concepts provided by the agency theory. They did not only care about maximizing the wealth of the shareholders, but also the wellbeing of the employees. They could not therefore act as independent monitors to the management but, in contrast, they tended to be involved more in improving the performance of the management. Besides, performance evaluation conducted by firms normally concentrates on internal financial aspects. Annual reports of firms usually accommodate this kind of performance evaluation. For example, financial statement analysis includes profitability, liquidity, efficiency, financial gearing, and investment ratios. Therefore, an external financial performance measurement such as Tobin’s Q may not catch the effect of the presence of women in the boardroom, but the internal one, such as ROA as the measure of profitability, may be able to do so.

The effect of women directors’ presence in the boardroom may also not be linked directly to firm performance although the association between gender diversity in the boardroom and ROA was positive. According to the women directors, it is more appropriate to consider the existence of women directors as only one factor that leads to the improvement of firm performance. Besides, the women directors’ role was more about enhancing teamwork performance and the quality of the human resource of the firms. Moreover, the performance of women directors and their teams in particular departments could not be compared to other divisions’ performance as they worked on different aspects to those handled by men directors. Therefore, since they were only responsible for particular divisions in the firms, although these divisions may contribute to the enhanced performance of the firm as a whole, it cannot be concluded that it is only the women board members who contributed to the improved firm performance.
Furthermore, as the two-tier system has been applied in the Indonesian context, the existence of women commissioners had to be considered as well. As a result, the calculation of the Blau Index for measuring gender diversity in the boardroom included the number of women commissioners. However, the women commissioners had mentioned during the interviews that they did not have the capacity to directly influence firm performance. Their duty was limited to supervision and to providing advice to the Board of Directors who was directly responsible for the future performance of firms. The explanation regarding the different duties of a Board of Commissioners and a Board of Directors delivered by women commissioners during the interview gave more detailed insights about the role of board members in Indonesian firms.

Additionally, women’s representation in the boardrooms may be shaped by the broader environment, including social, political and economic structures of a certain country (Singh, Terjesen & Vinnicombe 2008). So does the firm performance which depends on many internal and external factors that may include women representation in the boardroom as one internal factor. Women’s presence in the boardroom is only one aspect of corporate governance which adds to good practice resulting in enhanced firm performance. However, although women board members have been claimed to have competent monitoring ability in relation to good corporate governance implementation, Adams, Hermelin and Weisbach (2010) believe that firm performance has not always improved.

Next, since women are still viewed as risk averse in the business world (Maxfield et al. 2010) this may be relevant to explain the negative link between gender diversity in the boardroom and firm financial performance measured by Tobin’s Q. Based on the Tobin’s Q formula; the higher the amount of debt and number of shares outstanding as well as the share price, the
greater the value of Tobin’s Q. However, as high debt and high portion of shares mean high risk in the future regarding the availability of assets to be used to pay the debt and to distribute dividends, the presence of women in the boardroom may decrease the expectation of the firm to have more debt and outstanding shares.

The nature of firms may also be the factor that moderates the negative link between the existence of women board members and Tobin’s Q. The sample used in this study was taken from financial firms which consisted of banks and non-bank companies (i.e. financial institutions, securities companies, insurance), and other financial firms that could not be categorized in any of these types of companies. In order to calculate Tobin’s Q, the total amount of a firm’s liability was required. For banks, the total liability mostly came from the deposits from customers so that the amount of liability was relatively high. When it was compared to non-banks, the amount of debt was considerably lower as they did not have any liability to customers. Besides, non-banks firms were not as popular as banks which may cause a low market value of their shares. This may contribute to the end result of Tobin’s Q calculation. Therefore, the Tobin’s Q of non-banks firms was found, on average, to be lower than those of banks. In contrast, the Blau Index for non-banks was higher than the indication for banks. This contrasting fact then may lead to a negative relationship shown between higher gender diversity in the boardroom and lower financial performance of the firms as measured by Tobin’s Q.

Another explanation could be that the financial firms’ share prices were low, especially for the non-bank financial firms. This may be due to low trading frequencies which cause the investors not to be interested in trading financial firms’ stocks. Furthermore, as Indonesian financial firms are considered to be non-prospective businesses which have low capacity to
generate profit, investors may generally think that investing capital in these firms would not be beneficial to them. In the interview with a woman director of an insurance firm, it was remarked that everyone in the insurance field must acknowledge that the insurance industry was not well appreciated by the public. The residents in developing countries mostly did not realize the benefits of having insurance policies and did not believe that insurance companies were reliable enough for them to invest their money in or to pay claims as needed. This phenomenon was reflected in the low market value of the insurance company’s shares. Therefore, the negative link between gender diversity in the boardroom and Tobin’s Q may be caused by the public perceptions of the firms, not because of the presence of women in the boardroom.

In summary, the results of the quantitative and qualitative research methods used in this study and the explanations in the literatures, suggest the reasons lying behind the relationship between the financial performance and gender diversity in the boardroom of Indonesian financial firms can be illustrated in Figure 7.1 below:
Figure 7.1: The link between gender diversity in the boardroom and firm financial performance

**Finance point of view:**
- Tobin’s Q calculation includes book value of debt. The higher the debt financing, the lower the ROA (QN¹).
- Indonesian share market has been in the development stage so that information sensitive to market value of shares is not responded to by investors. Additionally, investor bias may exist (QN¹ and QL²).
- Women boards are more risk-averse than men in terms of financial investment (QN¹).

**Corporate governance point of view:**
- Women BoC protect the BoD from higher debt financing and focus more on the corporate governance, ethical compliance and profitability aspects (QL²).
- Weaknesses of Indonesian corporate governance mechanisms, including family-controlled firms, conglomerates, the practice of corruption, collusion and nepotism (QN¹)
- There is a claim that Tobin’s Q and ROA are not appropriate measures for the effect of corporate governance implementation, although previous research has used these proxies to determine financial performance (QN¹).

**Organizational point of view:**
- Women directors give more attention to the organizational and teamwork performance (QL²).
- The working style of women board members, both commissioners and directors, confirms the Stewardship Theory (QL²).
- Different leadership styles and orientation between men and women board members (QL²).
- Women commissioners in particular are only functioning as a supervisory body to the directors and not exercising as decision makers (QL²).

Notes: 1 = Results from quantitative method
2 = Results from qualitative method
2. Gender diversity in the boardroom and firm social and environmental performance

There were divergent opinions among the interviewees regarding firm environmental and social performance. Some of the interviewees defined environmental and social performance as efforts of firms to share benefits with the community both in the form of social action and by creating a better and greener environment. They simply defined this kind of performance as ‘corporate social responsibility’. Some other participants described non-financial performance as attempts to increase the working performance of the firm’s human resources in order to achieve the target of enhancement of firm financial performance.

In contrast, the quantitative method used in this study examined the relationship between the Blau Index as a proxy for gender diversity in the boardroom and corporate social responsibility reporting in annual reports as a measure of a firm’s social and environmental performance. The corporate social responsibility emphasis on measuring a firm’s social and environmental responsibility was in terms of larger issues such as human resource management, product management, social involvement in the community, and environmental contribution to create a sustainable atmosphere. Therefore, it was clear that there was a different perception between the participants and the researcher regarding non-financial performance. In the minds of the interviewees, non-financial performance was related only to a part of the firm’s social responsibility, which was to make contributions to the community and the environment, while according to the researcher the measurement of non-financial performance is associated with a wider stakeholder view, both from inside and outside the firms.

Generally, there were similar results from both the quantitative and qualitative methods which showed no link between gender diversity of board members and firm social and environmental performance.
environmental performance as measured by the quantity and quality of social and environmental disclosures in annual reports. Most of the interviewees seemed to agree that they did not participate in the decisions regarding what, and how much, to be disclosed in annual reports. However, it must be noted that they actually were involved more in corporate social responsibility activities, such as ‘greening the environment’ programs, corporate charity for education and humanity, developing corporate ethical values, and human resource development programs. This means that, the role of women board members in enhancing their firm’s social and environmental performance, while not disclosed in annual reports, can be linked to ‘real’ corporate social responsibility activities. Therefore, higher gender diversity in the boardroom may not be linked to a higher quantity and quality of social and environmental disclosure, but may result in higher corporate social responsibility activities. Figure 7.2 in the following page presents this finding.
Figure 7.2: The link between gender diversity in the boardroom and firm social and environmental performance

Women board members:

- are not involved in deciding the quantity and quality of social and environmental disclosures in annual reports (QL²).
- do not play a relevant role in exercising and disclosing sustainability issues through annual reports (QN¹).

High gender diversity in the boardroom

- No association with firm social and environmental disclosures in annual reports
- Possible higher corporate social responsibility activities

Women’s:

- ability to contribute strategically and generate more productive social responsibility activities (Bilimoria 2000 cited in Nielsen & Huse 2010).
- higher sensitivity to their social surroundings (Bradshaw & Wicks 2000 cited in Nielsen & Huse 2010).
- attention to and consideration of the needs of others (Nielsen & Huse 2010).
- interest to provide scholarships and to run social programs (Gutner 2000).
- responsiveness to the society in a crisis situation (Williams 2003).

