

**DIRECTORS' DIVERSITY, OWNERSHIP
CONCENTRATION AND COMPANY
PERFORMANCE IN INDONESIAN LISTED
COMPANIES**

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ABSTRACT

This study investigates the relationship between directors' diversity, ownership concentration and company performance in Indonesian listed companies. It is argued that the diversity in terms of ethnicity, gender, nationality, experiences and qualification should be able to improve company performance. In addition, ownership concentration is viewed as one of the primary corporate governance mechanisms to minimize agency problems. Indonesia has been selected for the study because, unlike other ASEAN countries, its corporate governance is based on the adapted version of the Continental European's two-tier board system, which comprises of the Supervisory Board and the Board of Director. This study analyzed a number of 1981 company-year observations, which is drawn from the population of the Indonesian listed companies during the period of 2004-2010. With reference to the agency theory and the resources dependency theory, the present study finds that the Supervisory Board with diverse nationalities has a positive effect on accounting performance, while the Board of Directors with diverse nationalities has a positive effect on market performance. However, the Supervisory Board's gender diversity and the Board of Directors' ethnicity diversity are found to have negative effects, both on accounting and market performance. No evidence has been found to suggest the role of ownership concentration on company performance. The study also suggests that the implementation of the new revised Code of Corporate Governance does not significantly affect company performance. Based on the results of this study, it is recommended that the government should regulate the appointment and dismissal mechanism for the Supervisory Board, for instance, to include representatives selected by the employees. In addition, the authority should also limit the maximum number of multiple directorships by directors to ensure better performance.

Keywords: Supervisory Board, Board of Director, ownership concentration, company performance.

ABSTRAK

Kajian ini meneliti hubungan antara kepelbagaian pengarah, penumpuan pemilikan dengan prestasi syarikat yang tersenarai di Indonesia. Kajian ini menegaskan bahawa kepelbagaian dari segi etnik, jantina, bangsa, pengalaman dan kelayakan berupaya meningkatkan prestasi syarikat. Di samping itu, penumpuan pemilikan dilihat sebagai salah satu mekanisme utama tadbir urus korporat yang boleh mengurangkan masalah agensi. Indonesia telah dipilih untuk kajian ini kerana, tidak seperti negara ASEAN yang lain, tadbir urus korporat di Indonesia dilaksanakan berdasarkan versi sistem lembaga dua peringkat Benua Eropah yang telah disesuaikan. Sistem lembaga dua peringkat ini terdiri daripada Lembaga Penyeliaan dan Lembaga Pengarah. Kajian ini menganalisis pemerhatian tahun-anda daripada sejumlah 1981 buah syarikat yang diambil daripada populasi syarikat yang tersenarai di Indonesia bagi tempoh 2004-2010. Kajian ini yang merujuk teori agensi dan teori pergantungan sumber mendapati bahawa Lembaga Penyeliaan yang dianggotai oleh pelbagai bangsa mempunyai kesan yang positif terhadap prestasi berasaskan perakaunan, manakala Lembaga Pengarah yang terdiri daripada pelbagai bangsa mempunyai kesan yang positif terhadap prestasi berasaskan pasaran. Walau bagaimanapun, kepelbagaian jantina Lembaga Penyeliaan dan kepelbagaian etnik Lembaga Pengarah didapati mempunyai kesan yang negatif terhadap kedua-dua prestasi berasaskan perakaunan dan prestasi berasaskan pasaran. Tidak terdapat sebarang bukti yang memperlihatkan bahawa peranan penumpuan pemilikan mempengaruhi prestasi syarikat. Kajian juga menunjukkan pelaksanaan Kod Tadbir Urus Korporat yang baharu dan disemak semula tidak memberi kesan yang signifikan terhadap prestasi syarikat. Kajian mengesyorkan agar kerajaan mengawal selia mekanisme pelantikan dan pemecatan Lembaga Penyeliaan, sebagai contoh, dengan menyertakan wakil yang dipilih oleh pekerja. Selain itu, pihak berkuasa juga perlu menghadkan bilangan maksimum jawatan pengarah yang boleh disandang oleh para pengarah syarikat yang tersenarai bagi memastikan prestasi yang lebih baik.

Kata kunci: Lembaga Penyeliaan, Lembaga Pengarah, penumpuan pemilikan, prestasi syarikat.

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LIST OF ABBREVIATIONS

ADB	Asian Development Bank
CA	Company Age
CEO	Chief Executive Officers
CG	Company Growth
CL	Company Leverage
CS	Company Size
DE	Board of Director Ethnicity Diversity
DExp	Board of Director Experience Diversity
DG	Board of Director Gender Diversity
DN	Board of Director Nationality Diversity
DS	Supervisory and Board of Director Shareholding
DQ	Board of Director Qualification Diversity
DZ	Board of Director Size
FOP	Family Ownership
FrO	Foreign Ownership
IDX	Indonesian Stock Exchange
KLSE	Kuala Lumpur Stock Exchange
MD	Multiple Directorships of Board of Director
MS	Multiple Directorships of Supervisory Board
NACD	National Association of Corporate Directors Guidelines

NCCG	National Committee on Corporate Governance
NCG	National Committee on Governance
NEDs	Non-Executive Directors
OECD	Organization for Economic Cooperation and Development
OJK	Indonesia Authority for Financial Services
QA	Quality of External Auditor
ROA	Return on Assets
ROS	Return on Sales
SC	Supervisory Board Composition
SE	Supervisory Board Ethnicity Diversity
SExp	Supervisory Board Experience Diversity
SG	Supervisory Board Gender Diversity
SN	Supervisory Board Nationality Diversity
SQ	Supervisory Board Qualification Diversity
Srt	Stock Returns
SZ	Supervisory Board Size
TMT	Top Management Team
TQ	Tobin's Q

CHAPTER ONE

INTRODUCTION

1.0 Background and Motivation of the Study

Corporate governance relates to a system in which the Board of Directors governs the companies based on shareholders' interest (Pass, 2006). The Organization for Economic Cooperation and Development (OECD, 1999) asserts that corporate governance as "a system of how company is monitored and controlled to enhance company performance". The term of corporate governance has been discussed for a long time (e.g., Berle & Means, 1932) and until now, the topic of corporate governance is still in debated (Nyamongo & Temesgen, 2013). Despite the attention, many business scandals have still occurred all over the world. Examples of corporate failure include the US Corporate Scandal (e.g., Penn Central in the 1970s and Enron in 2001), UK (e.g., Polly Peck in 1990/91), Asian Financial Crisis in 1997/98, and Perwaja (Malaysia). In Indonesia, the cases of failure include Kimia Farma Co. 2001/02 and Century Bank (2008). Further, the Wall Street crash in 2008 also impacted most companies and economies around the world. Lack of corporate governance system was one of the causes, blamed for those scandals and economic crises, especially in the developing countries (Lukviarman, 2004; Haniffa & Hudaib, 2006; and Darmadi, 2013).

Corporate governance agencies in many countries have responded to the failures by enhancing rules, regulation, laws and code of conduct. Indonesia, for instance, has published the Code of Corporate Governance (the Code) in 2001 and its revision in 2006.

The revision of the Code is supposed to be a national reference for the business and regulators in developing and practicing of good corporate governance (National Committee on Governance, 2006). In the revised Code, there are two approaches as guidelines for companies to implement corporate governance, namely ethics and regulatory-based approaches. The first approach is to motivate the business practitioners to build a high quality relationship with stakeholders for a long time, whereas the second approach is driven by the initiative to push companies to comply with the certain rules.

Even though the Code has been issued, the implementation of corporate governance is still weak in Indonesian companies. Darmadi (2011) states that Indonesia already has a system of corporate governance regulations, but the practice is still relatively lagging behind compared to developed countries in terms of weak regulatory framework and less developed capital market. In addition, Nuryanah and Islam (2011) conclude that implementation of corporate governance practices is still not effective in Indonesia. For example, some listed companies do not comply with the Code of Corporate Governance in the aspect of percentage of Supervisory Board composition. Koutoupis (2012) notes that less effective implementation of the Code leads to business failure. Moreover, a study by the Asian Development Bank (ADB) (2004) concludes that Indonesian directors are relatively weak in selecting, monitoring and replacing Chief Executive Officers (CEOs) and independent directors. Patrick (2001) argues that the Indonesian Stock Exchange or IDX (formerly known as Jakarta Stock Exchange) is less effective and not strong in self-regulating institutions, and weak in government monitoring.

The ADB (2000) argues that weakness of corporate governance in emerging market is due to highly ownership concentration, less-developed capital markets, strong government interventions, and the weak legal and regulatory framework to protect the shareholders' interest. Thus, ADB (2000) claims that the corporate governance issue is not only important for protecting the interests of investors, but also for reducing systematic investment risks and preserving financial steadiness.

La Porta et al. (1998) claim that countries, such as Indonesia, that follow the French Civil Law, with poor quality of law enforcement, offer weak protection for investors. They add that English common law, which is adopted by countries, such as Singapore; and German civil law, adopted by countries, such as Korea, are much better in terms of protecting investors. This is also supported by Klapper and Love (2004), who point out that the level of companies' corporate governance is poor with weaker legal systems in emerging market. In brief, emerging markets have lower corporate governance systems, weak legal environments and investor protection, which affect company performance (Joh, 2003 and Lodh et al., 2014), especially in Indonesia.

The remainder of the chapter is divided into several sections. Section 1.1 discusses the problem statement of this study. Section 1.2 presents the research questions. Section 1.3 explains the research objectives. Section 1.4 discusses the significance of the study. Section 1.5 describes the scope of the study. Finally, section 1.6 explains the organization of the study.

1.1 Problem Statement

Corporate governance is an important factor which affects company value in emerging markets (Klaper & Love, 2004). Renders et al. (2010) note that better practices of corporate governance lead to improved company operations and performance. In addition, companies with better corporate governance practices deliver greater value of market performance as measured by stock returns and Tobin's Q and higher ratios of cash flow to assets than companies with weaker corporate governance practices (Mishra & Mohanty, 2014). The low quality of corporate governance in Indonesia might cause poor company performance. For example, Abidin et al. (2011) report that in 2005 and 2006, 444 Indonesian listed companies had negative Return on Assets (ROA) of about 15% and 17%, respectively.

One of the important current debates is the effect of corporate governance on company performance. Empirical evidences show that the association between corporate governance and company performance is conflicting (Van Ees et al., 2009), and still ambiguous (Bennedsen et al., 2008). In addition, Korac-Kakabadse et al. (2001), Cheung et al. (2011), and Renders and Gaeremynck (2012) conclude that the relationship between contributions of corporate governance to company performance does not give conclusive result, with most prior research focusing on developed markets. On the other hand, Klapper and Love (2004) discover good corporate governance is related with improved company performance. Haat et al. (2008) find no relationship between internal governance mechanisms and company performance. Since the results of corporate

governance and company performance are mixed, Gills et al. (2009) conclude that no concrete answer to the association between corporate governance and company performance. One of the reasons is the quality of corporate governance implementation differs among countries. In addition, the implications from previous research, on the effect of corporate governance and company performance, are difficult to deduce.

Research in the subject of corporate governance and company performance have been undertaken in Anglo-Saxon system (e.g., Baysinger & Butler, 1985; Vafeas & Theodorou, 1998; Weir & Laing, 2001; Carter et al., 2003; Haniffa & Hudaib, 2006; Haat et al., 2008; Adam & Ferreira, 2009; Miller & Triana, 2009; Carter et al., 2010; Switzer & Cao, 2011; and Choi et al., 2012). Lam and Lee (2012) note that most prior studies on Board characteristics take a lot of attention on US data. There are limited studies done in Continental European countries (e.g., Demsetz & Villalonga, 2001; Van Ees et al., 2003; Rose, 2005; and Darmadi, 2013). There is a significantly different governance system in these countries. The Anglo-Saxon system use the one-tier Board system, while Continental European system apply the two-tier Board system¹. Indonesia applies the Continental European system which has separated Board, namely the Supervisory Board and the Board of Directors. Indonesia has modified this system which differs from other Continental European countries, where the Supervisory Board and Board of Directors are selected and dismissed by shareholders.²

¹ A one-tier system is a system where the company has a single Board of Directors. The two-tier system is a system that has two types of directors, namely, a Supervisory Board and a Board of Directors.

² In general, in Continental European system, Supervisory Board is elected and fired by shareholders and Board of Director is appointed and dismissed by Supervisory Board.

The Board of Directors is assigned a strategic role and the Supervisory Board has the responsibility to actively control and monitor the Board of Directors' behaviour to make certain that their decisions are based on shareholders' interest. Better control and monitoring by the Supervisory Board can reduce the agency cost occurred by the Board of Directors and shareholders. However, the Supervisory Board is poor in monitoring and is ineffective in its governance role (Shan & McIver, 2011). It creates high information asymmetry between both Boards; Supervisory and the Board of Directors (Jungmann, 2006). This condition will create agency conflict not only between the agent and principals (Berle & Means, 1932 and Jensen & Meckling, 1976), but also between the Supervisory Board (agent) and the Board of Directors (agent).

The internal corporate governance mechanism, such as Board structure, has become more important for reducing agency conflict when the external mechanism is less effective, especially in emerging markets (Kamardin & Haron, 2011 and Nuryanah & Islam, 2011). Directors are elected to represent the shareholders' interest. Thus, the contribution of the Board of Directors in company is expected as an effective corporate governance mechanism to enhance company performance (Chiang & Lin, 2007 and Dey & Chauhan, 2008). Weakness in current corporate governance practice has led to establish new concept in governance structure, such as directors' diversity. It is because directors' diversity can improve the company's financial performance (Carter et al., 2003). Since the market is becoming more diverse, directors' diversity improves the ability of director to understand the current market (Wang & Clift, 2009), leads to closer monitoring of management tasks (Zhang, 2012), greater innovation (Jackson & Joshi, 2004), potential

for superior decision-making (Simons & Pelled, 1999), and greater directors' diversity which is associated with better company performance (Van der Walt et al., 2006). For this reason, a study of directors' diversity, specifically the system in Indonesia, is of great importance for improving corporate governance, protecting the shareholders' interests and enhancing company performance.

Most extant literatures have investigated the effects of directors' diversity on company performance have been based on US data (e.g., Siciliano, 1996; Shrader et al., 1997; Carter et al., 2003; Dwyer et al., 2003; Erhardt et al., 2003; Kochan et al., 2003; Adams & Ferreira; 2009; Miller & Triana, 2009; and Carter et al., 2010). There are limited studies that have investigated the effect of directors' diversity on company performance in developing countries (e.g., Mahadeo et al. 2012; MK & Mohamad-Sori, 2012; and Wellalage et al., 2012). Until recently, the literature on directors' diversity (e.g., ethnicity, nationality, gender, experience, and qualification) has been sparse, especially for Indonesia. In addition, the association between directors' ethnicity diversity and company performance is still inconclusive result (Wellalage et al., 2012).

To date, empirical studies that focus on directors' diversity in Continental European countries' corporate governance system are still limited in the literature, especially in Indonesia. Indonesia consists of more than 17,000 islands. In addition, Indonesia is the fourth largest country in the world. The Indonesian population was around 253 million in 2014. It creates diversity in local language, culture, attitude, custom and also religion. Even though Indonesia has a higher diversity, it has a national motto, "Bhinneka Tunggal

Ika” (berbeda-beda tapi tetap satu jua), which means “Unity in Diversity”. Other uniqueness of Indonesia is that it has more than 400 distinct native ethnicities, where the largest one is the Javanese (Efferin & Hopper, 2007). Meanwhile, the other ethnic group, i.e., the Chinese, dominate the business. This group controlled the top 25 conglomerates in 1994 (Turner & Allent, 2007).

It is important to take a note that previous research examining the effect of experience and qualification diversity on company performance is still scarce in literature, even in the context of developed countries. Kim and Lim (2010) also argue that scarce of study has investigated the association between Board composition diversity and company performance in terms of their age, qualification, and experience of Board. It is also supported by Mahadeo et al. (2012), who claim that there is lack of research to examine the effects of qualification diversity of board members on company performance. In brief, seven out of nine prior researches investigate the effects of directors’ diversity and company performance has only focused on gender diversity (Carter et al., 2010).

Furthermore, empirical findings on the relationship between other characteristics of Board, such as the association between multiple directorships and company performance, are also not clear and need further investigation (Ahn et al., 2010). It is also consistent with Shukeri et al. (2012). They claim that the effect of Board of Director characteristics and company performance is still questionable. According to Shan (2013), there are limited studies that investigate the Supervisory Board’s characteristics in terms of size, the number of professionals and meetings.

There are little studies to investigate the effect of corporate governance and company performance in Indonesia. To date, there are only six studies that relate corporate governance and company performance utilizing Indonesian data (i.e., Hastuti, 2005; Siallagan & Machfoedz, 2006; Pudjiastuti & Mardiyah, 2007; Achmad et al., 2009; Nuryanah & Islam, 2011; and Darmadi, 2013). Out of these six, only three have been published: Ahmad et al. (2009), Nuryanah and Islam (2011), and Darmadi (2013). Achmad et al. (2009) more focus to examine the association between ownership structures, audit quality and company performance; Nuryanah and Islam (2011) investigate the effect of internal corporate governance mechanisms on company performance; while, Darmadi (2013) focuses on board members' education and company performance.

There is inconclusive evidence to clarify the association between corporate governance mechanism and company performance using Indonesian companies' data. Hastuti (2005) finds no correlation between ownership structure and company performance; while Siallagan and Machfoedz (2006) suggest that corporate governance mechanisms influence company performance. They use director shareholding, Supervisory Board size, audit committee and external auditor to examine the effect of corporate governance mechanism on company value. Pudjiastuti and Mardiyah (2007) report that Board of Directors size is a significant and negative related to company performance. They also conclude that Supervisory Board composition has positive impact on company performance. Meanwhile, Darmadi (2013) has investigated educational backgrounds of Supervisory Board and Board of Directors and company performance. He states that the

educational backgrounds of Supervisory board members are positively associated with company performance. He also finds that educational backgrounds of Board of Directors do not influence financial performance (ROA) but has positive effect on market performance as measured with Tobin's Q of the company.

Another aspect of corporate governance is ownership concentration. It is one of the primary topics on corporate governance that influencing the scope of a company's agency cost (Arosa et al., 2010). Companies in developed countries may not face any serious agency problem between majority and minority shareholders due to strong investor protection level and dispersed ownership. In countries using the Continental European system, controlling owners tend to utilize their shares in order to control the company and make decisions (Achleitner et al., 2013). However, Indonesia, an example of an emerging market, is categorized by poor corporate governance with weak legal protection levels for shareholders and high concentration of ownership. This condition is considered as primary factors of agency problem between majority and minority shareholders (Singh & Gaur, 2009 and Lodh, 2014), controlling insiders and outsider investors (Kamardin & Haron, 2011) and family-controlled companies (Sarkar & Sarkar, 2009 and Kim et al., 2010).

Claessens et al. (2000) state that emerging market differ from developed countries in two key ways. First, many emerging markets' company has ownership concentration which is owned by families. Second, most of big company has affiliation within a company group. This argument concurs with other scholars, such as Faccio and Lang (2002). They argue

that widely-held companies are more important in the UK and Ireland; and family-controlled companies under the Continental European system. However, other researchers believe that concentrated ownership is considered as one of the crucial factors to reduce the agency problems (Kaplan & Minton, 2004 and Singh & Gaur, 2009).

The evidence of the effect of ownership variables and company performance is still inconclusive (Tam & Tan, 2007; Gill et al., 2009 and Arosa et al., 2010). Recently, Gill et al. (2009) opine that the exact relationship between managerial ownership and company performance is ambiguous. In fact, Tam and Tan (2007) conclude that the effect of ownership structure on company performance in the US, Eastern Europe and Asia produced inconclusive results. In addition, there are limited literatures that have investigated the relationship between ownership concentration and company performance using the Continental European system (e.g., Rose, 2005 and Hu & Izumida, 2008). Therefore, it is necessary to have more research in this area.

