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The Effect of Board Diversity on Financial Performance

(Empirical Study of Manufacturing Companies in the Goods and Consumption Sector Listed on the IDX in 2017-2021)

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Abstract: *The purpose of this study is to find out how the performance of companies in manufacturing companies in the goods and consumer industry sector is influenced by board diversity. Board diversity consists of Gender(X1), Age (X2) Education (X3), Naturalization (X4). Purposive sampling is the methodology used (the method uses certain criteria). A total of 201 manufacturing business actors in the goods and consumption sectors listed on the Indonesia Stock Exchange in 2017–2021 are the research samples. The multiple regression model from IBM SPSS 26.0 is used in this study. The results of this study indicate that education and naturalization have a significant effect, and gender and age have no significant effect.*

Keywords: Gender, Age, Education, Naturalization, Financial Performance

I. INTRODUCTION

Global competition at home and abroad in the economic sector causes the impact of changes in operational performance every year. Where in a business will definitely prepare a strategy to face the risk of threats to its business. The increasingly fierce business competition and the support of increasingly modern technology make companies have to have a lot of innovation in their business. One of them is to improve corporate governance which is very important in running a business. Good governance will increase stake holders' trust in the company and will also affect the increase in profits.

Poor corporate governance is alleged to be one of the causes of the political economy crisis in every country. For example, in Indonesia, Indonesia is also eager to improve its economy, in order to achieve the goal of improving the economy. Nourishing the national economy also means applying the principles of Good Corporate Governance. Where every entrepreneur or everyone who wants to run a company must use these principles so as not to harm the country. In GCG, the board includes those who can contribute to the company's decision-making. In recent years there has been a trend that allows women to hold council positions, although most are still held by men . In his recent study, researchers investigated the influence of corporate board diversity, which is said to be something that can be attached to the composition of the board(Wardani & Wahyuningtyas, 2018)(Torchia et al., 2011)(Campbell & Mínguez-Vera, 2008)

The issue of diversity is still an interesting thing to study, especially about the diversity of the company's board. Discussing gender diversity, gender is a status that arises from social, cultural and psychological based on personal characteristics. The growing perception towards gender is the existence of differences between men and women although it begins to decrease (Fulton, 2016) . There are many studies that say that women have things that men don't have, one of which is research from Grant Thornton. Women's behavior that favors employees to the nature of sharp analysis in analyzing a problem makes women have a better view in decision making. The company's financial performance is one of the company's benchmarks that illustrates the company's success. Important financial performance information is used to compile financial statements and company decision making. Measuring company performance is also very important in evaluating company management. Information is collected with the aim that the results obtained can be controlled and accounted for. In the implementation of financial statement analysis, there are several things that need to be considered. First, the analysis party must identify certain trends in the financial statements. Second, stand-alone numbers are hard to say whether or not they are, so comparison figures are needed, for example industry averages. Third, important discussions or questions that complement financial statements such as discussions of company strategy, discussions of expansion plans or restructuring, are internal parts that must be

included in the analysis. Fourth, sometimes all the necessary information can be obtained through an in-depth analysis of financial statements, but additional information is still needed in order to provide an even sharper analysis (Orniati, 2019)

In some previous research on the effect of board diversity on the company's financial performance by analyzing several characteristics such as gender, age, company size, board proportions(Amin & Sunarjanto, 2016; Goddess & Goddess, 2016; Maghfiroh & Utomo, 2018). Howeverin several previous studies it is still inconsistent from the results of one study to another, it can be said that the research is not adequate, this encourages the desire of researchers to re-examine some of the characteristics that affect the company's financial performance in order to strengthen previous research.

II. LITERATURE REVIEW

2.1 Theory of Cultural Dependence

The theory of resource dependence explains the principle of organization in an enterprise must have its connection with the interaction of actors. In binis this theory of resource dependence is called for the survival of a business. The emergence of an analysis of the resources and the consequences of the council's power on the organization is also said to be resource dependence . Limited resources in an organization can expand board relations to increase good competition for the company and with institutions outside the company so that it will cause good company performance. The key to the resource theory view is the interdependence between organizations in the same entities controlling important resources(Davis & Cobb, 2010).