Notes: 1 = Results from quantitative method
2 = Results from qualitative method
3. What has been learnt from the mixed results?

As stated in Chapter 1 of this thesis, the study is the first attempt at integrating both quantitative and qualitative methods in the corporate governance area, with particular focus on understanding the effect of gender diversity in the boardroom on a firm’s financial performance. The process of analysing the data and incorporating the results to gain such understanding has been both very interesting and challenging. It was interesting because the data, especially data from the qualitative method in the form of interviews, provided rich information. Insights were gained as well as the pleasures obtained from meeting and learning from ‘goddesses’ of Indonesian firms about their life experiences. Moreover, the quantitative data from accounting records, as well as the board diversity data of financial firms in the Indonesia, had not yet been fully explored and utilised at the time this research was undertaken. However, when the results from both quantitative and qualitative methods were combined to get the mixed findings, the conflicting results presented a challenge to further analyse as the qualitative findings could not support and explain the outcome of calculations from the quantitative method. It was expected in the early stage of the study that analysis from the interviews would bring in-depth explanations and would support the statistical data.

The mixed method was useful in terms of showing how both sets of data (the quantitative and qualitative) articulated to reach the final result. The process of combining and identifying the reasons behind the findings from both data needed detailed specifications and intensive reading of relevant literature since one major question needed to be satisfactorily answered; “Why do both the negative and positive links between gender diversity in the boardroom and firm financial performance exist?”. As the answer to this question did not immediately emerge from the data, there was a need to examine links and to explore the logic behind the links and relationships. Understanding related areas of the researched topic was a compulsory
element to this study. Theories of corporate governance and finance, psychological, behavioural and organizational concepts, and an abundance of previous research in these fields had to be reviewed to get comprehensive answers. Finally, the possibility of conflicting results from the quantitative and qualitative inquiries needed to be addressed and anticipated.

7.4 Chapter summary

This chapter presented the mixed results and explained the integration of findings between the quantitative and qualitative methods. Based on the literature available, the underlying reasons behind the inconsistency in the results of the two methods were examined and explained. Based on the finance, corporate governance and organization perspectives, the figures which summarize the arguments were drawn to give a clear picture of why the conflicting results of market-based performance and accounting-based performance exist. Finally, lessons learnt from conducting mixed methods research have been described to emphasize that this type of study is both interesting and challenging but gives more satisfying outcomes.
CHAPTER 8
CONCLUSIONS AND IMPLICATIONS

8.1 Introduction
The chapter contains the summary of conclusions arrived at in earlier chapters, and the implications and limitations of the study. The suggestions for future research are at the end of this chapter.

8.2 Summary of conclusions
The sections below summarize the conclusions drawn from both the quantitative and qualitative analyses for the relationships between gender diversity in the boardroom and firm financial, social and environmental performance.

8.2.1 Gender diversity in the boardroom and firm financial performance

Research Question 1:
Does gender diversity in the boardroom impact the financial performance of Indonesian publicly-listed financial firms?

Hypotheses:

1. H1a: Gender diversity in the boardroom (as measured by the Blau index) has a positive relationship with firm financial performance (as measured by Tobin’s Q [market-based financial performance]).
2. H1b: Gender diversity in the boardroom (as measured by the Blau index) has a positive relationship with firm financial performance (as measured by Return on Assets [accounting-based financial performance]).

Findings:

1. H1a was rejected. It was found that the Blau index has a negative relationship with Tobin’s Q.
2. H1b was accepted.

8.2.2 Gender diversity in the boardroom and firm social performance

Research question 2:

Does gender diversity in the boardroom impact the social performance of the Indonesian publicly-listed financial firms?

Hypotheses:

1. H2a: Gender diversity in the boardroom (as measured by the Blau index) has a positive relationship with firm social performance (as measured by number of words [the quantitative dimension] of social disclosure).
2. H2b: Gender diversity in the boardroom (as measured by the Blau index) has a positive relationship with firm social performance (as measured by proportion of themes [the qualitative dimension of social disclosure]).

Findings:

1. H2a was rejected. It was found that there was no significant link between the Blau index and the quantitative dimension of social disclosure.
2. H2b was rejected. It was found that there was no significant relationship between the Blau index and the qualitative dimension of social disclosure.

### 8.2.3 Gender diversity in the boardroom and firm environmental performance

**Research question 3:**

Does gender diversity in the boardroom impact the environmental performance of the Indonesian publicly-listed financial companies?

**Hypothesis:**

H3: Gender diversity in the boardroom (as measured by the Blau index) has a positive relationship with firm environmental performance (as measured by the number of words [the quantitative dimension] of environmental disclosure).

**Findings:**

H3 was rejected. It was found that there was no significant association between the Blau index and the quantitative dimension of environmental disclosure.

### 8.2.4 The perceptions of women board members regarding the role that they play in enhancing firm performance

**Research question 4:**

What are the perceptions of women in the boardroom of Indonesian publicly-listed financial firms regarding the role they play in contributing towards their firm financial, social and environmental performance?
Findings:

The themes found from data analysis regarding the relationship between women board members and firm performance are as follows:

1. Gender is not an appointment factor for being a board member of an Indonesian publicly listed financial firm.

2. Women directors, unlike women commissioners, behave differently to male directors. This is because directors are generally responsible for the daily management of the firms, while commissioners commonly only have an obligation to supervise and monitor the directors.

3. The presence of women directors indirectly affects firm financial performance, but not firm social and environmental performance.

A more comprehensive explanation regarding the results from the qualitative approach can be seen in Figure 6.1 (Chapter 6)

8.2.5 Quantitative and qualitative findings: A holistic view

Based on the findings from the quantitative and qualitative approaches, there are several underlying reasons for the positive link between gender diversity in the boardroom and ROA, and the negative association between gender diversity in the boardroom and Tobin’s Q. These are as follows:

1. The Indonesian share market has been in the developing stage and information sensitive to market value of shares are not responded by investors. Moreover, there could be investor bias existing that may result in negative attitudes towards women board members.

2. Tobin’s Q calculation includes book value of debt. The higher the debt financing, the lower the ROA.
3. Women directors behave differently than men colleagues and give more attention to the organizational and teamwork performance in order to enhance firm performance as a whole.

4. Women commissioners are only functioning as a supervisory body to the directors and are not operating as decision makers.

5. The weaknesses of Indonesian corporate governance, such as the family-controlled firms and the practice of conglomeracy.

Figure 7.1 in Chapter 7 describes the combined results in a more specific way.

Furthermore, the overall results of the relationship between gender diversity in the boardroom and firm social and financial performance was found to be as follows:

1. Women board members do not play a relevant role in exercising and disclosing sustainability issues through annual reports.

2. Women board members may enhance the corporate social responsibility activities and not the corporate social responsibility disclosures. This is because of women’s ability to contribute strategically, to generate more productive social responsibility activities, and to be sensitive about their social surroundings.

The explanation for these results has been given in Figure 7.2 (Chapter 7).

Overall, gender diversity of board members remains an interesting topic to be explored, even if it does not necessarily lead to improved firm performance, because the promotion of women in business is still believed to be a good policy (Francoeur, Labelle & Desgagne 2008).
8.3 Implications

The results from this mixed methods study indicate that gender diversity in the boardroom in the context of Indonesian publicly listed financial firms may hurt firm value due to several possible reasons including the non financial focus of women board members and investor bias. With regard to social and environmental performance, it is found that gender diversity of board members does not affect the quantity or quality of social and environmental disclosures in annual reports. These findings are believed to have various implications for theory, policy and practice. The following sections discuss each of the implications.

8.3.1 Implications for theory

The roles of boards in firms have been extensively described in the agency theory (Jensen & Meckling 1976). According to this theory, the primary function of the board is to monitor the actions of managers as the agents to protect the interest of principals or owners and so that the agency cost can be minimized and the firm performance can be improved (Fama 1980). Agency theory suggests that a more diverse board, one that includes gender diversity of board members, is a better monitor of managers as board diversity increases board independence (Carter et al. 2007). This is supported by the proponents of the economic case for board diversity who argue that women may provide important information to the board and to managers because of their knowledge of unique information. However, those who disagree with the above believe that diversity may negatively benefit firms as a consequence of the high possibility of internal conflicts which may decrease the value of firms.

As stated above, because gender diversity is expected to improve board independence, one would expect a positive association with firm performance. However, one result of this thesis shows a negative association as some prior studies already indicated in the literature review.
sections have shown. The negative association can be explained by stewardship theory. This present research also finds that women board members have more emphasis on their collaborative work with managers to achieve the firm goals rather than monitoring managers to ensure that the shareholders’ wealth is maximized. This implies that, in the context of Indonesian publicly listed financial firms, it is the stewardship theory not the agency theory that may help describe the link between the presence of women board members and firm value. It also means that although the agency theory is believed to be the most applicable theory in the case of corporate governance globally, especially in terms of board mechanism, the stewardship theory is able to explain the current phenomena in Indonesian boardrooms.