Some countries have revised their Code many times, such as the UK Code of Corporate Governance (Financial Reporting Council, 2010) (Kaczmarek et al., 2012) and the Malaysian Code of Corporate Governance (MCCG, 2012) (Md Kassim et al., 2013). The aim of the Code is to guide the companies to enhance good governance practices. Practicing good corporate governance enhances company performance (Amran & Ahmad, 2009). In Indonesia, the National Committee on Corporate Governance (NCCG) has published the Code in 2001. It released the revised Code in 2006. The revised Code of Corporate Governance in 2006 might have contributed to enhancing corporate

governance practices. There are some changes and improvements in this revised Code. However, there is a lack of progress by Indonesian authorities in improving the Code until now. In addition, none of prior studies has investigated the effect of the old Code (2001) and the revised Code of Corporate Governance in 2006 on company performance. In addition, this study further analyses whether the implementation of the revised Code (2006) has an effect on company performance.

1.2 Research Questions

The research questions of the present study are:

- a. Is there a significant relationship between Supervisory Board's diversity and company performance?
- b. Is there a significant relationship between Board of Directors' diversity and company performance?
- c. Is there a significant relationship between ownership concentration and company performance?
- d. Is there any effect of implementing the revised Code on company performance?

1.3 Research Objectives

The primary purpose of the present study tries to investigate whether the implementation of good corporate governance practices could enhance better company performance. The research objectives are as follows:

- a. To investigate the relationship between Supervisory Board's diversity and company performance.
- b. To investigate the relationship between Board of Directors' diversity and company performance.
- c. To investigate the relationship between ownership concentration and company performance.
- d. To investigate the effect of implementing the revised Code on company performance.

1.4 Significance of the Study

Contribution of the present study to the corporate governance literature is based on several aspects. Firstly, the studies examining the relationship between directors' diversity, concentrated ownership and company performance, are mainly focused on the Anglo-Saxon countries (e.g., Shrader et al., 1997; Adams and Ferreira, 2009; Carter et al., 2010; Choi, et al., 2012; and Lodh et al., 2014). The results of these studies are reported to be mixed. Moreover, between the Indonesian environment and the Anglo-Saxon countries' environment are not the same, especially in terms of corporate governance system. Thus, examining the relationship between directors' diversity, ownership concentration and company performance, will allow further testing of the existing theory of corporate governance under the Continental European corporate governance system, specifically in Indonesia.

Second, Indonesia follows French Civil Law system which offers weak protection for investors and has poor corporate governance. Indeed, companies with poor corporate governance are unable to enhance company performance and create value for shareholders. Moreover, directors' diversity is a crucial factor in enhancing company performance. Unlike previous studies, the present study addresses diversity in terms of ethnicity, gender, nationality, experience and qualification for Supervisory Board and Board of Directors. In addition, there is a lack of studies that has used experience and qualification diversity to determine company performance. Thus, this study fills the gap. Moreover, empirical findings from literature that investigate the relationship between directors' diversity and company performance in Indonesia are still scarce.

Finally, the company performance is key information both for investors and the company itself. Investors will make investment decisions based on the company performance indicators. Ascertaining the association between directors' diversity, ownership concentration and company performance will guide investors as to what decision they should make if a company changes its Board structure. In addition, the management of the company can also benefit from this study due to knowing how the relationship will affect the future decision-making processes. Finally, the government can also take advantage of this study since the government agency regulates the listed companies in order for companies to contribute to economic growth.

1.5 Scope of the Study

The present study aims to investigate the relationship between directors' diversity, ownership concentration and company performance by using the Indonesian company data. This study uses diversity in ethnicity, nationality, gender, experience and qualification to measure directors' diversity. The other independent variables are Supervisory Board composition, board size and multiple directorships. For ownership concentration, there are three variables: director's shareholding, family and foreign ownership. Meanwhile, dependent variables of the present study are accounting performance: ROA and Return on Sales (ROS) and market performance (Tobin's Q and stock returns).

The sample period of this study extends from 2004 to 2010. The starting period, i.e., year 2004 is chosen since it is the effective period of the implementation of regulations for the composition of the Supervisory Board in the Indonesian listed companies (IDX). The sample of this study is also split into pre and post revised Code periods (2004-2006 and 2007-2010).

1.6 Organization of the Chapters

The present study is organized into six chapters. Chapter 1 is the introduction of the topic, which consists of the background and motivation, problem statements, research questions, objectives of the study, significance of the study, the scope and organization of

the study. Chapter 2 discusses corporate governance and the Indonesian business environment. Chapter 3 is on literature review and hypotheses development. Chapter 4 offers the research methods. Chapter 5 explains the results and discussion. Chapter 6 clarifies the conclusion and recommendation.

CHAPTER TWO
CORPORATE GOVERNANCE AND THE INDONESIAN BUSINESS
ENVIRONMENT

2.0 Introduction

This chapter discusses corporate governance attributes and development of corporate governance in Indonesia. The effectiveness of corporate governance practices is believed as crucial area in improving company performance. According to Chuanrommanee and Swierczek (2007), improvements in corporate governance are expected to result in improved company performance. For chapter two, it is organized based on five sections. Section 2.1 defines corporate governance. Section 2.2 presents the discussion on corporate governance systems. Section 2.3 discusses corporate governance mechanisms. Section 2.4 discusses the Indonesian business environment. Section 2.5 is the summary.

2.1 Corporate Governance Definition

The term ‘corporate governance’ is believed to have been introduced by Berle and Means (1932). They state that corporate governance began in the US and the UK when public company ownership became dispersed, and shareholders did not have power to control the company. However, their dispersed ownership model is less popular in the world because it produced a competitive disadvantage for the US (Porter, 1998). Therefore, it can be argued that concentrated ownership might gain competitive advantage in the US.

In fact, a survey undertaken in the emerging and developed market has shown that ownership of a company is dominated by a group of shareholders and it tends to be owned by a family (family-concentrated ownership).

The definition of corporate governance has been introduced by many scholars and institution (e.g., La Porta et al. 2000; Nelson, 2005; and Chiang & Lin, 2007). La Porta et al. (2000) note that corporate governance is a set of procedures in order to protect the interest of outside shareholders from the company insiders. Cadbury (1992) defines corporate governance as “the whole system of controls, both financial and otherwise, by which a company is directed and controlled”. It also comes up with the structure through which the objectives and goal of the company are designed, and the means of attaining those objectives and monitoring performance are determined.

Others define corporate governance as a set of connections among Board of Director, shareholders and other stakeholders (OECD, 1999). According to Chiang and Lin (2007), corporate governance indicates a set of policies that explain how to build good relationship between Board of Directors, Supervisory Board, shareholders and other stakeholders in a company. Meanwhile, Nelson (2005) interprets that corporate governance as a set of requirement among agent and principals as they deal to decide in which company's value will be allocated. Jong (1997) opines that corporate governance relates to the set of rules that guide decision-making in business. In addition, corporate governance is a set of requirement between agents, principals and other stakeholders to

facilitate certain rights and responsibilities to achieve the long-term success of a company.

The main objective of corporate governance is to mitigate the agency costs through the alignment of interests between management and shareholders. According to Huang et al. (2011), the main point of corporate governance is to cut down the agency problem in order to be fairly treated and protected the interests of shareholders and other stakeholders in the company. The term 'corporate governance' could be used to explain the role and practices of the Board of Directors and shareholders. The effectiveness of the Board of Directors' role can improve the quality of corporate governance. Investors are interested to invest in countries where the quality of corporate governance is high. In addition, Klapper and Love (2004) suggest that investors should invest in the companies that adopt good governance mechanisms. According to the ADB (2000), the corporate governance issue is not only important to protect the interests of investors, but also to reduce systematic market risks and maintain financial stability. Other purposes of corporate governance include how a company complies with certain rules, and being effective and efficient in its operations.

Since many companies have collapsed and financial scandals are still occurring, the subject of corporate governance continues to be questioned by practitioners and academics. Aguilera and Cuervo-Cazurra (2009) state that the US was the first country that promotes Code of Corporate Governance in 1978. Meanwhile, the UK has also

published the Code of Corporate Governance in more than ten editions³. Unfortunately, Indonesia has only released the Code twice (2001 and 2006). Therefore, it is less appropriate for the current business environment.

2.2 Corporate Governance Systems

There are two systems in implementing the Board structure of a company, namely, the Anglo-Saxon system and the Continental European system. Carati and Rad (2000) use different terms to explain the two corporate governance systems, namely, a market-based system for the one-tier Board system and a group-based system for the Continental European system. Franks and Mayer (2001) use other terms, and call it an 'outsider system' for the Anglo-Saxon system and an 'insider system' for the Continental European system.

Outsider system is a one-tier Board system. This system has a single Board of Directors. They manage and also control the company. It consists of two types of directors: insider and outsider (independent) directors. Insider and outsider Boards are also called executive and non-executive Boards (Weir & Laing, 2001). An executive Board member is a senior executive and full-time employee of the company. They have responsibility in the day-to-day company's operations. The executive director has direct responsibility in the company's business, such as finance, marketing and corporate strategy. According to

³ The UK has released the Code, namely the Cadbury Report (1992), the Greenbury Report (1995), the Hampel Report (1998), the Combined Code (1998), Turnbull (1999), Myners (2001), Higgs (2003), Smith (2003), Combined Code (2003), the Revised Turnbull Guidance (2005), the Combined Code (2006) and Financial Reporting Council (2010).

Laing and Weir (1999), non-executive directors (NEDs) are independent directors. They monitor the decisions made by insider directors. All board members, both non-executive directors and executive directors are elected and dismissed by the shareholders.

Another system is the Continental European system, or two-tier Board system. This system consists of two separate Boards, namely Board of Commissioners (Supervisory Board) and Board of Directors (management Board). The management Board manages the company's day-to-day operations. Furthermore, they know more of the information about the company than the Supervisory Board. However, the Supervisory Board obtains information from the management. According to Van Ees et al. (2003), decision management is assigned to the Board of Directors and decision for control and monitor is largely held by the Supervisory Board.

The Anglo-Saxon system provides strong minority shareholders' protection as compared to the Continental European system. Moreover, the Code of Corporate Governance for both systems has different emphasis. Ross and Crossan (2012) compared Corporate Governance Codes in both the UK (one-tier Board system) and Germany (two-tier Board system). They note that both countries have a different corporate governance approach; in the UK, it is based on shareholder capitalism and in Germany, it is stakeholder capitalism.

There are several differences between the Anglo-Saxon and Continental European systems. Anglo-Saxon system has dispersed ownership, large equity markets and active

market for corporate control which is adopted by the UK and the US (Franks & Mayer, 2001). Weir et al. (2002) state that market for corporate control is the key external mechanism. On the other hand, the Continental European system has concentrated ownership, an inactive takeover activity and little numbers of quoted companies.

The countries that adopted the Anglo-Saxon system are the US, the UK, France, Italy, Malaysia, and Singapore, whereas Denmark, Germany, Netherlands, Austria, Finland, Japan and Indonesia adopted the Continental European system. Some countries cannot be categorized as Anglo-Saxon or Continental European systems, because those countries allow companies to choose between either system, such as Sweden, Belgium, Portugal and Spain.

However, both systems have advantages and disadvantages. Jungmann (2006) concludes that the separation of control and management is one of the main advantages of the Continental European system. The disadvantage of this system is the high information asymmetry between the Supervisory Board and the Board of Directors. The advantage of the Anglo-Saxon system is that all members of the Board (executive and independent directors) are assigned with the identical task and responsibility to perform the same duties. Furthermore, it reduces information asymmetry between boardroom members. The members of the one-tier Board fulfil both monitoring and managerial roles. However, there is a dilemma in Board tasks because they also monitor the decisions, which have been made by them.

2.3 Corporate Governance Mechanisms

The separation of control and ownership generates asymmetric information between agent and principal. Furthermore, it increases agency problems (Jensen & Meckling, 1976). One of the ways to decrease the agency costs is to have effective corporate governance mechanisms. Shleifer and Vishny (1997) argue that corporate governance mechanisms give some assurance for shareholders that managers will act based on shareholders' interests.

There are two control mechanisms used in the corporate governance research in determining company performance, namely, external and internal mechanisms. The internal mechanism could be from the Board of Directors - management compensation and ownership, financial structure (Denis, 2001; Weir et al., 2002; and Daily et al., 2003); proxy fight (opposing owners propose board members' candidates to stand against management's slate) and large/block holder (Hart, 1995); or investor activism and dividend policy (Byrd et al., 1998). The external mechanism can be in the form of takeover (legal and regulatory), product market competition (Denis, 2001) and managerial labour market (Byrd et al., 1998 and Weir et al., 2002). Studies on corporate governance mechanisms and their benefit to the company performance have been documented, both in developed and developing countries.

Different authors have arrived at different measurements and conclusions to explain the relationship between corporate governance and company performance. Weir and Laing

(2001) report an unclear relationship between corporate governance and company performance by using 347 UK companies, during the period from 1996 to 2000. Weir et al. (2002) examined 321 UK companies in 1996. They find an insignificant relationship between Board structure and company performance.

Haat et al. (2008) investigated the effect of good corporate governance practices on company performance. They find no association between good internal corporate governance mechanisms and company performance, where transparency and timely reporting are used as mediating variables. However, they report a significant and negative association between external corporate governance mechanisms (measured by audit quality) and market performance of companies listed on the Kuala Lumpur Stock Exchange (KLSE).

The previous studies on corporate governance and company performance are not only found in the Anglo-Saxon system but also in the Continental European system. Basu et al. (2007) collected data on the ownership and monitoring mechanisms. They used regression analysis for 174 Japanese companies during 1992-1996. They find that family ownership is significantly positive with company performance. In contrast, they also find that education of the Board and the presence of outside directors is significantly negative with company performance. Table 2.1 summarizes selected empirical findings on the association between corporate governance and company performance in countries that use the Anglo-Saxon system.

Table 2.1**Summary of Prior Studies in the Anglo-Saxon System**

Author(s)	Country	Period	Sample	Corporate governance	Company performance
Baysinger & Butler (1985)	US	1970-1980	266	Independence & board composition,	RFP
Bozec (2005)	US	1976-2000	500	Size, NED, duality and Public servants audit committee, nomination, compensation and market competition	ROS, ROA, sales & net income efficiency and assets turnover
Carter et al. (2003)	US	1997	638	Women or minorities , age & inside board	Tobin's Q
Chen et al. (2005)	Hong Kong	1995-1998	412	Family Ownership	ROA, ROE , Tobin's Q
Choi et al. (2012)	Korea	2004-2007	224	Foreign board and foreign owners	Tobin's Q
Erhardt et al. (2003)	US	1993-1998	127	Ethnic and gender diversity	ROA & ROI
Haat et al. (2008)	Malaysia	2002	142	Independence, duality, multiple directorship, insider & foreign owners and audit quality	Tobin's Q
Haniffa & Hudaib (2006)	Malaysia	1996-2000	347	Size, NED, duality, multiple directorship, top five and director shareholding,	ROA, Tobin's Q
Grove et al. (2011)	US	2005-2008	236	Block ownership, anti-takeover, debt & size insider, age, busy & board meeting	ROA, stock & Tobin's Q
Jackling & Johl (2009)	India	2005-2006	180	Composition, size, activity, busyness and board leadership	ROA, Tobin's Q
Lam & Lee (2012)	Hong Kong	2001-2003	346	Board committees, family ownership & size	ROA,ROE,ROCE & MTBV
Miller & Triana (2009)	US	2003	500	Racial and gender	ROI & ROS
Mishra & Mohanty (2014)	India	-	141	Legal, board & proactive indicators	ROA
Nyamongo & Temesgen (2013)	Kenya	2005-2009	37	Size, NED & CEO duality	ROA & ROE
Switzer & Cao (2011)	US	2004-2006	145	Shareholder and directors' interests	ER
Vafeas & Theodorou (1998)	UK	1994	250	Director & chairman affiliation, ownership, and committee composition	COP
Weir & Laing (2001)	UK	1995-1996	320	Duality, NED, committee	ROA
Weir et al. (2002)	UK	1996	321	NED, duality, independent & quality audit committee, board & external shareholding	Tobin's Q
Notes:					
NED = Non-executive Director	ROE = Return on Equity		ROCE = Return on Capital Employed		ROA = Return on Assets
RFP = Relative Financial Performance	ROI = Return on Investment		MTBV = Market-to-book Value of Equity		
ROS = Return on Sales	COP = Current Operating Performance		ER = Economic Value Added		

A study in the US, by Erickson et al. (2005), concludes that corporate governance practices can increase company performance in emerging market with high ownership concentration even in countries with strong protection for minority shareholder. The previous studies on corporate governance have been investigated in emerging markets (e.g., Hasan et al., 2008 and Klapper & Love, 2004). Klapper and Love (2004) applied data on company-level corporate governance rankings for fourteen emerging countries. They find that good corporate governance is highly related with better company performance. They also conclude that developing market with weaker shareholders' protection has low level of a company's corporate governance. In another study, Hassan et al. (2008) find that higher quality of corporate governance implementation mitigates the dependency of company investments on their internal resources and facilitates access by companies to capital markets. Table 2.2 summarizes prior studies of the Continental European system.

2.4 Indonesian Business Environment

Indonesia was colonized by the Netherlands for three and a half centuries. This started from the beginning of the seventeenth century to the middle of the twentieth century. Therefore, it impacted on the Indonesia systems, which adopted some Netherlands systems, especially the company system. Corporate governance in the Continental European system is different from other systems, especially in Board structures. Indonesian companies are managed and controlled by a two-tier Board system.

Table 2.2**Summary of Prior Studies in Continental European System**

Author(s)	Country	Period	Sample	Corporate governance	Company performance
Arosa et al. (2010)	Spain	2006	586	Family & non family ownership	ROA
Basu et al. (2007)	Japan	1992-1996	174	Age, tenure, education, NED, size management & family ownership	ROA, RET
Brio et al. (2006)	Spain	1996-2001	50	Compliance, transparency, directors' compensation, and company size	Tobin's Q
Conyon & He (2012)	China	2005-2010	2,024	CEO pay, ownership & board structure	ROA & stock return
Darmadi (2013)	Indonesia	2007	160	Director qualification	Tobin's Q & ROA
Demsetz & Villalonga (2001)	German	1980-1981	223	Management & five largest owners	Accounting profit rate
Ees et al. (2003)	Netherlands	1996	94	size, remuneration, outside supervisory and board shareholding	ROA, ROS, ROE and MB
Kang & Shivdasani (1995)	Japan	1985-1990	270	CEO turnover, block owners & NED	ROA & stock return
Krivogorsky (2006)	European	2000-2001	81	Insider, external, board size, Institutional, block, insider owners	ROE, ROA and Tobin's Q
Nuryanah & Islam (2011)	Indonesia	2002-2004	46	Internal corporate governance	Tobin's Q
Rose (2005)	Denmark	1998-2001	446	Size, proportion director sit in supervisory board, age & busyness	Tobin's Q
Rose (2005)	Denmark	1998-2001	446	Blockholders & insiders ownership	Tobin's Q
Rose (2007)	Denmark	1998-2001	443	Women in the board	Tobin's Q
Sueyoshi et al. (2010)	Japan	1999-2006	270	Size, stable, foreign & executive owners	Total revenue
Notes:					
RET = Annual Stock Return	ROE = Return on Equity		ROA = Return on Assets		
ROS = Return on Sales	MB = Market to Book Value of Equity				

The first Board is a Supervisory Board, or Board of Commissioners, also called the “*Dewan Komisaris*”. The second Board is a Board of Directors, or Management Board, also called the “*Dewan Direksi*”. The Supervisory Board has an important role in the company with focus on the implementation of good corporate governance. The key role of the Supervisory Board is to monitor the Board of Directors’ actions in order to make sure that management acts based on shareholders and the company’s interest. On the other hand, the Board of Directors has responsibility for operating the company’s business in an efficient and effective way to enhance the shareholders’ wealth and the long-term success of the company. In conducting the Supervisory Board’s tasks, it is helped by several committees, namely: (i) the audit committee; (ii) the corporate governance committee; (iii) the risk policy committee; and (iv) the nomination and remuneration committee. The Supervisory Board is not allowed to participate in any operational decision-making.