2.2 Agency Theory

The company's financial performance is an achievement achieved in a certain period written in the company's financial statements. Financial performance is also referred to as the achievement that the company achieves through profit in a certain period . Financial performance shows the condition of the company as measured by using financial analysis tools to find out how the financial performance of a company is. The purpose of measuring financial performance is to find out whether the results of the company's previous planning are appropriate. The company is said to have improved if it has successfully achieved the goal . In this study, financial performance was measured using return on assets (ROA)(Iswadi, 2016)(Roos Ana et al., 2021)

2.3 Good Corporate Governance

Good corporate governance is indeed very important in the running of corporate mechanisms, especially company performance. The most important guideline in the company's operations is that there must be an opportunity for stakeholders and investors to provide advice and express opinions so that access to information is open according to the principle of transparency. In creating good corporate governance, we must pay attention to five principles, namely transparency, accountability, responsibility, independency, and fairness. The purpose of corporate governance is to protect the interests of shareholders so that the objectives of the corporate governance literature can run well. Good Corporate Governance determines how shareholders and stakeholders, managers, and company boards interact in determining decisions and directions for a company(Haddad et al., 2011)

2.4 Gender Diversity

The existence of diversity in a company is an interesting thing, especially gender. In essence, humans are divided into two types of gender, namely women and men. Gender diversity on corporate boards has emerged in Indonesia. According to her research, she said that women's board understanding is better than men in various segments, one of which is the market segment. The diversity of the board in an enterprise there are various characteristics, properties in making a decision. The diversity is also based on age, culture, education . This diversity gives rise to many thoughts and company decisions will be better. Women's councils are considered to have more sympathy and empathy for employees so that they are more concerned about their employees. Women's boards also think more about the risks of a decision so that in the process they avoid the risk that has a big impact on the company(Singh & Vinnicombe, 2004)(Van der Walt & Ingley, 2003)(Mastella et al., 2021)

2.5 Age Diversity

One of the things that can affect the value of the company and the financial performance of the company is age diversity. The presence of age diversity in an enterprise gives a different background. In this case, it has to do with how to think and express opinions. The diversity of ages contained in a company is included in the development of company performance. The diversity of the board in the company can be seen in terms of age, ethnicity, gender. Generally, in a company, members who occupy the company's board seats are members who have a golden age. Karna is considered to

have better experience, knowledge and mindset as well as good wisdom over time as well as negative things that weaken from getting older(Ramadhani & Adhariani, 2017)(Gauthier et al., 2018)

2.6 Educational Diversity

Educational diversity is one of the diversity that exists in an enterprise. The board's educational background greatly influences the strategies taken in making board decisions. The diversity of education makes the board of directors make strategic decisions according to their field and educational background(Yogiswari & Badera, 2019)

2.7 Diversity of nationalities

The company uses a proportion of the company's board that comes from a foreign nationality. These differences will later give rise to character in carrying out the duties and authorities of each company's board. This is useful so that the results obtained from these various characteristics are better due to the differences in professionalism, perspective, language, and council beliefs of foreign and non-foreign nationalities. The presence of national diversity in a company is seen that the company has implemented a process of globalization and the existence of information exchange in the international scope(Darmadi, 2011)(Oxelheim, 2001)

2.8 Financial Performance

The company's financial performance is an achievement achieved in a certain period written in the company's financial statements. Financial performance is also referred to as the achievement that the company achieves through profit in a certain period . Financial performance shows the condition of the company as measured by using financial analysis tools to find out how the financial performance of a company is. The purpose of measuring financial performance is to find out whether the results of the company's previous planning are appropriate. The company is said to have improved if it has successfully achieved the goal . In this study, financial performance was measured using return on assets (ROA)(Iswadi, 2016)(Roos Ana et al., 2021).

According to the results of this study, the gender diversity of the company's commercial board does not have a positive effect on the company's performance while the board of directors has a negative effect on the company's performance. This is in contrast to research that says that gender diversity has a significant positive effect on company performance(Hamidah, 2020)(Ararat Melsa et al., 2010).

H1: Gender diversity affects the company's financial performance.

(Darmadi, 2011) In her research said that women's boards have a negative influence on financial performance. In contrast to the results of the study which said age diversity has a positive effect on firm performance(Kagzi & Guha, 2018).

H2: Age diversity affects financial performance

(Hernawati & Sari, 2022) said that educational background has a positive effect on financial performance. This is contrary to research that explains that the educational background of the board of directors has a significant negative effect on financial performance (Putri, 2020).

H3: The diversity of education affects the financial performance of the company.

(Dwi Rima Putri et al., 2021) In his research, he said that the diversity of foreign nationalities has a positive and significant effect on the company's financial performance. Meanwhile, it says that national diversity has an insignificant effect on financial performance (Ararat Melsa et al., 2010).