Moreover, the results of this research may add the theory building on gender diversity and firm performance in the Indonesian context that has been previously initiated by Kusumastuti, Supatmi and Sastra (2007), Nuryanah (n.d), Pudjiastuti & Mardiyah (2006), and Chevalier, Prasetyantoko & Rokhim (2006). All of these studies have been conducted using the sample of non-financial firms and found that there is no relationship between gender diversity in the boardroom and firm financial performance. In the current study which utilise financial firms as the sample, a negative link was found when using Tobin’s Q as the measure of financial performance. This may mean that Indonesian financial industry, with its different inherent characteristics compared to non-financial one, may cause the negative link. Therefore, the negative result may only be generalised for the financial industry only.

8.3.2 Implications for policy

Regarding the issue of quotas for women in the boardroom, some interviewees agreed that there was no need for firms or the Indonesian government to set a quota. Further, they feel that women can be appointed to boards on their own merit; women should earn rather than be
given the positions. This thought is supported by CAMAC (Corporations and Markets Advisory Committee) (Spearritt & Butcher 2010) which does not reinforce the notion of a quota as it could limit the rights of shareholders to choose board members and decrease the recruitment of well qualified candidates as the emphasis is only on quantity and not quality. An interviewee also raised the issue of quotas given by the government for women to be member of legislatives. She stated disagreement with this principle. As she worked in the US for a couple of years, she then summarized the US government policy regarding gender equality arguing that it might not be appropriate to be applied in the Indonesian context.

I can not compare the situation in Indonesia with those in the US. In the US, certain percent of board members should come from the Black race, certain percent should be women, etc. We don’t have such regulation in Indonesia. Only lately, our government support the equality for legislative members. But for me, that’s degrading, which means that, I think, women should earn it, not receiving the allocation (The Independent Commissioner of a bank).

This opinion resembles the one argued by Bohn and Davis (2010) and Flannery (2010), that a quota sends the wrong message and women should be selected to be board members because of their qualifications, not because of on externally applied criteria. The nomination and election of board members should not be done in a rush as shareholders have the right to select the best ones. However, when there is a deadline set by a mandated quota, this process might not be conducted properly and lead to poor recruitment.

On the other hand, Natividad (2010) asserts that the implementation of quotas may effectively accelerate the numbers of women in the boardrooms in a short period of time, as has been the experience of European countries such as Norway and Spain (40% quota for women directors), Germany’s Duetsche Telekom (30% quota for women in senior and middle management) and the Netherlands (30% quota for women board members and 30% quota for women executives) (Bruce 2010). It is claimed that the greater percentage of women board members and executives resulted in better the firm performance (Natividad 2010) followed
the implementation of quotas in Europe. Thus, based on the arguments for and against the quota for women board members, and by acknowledging the targeted end results, it is then the responsibility of the government of each nation to carefully consider whether the legislation of quota should be imposed on the private sector or not.

8.3.3 Implications for practice

Women board members may be more stakeholder and long-term oriented than their male counterparts (Matsa & Miller 2011). These women are found to be concerned with “communal” aspects in the workplace such as working relationships, customer satisfaction and communication with subordinates, while men leaders are recognized to aim for more personal-reward factors such as career development and compensation (International Survey Research 2004 cited in Matsa & Miller 2011). However, it can be seen that the shareholders and investors in the Indonesian context are still unwilling to bring more women to the boardrooms, to acknowledge that women board members may enhance overall firm performance in the long term, and to remove their intolerance against women leaders. This suggests one important reason why women board members are still underrepresented in the boardroom. It is because women are likely to focus more on the soundness of the organization which does not improve their recognition by the shareholders who are more interested in the end result of the business, which is firm financial achievement, and willing to reward those who successfully satisfy this need.

It is also the impact of one weakness of Indonesia’s corporate governance practice; that is the existence of board members who have family ties with owners, or the appointment of family members to be board members without considering the capability of the appointees. Since these appointees could be women, who could also be the daughters or wives of the owners,
prejudice regarding these women’s incapability does exist and, unfortunately, decreases shareholder value. The shareholders may think that a board that includes women is unable to maximize its effort to optimize firm performance. What the shareholders want to achieve via the board members is an increase in firm value. Once a firm cannot focus on this goal, the shareholders tend to penalize the firm by discounting the share price.

Although this research shows that the presence of women board members enhances the Return of Assets as the proxy of the profitability of firms, the prejudice of the shareholders seems not to disappear. The majority of the shareholders seem to still hold the thought that having a few women firm leaders is better to enable the boardroom to remain on track, to control the management or the agent to work in the best interest of the shareholders or the principal. Therefore, firms, via the boards, must be able to justify the decision to increase gender diversity in the boardroom is related to business-related goals such as to improve customer and employee relation, to comply with stakeholders or public needs (Fanto, Solan & Darley 2011), or to maintain the legitimacy needed by the firms to continue business.

Moreover, non business-related goals may also be addressed to justify board diversity. For example, Adams and Ferreira (2009) suggest that men have better attendance rates when they serve on gender-diverse board, and Fanto, Solan and Darley (2011) and DeMott (2011), based on the latest accounting scandal at WorldCom, Inc., suggest that in time of crisis better decisions may be made by a more diverse board. Pierre (2010) also believes that firm performance may be enhanced not only through a mix of the genders on boards but also by ensuring a diversity of competencies, skills, nationalities, age and gender of firm members. These will ultimately lead to, although indirectly and in the long term, an improved overall firm performance which then increases firm value.
Additionally, firms should also employ better mechanisms for the appointment of board members. The candidates must have the qualifications required, especially regarding educational background, and tenure and work experiences and these may assure the shareholders that appropriate board members have been elected, regardless of gender, to maximize firm value. As a consequence, the appointment of family members who do not meet the requirements to be board members must be abolished.

Finally, firms, through the major shareholders, should start to ensure that women possess equal access to be board members since it seems that women leaders are more able than male colleagues to deliver leadership behaviours that could be effective when applied in current conditions. The leadership styles in this context are the transformational and contingent reward behaviours. This is because women are believed to have the ability to exercise these leadership behaviours to manage their relationship and to exercise similar management style with men (Eagly, Schmidt and Engen 2003).

8.4 Limitations

There are several limitations of the current study that might be improved in future research. Since the research sample only cover the financial firms publicly-listed on the Indonesian Stock Exchange from 2005-2008, the research results can only be applied to the firms in the sample in this periods and not to other firms or outside of the time spans considered in this study. Moreover, the sample consists of different types of financial firms (banks, insurance firms, securities firms, financial institutions, and other type of firm). Each type of financial firm has its own nature and characteristic and this may influence the final research results. However, this issue was recognized at the early stage of the research and the possible errors have been covered in the statistical model.
Additionally, the research method chosen for the qualitative inquiry was only by conducting interviews - it is pioneering research in the Indonesian context for a particular topic related to the mechanisms of corporate governance. Other research methods, such as case study or participant observation, could also be used to provide more comprehensive data regarding the role of women board members in enhancing firm performance. However, these could not be performed as there were time and resource constraints. Finally, the limited number of interview participants (because of difficulties in getting access to meet the women board members) also contributed to the decreased richness of information analysed in the qualitative part of the study.

8.5 Suggestions for future research

The following are the suggestions for future research and possible improvement regarding the scope of research. The future research may utilize samples of non financial firms in, or other than, the Indonesian context and in more current time spans. Moreover, when different types of firms are used for the sample, the variable of regulation should also be considered. Other research methods may be applied to achieve a better understanding of board mechanisms and how board members work on a day-to-day basis. As well, the number of participants may be increased and include men board members to get their perspectives regarding the role of women board members. Besides, it is suggested that future research related to firm social or environmental performance utilize the value of money disbursed by firms in meeting the needs of the society for the proxy of firm philanthropy. Another possibility is use independent agencies or organizations to rank the firms in terms of their social or environmental performance. These alternative measures may be difficult to apply but may be more effective in terms of the data accuracy, and more efficient in relation to the time spent in data collection.
since the usage of total number of words and themes of social disclosures in annual reports has required a relatively high consumption of time and energy.

Furthermore, the effects of the presence of women board members on firm performance should be explored further in future research because there is a possibility that shareholders behaviour may change in relation to the gender bias due to the acknowledgement that gender diversity of board members is needed to maintain the going concern of the business. Besides that, since the public currently has been demanding firms to provide more opportunities for women to be leaders, the effect of this structural change in firms may be examined over the long term. More research should also be undertaken regarding investor behaviour, especially factors affecting their investment decisions when faced with the presence of women board members. This is because in the stock market, behaviour is shaped partly by psychological and sociological factors that some prominent theories disregard (Dobbin & Jung 2011).

Women directors are somewhat disadvantaged by the type of board committee assignments they are traditionally given. These assignments have less instrumental impact on performance of the firm (Shrader, Blackburn & Iles 1997). Future research may like to address this issue to examine the nature of the duties or obligations held by women board members compared to male colleagues. However, based on the interview results, two of four women directors are in roles that have a bearing on firm financial performance. Moreover, given that Indonesian boards show low rates of women’s participation, it is important to conduct research when boards hopefully become more diverse than is the current situation. Currently, the trend across the world is for a falling proportion of women in senior management (Grant Thornton 2011) and in the context of Indonesia, the average percentage of women board members of all types
of industry in 2011 has been estimated as only 4.1% (UK Department for Business Innovation & Skills 2011) or 4.5% (Catalyst 2011).