The second Board is the Board of Directors. Board of Directors is chosen and fired by Supervisory Board. Thus, the role of Supervisory Board does not only monitor and control the Board of Director but also to elect better Board of Directors. It appears that Supervisory Board has power to select Board of Director who has better capability to manage the company well. However, Indonesia has modified that system whereby both Boards; the Supervisory Board and Board of Directors are selected and dismissed by shareholders through voting rights. Furthermore, the main task of Supervisory Board only monitor and control the Board of Directors’ action but they donot have right to elect Board of Director. The comparison of the two systems can be seen in Figures 2.1 and 2.2.

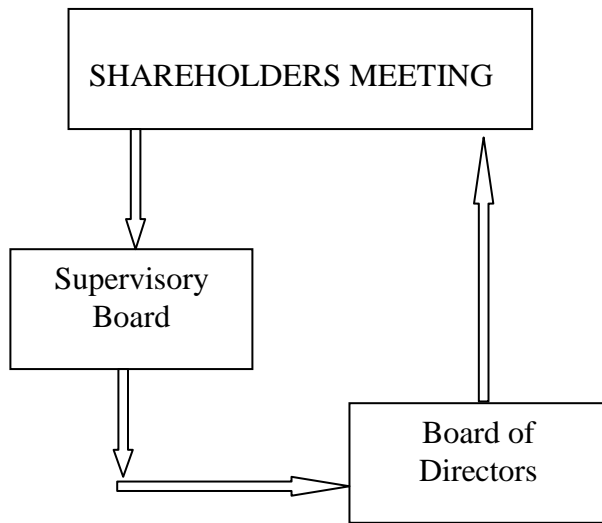


Figure 2.1
Two-Tier Board System Adopted in Indonesia

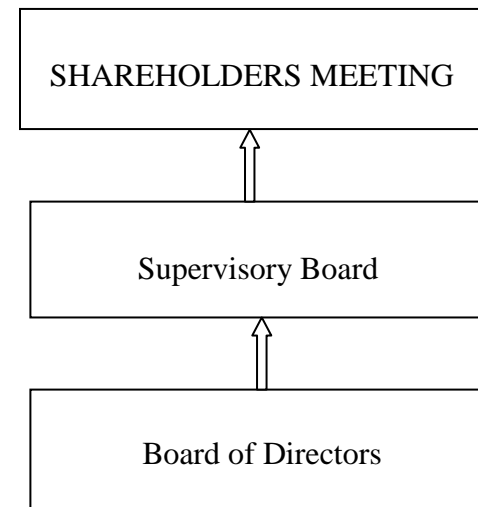


Figure 2.2
Two-Tier Board System Adopted in Continental European Countries

Notes: In Indonesia, Supervisory Board and Board of Directors are selected and dismissed by shareholders with voting rights. In Continental European countries, the Board of Directors are elected and dismissed by the Supervisory Board.

The development of the Code in Indonesia was marked by the establishment of the National Committee on Corporate Governance (NCCG) in 1999. The main task of this Committee was to produce the guidelines for companies to enhance corporate governance practices. The Committee's name was changed to the National Committee on Governance (NCG) in 2004. In 2001, the NCG published the first Indonesian Code of Corporate Governance. Then, the NCG produced the revised Code in 2006.

The main contents of the first Code are: (i) shareholders; (ii) the Supervisory Board; (iii) the Board of Directors; (iv) audit systems; (v) company secretary; (vi) stakeholders; (vii) disclosure; (viii) business ethics and corruption; and (ix) compliance with regulations. There are some weaknesses in the old Code compared to the revised Code. First, the old Code was more focused on discussing principals, agents and other stakeholders. Second, there was no corporate governance framework. Finally, this Code had no common guidelines to guide the company in implementing of good corporate governance practices.

The revised Code is more structured, understandable and broader than the previous Code. In revised Code, it provides the guidelines to implement the better corporate governance practice. It has two approaches for implementation, namely, the ethics-based approach and regulatory-based approach. The main contents of the revised Code are: (i) Corporate Governance framework; (ii) Corporate Governance principles; (iii) business ethics and code of conduct; (iv) shareholders; (v) stakeholders; (vi) implementation statement of the Code; and (vii) general guidelines of good Corporate Governance implementation. There

are several improvements in the revised Code 2006: first, there is a corporate governance framework. Second, it provides the guidelines for better corporate governance practices.

The Code of Corporate Governance is generally a voluntary set of standards for best practices of internal corporate governance of company (Davies & Schlitzer, 2008). Therefore, the goal of the Code of Corporate Governance is to guide the company in better corporate governance practices. The Indonesian government revised the Code in order to increase the quality of corporate governance, to enhance the effectiveness and efficiency in operations and long-time continuity of company business.

A survey regarding the quality of corporate governance in Indonesia and other Asian countries was undertaken by Hasan et al. (2008). They use eight variables that measure the quality of corporate governance, namely, corruption, transparency, judicial efficiency, rule of law, quality of legal system, minority shareholder rights, anti-director rights and creditor rights. These eight variables are classified into three indices (business environment, legal environment and investor rights). Table 2.3 reports the summary of corporate governance quality in Asian countries.

Table 2.3
Quality of Corporate Governance

Countries	Quality of Corporate Governance
Korea	1.60
Indonesia	1.64
Thailand	2.01
Malaysia	2.58
Singapore	8.00

Source: Hasan et al. (2008)

Higher scores of corporate governance measurement indicate a higher quality of corporate governance in each country. The data reported in Table 2.3 show that quality of corporate governance in Indonesia is the second lowest after Korea. In addition, Singapore has the best corporate governance quality in Asia. This is also supported by Chuanrommanee and Swierczek (2007). Malaysia's corporate governance index is the second highest after Singapore, even though its corporate governance quality is still relatively low (2.58).

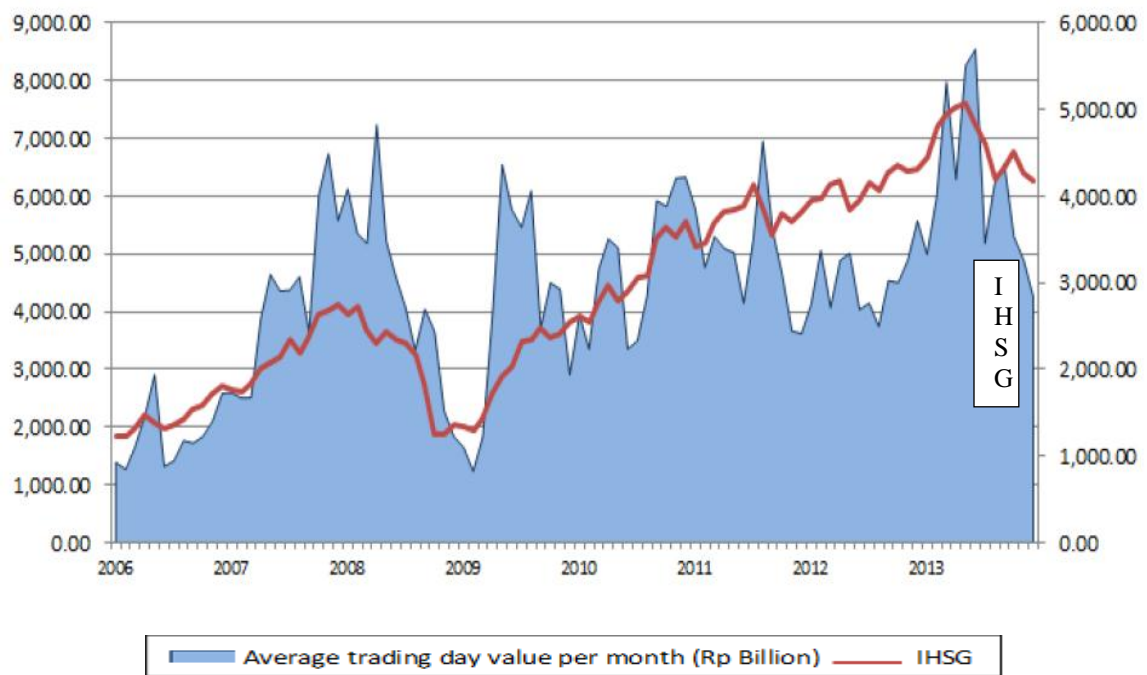
Table 2.4
Corruption Index

Year	Indonesia	Thailand	Korea	Malaysia	Singapore	US	UK
2002	1.9	3.2	4.5	4.9	9.4	7.6	8.3
2003	1.9	3.3	4.3	5.2	9.4	7.7	8.7
2004	2.0	3.6	4.5	5.0	9.4	7.5	8.6
2005	2.2	3.8	5.0	5.1	9.3	7.6	8.6
2006	2.4	3.6	5.1	5.0	9.2	7.3	8.6
2007	2.5	3.3	5.1	5.1	9.3	7.2	8.4
2008	2.6	3.5	5.6	5.1	9.2	7.3	7.7
2009	2.8	3.4	5.5	4.5	9.2	7.5	7.7
2010	2.8	3.5	5.4	4.4	9.3	7.1	7.6
2011	3.2	3.4	5.4	4.3	9.0	7.3	7.4
2012	3.2	3.7	5.6	4.9	8.7	7.3	7.4
2013	3.2	3.5	5.5	5.0	8.6	7.3	7.6

Source: http://en.wikipedia.org/wiki/Corruption_Perceptions_Index (extracted on 10 December 2013)

Weak corporate governance has frequently been cited as one of the causes of corruption. According to Mauro (1995), corruption has impact on lowering investment and economic growth. Table 2.4 shows that Indonesia has the lowest index score compared to other Asian countries. Overall, the Singaporean score is the highest index compared to other Asian countries, and also in developed market, especially the UK and the US. The high index score indicates that there is a low corruption level in the country.

In addition, the Indonesia capital market performance, which is measured by the IDX Composite Index, has also been fluctuating over time, as can be seen in figure 2.3. Figure 2.3 shows the IDX Composite Index and trading value from 2006 to 2013. The figure shows that the performance of Indonesian listed companies is unstable.



Sources: Indonesia Authority for Financial Services (OJK), 2013

Figure 2.3
Indonesia Stock Exchange Composite Index and Trading Value

2.5 Summary

This chapter presents information about the corporate governance, mechanisms and environment in Indonesia. Corporate governance is believed to contribute to company performance through corporate governance mechanisms. The quality of corporate governance can improve company performance. However, there are two corporate governance systems: the one-tier Board system and Continental European system. The

main difference between these systems is in the Board structure system. The former uses a single Board of Directors and the other applies two separate Boards: a Board of Directors and a Supervisory Board.

The remaining part of this chapter is dedicated to corporate governance in Indonesia. The implementation of corporate governance in Indonesia was started after the 1997 financial crisis. It introduced the Code to regulate corporate actions in Indonesia. In addition, Indonesia follows the Continental European corporate governance system. Having discussed corporate governance and the Indonesia economic environment, the following chapter presents the theoretical aspects, theoretical predictions, prior evidence and hypotheses development.

CHAPTER THREE

LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT

3.0 Introduction

This chapter provides the literature review and hypotheses development derive from relevant theories and empirical findings from prior studies on directors' diversity, ownership concentration and company performance. Section 3.1 discusses the theoretical framework of the present study. Section 3.2 presents prior evidence. Section 3.3 describes the theories and research findings that support the hypotheses development of current study. The next section explains the summary of this chapter.

3.1 Theoretical Aspects of Corporate Governance

This part describes the theories associated to corporate governance such as agency, resource dependency, stewardship, stakeholder, transaction cost economics, institutional, social network, upper echelons and signaling theories.

Firstly, agency theory has been introduced by Jensen and Meckling (1976). They define an agency relationship as a contract between the principals (shareholders) and agents (managers) to execute some duties based on shareholders' interest. From this theory, principals have to control and supervise the agents because of managers have their own interests that differ from shareholders. Therefore, the interests of both parties are not aligned. Principals want to increase their shareholders' wealth, whereas the agents want to

maximize their personal wealth. Judge et al. (2003) state that the agency theory claim that the delegation of managerial responsibilities by shareholders to managers requires a set of mechanisms in order to align the interests of shareholders and agent and to ensure that managers can generate the highest returns for the shareholders.

According to Kim and Lee (2003), there are three types of agency problems: (i) conflicts of interest between principals and agents; (ii) conflicts of interest between minority shareholders and larger shareholders; and (iii) conflicts of interest between bondholders and shareholders. The agency theory emphasizes on how to reduce the agency costs. Agency costs are the sum of monitoring expenditures by the principals, bonding expenditures by the agent and residual losses due to the reduction in prosperity of the principal, which is caused by the unaligned interests of the agent and the principal, such as auditing fee, remuneration and loan covenant (Jensen and Meckling, 1976).

The second theory is resource dependency theory. From the perspective of this theory, it views that the Board of Directors as an essential link between the organization and important resources to enhance company performance. High level of links to the external environment by Board of Directors produces high level of access to some resources for company (Nicholson & Kiel, 2007). Pfeffer (1972) views that the Board of Director as boundary spanners who extract resources from the environment. The Board's role from this perspective is a strategic role (Korak-Kakabadse et al., 2001). In this strategic role, the Board guides the corporate mission and develops implements and monitors the

company strategy. In addition, the Board of Directors also allocates resources and spans the boundary.

According to Hillman et al. (2000), the role of Board of Directors in resource dependency perspective does not only serve to connect the company with various factors but also bring their capital into the company. In addition, Hillman and Dalziel (2003) add that this capital is divided into relational capital (network of ties to other companies) and human capital (expertise, experience, reputation). In fact, Payne et al. (2009) argue that greater levels of Board capital allow Board to monitor the company effectively and secure more resources.

The third theory is stewardship theory. This theory suggests there is no agency problem between principals and agents due to alignment between shareholders and management interests. Further, the interests of managers and shareholders are aligning. This theory opposes the agency theory. Thus, stewardship theory is condition where the agents have no motivation to enhance personal goals, but rather are stewards whose motives are aligned with the goal of their owners (Davis et al., 1997). Therefore, this theory assumes that shareholders can expect to have the maximize returns when the management can effectively operate the company.

Other corporate governance theory is stakeholder theory. According to Frooman (1999), the stakeholder theory suggests that managers might respond to pressures exerted by owner-stakeholders because of power, legitimacy and urgency considerations. Jensen

(2001) suggests that agents should produce decisions that consider the interests of all the stakeholders⁴ in a company. Thereafter, the stakeholder theory means how the director of a company can create value maximization not only for shareholders but also for other parties, such as creditors, customers, employees and government.

Transaction cost economics theory was proposed by Williamson (1985 and 1988). Transaction cost theory is dominant for the study of economics and describe the main governance structures of transactions. In addition, opportunism is an essential concept in the study of transaction costs. Therefore, a company has to control through a formal structure to reduce the opportunism behaviour of managers. This theory assumes actors would act rationally with the goal to maximize their self-interest under conditions of insufficient or asymmetric information. Corporate governance regulations would structure and organize the relationship between the corporation and their external stakeholders (Monk & Minow, 2008). In addition, the optimal structure would affect the company performance since optimal structure would produce efficient transactions. Corporate governance research under this theory emphasizes on the Code of Corporate Governance and the relationship between the company and its external environment.

Institutional theory focuses on inside and resilient aspects of social structure. It considers the process by which structures are built as authoritative guidelines for social behaviour. In addition, the theory explains how interdependencies between company and other societal institutions make organizations comply with the accepted norm of their

⁴Stakeholders refers to all participants that have a relationship with a company such as creditors, customers, employees, communities and government.

population (DiMaggio & Powel, 1983). Therefore, director appointments and social network ties enable the directors to acquire knowledge of the existing norms of appropriate beliefs and behaviour in the particular industry or countries (Aguilera & Cuervo-Cazurra, 2004). Appointing director members who have a social network with their business environment would improve the company understanding about their environment and, therefore, could enhance the company performance. Variables, such as Board interlock and multiple directorship or director busyness could have a positive contribution to company performance.

The social network theory is believed to have crucial role in the formation of a director (Birley, 1985). The importance of network configuration on trust, reciprocity, reputation, and mutual interdependency are the focus of the social network theory (Larson, 1992). In addition, Gulati and Gargiulo (1999) argue that the demographic similarities among board members in a company are based on the social network theory. Therefore, this theory can be used to discuss the effect of director characteristics and company performance.

Under upper echelon theory, outcomes of the company can be predicted from managerial background characteristics for example education, age, functional background, tenure and financial position (Hambrick & Mason, 1984). This theory focuses on demographic characteristics of the top management team (TMT) to enhance organizational outcomes, since senior-level managers have to make significant organizational decisions and therefore, this would have a critical impact on company performance.

One of the corporate governance issues is the information asymmetry among the actors (management, shareholders and Board of Directors). Ross (1977) suggests that managers have more information than shareholders and possess an incentive to convey favourable information to shareholders. In the context of director formation, signaling theory can be used to explain why company performance can be affected by the corporate Board's attributes. In addition, formation of the director becomes a signaling device to convey information to stakeholders. High quality attributes of the Board of Directors, such as good academic/professional background would benefit the company performance.

In summary, several theories have been used by several authors to discuss the corporate governance role in the company. Such theories are agency, resource dependency, stewardship, stakeholder, transaction cost economics and institutional theory (Van Ees et al., 2009). Certo (2003) relies on the signaling and institutional theories to see the Board of Directors' role in a company. Further, Lynall et al. (2003) offer several theories: agency, institutional, resource dependency and social network theories have been proposed to predict and discuss the effect of the Board of Directors on company performance. However, two dominant theories that explain the functions of the Board are the agency theory and resource dependency theory (Zhang, 2012).

From the agency perspective, the Supervisory Board is as an internal mechanism in controlling and monitoring the managers' action in order to align the interests both of the managers and shareholders under the Continental European system. Further, the

Supervisory Board has responsibilities to actively control and monitor the managers' behaviour, the decisions made by the managers, review and audit the reports provided by the managers and oversee company's assets in order to ensure that they act based on shareholders' interest (Yang et al., 2011). Thus, effective control and monitor by the Supervisory Board will reduce agency problems.

The resource dependency theory argues that Boards provide connection to critical company resources through linkages with their external environment and bring key resources to the company (Daily & Dalton, 1994 and Pfeffer, 1972). In addition, Goodstein et al. (1994) state that there are three roles of a company director, namely institutional, internal governance and monitoring and strategic decision-making roles. In an institutional role, a director provides a connection among the company and its environment and secures key resources (Williamson, 1996). In addition, directors are also an instrument to access external resources, decrease transaction costs related to external linkages and decrease environmental uncertainty (Pfeffer & Salancik, 1978).

In the internal governance and monitoring role, Barnhart et al. (1994) claim that the role of the company Board is to control the managers and to evaluate the managerial performance. In addition, the directors' job is to hire and fire the management as well as executive compensation. Meanwhile, Hendry and Kiel (2004) argue that the directors engage in strategic formulation, which is in developing a vision, a mission, screening the environment and selecting and conducting the choice role of strategic options in their strategic role.

Research on the Board of Directors' characteristics and company performance also used a few theories to underpin the relationship. Hillman and Dalziel (2003) and Jackling and Johl (2009) use two theories to explain the association between Board of Directors structure and company performance, namely resource dependency and agency theory. Furthermore, Jackling and Johl (2009) adopt the agency theory to investigate the contribution of the Board of Directors, which is measured by Board of Directors' composition and duality, to company performance. In addition, resource dependency theory has been used to test the association between the company and the important resources: Board size, busyness and activity to maximize performance.