H4 : Diversity of nationalities affects the company's financial work

III. METHOD

Purposive sampling is used in this study's sampling technique, which involves selecting samples based on the researcher's own criteria rather than at random. The research conducted will be used to define the selection criterion. using a sample of criteria:

a. Manufacturing companies engaged in the goods and consumption industry during the 2017-2021
b. During the time of the research the company is listed on Indonesia Stock Exhange
c. Publishes complete financial reports and annual report during 2017-2021

Regression Equation as follows:

$$YROA = \alpha + \beta 1GEN + \beta 2AGE + \beta 3EDU + \beta 4NA + \varepsilon$$

Where as follows:

ROA = *Return On Assets*
α = Constant
GEN = Financial Target

AGE = Nature of Industry
EDU = Rationalization
NAT = Capability
ε = *Error*

Dependent Variable

The proxy used in measuring financial performance is Return On Assets (ROA). ROA is measured using a comparison between net and total assets owned by a company. Here is the ROA formula:

$$ROA = \frac{NetIncome}{Totalassets}$$

Independent Variables

The variable that influence the dependent variable (Y), known as the independent variable (X), often has a positive or negative impact. The following are the independent variables included in this study:

a. Gender Diversity

Gender diversity is defined as diversity in a company, this diversity is indicated by the existence of a female board that occupies a board position in a company. The existence of a female board in a company brings out its own uniqueness and has a good influence in a company. This is seen from the relatively different perceptions of women's councils and have the ability not to take too big risks in decision making (Mastella et al., 2021). Systematically, gender diversity is formulated as follows:

$$GEN = \frac{Numberoffemaleboardmembers}{Numberofcompanyboardmembers}$$

b. Age Diversity

Age diversity is one of the diversity that exists in a company. The existence of age diversity in a company provides different backgrounds such as in terms of perspective, skills, and social networks. With the diversity of age in the company, it will affect the financial performance and value of the company because the board that has a younger age will have a lot of innovation for the running of the company compared to the board of the older company. In addition, company boards that have a relatively older age have more experience and think about risks when making a decision. In this case, it will greatly affect the way of view when making decisions (Yogiswari & Badera, 2019). Systematically age diversity can be formulated as follows:

$$AGE = \frac{TotalCouncilAged \geq 40years}{Numberofcompanyboardmembers}$$

c. Diversity of Education

The diversity of education in a company will affect the course of the company's performance. In a position that exists in a company there is a suitability of this profession in relation to the educational background possessed by the board of the company. This is intended so that there are expert views on various fields in a company where if there are problems in a company, they will be easily resolved. Company boards that have more knowledge and good experience in their fields will certainly have a good impact in various fields and will have a good impact on company performance and company value so that if problems occur it will be easily resolved (Khairunnisa, 2020). Systematically the diversity of education can be formulated as follows:

$$EDU = \frac{ThenumberofBoardmemberswhoselasteducationwas \geq S2}{Numberofcompanyboardmembers}$$

d. Diversity of Nationalities

Diversity of nationality is one of the diversity that exists in a company. This diversity of nationalities can be interpreted as the diversity of citizenship in a company. In a company, national diversity is indeed very important because the existence of national diversity will affect financial performance and company values. A company will have various boards with different points of view, insight and beliefs so that they have a way of solving a problem that exists in a company. the perspective of a corporate board because different cultures and

nationalities influence the formation of effective leaders in society (Jogulu & Wood, 2008). The board of companies of foreign nationalities will bring new colors about the perception of language, religion, professional experience that differs from one country to another. (Ararat Melsa et al., 2010). Systematically the diversity of nationalities can be formulated as follows:

$$NAT = \frac{Numberofforeignboards}{Numberofcompanyboardmembers}$$

IV. RESULT

Descriptive Statistic

Table 2 explaines about an overview of the data seen from the minimum, maximum, average, and standard deviation of the tested variables as follows:

Table 2

	N	Minimum	Maximum	Mean	Std. Deviation
GENDER	201	0.00000	0.61538	0.17230	0.15560
AGE	201	0.62500	1.00000	0.97939	0.06737
EDU	201	0.66667	1.00000	0.97866	0.06551
NAT	201	0.00000	0.75000	0.12811	0.20902
ROA	201	-0.42726	0.59902	0.06926	0.11837
Valid N (listwise)	201				

Source : SPSS 26

The following findings of descriptive statistical tests are shown in Table 2 above:

1. Variable gender with the 201 has the lowest value 0.00000 and the highest value of 0.61538 which mean of 0.17230 of the collected company data for individual gender and the value of the standard deviation of 0.15560;
2. Variable age with the 201 has the lowest value 0.62500 and the highest value of 1.00000 which mean of 0.97939 of the collected company data for individual age and the calue of the standard deviation of 0.06737
3. Variable edu with the 201 has the lowest value 0.66667 and the highest value of 1.00000 which mean of 0.97939 of the collected company data for individual edu and the standard deviation of 0.06551
4. Variable nat with the 201 has the lowest value 0.00000 and the highest value of 0.75000 which mean of 0.12811 of the collected company data for individual nat and the standard deviation of 0.20902
5. Variable roa with the 201 has the lowest value -0.42726 and the highest value of 0.59902 which mean of 0.06926 of the collected company data for individual roa and the standar deviation of 0.11837

Normality Test

The normality test is performed to see whether the research model's residuals have a normally distributed distribution. The outcome of the Central Limit Theorem (CLT) method's normality test. The results of the normality test in this study show that there were 201 samples used in the study, which means that 201 samples is larger than 30 samples (201 > 30). The data can be said to be regularly distributed as a result of this.

