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...................................................................................................................................... xix  

## 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
3.6 Arguments for and against gender diversity in the boardroom and its impact on firm performance ................................................................. 67
3.7 Gender diversity in the boardroom and firm financial performance .......... 69
3.8 Gender diversity in the boardroom and firm social and environmental performance... 73
3.9 Research approach used in prior studies ............................................. 75
3.10 Research questions ........................................................................ 76
3.11 Hypotheses development ................................................................ 76
3.12 Chapter summary .......................................................................... 79

Chapter 4 Research methods ................................................................. 81
4.1 Introduction .................................................................................... 81
4.2 Mixed methods research and its application in this study ....................... 81
4.3 Phase 1: Quantitative research method .............................................. 87
   4.3.1 Sample selection and data collection ........................................... 89
   4.3.2 Variables ................................................................................. 90
       4.3.2.1 Independent variable ....................................................... 91
       4.3.2.2 Dependent variables ....................................................... 95
   4.3.3 Empirical model ..................................................................... 102
   4.3.4 Data analysis method .............................................................. 103
4.4 Phase 2: Qualitative research method ................................................ 104
   4.4.1 Interviewee selection ............................................................... 105
   4.4.2 Interview method ................................................................... 107
   4.4.3 Data analysis method .............................................................. 108
   4.4.4 Ethics consideration ............................................................... 110
4.5 Phase 3: Mixing the findings from the quantitative and qualitative research methods ................................................................. 111
4.6 Integrating conflicting results from quantitative and qualitative methods .................................................................................. 112
4.7 Qualitative data trustworthiness ....................................................... 115
4.8 Limitations .................................................................................... 117
4.9 Chapter summary .......................................................................... 118

Chapter 5 Findings and discussions of phase 1: Quantitative research method..... 121
5.1 Introduction .................................................................................... 121
5.2 Descriptive statistics ..................................................................... 121
5.3 Panel data analysis to test hypotheses .............................................. 126
   5.3.1 Gender diversity in the boardroom and firm financial performance .. 130
   5.3.2 Gender diversity in the boardroom and firm social performance .... 132
   5.3.3 Gender diversity in the boardroom and firm environmental performance .. 133
5.4 Discussions ................................................................................... 135
   5.4.1 Gender diversity in the boardroom and firm financial performance .. 131
   5.4.2 Gender diversity in the boardroom and firm social performance .... 141
   5.4.3 Gender diversity in the boardroom and firm environmental performance .. 145
5.5 Robustness check .......................................................................... 148
5.6 Chapter summary .......................................................................... 151

Chapter 6 Findings and discussions of phase 2: Qualitative research method ...... 153
6.1 Introduction .................................................................................... 153
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

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