However, concentrated ownerships have strong economic incentives to reduce agency costs and monitor agents effectively (Demsetz and Lehn, 1985). Most of the previous studies that investigate the link between ownership and company performance use agency theory (e.g., Han & Suk, 1998; Klein et al., 2005; Schiehl, 2006; Tam & Tan, 2007; Hu & Izumida, 2008; Perrini et al., 2008; and Arosa et al., 2010). Consistent with prior research of Hillman and Dalziel (2003), Jackling and Johl (2009), and Zhang (2012), this study combines the perspectives of the agency and resource dependency theories to discuss the effect of Supervisory Board's diversity, Board of Directors' diversity and ownership concentration on company performance.

3.2 Prior Evidence of Directors' Diversity and Company Performance

The definition of directors' diversity has not been agreed yet by scholars (Rose, 2007). However, many experts have used the concept of diversity in director structure. For example, Van der Walt and Ingley (2003) argue that the term of diversity is related to various combinations of directors inexperience, attributes, and characteristics subscribed to board members in regard to director processes and decision-making. Other authors like Coffey and Wang (1998) and Campbell and Miguez-Vera (2008), define directors' diversity as the heterogeneity inherent in the Board's members.

According to Pelled (1996), diversity characteristics are often categorized into task-related and relation-oriented attributes. Ruigrok et al. (2007) give examples of task-related diversity attributes, such as education, functional background and tenure. Nationality, gender, and age diversity are relation-oriented attributes. However, Milliken and Martins (1996) distinguish diversity into observable and less visible attributes. The examples of observable diversity are race, ethnic background and gender. Meanwhile, examples of less visible are educational, functional and occupational backgrounds, and a range of industrial experience. Therefore, directors' diversity can be measured in several dimensions: ethnic, nationality, gender, age, experience, education, and organizational membership, among others (Campbell & Miguez-Vera, 2008).

Wanous and Youtz (1986) note that diversity in groups enhances the quality of decisions. In addition, the diversity is perceived to improve a company's short-time and long-time financial performance in several ways (Carter et al., 2003). They further add that there are several propositions regarding diversity. First, diversity increases innovation and

creativity. Second, diversity creates more effective problem-solving. Third, diversity increases the effectiveness of corporate leadership. Finally, diversity contributes to greater effective relationships globally. Thus, these propositions might lead to better company performance. Therefore, Miller and Triana (2009) note that directors' diversity possess a greater different of ideas and point of views presented, to discover for and create solutions in the company's development. Arfken (2004) argues that diversity in gender, age and ethnicity will give some benefits to a company, such as fresh ideas, insights and knowledge to help problem-solving, greater products and enhance strategic planning. Further, Van der Walt et al. (2006) show that a greater level of directors' diversity has a positive link to profit.

Evans and Carson (2005) suggest that diversity has positive and negative impacts. They argue that diversity enhances groups to attract the greater cognitive resources, but it also carries challenges into the company. However, Goodstein et al. (1994) comment that diversity hinders performance. They argue that directors' diversity may lead to potential conflicts in strategic changes and also reduce the ability of the Board to take timely strategic action. According to Milliken and Martins (1996), directors' diversity has positive and negative impacts that are improving the opportunity for creativity of board members and dissatisfied and fail to identify with the boardroom. Talke et al. (2010) do not find that TMT diversity affects a company's new product portfolio innovativeness and performance.

From the perspective of Simons and Pelled (1999), directors' diversity improves performance, and sometimes it destroys the company achievement. They argue that

positive effects of diversity are usually contributed to a decision-making/information mechanism because diverse directors lead to a wider range of skill, experience, information, and perspectives. Negative effects of directors' diversity are associated with attraction and social categorization mechanisms, in which people tend to fill more comfortable with others who are alike to themselves. This is also supported by Ancona & Caldwell (1992) who argue that diverse groups bring more creative potential to problem-solving, but fail down on implementation because they have less flexibility and capability for teamwork than homogeneous groups.

Kim and Lim (2010) focused on age, education and experience as a proxy of independent directors diversity and company valuation in Korea. They find that the percentage of independent directors with government experience is positive association with company valuation, but a negative effect of the percentage of independent directors as accountants on company valuation. They also find that the independent directors' age diversity and the diversity of academic background have positive impact on company performance. Types of diversity and its impact on company performance are discussed next. Table 3.1 summarizes selected empirical findings of directors' diversity on company performance.

Table 3.1**Summary of Prior Studies on the Director Diversity and Company Performance**

Author(s)	Country	Period	Sample	Director diversity	Company performance
Adam & Ferreira (2009)	US	1996-2003	352	Gender, size & independence	ROA & Tobin's Q
Campbell & Minguez-Vera (2008)	Spain	1995-2000	68	Gender	Tobin's Q
Carter et al. (2003)	US	1997	638	Women or minorities & age	Tobin's Q
Carter et al. (2010)	US			Gender & ethnic	ROA & Tobin's Q
Diaz-Fernandez & Gonzalez Rodriquez (2014)	Spain	2004-2007	147	Qualification, experience & functionality	ROS & ROA
Dwyer et al. (2003)	US	1995-1998	535	Gender in management	Employee productivity & ROE
Erhardt et al. (2003)	US	1993-1998	127	Ethnic and gender (demographic)	ROA & ROI
Kim & Lim (2010)	Korea	1999-2006	593	Government, accountant experience, education level & academic major	Tobin's Q
Kochan et al. (2003)	US	1998-2000	20	Race & gender	Sales teams
Mahadeo et al. (2012)	Mauritius	2007	42	Gender, age & education	ROA
Miller & Triana (2009)	US	2003	500	Racial & gender	ROI & ROS
Rose (2007)	Denmark	1998-2001	443	Women in the board	Tobin's Q
Siciliano (1996)	US	1989	240	occupations, gender & age	Social, fiscal & donation level
Shrader et al. (1997)	US	1992-1993	200	Women in management & Board	ROS, ROA, ROI & ROE
Smith et al. (2006)	Denmark	1993-2001	2,500	Women in Management & Board	GP/NS, CM/NS, OI/NA &
Ujunwa et al. (2012)	Nigeria	1991-2008	122	Gender, nationality and board ethnicity	ROA
Van der Walt et al. (2006)	New Zealand	1997	59	Gender, ethnicity, age, experience & industry background	ROA, ROE, GSALES, GASSETS & CFROTA
Wang & Clift (2009)	Australia	2003-2006	243	Gender & racial diversity	ROA,ROE & shareholder return
Notes:					
OI/NA = Operating Income/Net Assets		CM/NS = Contribution Margin/Net Sales		GASSETS = Growth in Total Net Assets	
Niafter tax/NA = Net Income after Tax/Net Assets		GP/NS = Gross Profit/Net Sales			
GSALES = Growth in Sales		CFROTA = Cash Flow Return on Total Assets			

Studies in the US show mixed results, such as Siciliano (1996), Carter et al. (2003) and Erhardt et al. (2003). Siciliano (1996) concludes that diversity in any type has no relationship with operating efficiency in a company and does not appear to influence the Board's capability to execute its monitoring and control functions. However, Carter et al. (2003) and Erhardt et al. (2003) reveal that directors' diversity has a positive significant association with company performance.

3.2.1 Ethnicity Diversity

Ethnicity is an origin of group identity. It is not only attributes characteristics to members' focal group but also to other ethnic groups (Efferin & Hopper, 2007). Carter et al (2010) believe that ethnic diversity of directors produces better governance which leads to the company to have a greater financial performance. Shoobridge and Mohr (2006) believe that ethnic diversity helps to acquire and assess the necessary information to proceed for small- and medium-sized enterprises (SMEs). Cox et al. (1991) argue that the different ethnic backgrounds of people have various values, norm and attitudes that reflect their cultural heritage.

There are lacked empirical findings that have investigated the relationship between ethnicity of director members and company performance (e.g., Erhardt et al., 2003; Carter et al., 2010; Shukeri et al., 2012; Ujunwa et al., 2012; and Wellalage & Scrimgeour, 2012). Erhardt et al. (2003) investigated the effect of demographic diversity (measured in terms of ethnic and gender representation) on company performance using

127 large US companies for the period between 1993 and 1998. They find that Board of Directors' demographic diversity has a positively relationship with company performance.

In contrast, Carter et al. (2010) examined the presence of ethnic minorities and women on Boards to company performance. They used US companies listed in the S&P 500 index for the 1998-2002 periods. They find an insignificant association between ethnic minority diversity and company performance. Ujunwa et al. (2012) show a positive significant link between ethnicity diversity and financial performance of Nigerian quoted companies.

In a study in Sri Lanka, Wellalage and Scrimgeour (2012) used two sampled of data sets, i.e., before the crisis dataset (2007) and the global financial crisis data set (2009). They find that ethnic diversity increases company value in financially stable times but increase agency conflict during times of high financial uncertainty, such as a global financial crisis. A recent study on Asian countries, such as Shukeri et al. (2012), used 300 Malaysian public listed companies (PLCs) and show that a positive influence of ethnic diversity on company performance.

3.2.2 Nationality Diversity

The business world is growing faster due to international competition. Fama and Jensen (1983) argue that there is competition among organizational forms for survival in many activities. According to Bozec (2005), competition is perceived to improve on company performance within the same industry. It would affect companies that hire the directors

who perform better. However, The presence of non-local directors in a company also gives a signal to stakeholders on its willingness to increase monitoring effectively (Oxelheim & Randoy, 2003) and promoting more effective global relationship (Wang & Clift, 2009). Therefore, it attracts foreign investors to buy large shares in the company.

There are several advantages for companies to include non-local directors as its board members. First, non-local directors bring expertise, experience and ability to better manage the company, increase shareholder wealth and promote new strategies for the directors to enhance the shareholders' wealth. Second, non-local director members bring the interests of shareholders and managers closer together (Oxelheim & Randoy, 2003). According to Ruigrok et al. (2007), the attendance of non-local directors as a company Board may not only have diverse in knowledge, perspectives, value, norms, but also diverse in experience and skills.

Sambharya (1996) point out one way that a company can respond to the global competition is by giving power. This is important for managers with foreign experience, thus legitimating the international career path. Daily et al. (2000) note that international business experience of director may deliver more understanding of the contribution of these units to overall company performance. This is also supported by Caligiuri et al. (2004), who argue that the national diversity of director members is likely to possess a diversity of cultural values, attitudes, and preferences. It will provide broader informational resources, skill sets and culture capital. Kim et al. (2010) note that non-

local director members are more independent and effective in monitoring management than local director members.

There are also disadvantages for companies to appoint non-local directors as part of board members. It will hamper the performance of existing board members due to the time taken by non-local directors to familiarise themselves with the new environment, such as language, culture and systems. Mersland and Strom (2009) find that local directors can improve company performance better than non-local directors.

Oxelheim and Randoy (2003) explore the influence of non-local (Anglo-American) directors on company performance from 253 Swedish traded companies for the period 1996-1998. They find that outsider non-local director membership is significantly and positively associated with company value. This means that a company with non-local director members has a significantly increasing company value. This significant higher company performance indicates that these companies have successfully changed the corporate governance system by involving the Anglo-American people on the Board. Therefore, it reacts positively to the market, finally improving company performance.

Employing a panel data set of 277 non-financial Malaysian listed companies during 2002-2007 period, Ameer et al. (2010) report that high representation of non-local directors is related with better company performance. In a more recent study, Choi et al. (2007) examined the role of non-local director members on company performance in Korea. They find that non-local directors have a positive effect on company performance.

The significant effect of the outside directors is due to the professional ties with companies that they have. However, they conclude that the role of independent director very much depends on the Board composition and the nature of the market in which the company operates. Another study also from Korea by Choi et al. (2012) finds that non-local outside directors create better company performance when there is limited foreign ownership.

Daily et al. (2000) explore the link between international business experience of director and company financial performance for Fortune 500 companies in the US. The results show that a director with international experience is positively impact on the company's financial performance. In addition, the findings assert that international business experience may be an important factor to the company (Daily et al., 2000). However, Rose (2007) finds that the percentage of non-local directors does not influence company performance. The insignificant effect of diversity on performance is due to asocialization process, where the unconventional director members have adopted the behaviour and norms of the conventional director members/business leaders (Rose, 2007). The descriptive results show that the proportion of non-local directors is very low (below 7% of director members).

3.2.3 Gender Diversity

Miller and Triana (2009) state that diverse in gender on the Board member will help to recognize new innovative opportunities. However, Zald (1969) believes that sex,

personality and social status are common factors affecting how the person will relate to others and how others will react. The results of Hillman et al. (2002) show that women and African-American directors bring other occupational resources to the Board, for example public relations, marketing and legal expertise; they are also often civic-minded community and government leaders.

According to Krishnan and Park (2005), there are some benefits of women being on the TMT⁵. Firstly, men are less likely than women to be recognized as leaders by group members in social interaction environment. Secondly, women that face the challenges on their way up in organizations, they have to equip with the required skills to deal with uncertainty environment. Thirdly, women are more likely to own a cognitivesense, a manner that focuses on harmony, as regarded to their male rivals. Fourthly, men are less likely to use a learning procedure with their networking strategies compared to women. Finally, the multiple positions that women have in their personal social interaction, such as marital, filial and parentalroles, provide them with psychological advantages that strengthen multitasking abilities and enhance inter-personal and leadership expertises. Another benefit of female directors is introduced by Singh et al. (2008), who conclude that male business experts are less likely than their female counterparts to possess both business and society expertise. Three or more women on the Board are likely to confirm more effective interaction between the directors and interest group (Terjesen et al., 2009).

⁵ Top management team refers to top managers involved in strategic decision-making identified by the CEO.

Adams and Ferreira (2009) report that women directors have better attendance records than male directors. According to Shrader et al. (1997), companies hiring more women managers have probably done a better assignment of recruiting skilful managers and are in a better position to connect to customers and other constituencies as well as employees. Kang et al. (2007) note that two benefits of the presence of women on a Board. Firstly, women are more self-reliant persons. Second, women possess a better knowledge of consumers' demands. In contrast, Farrell and Hersch (2005) claim that a Board with more women does not create value in a company (or destroy it).

Few studies have concluded that there are only a few women on the Board (e.g., Harrigan, 1981; Kang et al., 2007; and Rose, 2007). Kang et al. (2007) examined directors' diversity of 100 Australian PLCs in 2003. They note that companies listed in the Australian Stock Exchange have a very low number of women. Further, they reveal that gender diversity is not significantly related to industry type. Rose (2007) investigated the effect of women directors on company performance in Continental European countries, especially Denmark, for 443 companies in the period from 1998 to 2001 and reports that the proportion of women directors is only four percent. He finds an insignificant link between women directors and company performance.

In contrast, using a sample of 2,500 of the largest Danish companies and controlling for other variables in the period 1993-2001, Smith et al. (2006) conclude that the percentage of women in top executive positions and on Boards of Directors is more likely to possess a significant positive link to company performance. It is also supported by Campbell

and Minguéz-Vera (2008), who explored the association between diversity in gender and company performance for 68 Danish companies in the period 1995-2000. They conclude that women directors have a positive impact on company value. They argue that composition of gender on the Board has significant effect on better standard of monitoring activities and company performance. More recently, Shukeri et al. (2012) document that gender diversity has no significant effect on company performance.

Studies in the US show mixed results. Shrader et al. (1997) investigated the effect of women in management, on TMT and the Board of Directors to company performance. The finding shows that higher proportions of women on the TMT and the Board of Directors have no significant impact on company performance. Siciliano (1996), Kochan et al. (2003) and Miller and Triana (2009) also find Board gender diversity have no significant effect on company performance. Carter et al. (2003) present the first empirical finding in investigating whether directors' diversity is related to increased financial value for 638 Fortune 1000 companies. They reveal a significantly and positively relationship between the number of women on the Board and company value. In another recent study,

Krishnan and Park (2005) used a sample of 679 Fortune 1000 companies. They reveal that there is a positive association between the proportion of women on the TMT and company performance. Adams and Ferreira (2009) report that women directors have a significant positive effect on director inputs and company outcomes. It is also supported by Harrigan (1981), Hyland and Marcellino (2002), and Farrell and Hersch (2005) who find that the number of women directors positively influence company size.

According to Cheng et al. (2010), women on the Board as a proxy of gender diversity has a mixed impact on different performance measurements. Women on the Board are found to have a positive effect on EPS⁶, but a negative influence on ROA. Jurkus et al. (2010) reveal a negative association among women director members and agency costs in companies with less competitive markets but a positive association in companies where there is strong external governance. Wang and Clift (2009) collected data for an average of 243 top 500 Australian companies from 2003 to 2006, and find that gender diversity does not have significant influence on company performance. Using the Fixed Effect Generalized Least Square Regression to investigate the effect of Board diversity on company performance of 122 quoted Nigerian companies for the period 1991-2008, Ujunwa et al. (2012) conclude that gender diversity is negatively related to company performance.

3.2.4 Experience Diversity

Kim and Lim (2010) argue that expertise in economics, law and business for directors can be a helpful resources to a company; while Carpenter et al. (2001) believe that executive skills, networks and views may be advantages for companies when they can put in an application for the efficient activity of a company or for the management that analysing factors affecting the business operations. Dahya et al. (1996) argue that director experience can aid to create information more open. In addition, Directors with less experience are also less likely to possess better incentives to monitor effectively (Kaplan & Reishus, 1990). Payne et al. (2009) argue that director members' background and

⁶ EPS : Earning per shares

experience influence the consequences of directors' decision-making. In addition, higher number of Supervisory Board members who have professional skill and expertise or work experience could be in greater capability to increase company performance (Shan & McIver, 2011). In contrast, lack of experience for director members may have an impact on making decisions because they may lack the knowledge, expertise needed and/or fail to understand the problem-solving needs of the company.

Peterson and Philpot (2009) argue that directors who have academic experiences play distinctive role in improving directors' demographic diversity, enhancing company intellectual capital and producing connections to local market areas. However, Agrawal and Knoeber (2001) find that outside director who is political or government background can play a unique position as advocates by applying their special skill and expertise. Erickson et al. (2005) suggest that directors from financial industry give benefits in monitoring and increase company value. Fama and Jensen (1983) argue that director members who are veteran managers can give valuable advice on strategy formulation stages because they can accommodate an effective evaluation of the management process

In the US, Bozec (2005) used a sample of 500 State-Owned Enterprises (SOE); he finds a positive association between the percentage of public service on the Board and ROA, sales efficiency and assets turnover. Public service on the Board means board members who also hold government positions. In addition, he finds that there is no relation between the percentage of public service on the Board and return on sales and net income efficiency. Siciliano (1996) investigated the association between board members'

occupational diversity and company performance. The results show no significant association between director members' occupational diversity and company operating efficiency.

Under China's two-tier Board system, Shan and McIver (2011) investigated the effect of corporate governance attributes and company ownership concentration on Chinese companies' financial performance. They find that the proportion of Supervisory board members who have professional knowledge/work experience does not have an impact on improving market performance. In Denmark, Rose (2007) investigated the effect of board members' background diversity (lawyers, economists and engineers) to company performance. The empirical findings show that board members' educational background have no significant impact on company performance.

To date, only Kim and Lim (2010) investigated the association between the experience diversity of outside directors and company valuation. They used eight categories to measure experience diversity of the Board of Directors: manufacturing, government, financial, accountants, professors, organization members, attorney and media and research institutes. They find that only two measurements of experience diversity have a significant impact on company valuation. Firstly, the proportion of outside directors who has government experience positively related to company valuation. Secondly, the proportion of outside directors who are accountants and/or have financial experience has a negative association with company valuation.