Multicollinearity Test

The table below shows the results of the multicolonierity test:

Table 3

	Tolerance	VIF
(Constant)		
GENDER	0.957	1.045
AGE	0.810	1.235
EDU	0.812	1.232
NAT	0.970	1.031

Source: SPSS 26

The described explanation leads to the conclusion that none of the variables in this study, including gender, age, edu, nat, have any relationship to one another. This conclusion is supported by the acquisition of Tolerance values of each variable > 0.10 and VIF<10.

Heteroscedasticity test

The Spearman Rho test was used to analyze heteroscedasticity in this study. The significant value of each independent variable evaluated with the residual absolute value of the dependent variable can be used to determine the Spearman Rho test, as was covered in the previous chapter. The table below shows the results of the Spearman Rho test:

Table 4

			Unstadardized Residual
Spearman's rho	GENDER	Correlation Coefficient	0.007
		Sig. (2-tailed)	0.920
		N	201
	AGE	Correlation Coefficient	0.14
		Sig. (2-tailed)	0.844
		N	201
	EDU	Correlation Coefficient	0.038
		Sig. (2-tailed)	0.594
		N	201
	Nat	Correlation Coefficient	-0.107
		Sig. (2-tailed)	0.130
		N	201

Source : SPSS 26

The significance of the independent variables, which include gender, age, edu, nat has a significance value > 0.05, which indicates that there is no heteroscedasticity in the research regression model.

Autocorrelation Test

The table below shows the results of the autocorrelation test:

Table 5

Model Summary[b]

Model	R	R Square	Durbin-Watson
1	0.355[a]	0.126	1.938

Source: SPSS 26

The Durbin Watson (DW) value obtained from the table above is 1.841, which indicates that there is no autocorrelation (1.8094<1.938<2.062) in the regression model of this study. This is the outcome of the autocorrelation test.

F Test

These are the F test results:

Table 6

ANNOVA [a]

Model	Mean Square	F	Sig.
Regression	0.088	7.056	.000[b]
Residual	2.450		

Source: SPSS 26

It is significant table 6 above that independent variables like gender, age, edu, nat can all have an immediate and considerable impact on financial perfom. This is demonstrated by the significant value in the preceding table (0.000 < 0.05).

Hypothesis Test (T-Test)

Hypothesis test result (t test) can be seen from table below:

Table 8

	B	Sig.	Information
(Constant)	-0.081	0.562	
GENDER	-0.019	0.715	rejected
AGE	-0.156	0.232	rejected
EDU	0.289	0.032	accepted
NAT	0.185	0	accepted

Source: SPSS 26

Seen from table above, the following result are obtained :

1. Gender does not significantly influence financial performance
2. Age does not significantly influence financial performance
3. Education has a significant influence financial performance
4. Naturalization has a significant influence financial performance

V. CONCLUSSION

The results of the research lead to the conclusion that neither the diversity of the board of directors' sex composition nor its age composition has any bearing on financial success. The outcomes of subsequent studies demonstrate that naturalization diversity and educational diversity have an impact on financial performance. The first and second hypotheses are therefore unproven, whereas the third and fourth hypotheses are.The limited availability of further in-depth information regarding the data to be acquired is one of the study's many constraints. In addition, this study only focuses on manufacturing firms in the food and beverage industry over a five-year period, from 2017 to 2021, and uses a small number of research samples, meaning that not all populations are researched because they do not fulfill the established criteria.

Suggestions that are utilized as input for some parties, such as for the companies that are the subject of the research, include the requirement that manufacturing firms in the food and beverage sector educate their board of directors on different cultures. The business should then inspire and motivate the board of directors to keep enhancing their professionalism, knowledge, and character. Then, in order for consumers of financial statements, particularly investors, to understand in greater detail how the makeup and makeup of the board of directors can affect the value of the firmThese findings may serve as a guide for future researchers to conduct additional research on a larger research object to be utilized as a research sample. Additionally, related research samples can be used with a longer period of observation, resulting in more data-intensive study outcomes.

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