8.6 Chapter summary

The chapter gives an overview of the main findings of the study and its implications for theory, policy and practice. The limitations of the study were also presented. Suggestions for future research have also been identified. The most interesting finding was that gender diversity in the boardroom resulted in positive profitability but negative firm value because women board members seem to be able to enhance organizational performance that may lead to the improvement of performance. However, since investor bias might exist, the contribution that women board members may have for the firms is still viewed negatively by the investors that make the firm value decrease when women are on the boards. Additionally, the weaknesses of Indonesian corporate governance, as evidenced by family-controlled firms and the practice of conglomeracy, may also impact on the negative link between gender diversity in the boardroom and firm performance. Next, it was suggested that future research may use samples other than financial firms and explore the relationship between the presence of women board members and firm performance in a more current time span. Research regarding investor behaviour in response to the presence or the appointment of women board members was also suggested. Finally, the implications of the research for theory, policy and practice were explained. The research finds support for the stewardship theory which helps explain the association between gender diversity in the boardroom and firm performance. In relation to policy, the proposed legislation of a quota for women in the boardroom should be considered carefully following the findings of this study. The lesson for practice is that gender diversity in the Indonesian context may not by itself achieve much for financial performance.
Consequently, firms may need to carefully consider what ‘added value’ is likely to result from the inclusion of women in the boardroom.
REFERENCES


Dysfunctional Board: Causes and Cures, retrieved from HeinOnline (http://heinonline.org) at 27 July 2011.


Bruce, C 2010, ‘Female directors bring something new to Europe’s firms: Smarts’, Boardroom Revolution, 0040781X, 26 April, vol. 175, issue 16.

Bryman, A 2006, ‘Integrating quantitative and qualitative research: how is it done?’, Qualitative Research, vol. 6, no. 1, pp. 97-113.


Clarkson, PM, Li, Y, Richardson, GD & Vasvari, FP 2007, ‘Revisiting the relation between environmental performance and environmental disclosure: An empirical analysis’, *Accounting, Organizations and Society*, vol. 33, no. 4-5, pp. 303-327.


Dambrin, C & Lambert, C 2008, ‘Mothering or auditing? The case of two Big Four in France’, *Accounting, Auditing and Accountability Journal*, vol. 21, issue 4, pp. 474-506.

Dambrin, C & Lambert, C 2012, ‘Who is she and who are we? A reflexive journey in research into the rarity of women in the highest ranks of accountancy’, *Critical Perspectives on Accounting*, vol. 23, issue 1, pp. 17-35.


Ely, RJ, Foldy, EG, Scully, MA, & The Center for Gender in Organizations Simmons School of Management 2003, Reader in Gender, Work, and Organization, Blackwell Publishing, Australia.


Forum for Corporate Governance in Indonesia (FCGI) 2007, A boardroom guide to the OECD principles of corporate governance, Forum for Corporate Governance in Indonesia, Jakarta.

Forum for Corporate Governance in Indonesia (FCGI) 2008, Corporate Governance An Introduction: The Roles of the Board of Commissioners and The Audit Committee in Corporate Governance, Forum for Corporate Governance in Indonesia, Jakarta.


Grant Thornton 2011, ‘Proportion of women in senior management falls to 2004 levels’, retrieved 15 July 2011 from http://www.gti.org/Press-room/Proportion%20of%20women%20in%20senior%20management%20falls%20to%202004%20levels.asp


Lim, L 2010, ‘Corporate governance – A survey of Australian and South East Asian systems’, *Corporate Governance eJournal*, Bond University, pp. 1-16.


Nam, SW & Nam, IC 2004, *Corporate Governance in Asia: Recent Evidence from Indonesia, Republic of Korea, Malaysia, and Thailand*, Asian Development Bank Institute, October.

National Committee on Corporate Governance (KNKG) 2006, *Indonesia’s code of corporate governance*, KNKG, Jakarta.

Natividad, I 2010, ‘There is no denying the effectiveness of quotas: Why Europe will surpass the U.S. in changing the face of the corporate board’, *Directors & Boards*, Third Quarter.


238


Scholtens, B 2009, ‘Corporate social responsibility in the international banking industry’, *Journal of Business Ethics*, vol. 86, pp. 159–175.


Wilmshurst, TD & Frost, GR 2000, ‘Corporate environmental reporting: A


Appendix 1: Summary of prior studies regarding the link between gender diversity in the boardroom and firm performance

<table>
<thead>
<tr>
<th>No.</th>
<th>Authors</th>
<th>Sample</th>
<th>Variables</th>
<th>Measures</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>Name</td>
<td>Type</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Gender diversity of the board of directors</td>
<td>Independent</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Firm value</td>
<td>Dependent</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Board size</td>
<td>Control</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Debt level</td>
<td>Control</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Firm financial performance</td>
<td>Control</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Firm size</td>
<td>Control</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Book-to-market</td>
<td>Control</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Leverage</td>
<td>Control</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Intangibles’ intensity</td>
<td>Control</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Year-fixed effects</td>
<td>Control</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

The link between gender diversity in the boardroom and firm financial performance

a. Gender diversity influences firm financial performance

1. Campbell and Vera 2008
   Non-financial firms listed on the continuous market in Madrid during January 1995 to December 2000
   - Gender diversity of the board of directors
     - Dummy variable: 1 for at least one woman is present on the board and 0 otherwise
     - Percentage of women on the board, Blau index and Shannon index
   - Firm value
     - Tobin’s Q
   - Board size
     - Logarithm of the total number of directors
   - Debt level
     - Ratio of total debt to total assets
   - Firm financial performance
     - Return on Assets (ROA)
   - Firm size
     - Natural logarithm of total assets