3.2.5 Qualification Diversity

Quality of managers can be assessed via six areas: values, aptitudes, skill, knowledge, cognitive style and demeanor (Hambrick 1987). However, Payne et al. (2009) document that directors who have external information, sufficient knowledge, opportunity and power are more effective in achieving director goals. Cheng et al. (2010) believe that top executive of intellectual competence generally reflect of their education level. Chiang and He (2010) add that directors who have better general knowledge are mostly from the higher-level educational degrees. Knowledge or education diversity of the Board addresses any information asymmetry issues between the Board and senior management and give the potential for faster and in-depth assessments of the implications of particular decisions (Mahadeo et al., 2012).

Dowen (1995) argues that a quality director may be associated with a quality corporation either because a quality corporation has attracted quality individuals or because the director has helped to improve the corporation. Nicholson and Kiel (2007) claim that the director's capability to obtain key asset is perceived as important, the exact nature of the asset is variable. Carpenter and Westphal (2001) conclude that improved monitoring, advice and council can be obtained from director who has experience and expertise with specific challenges facing a company (such as an turbulence bussiness environment or a takeover bid). This is also supported by Hillman and Dalziel (2003), who argue that directors with related skill, expertice and experience may be better at facilitating both monitoring and resources.

Studies investigating the relationship between director qualification and company performance have limited findings. For 174 large Japanese companies during the period 1992-1996, Basu et al. (2007) find that the education of the board members is marginally negatively significant to company performance. Payne et al. (2009) find that knowledge of board members has a positive impact on Board effectiveness. In contrast, for Cheng et al. (2010), the results claim that the education level of chairpersons has a significant positive influence on Chinese company performance. In contrast, Kim and Lim (2010) find that the qualification variable has no significant effect on company value. In addition, Ponnu (2008) investigated whether there is any difference between companies whose Board of Directors have diverse educational backgrounds and companies whose Board of Directors have similar educational backgrounds can improve company performance. He finds no significant difference between academic qualification of Board of Directors and company performance.

A review of the literature on the association between Board of Directors' characteristics, specifically composition, size and multiple directorships on company performance, shows mixed results. Bozec (2005) claims inconclusive relationship between Board and company performance. Using a sample of Dutch companies and controlling for other variables, Van Ees et al. (2003) focused on characteristics of Supervisory Board and Board of Directors to company performance. They find a negative association between the size and composition of the Supervisory Board and company performance. However, no relationship is observed between the Board of Directors size and remuneration for both Boards on company performance.

3.2.6 Board Composition

Most Corporate Governance Codes and rules require listed companies to have a mix of Executive and non-Executive directors. The inside directors are people who have an affiliation with shareholders and manage the company operation. Outside directors are people who have no relationship with large shareholders and are non-employee directors. In addition, Kang and Shivdasani (1995) define outside directors as independent directors who are not full-time employees nor statutory auditors of the company. Lefort and Urzua (2008) opine that outside directors are independent director members elected by minority owners.

Beasley (1996) defines independent directors as outside directors who have no association with dominant shareholder. According to Pfeffer (1972) and Zahra and Pearce (1989), Board composition refers to the size of the Board and the mix of different director types (i.e., insiders vs. outsiders). Muth and Donaldson (1998), Vafeas and Theodorou (1998), Hossain et al. (2001) and Cheng (2008) define Board composition as the proportion of independent directors on the Board.

Some scholars believe that increasing Board composition will benefit to the company. Dalton et al. (1998) argue that Board composition is widely believed to lead to increase the financial performance of companies. Table 3.2 summarizes selected empirical findings of Board of Directors' characteristics based on authors.

Table 3.2**Summary of Prior Studies on the Director Characteristics and Company Performance**

Author(s)	Country	Period of study	Sample	Director characteristics	Company performance
Adjoud et al. (2007)	US	2002	219	Director quality	ROI, ROE, EPS, MVA, EVA & Market-to-book
Ameer et al. (2010)	Malaysia	2002-2007	277	Board size, composition, foreign & experience of director	Tobin's Q
Bennedsen et al. (2008)	Denmark	1999	7,000	Director size	ROA
Bozec (2005)	US	1976-2000	500	Size, NED, duality & public servants of director	ROS, ROA, sales, net income efficiency & assets turnover
Carpenter et al. (2001)	US	1994	245	CEOs international experience	ROA & Stock market returns
Cheng (2008)	China	1996-2004	2,980	Director size	Stock return, ROA & Tobin's Q
Choi et al. (2007)	Korea	1999-2002	464	Outside directors	Tobin's Q
Choi et al. (2012)	Korea	2004-2007	224	Foreign board & foreign ownership	Tobin's Q
Cooper & Uzun (2012)	US	2006	147	Multiple directorship, size & NED	Bank risk
Dehaene et al. (2001)	Belgian	1985-1995	122	Composition & director size	ROE and ROA
Dulewicz & Herbert (2004)	UK	1997	86	Director composition & practise	CFROTA & sales turnover
Ees et al. (2003)	Netherlands	1996	94	Size, remuneration, NED, supervisory & directors owners	Weighted accounting index market-to-book
Eisenberg et al. (1998)	Finland	1992-1994	900	Director size	ROA
Erickson et al. (2005)	US	1993-1997	679	Independence & director size	Tobin's Q
Fairchild & Li (2005)	US	1990-1993	354	Director quality	Stock performance
Notes:					
ROI = Return on Investment	MVA = Market Value Added			CFROTA = Cash Flow Return on Total Assets	
ROE = Return on Equity	EVA = Economic Value Added			EPS = Earning per Share	
ROA = Return on Assets	ROS = Return on Sales				

Table 3.2 (Continued)**Summary of Prior Studies on the Director Characteristics and Company Performance**

Author(s)	Country	Period of study	Sample	Board characteristics	Company performance
Gani & Jermias (2006)	US	1997-2001	436	NED, size & 5% shareholders	ROE & ROI
Hossain et al. (2001)	New Zealand	1991-1997	633	NED, size, duality & director owner	Tobin's Q
Jackling & Johl (2009)	India	2005-2006	180	Composition, size, activity, busyness & leadership	ROA, Tobin's Q
Kiel & Nicholson (2006)	Australia	2003	1326	Multiple directorship	wTSR
Kim (2005)	Korea	1990-1999	199	Board network	ROA
Kim (2007)	Korea	1998-2003	473	Outside directors	Tobin's Q
Lu et al. (2013)	China	2007-2010	6,455	Busy board	ROA
Mak & Kusnadi (2005)	Singapore & Malaysia	2000	230	Board size & independent	Tobin's Q
Nelson (2005)	US	1980-1995	1721	CEO characteristics	HPR
Oxelheim & Randoy (2003)	Norway & Sweden	1996-1998	225	Foreign board	Tobin's Q
Payne et al. (2009)	US	1996-1998	210	Board attributes & effectiveness	ROA, EPS & ROS
Puffer & Weintrop (1995)	US	1978-1984	240	CEO & board leadership	CAR
Rose (2005)	Denmark	1998-2001	446	Size, age, manager & commitment	Tobin's Q
Sarkar & Sarkar (2009)	India	2003	500	Multiple directorship	Market-to-book & Tobin's Q
Shukeri et al. (2012)	Malaysia	2011	300	managerial ownership, size, duality, independence, gender & ethnic	ROE
Vafeas & Theodorou (1998)	UK	1994	250	Director & chairman affiliation	Current operating performance
Notes:					
ROI = Return on Investment	ROS = Return on Sales		EPS = Earning per Share		
ROE = Return on Equity	wTSR = Total Shareholder Return Weighted for Risk		CAR = Cumulative Abnormal Security Returns		
ROA = Return on Assets	HPR = Size/market-to-book-adjusted returns				

Borokhovich et al. (2006) add that Board composition is important for directors when there is no apparent successor and company performance is poor. Hossain et al. (2001) argue that the value of Board composition is related to their ability to judge company performance independently. In addition, strong Board composition can limit the divergence of managers from maximizing shareholder wealth.

The higher proportion of Board composition also gives a positive signal to investors. Higher proportion of Board composition gives a signal to current and new shareholders. Prior study by Rhee and Lee (2008) show that a higher proportion of Board composition is positively related to the growth of foreign ownership. Other researchers find that outside directors perform their responsibilities very well (e.g., Hanson & Song, 2000 and Helland & Sykuta, 2005). Hanson and Song (2000) suggest that Board composition fulfill their responsibilities as effective monitors and advisors to management. This is also supported by Helland and Sykuta (2005), where their findings show that Board with higher proportions of outside directors perform a better job in monitoring management.

In contrast, companies with a majority of inside directors have distinctly better performance compared to companies having an outsider majority (Kesner, 1987). In addition, Goodstein et al. (1994) claim that Board composition might become a problem for a company since they may prevent the company's strategic actions. Therefore, strategic implementation would be hard to realize due to strong control from Board composition. In fact, Board composition may overwhelm the company via excessive monitoring (Baysinger & Butler, 1985). Further, Fernandes (2008) finds that companies

with no Board composition have a better alignment between managers' and shareholders' interests.

Empirical findings on the link between Board composition and company performance shows varied results. Hossain et al. (2001) investigated the association among the proportion of Board composition and company performance in New Zealand companies before and after the 1994 Companies Act was released. The Act aims to increase good monitoring by directors and enhance company performance. They find a positive and statistically significant association among Board composition and company performance. Jackling and Johl (2009) note that the percentage of Board composition is significantly and positively related to Tobin's Q and insignificantly related to ROA. Choi et al. (2007) investigate the link between Board composition and company performance. The results show that Board composition has a significant and positive impact on company performance in post-crisis Korea. In addition, Gani and Jermias (2006) also conclude that the effect of Board composition on performance is more significantly positive in companies pursuing a cost efficiency compare to companies pursuing a innovation strategy.

Bozec (2005) claims that a higher proportion of Board composition will have a lower impact on company performance. Kang and Shivdasani (1995) find that outside directors' succession is marginally and significantly higher for companies with negative pre-tax operating income. According to Basu et al. (2007), the presence of Board composition has a significant negative impact on company performance. Erickson et al. (2005) suggest

that Board composition are not effective monitors of manager action and document the negative association among the proportion of Board composition and company performance in Canada. Dulewicz and Herbert (2004) claim a negative correlation among the presence of Board composition and company performance.

Vafeas and Theodorou (1998) employed data from 250 publicly-traded companies in the UK. They find an insignificant relation among the proportion of Board composition to company performance. Jungmann (2006) performed analyses on both systems, the insider and the outsider system, to provide empirical test of the effectiveness of both systems of corporate governance in British and German companies. This study does not show Board composition influences company performance for both systems. Klein et al. (2005) and Lefort and Urzua (2008) find no significant influence of Board composition on company performance in the US.

The insignificant role of Board composition is found by studies in Malaysia (e.g., Haniffa & Hudaib, 2006; Haat et al., 2008; and Ahmad-Zaluki & Wan-Hussin, 2010). Mak and Kusnadi (2005), Haniffa and Hudaib (2006), and Haat et al. (2008) find an insignificant link between Board composition and company performance. Ahmad-Zaluki and Wan-Hussin (2010) report no effect of Board composition on absolute forecast error (AFE). Consistent with previous Asian studies, Kim (2007) also finds no significant influence of Board composition on company performance. Meanwhile, Chitnomrath et al. (2011) investigated the effect of Board composition and post-bankruptcy reorganisation performance. They used a sample of Thai companies and show that the proportion of

Board composition does not significantly determine post-bankruptcy performance. In contrast, Ameer et al. (2010) find that higher representation of Board composition leads to better company performance.

A few studies have been undertaken on the two-tier Board system (e.g., Dehaene et al., 2001; Van Ees et al., 2003; Krivogorsky, 2006; and Huang, 2010). Dehaene et al. (2001) find that the proportion of Board composition has a significant influence on the Return on Equity (ROE) but insignificant influence for ROA. Van Ees et al. (2003) declare that Supervisory Board composition is negatively associated with company performance. Huang (2010) reports that the Board composition has a positive association with bank performance. Using data from 87 European companies listed on the New York Stock Exchange (NYSE), Krivogorsky (2006) finds that Board composition has a significant positive link to company profitability.

Earlier evidences that investigated the effect of Board composition and company performance in Indonesia show varied results (e.g., Abidin et al., 2011 and Nuryanah & Islam, 2011). Based on a sample of 133 Indonesian companies listed in the year 2007, Abidin et al. (2011) show that larger proportion of Board composition reduces company performance as measured by ROA. Contrary to Abidin et al. (2011), Nuryanah and Islam (2011) used panel data during 2002-2004. Their finding shows Board composition is positively and significantly associated with company performance. In a study in China, Shan and McIver (2011) employed panel data set covering the years 2001 to 2005. They

find higher proportion of Supervisory Board composition is associated with lower Tobin's Q.

3.2.7 BoardSize

One of the various aspects to improve the effectiveness of monitoring and control of director tasks is Board size. Board size is the number of board members in a company. According to Kim (2005), Board size is primary characteristic that may influence company performance. Moreover, some researchers believe that larger Board size create ineffective on director's tasks. According to Goodstein et al. (1994), increased Board size can significantly inhibit the director's abilities to initiate strategic actions. Furthermore, they add that larger Board may also hinder the director's effectiveness in ensuring that the organization is responsive to environmental changes. According to Harris and Harris (1996), the ideal number of persons engaged in a work group is no more than eight persons.

Bozec (2005) argues that agency problems will arise when the Board of Directors is too big due to being less effective in monitoring managers. On the other hand, too many board members will hamper operations and become more ineffective in the process of making decision (Van Ees et al., 2003 and Rose, 2005). According to Booth and Deli (1996), large Board become unwieldy and is unable to act in a cohesive fashion. Other scholars, such as Cheng (2008), argue that larger Board are less efficient, slower in

decision-making and the company will have more difficulties in arranging director meetings.

In contrast, Haleblian and Finkelstein (1993) claim that large Board size will provide more capabilities in solving problems. Moreover, Dalton et al. (1999) argue that larger Board may offer several advantages associated with a company's financial performance. Therefore, the number of board members should be adjusted to capability of that company in giving compensation to its directors.

There are existing empirical findings to support that increased Board size have a positive relationship to company performance. Based on a sample of large Indian corporations, Jackling and Johl (2009) argue that larger Board size is positive related to company performance, indicating that greater exposure to the external environment and increases connection to various resources, finally increasing company performance. Using smaller companies with poor company performance, Larmou and Vafeas (2010) find that company with larger Board have better market values.

Several studies have been undertaken to investigate the link between Board size and company performance (e.g., Eisenberg et al., 1998; Hossain et al., 2001; Bozec, 2005; Erickson et al., 2005; Dulewicz & Herbert, 2004; and Cheng, 2008). Eisenberg et al. (1998) and Erickson et al. (2005) declare a significant negative relation among Board size and company performance. Cheng (2008) and Hossain et al. (2001) document a negative

relationship among Board size and company performance. However, Dulewicz and Herbert (2004) find no significant relationship between Board size and company performance.

Empirical studies on the Continental European system have been documented as well. Van Ees et al. (2003) analyzed company performance with two indicators: the weighted accounting index and market-to-book ratio for 94 listed non-financial Dutch companies in 1996. They find there is no effect of Board size on company performance while the Supervisory Board size has a statistically negative association with company performance. Bennedsen et al. (2008) test the relationship between Board size and company performance in Denmark. They find a negative relationship between Board size and company performance. Rose (2005) suggests that Supervisory Board size have no influence on market performance using semi-two-tier companies' data. This is also supported by other scholars (Dehaene et al., 2001), where they conclude that Board size has an insignificant influence on company performance. They used ROE and ROA to measure company performance for 122 Belgian companies.

Studies in Asian countries have been undertaken by Haniffa and Hudaib (2006) and Ahmad-Zaluki and Wan-Hussin (2010) (Malaysia); Basu et al. (2007) (Japan); Huang, 2010 (Taiwan); and Makand Li (2001) (Singapore). The result of Basu et al. (2007) and Makand Li (2001) show that Board size is an insignificantly link to company performance. In addition, Ahmad-Zaluki and Wan-Hussin (2010) also find that there is no effect of Board size on AFE. However, Haniffa and Hudaib (2006) conclude that Board size has a negative influence on market performance and positive significance for

accounting performance. They used two measurements for company performance: accounting and market performance for 347 companies listed on the KLSE between 1996 and 2000. Huang (2010) examined a sample of 41 Taiwanese Banks, from the period 1996-2006. The results show that the Board of Directors size has a positive relationship with bank performance. In contrast, the Supervisory Board size has a negative related to bank performance. Mak and Kusnadi (2005) examined the effect of Board size on the company performance of Malaysian and Singaporean companies and find a negative association between Board size and company value in both countries.

3.2.8 Multiple Directorships

Multiple directorships is identified as the board members sit on more than one Board in other companies. Some researchers use other term, other than multiple directorships (Haniffa & Hudaib, 2006; Kiel & Nicholson, 2006; Jiraporn et al., 2008; Sarkar & Sarkar, 2009; and Ahn et al., 2010), too busy Board (Feris et al., 2003; Fich & Shivdasani, 2006; Jackling & Johl, 2009; and Jiraporn et al., 2009) and overboarded directors (Harris & Shimizu, 2004). Haniffa and Hudaib (2006) assert multiple directorships as a situation where directors held more than one directors' position. Core et al. (1999) define board members busyness as director members holding three or more outside directorships. According to Ahn et al. (2010), multiple directorships have positive and negative impacts on a company. The positive view is that a director who holds outside director seats will have more experience, provide better advice and offer better monitoring.

Fama and Jensen (1983) argue that as monitoring specialist, outside directors have to develop reputation and they serve as an important source of incentives. Jiraporn et al. (2008) argue that directors' busyness, which is measured by multiple directorships provide directors with more experience, better monitoring and advice. Directors with a high number of links to other organizations are likely to have skills that are beneficial to the company (Muth & Donaldson, 1998). The other advantage of multiple directorships is to develop the managerial expertise of executives (Jiraporn et al. 2009), while Hillman et al. (2002) note that director activity increases the number of external linkages, which can reduce uncertainty and transaction costs to their director. Chiang and He (2010) argue that directors who hold dual jobs will have better business knowledge and experience. Moreover, multiple directorships will provide deep experience and expertise for directors to monitor and manage the company effectively.

However, other researchers believe that 'too busy' directors will hamper the effectiveness of director tasks to monitor and manage the company. For example, Sarkar and Sarkar (2009) believe that multiple directorships of directors provide directors so busy and reduce their ability to monitor the company's operation effectively in enhance shareholders' wealth. In other words, multiple directorships have no time for their tasks on each board members (Cooper & Uzun, 2012). According to Fich and Shivdasani (2006), multiple directorships of outside directors tend to leave Board following poor company performance, which is also supported by Haniffa and Hudaib (2006). Multiple directorships have negative impact on company performance due to potential conflicts of

interest, competitive disadvantages, and less responsibility to attend various director meetings.

The National Association of Corporate Directors Guidelines (NACD, 1996) in the US recommends that senior company directors and CEOs should hold no more than three outside directorships. However, individuals with full-time jobs should not serve on more than two other Boards and that a CEO should only serve as a director of one other company and should do so only if the CEO's own company is in the top half of its peer group (Perry & Peyer, 2005).

Empirical findings show that there is a risk that the quality of a person's work on the Board may decrease because of the lack of time to perform his or her job in a company. Jackling and Johl (2009) claim that the multiple directorships do not give benefits to the company in networks and providing resource. Haat et al. (2008) and Jiraporn et al. (2008) conclude that the multiple directorships are inversely associated with company performance. However, Perry and Peyer (2005) find that multiple directorships by independent directors can enhance company value.

According to Booth and Deli (1996), multiple directorships held by manager is found to be negatively related to their companies' growth opportunities. Loderer and Peyer (2002) and Fich and Shivdasani (2006) document a negative association among busy directors and company performance. Similar findings have been found by Haniffa and Hudaib (2006) and Jackling and Johl (2009). They find that director busyness is significantly

negative on market performance and insignificant on accounting performance. Ahn et al. (2010) show that companies where directors hold more outside director seats experience more negative abnormal returns. Similarly, Grove et al. (2011) find a negative association among multiple directorships and company performance. On the other hand, Feris et al. (2003), Harris & Shimizu (2004), and Kiel and Nicholson (2006) find multiple directorships have insignificant impact on company performance.

In contrast, exploiting a sample of 500 Indian companies during 2002-2003 period, Sarkar and Sarkar (2009) investigated the link between multiple directorships by both executive and non-executive directors and company performance in company's business group affiliation. They find multiple directorships by outside directors correlated positively with company performance. The second result is that multiple directorships by inside directors correlated negatively with company performance. Unlike Sarkar and Sarkar, 2009; Cooper and Uzun (2012) employed univariate and multivariate regression analysis to test there any differences in governance structures of banks managed by busy directors and less-busy directors for a sample of 147 U.S. Banks for the year 2006, to examine the relation among multiple directorships and bank risk. They used three metrics to measure multiple directorships: multiple directorships by outside director, number directors sit three or more position and multiple directorships by each director to Board size. They find that all measures of multiple directorships of directors is positively associated with bank risk.

3.3 Prior Evidence of Ownership Concentration and Company Performance

Concentrated ownership has contribution to reduce the agency problems and will result in more effective monitoring to enhance better performance. Demsetz and Lehn (1985) argue that ownership concentrations have strong economic incentives to reduce agency costs and monitoring directors' act. According to Ma et al. (2010), ownership concentration is the control power by larger shareholders in company decisions-making. There is positive and negative view of concentrated ownership. Kim et al. (2007) argue that ownership concentration should have both the incentive and the power to monitor managers and company operation effectively. In contrast, Bertrand et al. (2002) believe that high ownership concentration may exploit the minority shareholders and pursue actions that are not always in the best interests of the company.

Some empirical findings to review the association between ownership concentration and company performance declare mixed results. Empirical findings show that a more concentrated ownership, as measured by important outside shareholders and director shareholders, are positively related to higher company profitability (Kapopoulos & Lazaretou, 2007). It is also supported by Singh and Gaur (2009), the finding of ownership concentration appears to have a positive impact on company performance.

Lskavyan and Spatareanu (2005) find that concentrated ownership has no significant in describing performance for the countries which active market monitoring and less active market monitoring. Barzegar and Babu (2008) employed 50 Iranian companies in the

period 2001-2003 and find mixed results. The relationship between concentrated ownership is not significant on accounting performance and negatively significant on market performance. Klein et al. (2005), Iannotta et al. (2007) and Arosa et al. (2010) report that it seems no effect of concentrated ownership and company performance. Similarly, employing cross-sectional data of 301 Korean companies, Choi et al. (2012) find that ownership concentration have an insignificant impact on performance of technological innovation companies but foreign and institutional ownership have a positive influence.

3.3.1 Director Shareholding

Director shareholding is shares held by a person who sits on the company Board. Some authors use other terms to discuss shares held by the board members, such as Board shareholding (Haniffa & Hudaib, 2006); insider ownership (Craswell et al., 1997; Han & Suk, 1998; and Park & Jang, 2010); and managerial ownership (Perrini et al., 2006). According to Vafeas and Theodorou (1998), the director shareholding increases owners-like interests and is unlikely to engage in behaviour that is detrimental to owners. Han and Suk (1998) comment that the greater amount of shares that are owned by directors decrease the controlling by outsider owners but increase the controlling by insider owners in affecting company performance. Table 3.3 summarizes selected empirical findings of ownership concentration and company performance.

Table 3.3**Summary of Prior Studies on the Ownership Concentration and Company Performance**

Author(s)	Country	Period	Sample	Ownership concentration	Company performance
Andres (2008)	German	2004	275	Family	ROA & Tobin's Q
Arosa et al. (2010)	Spain	2006	586	Family & non family	ROA
Chang & Shin (2007)	Korea	1999	244	Family & insider	Market-to-book ratio
Chen et al. (2005)	Hong Kong	1995-1998	412	Family	ROA, ROE & Tobin's Q
Chhibber & Majumdar (1999)	India	1991	1000	Foreign, state and private	ROA & ROS
Choi et al. (2012)	Korea	2000-2003	301	Largest, institutional & foreign	Patent registration
Davies et al. (2005)	UK	1995-1997	802	Managerial & blockholders	Tobin's Q
Demsetz & Villalonga (2001)	German	1980-1981	223	Management & five largest	Accounting profit rate
Douma et al (2006)	India	2000-2001	1005	foreign, domestic and director	ROA & Tobin's Q
Mohd-Ghazali (2010)	Malaysia	2001	87	Substantial & foreign shareholders	Tobin's Q
Haat et al. (2008)	Malaysia	2002	142	Insider and foreign	Tobin's Q
Han & Suk (1998)	US	1988-1992	301	Insider and institutional	Stock return
Hu & Izumida (2008)	Tokyo	1980-2005	666	10 largest and 5 largest	Tobin's Q & ROA
Kesner (1987)	US	1983	250	Insider	PM, ROE, ROA, EPS SP, ROI
Klein et al (2005)	US	1999-2002	263	Family	Tobin's Q
Martinez et al. (2007)	US	1995-2004	175	Family	ROA, ROE & Tobin's Q
Perrini et al. (2008)	Italia	2000-2003	297	5 largest, managerial owners	Tobin's Q
Qi et al. (2000)	China	1991-1996	774	Legal-person, foreign and state	ROA & ROE
Rose (2005)	Denmark	1998-2001	446	Blockholders and insiders	Tobin's Q
Schiehl (2006)	US	1997-1999	159	large inside and outside	Tobin's Q
Shyu (2011)	Taiwan	2002-2006	465	Family	ROA & Tobin's Q
Silva & Majluf (2008)	US	2000-2003	331	Family	Tobin's Q & ROA
Notes:					
ROA = Return on Assets	ROS = Return on Sales	EPS = Earning per Share		ROI = Return on Investment	
ROE = Return on Equity	PM = Profit Margin	SP = Stock Market Performance			

Another advantage of director shareholdings is that the interest of directors and shareholders will align, finally enhancing shareholders' wealth. According to Byrd et al. (1998) and Denis and McConnell (2003), managerial ownership of a company's stock helps align the interests of shareholders and managers. The higher director shareholding will reduce agency problems and finally enhance better company performance. However, Vafeas and Theodorou (1998) believe that directors become entrenched if higher concentrated ownership and company control of the market becomes less effective. Kapopoulos and Lazaretou (2007) find that increasing the amount of stocks owned by directors has an impact on aligning the interests of both directors and shareholders, finally enhancing principal's wealth. They find that director shareholding has a better impact on company performance. Bauguess et al. (2009) examined 1,668 acquisitions of public targets drawn from the Securities Data Corporation's (SDC) merger and acquisitions database during 1996 to 2005. They find that insider ownership has a significant positive related to target returns.

Morck et al. (1988) investigated the relationship between director shareholding and market performance of Fortune 500 companies. They found a negative relationship between director shareholding and market performance for directors who own 5%-25% of outstanding shares and a positive relationship for director shareholding level of between 0%-5% and up to 25%. Alavi et al. (2008) have documented evidence that director shareholding has a significant relationship with: (i) the proportion of shares offered; (ii) share allocation; and (iii) direct issue-related expenses for 565 Australian IPOs. Another study, also in Australia, was done by Farrer and Ramsay (1998). They

report that director shareholding has a positive relationship with company performance. Short and Keasey (1999) carried out a study where they sought to explain managerial ownership for 225 UK companies for five years from 1988 to 1992. They find director shareholding give positive value to company performance. Other studies also find a significant positive association between director shareholding and company performance, such as Hossain et al. (2001), Basu et al. (2007), Hu and Zhou (2008), Benson & Davidson III (2009), Florackis et al. (2009), and Park and Jang (2010).

Conversely, a few studies document a negative association is found among director shareholding and company performance (e.g., Cui & Mak, 2002; Schiehl, 2006; and Perrini et al., 2008). Cui and Mak (2002) examine the link between director shareholding and company performance with a sample of companies listed on the NYSE, AMEX and NASDAQ. They find that director shareholding is significantly and negatively associated to Tobin's Q and insignificantly associated to ROA. Schiehl (2006) separates ownership concentration into two: large inside and large outside shareholders of 159 Canadian public companies. The findings suggest that large inside shareholdings tend to be negatively associated to company performance. In addition, Perrini et al. (2008) also conclude a negative relationship between director shareholding and company performance. However, based on a 1988-1992 sample period, Han and Suk (1998) find that increasing director shareholding improves stock returns, but that excessive director shareholding has a negative impact on company performance.

The insignificant relationship among director shareholding and company performance also has been documented by existing findings (e.g., Demsetz & Lehn, 1985; Vafeas & Theodorou, 1998; Mak & Kusnadi, 2005; Haniffa & Hudaib, 2006; and Haat et al., 2008). Their findings are also supported by Kesner (1987), who finds no significant relationship between director shareholding and company performance for 250 Fortune 500 companies. Balatbat et al. (2004) examined director shareholding of 313 Australian initial public offerings (IPOs) for 1976 and 1993 year. Their results seem to support a positive influence of director shareholding on operating performance.

There is limited empirical evidence for the Continental European system (e.g., Van Ees et al., 2003 and Krivogorsky, 2006). Van Ees et al. (2003) find no effect of shares held by both the Supervisory Board and the Board of Directors to company performance in the Netherlands. Further, Krivogorsky (2006) also investigate the relation among director shareholding and company performance by using a sample from European companies that were foreign US registrants and find that director shareholding does not have a significant impact on company profitability. With a study in Denmark which also adopted the semi two-tier system, Rose (2005) finds that increased Board shareholding does not have an impact on company performance.

3.3.2 Family Ownership

According to Claessens et al. (2000) state that emerging market differ from develop countries in two key ways. First, many emerging markets' company has ownership

concentration which is owned by families. Second, most of big company has affiliation within a company group. This argument is aligned with other scholars, such as Faccio and Lang (2002). They argue that widely-held companies are more important in the UK and Ireland, and family-controlled companies in continental Europe.

According to Arosa (2010), family owners differ from other shareholders in two ways: the interest of the family in the long-term survival of the company, and the concern of the family for the reputation of the company and the family itself. This is also supported by Martinez et al. (2007), who note that the important advantages of family ownership are capability to monitor directors, stewardship of the company and long-term commitment. Family ownerships with many stocks and controlling power are more likely to supervise the Board actions to protect their own interests. Further, Fama and Jensen (1983) argue that family control decrease the agency problems among directors and shareholders.

Conversely, there are negative views that active controlling by family owners will hamper the protection for minority owners. Faccio et al. (2001) claim that minority shareholders could harm when higher family control and lower transparency in emerging companies, which is also supported by Maury (2006). Family shareholding may destroy the capability of company to increase external capital for investment projects (Andres, 2008). In addition, family shareholding might influence company policy to optimize their personal utility (Kappes & Schmid, 2013).

Maury (2006) finds that active family ownership that are also as director in the company increase profitability, whereas active ownership does not change the value premium of family companies in Western European companies. From 175 companies listed on the Chilean stock market has become a sample of the study, Martinez et al. (2007) conclude that family ownership has a positive effect on company performance. Chen et al. (2005) claim no effect of family ownership on company performance. Choi et al. (2007) examined the link between family ownership or '*chaebol*' affiliation and company performance in post-crisis Korea. They find family ownership does not have an effect on company performance. Similar findings are also found by Chang and Shin (2007) and Arosa et al. (2010). They report family ownership does not give benefit company performance.

In Hong Kong, Chen et al. (2005) employed 412 companies as a sample for 1995-1998 period. The results do not report any relation among family ownership and company performance. Klein et al. (2005) show a poor effect of family ownership on company performance. Using a data set of publicly-traded Chilean companies from 2000 to 2003, Silva and Majluf (2008) find that the positive effect of family ownership on company performance.

Shyu (2011) employed panel data analysis for 465 companies listed on the Taiwan Stock Exchange over the period 2002 to 2006. The dependent variables were ROA and Tobin's Q; the results indicate that family ownership can create a positive value to company performance. Shyu (2011) also conducted simultaneous equation system to consider for

the endogeneity issues between family ownership and company, it is found that when families own share higher than 30%, the potential entrenchment and poor company performance become bigger.

Empirical research investigated the influence of family ownership on company performance in the two-tier Board system (e.g., Basu et al., 2007; Andres, 2008; Achmad et al., 2009; and Huang, 2010). Huang (2010) reports a positive effect between family ownership and company performance. Only Achmad et al. (2009) investigated the influence of family ownership on company performance in Indonesia. They point out that family ownership is statistically insignificant for company performance. Andres (2008) examined 275 German companies from 1998 to 2004 using a panel dataset. He notes that family ownership is more favourable compare to companies with a dispersed shareholder structure or other company with dominant owners. In a study of 174 Japanese companies from 1992-1996, Basu et al. (2007) find significant positive relationship among family ownership and company performance.

3.3.3 Foreign Ownership

The presence of foreign ownership is key factor of corporate governance in enhancing good company performance due to increased competition in the market. Moreover, it will push local companies to improve their quality, especially in technology, goods produced and also the quality of corporate governance. According to Haat et al. (2008), the percentage share owned by foreigners improves market competition and thus, will push

local companies to have better corporate governance. According to Bekaert and Harvey (2000), free market for foreign investors might improve the value of local companies. Furthermore, foreign investors are important for developing countries. In addition, foreign ownership is primary part in ownerships structures in developing market.

According to Rhee and Wang (2009), foreign ownerships bring better trained, better experience, or even better informed. Patrick (2001) argues that foreign ownerships provide crucial assets to Indonesia such as management skills, capital, connection to global markets and technology. In contrast, foreign ownership is likely to face increases in information asymmetry due to space and language barriers (Huafang & Jianguo, 2007).

Several empirical findings have been done to see the influence of foreign ownership on company performance in emerging markets, such as Chhibber and Majumdar (1999) and Patibandla (2006) in India; Choi et al. (2007) in Korea; and Haat et al. (2008) in Malaysia. Douma et al. (2006) argue that larger shares held by foreign ownership are more aligned to perform effective monitoring roles. Chhibber and Majumdar (1999) find a positive influence of foreign ownership on company performance, while Douma et al. (2006), Patibandla (2006), Choi et al. (2007), Haat et al. (2008) and Sueyoshi et al. (2010) find the relationship among foreign ownership and company performance is positively.

Three studies in China - Qi et al. (2000), Gul et al. (2010) and Shan and McIver (2011), show no effect for the link between foreign ownership and company performance. Qi et

al. (2000) report that foreign ownership does not increase company performance, while Gul et al. (2010) find that foreign ownership is not associated with stock price synchronicity. However, a negative relationship has also been documented (e.g., Lensink et al., 2008 and Rhee & Wang, 2009). Lensink et al. (2008) report that the influence of foreign ownership is negatively on bank efficiency. Rhee and Wang (2009) investigated the effect of foreign ownership and stock market liquidity in Indonesia. They find that foreign ownership is negatively related to future liquidity. Gurbuz and Aybars (2010) analysed the 205 non-financial listed companies for the three year period (2005-2007). The result indicates that minority foreign owners perform better than local owners, especially in operating profitability.

3.4 Hypotheses Development of Directors' Diversity and Company Performance

In general, Board of Directors have the role of reviewing business and corporate level strategies, and decision processes to provide the company with specialist advice and to change the corporate management. In addition, the Boards of Directors play two key functions for the company: (i) monitoring management based on interest of principals (agency theory); and (ii) preparing resources (resource dependency theory) (Hilman & Dalziel, 2003). Moreover, Boards of Directors are broadly recognized as an important mechanism for monitoring and controlling managers' performance and securing the interest of shareholders (Fama & Jensen, 1983).

Diversity is defined “as people with different ethnic backgrounds, nationalities, ages, religions and social classes” (Carter et al., 1982). Directors’ diversity is described as the variation in attributes of board members. A moral-ethic perspective categorizes diversity into several characteristics. One of the characteristics is the visible and invisible characteristics. Visible characteristics refer to the diversity of board members that can be explored through their physical data, such as age, gender, nationality, race and ethnicity (Milliken & Martins, 1996). The non-visible characteristics mean the diversity of board members that cannot be predicted from their physical data, such as experience and educational background. Directors’ diversity is divided into five categories, namely, ethnicity, nationality, gender, experience and qualification.

The issue of diversity associates to various combination of characteristics, attributes and expertise contributed by board members in relation to director processes and making decision (Van der Walt et al., 2006). According to Kochan et al. (2003), diverse teams produce better results. Greater diversity (such as gender and ethnic background) can enhance a Board of Directors’ influence on a company performance and strategies (Van der Zahn, 2008), while Wanous and Youtz (1986) conclude that diversity in groups enhances decision quality.

There are two theories that predict the association between directors’ diversity and company performance: agency theory and resource dependency theory. Agency theory proposes that the important role of the directors is to resolve agency problems between principals and agents by better monitoring and controlling the actions of the managers

(Jensen & Meckling, 1976). Carter et al. (2003) argue that diversity improves independent director because individual with diverse in genders, ethnicity backgrounds might ask questions that would not come from directors with more traditional backgrounds. More specifically, directors' diversity brings a variety of backgrounds, experiences and skills to the boardroom that increases managerial monitoring (Anderson et al., 2011). In other words, more diverse directors are needed to monitor the management effectively and enhance shareholder wealth. In the present study, agency and resource dependency theory are needed to explain the association between Supervisory Board's diversity and company performance.

The resource dependency theory states that the incorporation of diverse constituencies and stakeholders into the director facilitates the acquisition of critical resources for the organization (Pfeffer, 1972). Siciliano (1996) argues that the Board of Directors is part of the company and its environment and they provide resources and information to the company.

Diversity may provide resources in the form of multiple perspectives that are not available in homogeneous directorships. As a consequent, more diverse board members create more valuable resources in order to produce better company performance (Carter et al., 2010). Allen et al. (2008) point out that diversity provides different viewpoints of directors, it could be a competitive advantage to a company through unique and creative innovations to solve problems for better company performance. In contrast, the effect of diversity on directors' decision-making may actually be disadvantageous by leading to

divisive group processes, poorer quality decisions, finally reducing company performance (Van der Walt et al., 2006). Another worse effect of diversity is the increase of the likelihood of misunderstandings.

As the fourth largest country in the world, Indonesia has greater diversity in terms of local languages, cultures, attitudes, customs, ethnicity and also religion. However, it has the national motto “Bhinneka Tunggal Ika” (Unity in Diversity). In spite of this, Indonesia is one motherland, one nation and has one language of unity. This condition influences people’s attitude and behaviour. Accordingly, higher diversity of board members may create positive value for the company in improving the Boards’ functions. The current study divides directors’ diversity into several categories: ethnicity, nationality, gender, experience, and qualification. The next session discusses the hypotheses development.

3.4.1 Ethnicity Diversity

Ethnicity diversity is the ethnic variation of the board members. Common theory in corporate governance, agency theory asserts Supervisory Board with high ethnic diversity has diverse experience and culture and more informative (Erhardt et. al., 2003). Therefore, the Board would fulfil the effective monitoring role that may include: act as shareholder interest, controlling and monitoring appropriate use of the company asset, reaction to merger and acquisition threats and hiring, and rewarding and overseeing top management’s work. If the Supervisory Board consists of a homogeneous ethnic group,

there is a strong relationship between them and therefore, it reduces the independence of the Supervisory Board in monitoring the actions of Board of Directors.