2. Jurkus, Park and Woodward 2008
   Female officers in top management at Fortune 500
   - Gender diversity
     - The number of female officers divided by the number of total officers
   - Firm financial performance
     - Total assets, profitability, ROA, profit margin, dividend payout ratio, and free cash flows
   - Firm size
     - Natural log of total assets
   - Book-to-market
     - Book value of the firm divided by market capitalization
   - Leverage
     - Long-term debt divided by total assets
   - Intangibles’ intensity
     - The ratio of intangible assets (R&D and advertising expenditures) to sales
   - Year-fixed effects
     - Year dummies
<table>
<thead>
<tr>
<th>No.</th>
<th>Authors</th>
<th>Sample</th>
<th>Variables</th>
<th>Type</th>
<th>Measures</th>
</tr>
</thead>
<tbody>
<tr>
<td>3.</td>
<td>Bathula 2008</td>
<td>156 listed firms in New Zealand from 2004-2007</td>
<td>Board characteristics</td>
<td>Independent</td>
<td>Director ownership, CEO duality, number of women on the board, number of directors with PhD, number of board meetings conducted annually, size of the board.</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Firm performance</td>
<td>Dependent</td>
<td>Return on Assets</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Firm size</td>
<td>Control</td>
<td>Sales revenue</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Firm age</td>
<td>Control</td>
<td>Number of years since incorporation</td>
</tr>
<tr>
<td>4.</td>
<td>Nielsen et al. 2008</td>
<td>CEO’s of the companies in Italy in June 2004</td>
<td>Board diversity</td>
<td>Independent</td>
<td>Board demography</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Board process</td>
<td>Mediating</td>
<td>Debate and conflict</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Board task performance</td>
<td>Mediating</td>
<td>Service and control</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Firm performance</td>
<td>Dependent</td>
<td>Return on Equity (ROE) and ROA</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Firm size</td>
<td>Control</td>
<td>Natural logarithm of annual turnover</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Board size</td>
<td>Control</td>
<td>Total number of board members and the ratio of outside directors to the total number of directors</td>
</tr>
<tr>
<td>5.</td>
<td>Carter, Simkins and Simpson 2003</td>
<td>Publicly traded Fortune 1000 firms on 1997</td>
<td>Board diversity</td>
<td>Independent</td>
<td>Dummy variable indicating the presence of women/minorities on the board and the percentage of women/minorities on the board</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Firm value</td>
<td>Dependent</td>
<td>Tobin’s Q</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Board size</td>
<td>Control</td>
<td>Natural logarithm of the number of directors</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Number of meeting</td>
<td>Control</td>
<td>Natural logarithm of number of meeting</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>CEO duality</td>
<td>Control</td>
<td>Dummy variable indicating whether there</td>
</tr>
<tr>
<td>No.</td>
<td>Authors</td>
<td>Sample</td>
<td>Variables</td>
<td>Type</td>
<td>Measures</td>
</tr>
<tr>
<td>-----</td>
<td>---------</td>
<td>------------------------------------------------------------------------</td>
<td>--------------------</td>
<td>---------</td>
<td>--------------------------------------------------------------------------</td>
</tr>
<tr>
<td>6.</td>
<td>Smith, Smith and Verner 2005</td>
<td>Unbalanced panel data of 2500 largest Danish firms observed during the period 1993-2001</td>
<td>Gender diversity</td>
<td>Independent</td>
<td>The proportion of women among the top CEOs in the firm, including vice-directors</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Firm performance</td>
<td>Dependent</td>
<td>Gross value added/net turnover, profit on ordinary operations/net turnover, ordinary result/net assets, and net result after tax/net assets</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Firm size</td>
<td>Control</td>
<td>Number of employees</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Firm age</td>
<td>Control</td>
<td>Number of years since incorporation</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Market orientation</td>
<td>Control</td>
<td>Export orientation</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Potential effects on profit due to entry barriers for the concerned industry</td>
<td>Control</td>
<td>a measure of the minimum efficient scale (MES) to the market (industry) size</td>
</tr>
<tr>
<td>7.</td>
<td>Verboom and Ranzijn 2004</td>
<td>136 public-listed Dutch companies for the years 1996 to 2003.</td>
<td>Gender diversity</td>
<td>Independent</td>
<td>The average annual percentages of women corporate officers in Higher Management, Board of Directors and Supervisory Board</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Firm performance</td>
<td>Dependent</td>
<td>ROE and Total Return to Shareholders</td>
</tr>
<tr>
<td>8.</td>
<td>Selvam, Raja and Kumar</td>
<td>89 banks in India as on 31st January</td>
<td>Board directors</td>
<td>Independent</td>
<td>Director Ratio, CEO as Chairman of the bank</td>
</tr>
<tr>
<td>No.</td>
<td>Authors</td>
<td>Sample</td>
<td>Variables</td>
<td>Type</td>
<td>Measures</td>
</tr>
<tr>
<td>-----</td>
<td>---------</td>
<td>--------</td>
<td>-----------</td>
<td>------</td>
<td>----------</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td><strong>Name</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2006</td>
<td>Gul, Srinidhi &amp; Ng 2011</td>
<td>7,597 firm-years in The US from 2001-2006</td>
<td>Stock price informativeness</td>
<td>Dependent</td>
<td>Idiosyncratic volatility and future earnings</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Disclosure of financial matters</td>
<td>Independent</td>
<td>Number of items related to business operation, financial information, securities and trading market, accountants and financial statements, corporate governance and management, asset-backed securities, and regulation</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Gender diversity</td>
<td>Independent</td>
<td>Number of female directors, female independent non-executive directors, directors, independent non-executive directors, proportion of female directors, proportion of female independent non-executive directors, and dummy variable</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Governance</td>
<td>Independent</td>
<td>Governance index, governance index dummy, institutional trading, earnings duality</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Financial proxies</td>
<td>Control</td>
<td>ROE, volatility of ROE, leverage, market-to-book, market capitalization, dividend dummy, firm age, diversification dummy, merger dummy</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Female directorship</td>
<td>Control</td>
<td>Expected number of female directors, residual number of female directors, ROA, total assets, firm age, sales growth,</td>
</tr>
<tr>
<td>No.</td>
<td>Authors</td>
<td>Sample</td>
<td>Variables</td>
<td>Type</td>
<td>Measures</td>
</tr>
<tr>
<td>-----</td>
<td>---------</td>
<td>--------</td>
<td>-----------</td>
<td>------</td>
<td>----------</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Name</td>
<td></td>
<td>directorships, total diversification, total risk, Tobin’s Q, return, and value-weighted market return</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Bonn 2004</td>
<td>84 publicly listed Australian manufacturing firms in 1999</td>
<td>Board structure</td>
<td>Independent</td>
<td>Board size, outsider ratio, director age, and female ratio</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Firm financial performance</td>
<td>Dependent</td>
<td>Market-to-book value and ROE</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Gregoric et al. 2009</td>
<td>431-757 publicly traded firms in Nordic countries between 2001-2007</td>
<td>Board diversity</td>
<td>Independent</td>
<td>Dummy for foreign board member, dummy for female board member, dummy for board’s age, percentage of female board members, percentage of non-national board members, standard deviation of board board’s age, average age of board members, and total diversity from female, foreign and standard deviation of board’s age.</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Firm performance</td>
<td>Dependent</td>
<td>Tobin’s Q, ROA and growth</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Firm characteristics</td>
<td>Control</td>
<td>Number of board members, percentage of stock held by the largest owner, growth of net sales, total debt divided by total liabilities, equity divided by assets, standard deviation of stock price, cash divided by sales, total assets, and international sales divided by total assets</td>
</tr>
</tbody>
</table>

b. Gender diversity does not influence firm financial performance

1. Kusumastuti, Supatmi | Indonesian public-listed | Existence of women | Independent | Dummy variable: 0 for no women and 1 |
<table>
<thead>
<tr>
<th>No.</th>
<th>Authors</th>
<th>Sample</th>
<th>Variables</th>
<th>Measures</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>Name</td>
<td>Type</td>
</tr>
<tr>
<td>1.</td>
<td>and Sastra, 2007</td>
<td>manufacturing companies at 2005</td>
<td>board members</td>
<td>for the existence of women</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Firm financial</td>
<td>Dependent</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>performance</td>
<td>Tobin’s Q</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Board size</td>
<td>Number of board members</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Firm size</td>
<td>Natural logarithm of firm’s total assets</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Firm financial</td>
<td>ROE and Tobin’s Q</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>performance</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Firm size</td>
<td>Natural logarithm of total assets’ book value</td>
</tr>
<tr>
<td>3.</td>
<td>Farrell and Hersch 2005</td>
<td>Firms on the Fortune 500 and Service 500 in 1990</td>
<td>Gender diversity</td>
<td>Percentage of women on corporate boards</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Female directors</td>
<td>Number of additional women board members</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>added</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Firm financial</td>
<td>ROA</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>performance</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Bonn, Yoshikawa and Phan 2004</td>
<td>169 manufacturing firms from the Nikkei (Japan) 300 index</td>
<td>Board structure</td>
<td>Board size, female ratio, outsider ratio, and director age</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Firm financial</td>
<td>Market-to-book value ratio and ROA</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>performance</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Firm characteristic</td>
<td>Firm age</td>
</tr>
<tr>
<td>No.</td>
<td>Authors</td>
<td>Sample</td>
<td>Variables</td>
<td></td>
</tr>
<tr>
<td>-----</td>
<td>---------</td>
<td>-------------------------------------------------------------------------</td>
<td>--------------------------------------------------------------------------</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td><strong>Name</strong></td>
<td><strong>Type</strong></td>
</tr>
<tr>
<td>c.</td>
<td></td>
<td><strong>Gender diversity negatively influences firm financial performance</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Bohren and Strom 2006</td>
<td>Non financial firms listed on the Oslo Stock Exchange</td>
<td>Firm financial performance</td>
<td>Dependent</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Alignment</td>
<td>Independent</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Information</td>
<td>Independent</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Decisiveness</td>
<td>Independent</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Firm characteristics</td>
<td>Control</td>
</tr>
<tr>
<td></td>
<td>Adams and Ferreira 2009</td>
<td>1,939 firms of firms from Standard &amp; Poor’s (S&amp;P) 500, S&amp;P MidCaps and S&amp;P SmallCap firms for the period of 1996-2003</td>
<td>Board characteristic</td>
<td>Independent</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Firm characteristic</td>
<td>Dependent</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Director</td>
<td>Independent</td>
</tr>
</tbody>
</table>
The link between gender diversity in the boardroom and firm social and environmental performance

### a. Gender diversity influences firm social and environmental performance

<table>
<thead>
<tr>
<th>No.</th>
<th>Authors</th>
<th>Sample</th>
<th>Variables</th>
<th>Name</th>
<th>Type</th>
<th>Measures</th>
</tr>
</thead>
</table>
| 1.  | Webb 2004 | 400 firms in the DSI (a portfolio of ethically screened stocks from publicly traded firms in the US) as of November 2001 | Firm type | Independent | - Non socially responsible firms  
- Socially responsible firms |
<p>|     |         |        | Board characteristics | Dependent | Number of women on board |
|     |         |        | Firm financial performance | Control | Market value of equity, Total assets and Beta |
| 2.  | Barako and Brown 2008 | 40 Kenyan banks | Ratio of non-executive directors on boards | Independent | Ratio of non-executive directors to total number of directors on the board |
|     |         |        | Women representation on board | Independent | Ratio of women directors to total number of directors on the board |
|     |         |        | Foreign national on boards | Independent | Ratio of non-Kenyan directors to total number of directors on the board |
|     |         |        | corporate social reporting disclosure | Dependent | corporate social reporting disclosure index |
|     |         |        | Non-performing loan ratio | Control | Ratio of Non-performing loan to total loans |</p>
<table>
<thead>
<tr>
<th>No.</th>
<th>Authors</th>
<th>Sample</th>
<th>Variables</th>
<th>Measures</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td><strong>Name</strong></td>
<td><strong>Type</strong></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Organizational performance</td>
<td>Dependent</td>
</tr>
<tr>
<td>4.</td>
<td>Schnake, Williams &amp; Fredenberger 2006</td>
<td>Financial services and basic materials sectors in the US</td>
<td>Women board members</td>
<td>Independent</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Board size</td>
<td>Control</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Board composition</td>
<td>Control</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Board tenure</td>
<td>Control</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Board directorship</td>
<td>Control</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Firm social performance</td>
<td>Dependent</td>
</tr>
<tr>
<td>1.</td>
<td>Coffey and Wang, 1998</td>
<td>98 Fortune 500 companies from a broad range of industries</td>
<td>Board diversity</td>
<td>Independent</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Managerial control</td>
<td>Independent</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Corporate</td>
<td>Dependent</td>
</tr>
</tbody>
</table>

**b. Gender diversity does not influence firm social and environmental performance**
<table>
<thead>
<tr>
<th>No.</th>
<th>Authors</th>
<th>Sample</th>
<th>Variables</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>Name</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>philanthropy</td>
</tr>
</tbody>
</table>
Appendix 2

Letter of invitation to participate in the research

Dear Participants,

My name is Yeney Prihatiningtias, a Doctoral candidate in the Faculty of Business and Government, University of Canberra, Australia. As part of my doctoral program, I am now conducting a research with a title "Gender Diversity and Firm Performance: Evidence from Indonesia Financial Firms". The current study has two objectives: first, to examine in the Indonesian context, how the presence of women on the boards of corporate firms impacts on the financial, social and environmental performance of these corporations and second, to explore the perceptions of women who are on the boards of corporate firms regarding the roles they play in enhancing the financial, social and environmental performance of corporations.