From the viewpoint of the resource dependency theory, a Board of Directors with a high ethnic diversity tends to produce higher innovation, inventiveness, and high quality decision-making at the individual and boardroom (Erhardt et al., 2003). In addition, the rationale of the diversity-performance relationship is that directors are an actor most influencing to determine the strategic direction. In addition, they also determine the decision-making due to their structural position. In addition, directors are instruments to access external resources, reduce environmental uncertainty which can therefore, increase shareholder wealth (Hilman et al., 2000).

Ethnicity diversity may improve the company performance since the diverse ethnic groups can bring high creativity and innovation to the company (Erhardt et al., 2003). Therefore, these creative and innovative ideas may be reflected in the creative business processes and innovative products and services. Finally, it can give benefits to the company. In terms of control decision, heterogeneity of ethnic groups for board members will improve the independence of the Supervisory Board. However, diversity might continuously create employee turnover and conflict (Kochan et al., 2003). Milliken and Martins (1996) suggest that directors' ethnic diversity produce a negative effect on individual and company outcomes early in a company's life.

Empirical findings that have investigated the relationship among ethnicity of board members and company performance are limited. Erhardt et al.(2003),Van der Walt et al. (2006), and Ujunwa et al. (2012) find that Board of Directors' ethnic diversity have a positive impact on company performance. Therefore, the first set of hypotheses is as below:

H1 : There is a significant and positive relationship between directors' ethnic diversity and company performance.

H1a : There is a significant and positive relationship between Supervisory Board's ethnic diversity and company performance.

H1b : There is a significant and positive relationship between Board of Directors' ethnic diversity and company performance.

3.4.2 Nationality Diversity

The second category is nationality diversity. Nationality diversity refers to the varied nationalities of director members in a company. To deal with the global competitiveness, directors need to have international experience. Nationality diversity of director members can benefit a company performance because different nationalities will provide differences in culture, knowledge, experience, expertise and ability to better control and monitor agents effectively, finally reducing agency costs. According to Choi et al. (2012), non-local directors are believed to be relatively independent from majority owners since they are not part of the traditional domestic cronyism of regionalism, school relationship and kinship with majority shareholders.

The resource dependency perspective emphasizes director attributes, such as networks and exposure with relevant customers, financial institutions and suppliers (Pfeffer & Salancik, 1978). Carpenter et al. (2001) and Lynall et al. (2003) argue that if business increase to go international market, it bring to demand for directors who possesses the appropriate knowledge and contacts in international markets in order to connect the company to the various contexts of the countries in which it market its product and service. Therefore, directors with nationality diversity can acquire and maintain the critical resources compared to directors with a homogenous nationality. This condition finally contributes to the company survival or performance.

This study divides nationality into two groups: local and non-local directors. Increasing nationality diversity of both Boards may give a positive value to company performance. Non-local directors may bring global skills, experience, knowledge and resources to the company that are different from local directors. Heterogeneity director resources create line management skills, insider knowledge, experience working and support specialist skills (Bear et al., 2010). Thus, this diversity leads non-local directors to better strategic decision-making and increased company performance.

Non-local directors can also transfer their skills to local directors in order to control and monitor management action more independently. Supervisory Board who are from non-local tend to be more independent (Ruigrok et al., 2007) since they are not part of the traditional domestic cronyism of regionalism, school relationship and kinship with majority shareholders (Choi et al., 2012). Non-local Board of Directors have global

network links that can produce unique resources, global markets for their products and enhance better company performance. According to Carpenter et al. (2001), international experience of CEOs creates value for the companies and themselves through their control of a valuable, inimitable and rare resource. Oxelheim and Randoy (2003) note that the adding at least one non-local director on boardmembers will result in more active director monitoring, strengthen shareholder confidence and lead to an increase in company performance. In addition, a non-local director more easily accepts organizational changes than local directors.

To date, only Unjuwa et al. (2012) investigated the effect of directors' diversity as measured by nationality of Board to company performance. They find that non-localdirectorprovide a company with better intangible assetssuch as broader business experience. However, other previous studies also used the proportion of non-local directors, such as Oxelheim and Randoy (2003), Choi et al. (2007), and Rose (2007). Oxelheim and Randoy (2003), Choi et al. (2007), and Ameer et al. (2010) show the presence of non-local directors contribute to improve company performance. However, Rose (2007) finds that there is an insignificant associationamong non-local directors and company performance. The next hyphotheses are constructed as below:

H2 : There is a significant and positive relationship between directors' nationality diversity and company performance.

H2a : There is a significant and positive relationship between Supervisory Board's nationality diversity and company performance.

H2b : There is a significant and positive relationship between Board of Directors' nationality diversity and company performance.

3.4.3 Gender Diversity

The third category of Board diversity is gender diversity. This refers to gender variation of both Boards in a company. From the agency theory perspective, the important part of internal control mechanisms of corporate governance is the monitoring role performed by directors. The attendance of women on the Supervisory Board may improve monitoring management action because women have different perspectives, knowledge, experience and skills but also different values, norms and understanding. Women directors are in possession of unique skills, knowledge and experience to their task (Terjesen et al., 2009), control and monitor management behaviour and quality of management decisions effectively (Campbell and Minguez-Vera, 2008) because woman directors are more independent than man (Simpson et al., 2010). Therefore, this kind of directors can make better quality of the monitoring role; minimize agency problems and costs, finally enhancing company performance.

Women on Board of Directors have benefits for the company (resource dependency theory). For example, Pearce and Zahra (1991) conclude that Board with higher proportion women has more debates and disagreements. In addition, it is related to higher distinguished and objective company performance. In fact, Burke (1997) notes that women on the Board is significantly associated with decision-making and create more

effective problem solving within the boardroom (Wang & Clift, 2008). Therefore, women on a Board of Directors would contribute to the company performance.

Gender diversity refers to the composition of women and men on the board members. This composition is believed to benefit the company in terms of representation. Women are more rigid than men. Therefore, the percentage of women on the Supervisory Board will help to better control and monitor the Board of Directors' actions, finally increasing company performance. Campbell and Miguez-Vera (2008) argue that the composition of gender on the Board improve in better monitoring role and the company performance. In addition, gender diversity in management leads to a better understanding of customer behaviour than homogeneous management, because it represents all the customers. Gender diversity can offer market-related advantages (Dwyer et al., 2003). Smith et al. (2006) argue that women directors may have different experiences in comparison to men in both working and non-working life experiences. Women who are directors provide knowledge, unique skills and experience to their Board (Terjesen et al., 2009).

Shrader et al. (1997) note that Boards with larger proportions of women have better performance, more competitive and progressive because their management contingents more closely mirror the composition of existing markets. Using the samples from companies listed in Bursa Malaysia for both Main and ACE market for the year 2008 and 2009, M K and Mohamad-Sori (2012) find that the presence of gender diversity on Board of Director top executive position increase company performance. Studies in Continental European countries, especially Denmark, show mixed results. Rose (2007) finds an

insignificant link between female directors and company performance. Smith et al. (2006) find that the percentage of women directors has a significant positive effect on company performance. In a study in Spain, Campbell and Minguez-Vera (2008) find that adding women on the Board has no effect on company performance.

Carter et al. (2003), Smith et al. (2006), and Krishnan and Park (2005) report the proportion of women on the Board is a significant and positive associated with company value. Krishnan and Park (2005) find the proportion of women on TMTs has positive impact on company performance. Jurkus et al. (2010) find a negative association between women director members and agency costs in companies with less competitive markets, but a positive association in companies where there is strong external governance. Thus, the third set of hypotheses is developed as below:

H3 : There is a significant and positive relationship between directors' gender diversity and company performance.

H3a : There is a significant and positive relationship between Supervisory Board's gender diversity and company performance.

H3b : There is a significant and positive relationship between Board of Directors' gender diversity and company performance.

3.4.4 Experience Diversity

The fourth category of directors' diversity is experience diversity. Experience diversity is the variation in the experiences of the company directors. Directors bring a variety of

experiences to the company, such as business, accounting, public service, law and academics. They may bring broad and unique experiences to improve their ability and tasks to control management behaviour effectively, thereby reducing agency problems and costs. Directors could enhance shareholder wealth. Therefore, experience diversity creates good resources and the ability of the company to perform well.

The perspective of resource dependency theory gives the theoretical foundation for directors' resource role. The professional background of the Board of Directors is perceived as strategic resources (experience, expertise, reputation and information) for the company (Hillman & Dalziel, 2003 and Payne et al., 2009). It will link the company to external resources, such as providing linkages to access to capital market, a nation's business elite, connections to rivals or market and industry intelligence (Ingley & Van der Walt, 2001). In addition, Siciliano (1996) concludes that board members with various occupational backgrounds provide resources to the company. As a consequence, directors with experience diversity would contribute to the company performance.

Each Board member brings diverse experiences to the companies, which improves their ability to monitor the Board of Directors, based on shareholder interest. Kroll et al. (2008) argue that with experience, directors will become engaged in monitoring and advising because, through experiential learning, they may be able to contribute positively to company outcomes, while the diverse experience of the Board of Directors may bring about innovative and creative decision-making. In addition, increasing the number of

Supervisory Board with work experience or professional knowledge places them in a better position to enhance company performance (Shan & McIver, 2011).

The experience of director members, such as business experience, accounting experience, public service experience, law experience and academic experience may help a director to make better decisions that are advantageous to the company. Companies may select Board of Directors members with academics background in order to pursue valuable intangible assets (Peterson & Philpot, 2009). Therefore, more experienced directors would increase the skills of director members in creating new innovations to solve company problems. Skill diversity of directors increases creativity and provides innovative solutions to problems (Milliken & Martins, 1996). In addition, experience and knowledge give benefit to shareholder and directors, particularly strategic roles in enhancing the company's competitiveness (Singh et al., 2008).

Literature on directors' experience diversity and company performance is insufficient. Bozec (2005) finds a positive effect of the percentage of public service directors and ROS. He also shows the proportion of public service directors has no relation with ROS. Siciliano (1996) documents that director members' occupational diversity is found insignificant with company's operating efficiency. Using outside directors as proxy of Board composition, only Kim and Lim (2010) investigated the relation among experience diversity of Board composition and company valuation. They find a positive relation among Board composition who has government experience and company valuation.

A recent study of the Continental European system (e.g., Rose, 2007; Shan & McIver, 2011); and Rose, 2007), shows that director members' educational background does not have an impact on company performance. Shan and McIver (2011) find that the proportion of Supervisory Board who has work experience or professional knowledge does not have impact on improving market performance. Therefore, there is no empirical finding on directors' experience diversity. Thus, the next set of hypotheses is:

H4 : There is a significant and positive relationship between directors' experience diversity and company performance.

H4a : There is a significant and positive relationship between Supervisory Board's experience diversity and company performance.

H4b : There is a significant and positive relationship between Board of Directors' experience diversity and company performance.

3.4.5 Qualification Diversity

Director qualification diversity refers to the variation of academic and professional qualification of director members in the company. Fama and Jensen (1983) claim that control of agency problems is an important factor for the survival of an organization. Therefore, to increase the principals' wealth, a company needs directors who are more independent to monitor the manager's actions and enhance the alignment between the interests of managers and shareholders. Higher level of board members' education would enhance the quality and create more independent director tasks. In addition, education of

board members would enhance managerial ability, which in turn can improve the probability of entrepreneurship (Van der Sluis et al., 2008). Furthermore, qualification diversity of the Supervisory board members can improve the control of decisions and reduce agency problems and costs. Finally, it contributes to the company performance.

The board of Directors with higher academic and professional qualifications tends to have high competency and knowledge (resource dependency theory). In fact, Zald (1996) concludes that board members carry resources to the company as a consequence of their attributes. Therefore, the directors bring resources in terms of capability in improving decision-making (Pfeffer, 1972 and Booth & Deli, 1996). If decision-making in terms of strategy formulation and implementation are adequate due to high competency and knowledge, the company performance would be much better. According to Diaz-Fernandez and Gonzalez-Rodriguez (2014), education diversity of directors may enhance problem solving and decision making in a dynamic industry environment.

Higher level of qualification of the Supervisory Board increases the ability of the Supervisory Board to monitor Board of Directors effectively. In addition, high levels of Board of Director's education may impact on the mindset, communication skills, talents and maturity of directors for problem-solving. TMT qualities are the essential foundation for successful strategic processes within the company (Hambrick, 1987). Ruigrok et al. (2007) add that the the necessary advice and insight into organizational phenomenon is a vital for capability of directors with knowledge and expertise. In addition, this condition is usefull to aid management in making sound decisions

There is a lack of empirical finding which has investigated the effect of qualification diversity and company performance. Most earlier empirical evidences that have investigated the influence of education level show mixed results. According to Basu et al. (2007), the result shows that the directors' education is negatively and significantly impact on company performance. Van der Sluis et al. (2008) report a positive association between education and performance. Payne et al. (2009) and Cheng et al. (2010) find that knowledge of director members has a positive impact on directors' effectiveness. Darmadi (2013) finds that higher proportion of Board of Director members having a postgraduate degree leads to better company performance. He also finds that higher proportion of Board of Director members holding a degree in financial disciplines reduces performance of Indonesian listed companies. However, Kim and Lim (2010) find that the qualification variable does not have any correlation with company value. This study this develops the following the hypotheses:

H5 : There is a significant and positive relationship between directors' qualification diversity and company performance.

H5a : There is a significant and positive relationship between Supervisory Board's qualification diversity and company performance.

H5b : There is a significant and positive relationship between Board of Directors' qualification diversity and company performance.

3.4.6 BoardComposition

Board composition is usually used as a proxy for Supervisory Board independence. The assignment of Supervisory Board independence is explained by the agency theory. The agency theory recommends that a greater Supervisory Board composition is better prepared to monitor the managers' activity. In addition, better monitoring by Supervisory Board composition will result in reducing opportunities for managers to gain their interests at the expense of shareholders, and finally increase company performance.

From the perspective of the resource dependency theory, Supervisory Board composition often help an organization secure resources through their external associations (Pfeffer, 1972). Hillman et al. (2000) argue that the director's role as a connection to the external environment is a crucial one, and that companies reaction to significant changes in their external environment by changing Supervisory Board composition. Because of their reputation in their professions and society, directors are able to withdraw resources for successful company operations (Zahra & Pearce, 1989). Furthermore, outside directors will bring in their resources, such as experience, networking, expertise and knowledge to do better decision-making, strategy formulation, finally increasing company performance.

A Supervisory Board member consists of independent (composition) and non-independent director. Supervisory Board composition plays a substantial role in company performance due to the existing conflict between shareholders' and managers' interests in a company. Supervisory Board composition is implied as the proportion of independent directors (Vafeas & Theodorou, 1998). In addition, independent directors are a part of

outside directors that have no affiliation with company shareholders. Further, it needs Supervisory Board composition to monitor the manager's action independently to reduce the agency costs and increase shareholder wealth. Helland and Sykuta (2005) argue that Board with larger percentage of Supervisory Board composition performs a better task in monitoring directors. Further, it results in increased company performance (Dalton et al., 1998).

The rule of corporate governance in Indonesia requires that the Supervisory Board members consist of board members who have no affiliation to the company and affiliated Supervisory Board members who have business and family relations with the company. Further, to be more effective in monitoring, one of the Board of Directors should have an accounting or financial background. Companies that are listed on the Indonesian Stock Exchange are obligated to follow the rule where the percentage of board composition must be at least 30% of the Supervisory Board size⁷.

There are few earlier findings that have investigated relation among Board composition and company performance under the Continental European system (e.g., Van Ees et al., 2003; Abidin et al., 2011; and Shan & McIver, 2011) Using a sample of 133 Indonesian companies listed in the year 2007, Abidin et al. (2011) find that larger percentage of Board composition might reduce company performance. It is also supported by Van Ees et al. (2003) and Shan and McIver (2011) who show that Supervisory Board composition has a negative association with company performance. Dehaene et al. (2001) find that the

⁷Based on the Decision Letter of the Indonesian Stock Exchange (No.: Kep-315/BEJ/06-2000, which was later amended by Decision Letter No.: Kep-339/BEJ/07-2001)

proportion of Board composition significantly influence on the ROE and an insignificant influence on ROA; while Huang (2010) reports that the percentage of Board composition is positively associated with bank performance.

However, there are many studies that have been done to investigate the influence of Board composition and company performance for the Anglo-Saxon system, such as Hossain et al. (2001), Bozec (2005), and Jackling and Johl (2009). Bozec (2005) argue that higher proportion of Board composition will lower company performance. It is supported by Huang (2010), who finds that the members of the Supervisory Board are not independent from and superior to the Board of Directors. In contrast, Jackling and Johl (2009) and Nuryanah and Islam (2011) find a positive significant relationship between director independence and company performance. Using independent directors as proxy of Board composition, Vafeas and Theodorou (1998) reveal an insignificant related to the percentage of Board composition and company performance. Therefore the sixth hypothesis is as below.

H6 : There is a significant and positive relationship between Supervisory Board composition and company performance.

3.4.7 BoardSize

Board size is the total amount of board members in the Board. Board size does matter because it impacts on the degree of controlling, monitoring, and decision-making in the company (Monks & Minow, 1995). From the agency perspective, shareholders lose

effective control of agents' action for large companies because of increases in the company size. Further, it needs another party to help shareholders to control and monitor the agent's actions, namely the Supervisory Board. To effectively monitor and control the manager's action, the size of the Supervisory Board can affect the manager's actions. Jensen (1993) believes that smaller-sized director is more effective in controlling and monitoring management behaviour and the quality of management decision-making. Further, he adds that seven or eight members are optimal Board size. Therefore, the agency problems and costs can be reduced, ultimately increasing the company performance.

The size of the Board of Directors in a company can be explained by the resource dependency theory. The theory views that Board size may be a measure of an organization's capability to form environmental connection to fix crucial resources (Goodstein et al., 1994). Therefore, the resource dependency theory suggests that larger Board have been related to better company performance (Pfeffer, 1972) because larger numbers of board members would provide the company with diversity in terms of expertise, experience and knowledge. This theory has been the primary foundation for the empirical evidence of Board size being associated with company performance (Pfeffer, 1972; Dalton et al., 1999; and Jackling & Johl, 2009).

Increases in Board size create high costs associated with director tasks, such as coordination, communication and fees. Due to existence of rival faction and cliques, larger size Board may find difficult to execute their role in timely and it may slow down

proceedings (Kamardin & Haron, 2011). Further, a smaller Board size produces more effective in controlling and monitoring agents' actions, finally increasing company performance. Jensen (1993) claims that fewer director members are likely better in solving company problems and will help improve their performance. In addition, bigger Board size may decrease the ability of Board of Directors to resist CEO⁸ control (Eisenberg et al., 1998).

Larger Board of Directors size can increase the company's connection to varied resources in order to enhance better corporate governance practices and company performance. The resource dependency theory suggests that larger Board have been associated with better company performance (Pfeffer, 1972) because larger numbers of board members would provide the company with diversity in terms of expertise, experience and knowledge.

The National Committee on Governance (2006) does not mention about the number of director members required in its Code. A small Board may be more effective and more efficient in improving company performance, because directors are perceived to be more responsible in managing and controlling the company. In addition, a small Board will reduce the incentives to be paid to the director members. On the other hand, it will be more costly to pay directors' salaries when the Board is bigger. In addition, it is contended that there will be less sense of belonging.

Previous empirical finding that investigated the influence of Board size on company performance show mixed results. Eisenberg et al. (1998), Bozec (2005), Erickson et al. (2005), Bennedsen et al., (2008), and Cheng (2008) find a significant and

⁸ CEO is chief executive officers

negatively relation between Board size and company performance. This is also supported by Hossain et al. (2001), who point out that Board size is strongly and negatively association with company performance. However, Haniffa and Hudaib (2006) conclude that a negative association between Board size and market performance and a significant positive relationship for accounting performance. Mak and Kusnadi (2005) show a negative relationamong Board size and company value in Malaysia and Singapore. Amran and Ahmad (2009) provide empirical evidence that small Board size is more favourable than large Board size. In contrast, Jackling and Johl (2009) notethat Board sizeis positively related with company performance.