The study is important from several perspectives. First, many studies conducted in developed countries have found that the presence of women on company boards may enhance shareholder value as women bring an additional perspective. However, this relationship is yet to be explored in developing countries such as Indonesia. Second, though there is growing awareness in Indonesia about the role women can play in legislative structure, their role in enhancing the performance of the corporate sector has so far eschewed the attention of the researchers. Last, Indonesian government starts to move toward realization that the involvement of women in higher level of all aspects of life should be increased and elevated, including in business area.

Therefore, I would like to invite you to be a participant in this research. You will be involved as an interviewee to provide information about your perceptions regarding the role you play in enhancing firm financial, social and environmental performance. You will be asked to answer several questions and the interview will last for about one hour.

Your participation is voluntary and you may withdraw at any time without providing an explanation, or refuse to answer questions without any consequences. I will provide you with an informed consent form for your approval. I would also ask your agreement to record the interview.

I guarantee that the interview will be confidential and your anonymity will be maintained. No one will have access to the information except the researcher. Any report from this research will be in aggregate form and your identification will not be revealed.

If you need a report of this research, please write down your name and address in the informed consent form which will be given before the interview is conducted and the report will be delivered to you.
For your information, this research has been approved by the Committees for Ethics in Human Research of the University of Canberra. If you have any questions about the research, please contact the researcher with the contact details below.

Thank you for your attention and cooperation.

Sincerely,

_Yeney Prihatiningtias_
Faculty of Business and Government
University of Canberra
ACT - 2601, Australia
E-mail: Yeney.Prihatiningtias@canberra.edu.au

Supervisors:

_Professor Milind Sathye_  
Faculty of Business and Government  
University of Canberra  
Bldg, Floor & Room: 6, C19  
Primary Telephone: (02) 6201 5489  
Alternative Phone: (02) 6201 2715  
Facsimile Number: (02) 6201 5238  
E-mail: Milind.Sathye@canberra.edu.au

_Professor Deborah Blackman_  
Faculty of Business and Government  
University of Canberra  
Building, Floor & Room: 6, D31  
Primary Telephone:(02) 6201 5076  
Alternative Phone:(02) 6201 2706  
Facsimile Number:(02) 6201 5239  
E-mail: Deborah.Blackman@canberra.edu.au
## Appendix 3: List of sample firms (financial firms publicly-listed at the Indonesian Stock Exchange examined for period 2005-2008)

<table>
<thead>
<tr>
<th>No.</th>
<th>Code</th>
<th>Name of firm</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>AGRO</td>
<td>Bank Agroniaga</td>
<td>-</td>
<td>-</td>
<td>√</td>
<td>√</td>
</tr>
<tr>
<td>2.</td>
<td>ANKB</td>
<td>Bank Arta Niaga Kencana</td>
<td>√</td>
<td>√</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>3.</td>
<td>INPC</td>
<td>Bank Artha Graha Internasional</td>
<td>√</td>
<td>√</td>
<td>√</td>
<td>√</td>
</tr>
<tr>
<td>4.</td>
<td>BBIA</td>
<td>Bank Buana Indonesia</td>
<td>√</td>
<td>√</td>
<td>√</td>
<td>-</td>
</tr>
<tr>
<td>5.</td>
<td>BBKP</td>
<td>Bank Bukopin</td>
<td>-</td>
<td>√</td>
<td>√</td>
<td>√</td>
</tr>
<tr>
<td>6.</td>
<td>BNBA</td>
<td>Bank Bumi Arta</td>
<td>-</td>
<td>√</td>
<td>√</td>
<td>√</td>
</tr>
<tr>
<td>7.</td>
<td>BABP</td>
<td>Bank Bumiputra Indonesia</td>
<td>√</td>
<td>√</td>
<td>√</td>
<td>√</td>
</tr>
<tr>
<td>8.</td>
<td>BACA</td>
<td>Bank Capital Indonesia</td>
<td>-</td>
<td>-</td>
<td>√</td>
<td>√</td>
</tr>
<tr>
<td>9.</td>
<td>CBCA</td>
<td>Bank Central Asia</td>
<td>√</td>
<td>√</td>
<td>√</td>
<td>√</td>
</tr>
<tr>
<td>10.</td>
<td>BCIC</td>
<td>Bank CIC Internasional</td>
<td>√</td>
<td>√</td>
<td>√</td>
<td>√</td>
</tr>
<tr>
<td>11.</td>
<td>BDMM</td>
<td>Bank Danamon</td>
<td>√</td>
<td>√</td>
<td>√</td>
<td>√</td>
</tr>
<tr>
<td>12.</td>
<td>BAEK</td>
<td>Bank Ekonomi Raharja</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>√</td>
</tr>
<tr>
<td>13.</td>
<td>BEKS</td>
<td>Bank Eksekutif Internasional</td>
<td>√</td>
<td>√</td>
<td>√</td>
<td>-</td>
</tr>
<tr>
<td>14.</td>
<td>SDRA</td>
<td>Bank Himpunan Saudara 1906</td>
<td>-</td>
<td>√</td>
<td>√</td>
<td>√</td>
</tr>
<tr>
<td>15.</td>
<td>BNII</td>
<td>Bank Internasional Indonesia</td>
<td>√</td>
<td>√</td>
<td>√</td>
<td>√</td>
</tr>
<tr>
<td>16.</td>
<td>BKSW</td>
<td>Bank Kesawan</td>
<td>√</td>
<td>√</td>
<td>√</td>
<td>√</td>
</tr>
<tr>
<td>17.</td>
<td>LPBN</td>
<td>Bank Lippo</td>
<td>√</td>
<td>√</td>
<td>√</td>
<td>-</td>
</tr>
<tr>
<td>18.</td>
<td>BMRI</td>
<td>Bank Mandiri</td>
<td>√</td>
<td>√</td>
<td>√</td>
<td>√</td>
</tr>
<tr>
<td>19.</td>
<td>MAYA</td>
<td>Bank Mayapada</td>
<td>√</td>
<td>√</td>
<td>√</td>
<td>√</td>
</tr>
<tr>
<td>20.</td>
<td>MEGA</td>
<td>Bank Mega</td>
<td>√</td>
<td>√</td>
<td>√</td>
<td>√</td>
</tr>
<tr>
<td>21.</td>
<td>MCOR</td>
<td>Bank Windu Kentjana International</td>
<td>-</td>
<td>-</td>
<td>√</td>
<td>√</td>
</tr>
<tr>
<td>22.</td>
<td>BBNI</td>
<td>Bank Negara Indonesia</td>
<td>√</td>
<td>√</td>
<td>√</td>
<td>√</td>
</tr>
<tr>
<td>23.</td>
<td>BNGA</td>
<td>Bank Niaga</td>
<td>√</td>
<td>√</td>
<td>√</td>
<td>√</td>
</tr>
<tr>
<td>24.</td>
<td>NISP</td>
<td>Bank NISP</td>
<td>√</td>
<td>√</td>
<td>√</td>
<td>√</td>
</tr>
<tr>
<td>25.</td>
<td>BBNP</td>
<td>Bank Nusantara Parahyangan</td>
<td>√</td>
<td>√</td>
<td>√</td>
<td>√</td>
</tr>
<tr>
<td>26.</td>
<td>PNBN</td>
<td>Bank Pan Indonesia</td>
<td>√</td>
<td>√</td>
<td>√</td>
<td>√</td>
</tr>
<tr>
<td>27.</td>
<td>BNLI</td>
<td>Bank Permata</td>
<td>√</td>
<td>√</td>
<td>√</td>
<td>√</td>
</tr>
<tr>
<td>28.</td>
<td>BBRI</td>
<td>Bank Rakyat Indonesia</td>
<td>√</td>
<td>√</td>
<td>√</td>
<td>√</td>
</tr>
<tr>
<td>29.</td>
<td>BSWD</td>
<td>Bank Swadesi</td>
<td>√</td>
<td>√</td>
<td>√</td>
<td>√</td>
</tr>
<tr>
<td>30.</td>
<td>BTPN</td>
<td>Bank Tabungan Pensiunan Nasional</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>√</td>
</tr>
<tr>
<td>31.</td>
<td>BVIC</td>
<td>Bank Victoria Internasional</td>
<td>√</td>
<td>√</td>
<td>√</td>
<td>√</td>
</tr>
<tr>
<td>32.</td>
<td>ADMF</td>
<td>Adira Dinamika Multi Finance</td>
<td>√</td>
<td>√</td>
<td>√</td>
<td>√</td>
</tr>
<tr>
<td>33.</td>
<td>BFIF</td>
<td>BFI Finance Indonesia</td>
<td>√</td>
<td>√</td>
<td>√</td>
<td>√</td>
</tr>
<tr>
<td>34.</td>
<td>BBLD</td>
<td>Buana Finance</td>
<td>√</td>
<td>√</td>
<td>√</td>
<td>√</td>
</tr>
<tr>
<td>35.</td>
<td>CFIN</td>
<td>Clipan Finance Indonesia</td>
<td>√</td>
<td>√</td>
<td>√</td>
<td>√</td>
</tr>
<tr>
<td>36.</td>
<td>DEFI</td>
<td>Danasupra Erapacific</td>
<td>√</td>
<td>√</td>
<td>√</td>
<td>√</td>
</tr>
<tr>
<td>37.</td>
<td>DKFT</td>
<td>Duta Kirana Finance</td>
<td>-</td>
<td>-</td>
<td>√</td>
<td>√</td>
</tr>
<tr>
<td>38.</td>
<td>INCF</td>
<td>Indo Citra Finance</td>
<td>√</td>
<td>√</td>
<td>√</td>
<td>√</td>
</tr>
<tr>
<td>39.</td>
<td>MFIN</td>
<td>Mandala Multifinance</td>
<td>√</td>
<td>√</td>
<td>√</td>
<td>√</td>
</tr>
<tr>
<td>40.</td>
<td>TRUS</td>
<td>Trust Finance Indonesia</td>
<td>√</td>
<td>√</td>
<td>√</td>
<td>√</td>
</tr>
<tr>
<td>41.</td>
<td>VRNA</td>
<td>Verena Oto Finance</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>√</td>
</tr>
<tr>
<td>42.</td>
<td>WOMF</td>
<td>Wahana Ottomitra Multiartha</td>
<td>√</td>
<td>√</td>
<td>√</td>
<td>√</td>
</tr>
<tr>
<td>43.</td>
<td>ARTA</td>
<td>Artha Securities</td>
<td>√</td>
<td>√</td>
<td>√</td>
<td>-</td>
</tr>
<tr>
<td>44.</td>
<td>AKSI</td>
<td>Asia Kapitalindo Securities</td>
<td>√</td>
<td>√</td>
<td>√</td>
<td>√</td>
</tr>
<tr>
<td>No.</td>
<td>Code</td>
<td>Name of firm</td>
<td>2005</td>
<td>2006</td>
<td>2007</td>
<td>2008</td>
</tr>
<tr>
<td>-----</td>
<td>------</td>
<td>---------------------------</td>
<td>------</td>
<td>------</td>
<td>------</td>
<td>------</td>
</tr>
<tr>
<td>45</td>
<td>HADE</td>
<td>Hortus Danavest</td>
<td>√</td>
<td>√</td>
<td>√</td>
<td>√</td>
</tr>
<tr>
<td>46</td>
<td>KREN</td>
<td>Kresna Graha Securindo</td>
<td>√</td>
<td>√</td>
<td></td>
<td>√</td>
</tr>
<tr>
<td>47</td>
<td>PEGE</td>
<td>Panca Global Securities</td>
<td>√</td>
<td>√</td>
<td>√</td>
<td></td>
</tr>
<tr>
<td>48</td>
<td>PANS</td>
<td>Panin Sekuritas</td>
<td>√</td>
<td>√</td>
<td>√</td>
<td>√</td>
</tr>
<tr>
<td>49</td>
<td>RELI</td>
<td>Reliance Securities</td>
<td>√</td>
<td>√</td>
<td>√</td>
<td>√</td>
</tr>
<tr>
<td>50</td>
<td>TRIM</td>
<td>Trimegah Securities</td>
<td>√</td>
<td>√</td>
<td></td>
<td>√</td>
</tr>
<tr>
<td>51</td>
<td>UNIT</td>
<td>United Capital Indonesia</td>
<td>√</td>
<td>√</td>
<td></td>
<td>-</td>
</tr>
<tr>
<td>52</td>
<td>OCAP</td>
<td>JJ NAB Capital</td>
<td>-</td>
<td>-</td>
<td>√</td>
<td>√</td>
</tr>
<tr>
<td>53</td>
<td>YULE</td>
<td>Yulie Sekurindo</td>
<td>√</td>
<td>√</td>
<td>√</td>
<td>√</td>
</tr>
<tr>
<td>54</td>
<td>ABDA</td>
<td>Asuransi Bina Dana Arta</td>
<td>√</td>
<td>√</td>
<td>√</td>
<td>√</td>
</tr>
<tr>
<td>55</td>
<td>ASBI</td>
<td>Asuransi Bintang</td>
<td>√</td>
<td>√</td>
<td>√</td>
<td>√</td>
</tr>
<tr>
<td>56</td>
<td>ASDM</td>
<td>Asuransi Dayin Mitra</td>
<td>√</td>
<td>√</td>
<td>√</td>
<td>√</td>
</tr>
<tr>
<td>57</td>
<td>AHAP</td>
<td>Asuransi Harta Aman Pratama</td>
<td>√</td>
<td>√</td>
<td>√</td>
<td>√</td>
</tr>
<tr>
<td>58</td>
<td>ASJT</td>
<td>Asuransi Jasa Tania</td>
<td>√</td>
<td>√</td>
<td></td>
<td>√</td>
</tr>
<tr>
<td>59</td>
<td>AMAG</td>
<td>Asuransi Multi Artha Guna</td>
<td>√</td>
<td>√</td>
<td></td>
<td>√</td>
</tr>
<tr>
<td>60</td>
<td>ASRM</td>
<td>Asuransi Ramayana</td>
<td>√</td>
<td>√</td>
<td></td>
<td>√</td>
</tr>
<tr>
<td>61</td>
<td>LPGI</td>
<td>Lippo General Insurance</td>
<td>√</td>
<td>√</td>
<td></td>
<td>√</td>
</tr>
<tr>
<td>62</td>
<td>MREI</td>
<td>Maskapai Reasuransi Indonesia</td>
<td>√</td>
<td>√</td>
<td>√</td>
<td>√</td>
</tr>
<tr>
<td>63</td>
<td>PNN</td>
<td>Panin Insurance</td>
<td>√</td>
<td>√</td>
<td></td>
<td>√</td>
</tr>
<tr>
<td>64</td>
<td>PNLF</td>
<td>Panin Life</td>
<td>√</td>
<td>√</td>
<td></td>
<td>√</td>
</tr>
<tr>
<td>65</td>
<td>APIC</td>
<td>Pan Pacific International</td>
<td>√</td>
<td>√</td>
<td></td>
<td>√</td>
</tr>
<tr>
<td>66</td>
<td>BCAP</td>
<td>Bhakti Capital Indonesia</td>
<td>√</td>
<td>√</td>
<td></td>
<td>√</td>
</tr>
<tr>
<td>67</td>
<td>BHIT</td>
<td>Bhakti Investama</td>
<td>√</td>
<td>√</td>
<td></td>
<td>-</td>
</tr>
<tr>
<td>68</td>
<td>GSF</td>
<td>Equity Development Investment</td>
<td>√</td>
<td>√</td>
<td></td>
<td>√</td>
</tr>
<tr>
<td>69</td>
<td>MTFN</td>
<td>Capitalinc Investment</td>
<td>√</td>
<td>√</td>
<td></td>
<td>√</td>
</tr>
<tr>
<td>70</td>
<td>LPPS</td>
<td>Lippo Securities</td>
<td>√</td>
<td>√</td>
<td></td>
<td>√</td>
</tr>
<tr>
<td>71</td>
<td>MKDO</td>
<td>Makindo</td>
<td>√</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>72</td>
<td>LPPF</td>
<td>Pacific Utama</td>
<td>√</td>
<td>-</td>
<td>√</td>
<td>√</td>
</tr>
<tr>
<td>73</td>
<td>SMMA</td>
<td>Sinar Mas Multiartha</td>
<td>√</td>
<td>√</td>
<td></td>
<td>√</td>
</tr>
</tbody>
</table>

**Total number of firms**: 65 64 68 67
Appendix 4: List of interview questionnaire

<table>
<thead>
<tr>
<th>Main Research Question</th>
<th>Detailed Research Questions</th>
<th>Questions</th>
</tr>
</thead>
</table>
| What are the perceptions of women in the boardroom of the Indonesian public-listed financial companies regarding the role they play in enhancing firm financial, social and environmental performance? | What are the perceptions of the women regarding the reasons why they were hired?           | 1. In your opinion, why were you hired?  
2. Is it unusual for senior women to be employed into a role such as yours?  
3. What are your perspectives regarding your existence as a woman board member in this company? |
| Do the women believe that they are able to influence the decisions adequately?            |                                                                                             | 1. What does company performance mean to you?  
2. What are your concepts of financial, social and environmental performance? (Only will be asked if the interviewees miss out some information from Q1) |
| What are the perceptions of the women regarding whether gender is making a difference to the decision making? |                                                                                             | 1. In your opinion do you think the company performance has changed since the advent of women to the board? If so why? If not why not?  
2. Do you think that you have something different to contribute as a member of the board and? Please describe.  
3. Do you find that you are able to influence decisions as you would like? If so why? If not why not?  
4. What examples can you give of what you have contributed at board level that will enhance company performance?  
5. Why the contributions you have made are important for shareholders, stakeholders, the company, and the boards themselves?  
6. How you can monitor or assess your ideas to be really implemented in the corporation? |
Appendix 5: Demographic data of interviewees

Listed below is the general specification of the employment and educational background of the interviewees, without giving the names of the women but writing down the type of board and the acronym name of companies they serve. This description is conveyed in order to bring overviews that these women board members have sufficient capacity and capability in managing the corporations.

1. Independent Board of Commissioner of PT. BM Tbk.

This woman was graduated with a BA in Economics from Padjadjaran University, Bandung in 1968 and joined PT. Unilever in a sales position in the same year. She joined Citibank NA, Jakarta in 1970 as the Credit Department Head, and moved to Citibank NA, New York in 1976 as a Risk Assets Reviewer. She returned to Jakarta in 1978 as a Vice President and Division Head of the Corporate Banking Group. In 1987, she moved to Bank Niaga, Jakarta as a Senior Vice President and Group Head, Marketing & Credit. She was promoted as the Director at Bank Niaga with responsibility for the Marketing and Credit Directorate in 1989, and was named President Director in 1994 for a five-year term. From 1999 to 2007, she served as the Deputy President Commissioner of Bank Niaga, and in May 2005 was appointed as an Independent Commissioner of BM. She has also served as a member of the National Economic Council, during Abdurrahman Wahid presidency as well as the IBRA (Indonesian Bank Restructuring Agency) Oversight Committee. She was elected as the Chairman of the Indonesian Banks Association (Perbanas) from 1999 to 2003 and headed the Banking Section of the Indonesian Chamber of Commerce (KADIN). From 1999 to 2004, she was the Deputy Chairman of the National Committee on Good Corporate Governance. She is currently an advisor to
the Council of Ethics of the Indonesian Bankers Institute and a member of the Board of the Bankers Club of Indonesia. She has also been elected as a Deputy of the Indonesian Risk Professionals Association (IRPA) (BM n.d.).

2. *Independent Board of Commissioner of PT. BS Tbk.*

She is 70 years old already and holds the position as Independent Commissioner of BS since 1996. She obtained her Bachelor Degree in Law from Airlangga University in Surabaya and started her career in a Notarial Company between 1970-1975. Having experience in banking industry since 1975 and holding various managerial positions in PT. Bank Umum Koperasi Kaheripan, her experience in this business is unquestionable. She then joined BS since 1985 with the position of Assistant Director and later as Credit Director (BS 2008). Because of that, up to this age, her advice and wisdom is still needed for the supervisory role in the company.

3. *Independent Board of Commissioner of PT. BRI Tbk.*

She is still 48 years old and appointed as the Independent Board of Commissioner of BRI since 17 May 2005. Currently, she is also the Chairman of Indonesia Society of Independent Commissioners (ISICOM), the Supervisory Board of Indonesia Chambers of Commerce and Industry (KADIN), the Management Committee of Indonesia Economic Scholars (ISEI) Jakarta Branch, the Supervisory Board of Indonesia Global Association of Risk Professional (GARP), and the member of Expert Board of Province Government Association in Indonesia (APPSI). Prior to the appointment as Independent Commissioner, she was the Director of INDEF (Institute for Development of Economics and Finance), from 2004 to 2005, the Head of Discipline of Management in the Faculty of Economics University of Paramadina (2002-2005), and the General Secretary of Private
University Dedication Consortium in Indonesia (2000-2003). She holds a Bachelor of Economics from the University of Atmajaya Jakarta in 1985 and a Master degree in Business Administration from the University of Indonesia (1995). Currently she has been pursuing a Doctoral degree Business Management in the Institute of Agriculture Bogor (BRI 2009).

4. **Director of Corporate Banking of PT. BM Tbk.**

She was graduated from the Faculty of Veterinary of Padjajaran University Bandung, as her initial purpose after graduating from this faculty was to continue running the family business in veterinary. However, her destiny called her to become a public servant in the National Land Authority and dealt a lot with land management. She also continued her formal education and achieved a Masters Degree from Sekolah Tinggi Manajemen Labora, majoring in Financial Management. She then joined BM in 1999 from the legacy Bank Bumi Daya (BBD), where her final position was Adviser in the Advisory and Settlement Credit Group. After that, she was appointed as Group Head of Jakarta Commercial Sales in February 2006 and she was appointed as Director of BM in May 2010 until present (BM n.d.). During the interview, she also mentioned that she has been learning the banking system by doing and involving a lot in the system, and also joining workshops in banking that were conducted both domestically and internationally.

5. **President Director of PT. AMAG Tbk.**

She has been serving as a President Director of AMAG since 1993. She graduated from University of Widya Mandala, Surabaya, in 1975 and achieved Graduate Diploma in management from the Overseas Training Centre, Jakarta, in 1991. Born in Surabaya, Indonesia in 1953, she was the one who built most of her professional career in AMAG,
and first joined the Company in 1981 as an Assistant Manager and moved on to Technical Manager (1983–1986) and General Manager (1986–1992). She has completed various trainings in insurance and management both in Indonesia and overseas. She was once worked at PT. Asuransi Jiwa Ikrar Abadi and PT. Asuransi Indonesia Amerika Baru as Administration Supervisor–Employee Benefit Department (1977–1981) (AMAG 2009).

6. **Technical Director of PT. ADM Tbk.**

She was appointed as a Technical Director of the Company in May 2009. Prior to that, she was the Associate Director of PT. Jardine Lloyd Thompson from 2005 - 2009, and rejoined PT. ADM, Tbk. in February 2009. She started her career as an Auditor at public accounting firm in 1988, and she was an Internal Auditor at PT. Daya Patria Corporation from 1992 - 1994. She joined PT. ADM as Controller Manager in 1994 and was promoted as the General Manager in Marketing in 1997 - 2004. She holds a Bachelor Degree in Accounting from Trisakti University. Currently she is a senior associate of the Australian & New Zealand Institute of Insurance and Finance, and also the member of the Health Insurance Association of America (ADM 2009).

7. **Director of Business Development, PT. BEI**

She is the Director of Business Development since July 2009. She previously had the positions of Corporate Secretary (2007-2009) and Head of Corporate Communication (2006-2007) at the same company. She involves actively in several professional organizations includes being the Vice Chairman of Banking and Capital Committee at the Indonesian Chambers of Commerce and Industry (KADIN), Treasurer of the Gadjah Mada Alumni Association (KAGAMA), and the board member of Indonesia Corporate Secretary Association (ICSA). She attended various capital markets and leadership
courses both in the country and abroad, such as at the US Securities & Exchange Commission, Korea Securities Dealer Association, and Georgetown University, Washington DC, USA. She attained her degree in Economics from Gadjah Mada University, Yogyakarta, and Master of Business Administration in Finance from the California State University of Fresno, CA, USA (BEI 2009).
To:

Corporate Secretary
PT. Bank Swadesi Tbk.
Jl. K.H. Samanhudi No. 37
Jakarta Pusat 10710

Letter of Introduction

We would like to inform you that:

Name : Yeney Prihatiningtias
Student ID : 3029704
Study Program : Accounting

is a Doctoral candidate under our supervision who seeks a permission to obtain information from your company for her thesis. The thesis title is “Gender Diversity and Firm Performance: Evidence from Indonesian Financial Firms”.

This study will have significant contribution in understanding the role of women who are in the boards of corporate firms to enhance the financial, social and environmental performance of corporations.

We would very much appreciate your support in this matter. If you have any questions, please do not hesitate to contact us.

Best Regards,

Professor Milind Sathye  
(Primary Supervisor)

Professor Deborah Blackman  
(Secondary Supervisor and Associate Dean Research)

Faculty of Business and Government
University of Canberra
Bldg, Floor & Room: 6, C19
Primary Telephone: (02) 6201 5489
Alternative Phone: (02) 6201 2715
Facsimile Number: (02) 6201 5238
E-mail: Milind.Sathye@canberra.edu.au

Faculty of Business and Government
University of Canberra
Building, Floor & Room: 6, D31
Primary Telephone:(02) 6201 5076
Alternative Phone:(02) 6201 2706
Facsimile Number:(02) 6201 5239
E-mail: Deborah.Blackman@canberra.edu.au