Prior evidences that investigated the effect of Board size and company performance for the Continental European system show mixed results. Prior work of Van Ees et al. (2003)do not find any relationship between Board size and company performance, while the Supervisory Board size is statistically and negatively associated with company performance. In Denmark, Rose (2005) finds that Supervisory Board size havean insignificant relationship with company performance. In Taiwan, Huang (2010) documents that a positive association has been found among Board of Directors size and bank performance. In contrast, the Supervisory Board size has a negative association with bank performance. Thus, the hypothesis is stated as follows:

H7 : There is a significant relationship between Board size and company performance.

H7a : There is a significant and negative relationship between Supervisory Board size and company performance.

H7b : There is a significant and positive relationship between Board of Directors size and company performance.

3.4.8 Multiple Directorships

From the agency theory perspective, directors with multiple directorships reflect their high status because of their experience. Nevertheless, multiple directors do not have much time to serve the primary company because they also serve in other companies. Therefore, they cannot concentrate on the effective control and monitoring of the management. As a consequence, it is hard to reduce agency problems and costs and to increase company performance.

The resource dependency theory predicts that directors with multiple directorships give benefit to companies by bringing more skilled, network and experienced (Sarkar & Sarkar, 2009) and more helpful in decision-making efficiency of the company (Lu et al., 2013). According to Pfeffer (1972) and Booth and Deli (1996), multiple directorships of directors, by virtue of being more networked, create advantages by helping to carry in needed suppliers, customers and resources to a company.

The present study defines multiple directorships of the Board of Directors and Supervisory Board of a company board members in other companies. Supervisory Board members holding more than one directorship may have no time to control and advise the management based on shareholders' interests. Ferris et al. (2003) and Perry and Peyer

(2005) note that directors who sit as outside directors in many companies are not effective monitors in the other companies and less productive for the primary employer. Kamardin and Haron (2011) believe that multiple directorships of directors lead to ineffective in monitoring managers because they may less time to scrutinize the internal control system. In brief, busy directors do not give benefits to the company (Fich & Shivdasani, 2006 and Jackling & Johl, 2009).

However, multiple directorships of directors can generate value to company through resources and link to the external environment. Okpara (2011) argues that director members who are also members of the Boards in other companies will create a web of linkages to competitors and other stakeholders. From the resource dependency perspective, it is believed that multiple directors provide connection to varied resources that increase company performance.

Booth and Deli (1996) reveal that the multiple directorships held by CEOs has a negative association with their companies' growth opportunities. This is also supported both by Haniffa and Hudaib (2006) and Jackling and Johl (2009), who report that multiple directorships is significantly negative for market performance and an insignificant for accounting performance. According to Jiraporn et al. (2008) and Grove et al. (2011), multiple directorships are negatively related to company performance. In contrast, Harris and Shimizu (2004) and Sarkar and Sarkar (2009) show empirical evidence that a positive association is seen among the percentage of multiple directorships and abnormal returns.

In Indonesia, the NCG (2006) does not mention the maximum number of directors seated in other companies. However, multiple directorships is ineffective and produce poor company performance due to competitive disadvantages, less responsibility to attend directors' meeting and less motivation to find new strategies for the company's long-term sustainability. Therefore, Boards with more than three outside directors in other companies find it impossible to monitor, control, manage and search for new innovations to sustain company wealth because the directors cannot govern the company very well (Sarkar & Sarkar, 2009). Thus, the next set of hypotheses is as below:

H8 : There is a significant relationship between multiple directorships and company performance.

H8a : There is a significant and negative relationship between multiple directorships on Supervisory Board and company performance.

H8b : There is a significant and positive relationship between multiple directorships by Board of Directors and company performance.

3.5 Hypotheses Development of Ownership Concentration and Company Performance

Ownership concentration is an important component in the corporate governance system. It reflects the power of the large family shareholders in influencing management decisions. Sometimes, the large family ownership might react based on their own interests and ignore the minority and other shareholders' interests. This situation creates a conflict of interests among dominant and minority shareholders (La Porta et al., 1998 and La Porta

et al., 2002). Further, so many agency problems occur in public company because (i) The conflict of interests between agent and principal arises because of separation of management and ownership (Berle & Means, 1932 and Jensen & Meckling, 1976); (ii) The higher level of information asymmetry among agents and outside shareholders in developing countries (Kim et al., 2004); (iii) The conflict of interests among large dominant shareholders and minority owners; and (iv) high information asymmetry between the Board of Directors and the Supervisory Board (Jungmann, 2006).

According to Dharwadkar and Brandes (2000), agency problems could be rectified through: (i) optimizing risk-bearing properties of principals and agents; (ii) increasing incentive alignment between principals and agents; and (iii) effective principal monitoring of agents. Concentrated ownerships have strong economic incentives to reduce agency costs and monitor agents effectively (Demsetz and Lehn, 1985). Therefore, ownership concentration will affect the management actions indirectly, which can reduce the agency problems, finally increasing company performance. Further, agency problems will be reduced through Board shareholding, family ownership and foreign ownership. Thus, agency costs will decline, finally improving company performance.

3.5.1 Director Shareholding

Director shareholding refers to the percentage of stock owned by Supervisory Board and Board of Directors members. Jensen and Meckling (1976) and Fama (1980) believe that

one way to align the shareholders and managers' interest is through director shareholding. Jensen and Meckling (1976) have introduced director shareholding as an internal control mechanism for minimizing agency conflicts between managers and shareholders due to the alignment of manager and shareholder interests. Therefore, director shareholding will help to align the interest of principals and agents. It will reduce the agency problems and finally increase the company value.

The conflict between agent and principals can be solved by giving shares to Supervisory Board and Board of Directors. There are advantages for Supervisory Board and Board of Directors members who are also owners in the company. Firstly, director members who have shares in a company will have more impetus to increase company profitability than other board members. Secondly, Board who hold shares have more power to control the actions and decisions taken by other board members. Thirdly, directors will have a sense of belonging if they have ownership in a company where they can control and monitor the company.

Increasing directors' shareholdings in their company provides them power and motivation to improve company performance. In emerging market, it needs to align the interests of agent and shareholder in order to reduce the degree of information asymmetry among outside shareholders and agent (Kim et al., 2004). Further, director shareholding may enhance the alignment of interests between other owners and directors who hold shares, which can reduce the asymmetric information between agent and principals,

finally increasing company performance. Another advantage of director shareholding is aligning the interest of both Board of Directors and Supervisory Board.

The earlier empirical evidence found a positive association between director shareholding and company performance (Farrer & Ramsay (1998); Short & Keasey (1999); Balatbat et al. (2004); Kapopoulos & Lazaretou (2007); Hu & Zhou (2008); Bauguess et al. (2009); and Park & Jang (2010). However, Cui and Mak (2002), Schiehl (2006), and Perrini et al. (2008) find that director shareholding has a significant negative relationship to company performance. Studies of the Continental European system (e.g., Van Ees et al., 2003 and Krivogorsky, 2006) find that director shareholding does not have a significant relationship to company performance. Thus, the hypotheses is stated as follows:

H9 : There is a significant and positive relationship between director shareholding and company performance.

3.5.2 Family Ownership

Traditional theories believe that concentration of ownership will reduce agency costs, especially monitoring costs. Greater concentration of family ownership has significant power and control to monitor the manager's actions, finally reducing the agency cost. According to Fama and Jensen (1983), controlling by family ownership can reduce the agency problems between principals and agents. Therefore, the higher proportion of shares held by family members would increase controlling by family owners. It will

reduce the agency costs and enhance the shareholders' wealth. Maury (2006) finds that family ownership reduces the agency problems between the principal and agent.

The proportion of shares held by family and affiliated companies recognized as family ownership. Family owners have a high sense of belonging to the company because they are the founders of the company (Andres, 2008). Therefore, they will control directors' decisions in order to reduce the agency costs, finally increasing company performance. Fama and Jensen (1983) argue that family owners may mitigate the agency problems among shareholders and directors. Family control is also important in the most corrupt countries that adopt the French civil law (La Porta et al., 1999). However, Andres (2008) finds that company performance is higher in the company with active family owners as a company's director.

Family owners also have deeper relationships with the company because of long-term commitment to the company. Family owners know much more about the company than other owners. Therefore, they have experience and knowledge that enable them to monitor the directors very well. Martinez et al. (2007) argue that the primary benefit of family ownership is the ability to monitor managers. Due to their long-term presence, family owners have a greater interest in defending their reputation and existence in the company. Maury (2006) finds that active family ownership increases profitability. Chen et al. (2005), Martinez et al. (2007), and Silva and Majluf (2008) conclude that companies with family ownership is significant and positively associated to company performance.

In contrast, Klein et al. (2005) reveal that the presence of controlling owners who are family destroy the company performance.

Empirical evidence that investigated the association between family ownership and company performance in Continental European system (e.g., Basu et al., 2007; Andres, 2008; Achmad et al., 2009; and Huang, 2010) shows mixed results. Basu et al. (2007) and Huang (2010) report family ownership has a positive impact on company performance. In Indonesia, Achmad et al. (2009) find that family ownership has an insignificant associated to company performance. Andres (2008) finds that family companies are more successful compared to companies with larger shareholders or companies with a dispersed ownership structure. The resulting hypothesis is as follows:

H10 : There is a significant and positive relationship between family ownership and company performance.

3.5.3 Foreign Ownership

Foreign ownership is described as the proportion of stock owned by non-citizens. The agency theory claims that since larger foreign ownerships will lead to be less fragmented than stock owned by foreign institutional shareholders, the incentive for these larger ownership is more aligned towards performing an effective monitoring task (Douma et al., 2006). Therefore, foreign owners have better skills and are more independent in monitoring the company where they invest. In addition, this category of ownership can maximize the benefits of risk-bearing, incentive monitoring and alignment (Shleifer

&Vishny, 1984). In addition, foreign ownership is related to higher corporate openness and higher information asymmetries (Gul et al., 2010).

According to Patrick (2001), foreign shareholders are more independent than local shareholders. Therefore, the presence of foreign ownership will reduce the conflict between shareholders because they bring skills and management experience that can improve and reduce agency problems and enhance shareholder wealth. Rhee and Wang (2009) note that foreign owners are believed as having better experience, being better informed and also better trained. Thus, higher proportions of shares held by foreigners would increase the ability of principals to monitor the companies in which they invest.

Foreign ownership is expected to be one of the ways of technologically upgrading companies in developing countries, via direct import of new capital and new technologies (Kozlov et al., 2000 and Benfratello & Sembenelli, 2002). Thus, foreign ownership provides competitive advantages for the company due to easy access to new technology (Cole et al., 2008); funds (Tam & Tan, 2007); and information (Gul et al., 2010). In addition, Oxelheim and Randoy (2003) argue that foreign ownership is an instrument in enhancing a lower cost of capital. Another advantage of the presence of foreign ownership is it gives positive signals to other investors that the company has quality corporate governance and good company performance.

Wiwattanakantang (2001) investigated the effect of large shareholders on company performance. The result shows that foreign-controlled companies are likely to have a

higher ROA than a company with no large shareholders. Other existing literatures that investigated the association between foreign ownership and company performance, such as Chhibber and Majumdar (1999), Patibandla (2006), Choi et al. (2007), Haat et al. (2008), and Choi et al. (2012) also find that a positive effect of foreign ownership on company performance. In contrast, Gul et al. (2010) and Shan and McIver (2011) find that foreign ownership does not improve company performance. Thus, the hypothesis is constructed as below:

H11 : There is a significant and positive relationship between foreign ownership and company performance.

3.6 Summary

Chapter three describes the literature review about the theoretical aspects of corporate governance, theoretical prediction, prior evidence and hypotheses development. In theoretical aspects, there are nine theories normally used in corporate governance studies. In addition, this study uses two theories to predict the effect of directors' diversity, ownership concentration on company performance. As suggested by the agency theory, directors should monitor the actions of managers to protect shareholders' interests. The resource dependency theory offers that Board of Directors provide a mechanism for the company's link with critical resources that are needed, and directors also bring resources to the company. The research methods that can be utilized to test these hypotheses are given in the following chapter.

Research Framework of Directors' Diversity, Ownership Concentration and Company Performance

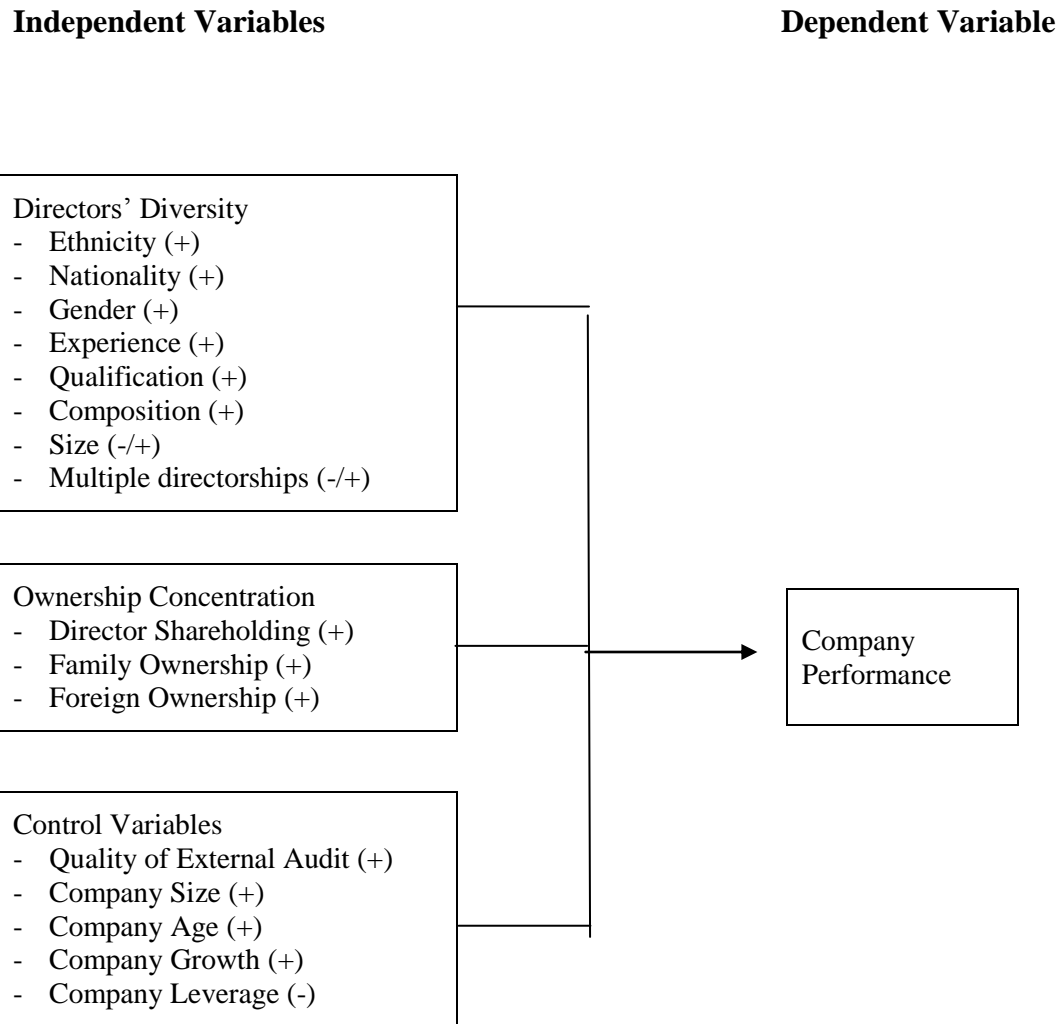


Figure 3.1
Research Framework

CHAPTER FOUR

RESEARCH METHODS

4.0 Introduction

Chapter four discusses the procedures used in constructing this study, including the analysis to test the hypotheses presented in the earlier chapter. Section 4.1 explains the procedures in collecting the data, defines the population and outlines the sample selection criteria. Section 4.2 provides the procedure in collecting the sample. The next section explains the description of the variable measurements. Section 4.4 discusses model specification and analysis. Section 4.5 describes the test of the hypotheses. Section 4.6 discusses additional tests. The last section (section 4.7) presents the summary of this chapter.

4.1 Data Collection

This study utilizes secondary data to solve the problem statements. As this study is conducted on Indonesian listed companies, the data about each individual director and ownership variables were hand-collected from annual reports available on the IDX. The data includes financial and non-financial items from the Balance Sheet, Income Statements, company website, yearbooks and others relevant sources.

4.1.1 Population and Sample Selection

The population for the present research consists of all companies listed on the IDX in 2004. The period of this study is from 2004-2010. Since one of the purposes of the study is to examine whether the implementation of the revised Code (2006) has an effect on company performance, the data is divided into two periods: before and after the year 2006. First, the data was taken from the 2004-2006 period for the old Code. For the revised Code, the data was collected from 2007-2010 period.

The number of companies listed on the IDX was 418 in 2004. It increased by 102 companies (24.42%) to be 520 companies in 2010. The 102 companies are excluded from the sample since they are new companies at that time. Therefore, total population is 418 companies. In line with previous research (e.g., Haniffa & Hudaib, 2006 and Campbell & Minguez-Vera, 2008), the present study only considers companies which disclosed background information of the Board of Directors and the Supervisory Board. Out of 418 companies, there are 135 (32.30%) companies that do not disclose the information needed in this study. Thus, the final sample of the present study is 283 (67.70%) companies for seven years (2004 to 2010). Based on Krejcie and Morgan (1970), if the population is 420, the sample size should be at least 201 companies. Thus, the sample size of this study is higher than what is recommended by Krejcie and Morgan (1970).

4.2 Procedure on Collecting Sample

The sample of the present study is divided into ten industries: (i) agriculture; (ii) mining; (iii) basic and chemical; (iv) miscellaneous; (v) consumer goods; (vi) property, real estate, and construction; (vii) infrastructure, utility and transportation; (viii) finance and banking; (ix) trade, services and investment; and (x) public company. The data was collected from companies in these ten industries. Further, companies from these industries are involved in the current research. The breakdown of companies listed on the IDX as classified by industry type is as in Table 4.1.

Table 4.1

The Number of Companies Listed on the IDX for the Years 2004-2010

No	Industry Classification	2004	2005	2006	2007	2008	2009	2010
1	Agriculture	14	14	14	16	17	18	18
2	Mining	11	11	11	13	14	15	17
3	Basic and Chemical	57	58	58	58	60	62	67
4	Miscellaneous	64	65	68	69	70	70	70
5	Consumer Goods	43	43	43	43	43	43	45
6	Property, Real Estate and Construction	37	37	38	46	49	51	53
7	Infrastructure, Utilities and Transportation	18	20	22	25	26	28	32
8	Finance and Banking	89	94	98	100	101	103	105
9	Trade, Services and Investment	79	81	85	91	91	100	106
10	Public Company	6	7	7	7	7	7	7
Total		418	430	444	468	478	497	520

Source: Indonesia Authority for Financial Services (OJK)

4.3 Variable Measurement of Company Performance

The financial reports are an important source that can be used by shareholders to obtain information about a company's current performance. As mentioned earlier, company

performance is as dependent variable of the present study. Helland and Sykuta (2005) state that company performance is one of primary measure of Board of Director's performance and implicitly, the Supervisory Board's performance in overseeing managerial decision-making. Haniffa and Hudaib (2006) point out that company performance could indicate the way a company is managed and the efficacy of the corporate governance structure.

According to Malin (2007), there are a few techniques to measure company performance: (i) accounting-based measurement; (ii) market-based measurement; and (iii) individual-based measurement. The present study uses accounting and market measurements for company performance. Muth and Donaldson (1998) argue that multiple profitability measures should be applied to capture the inherent limitations of a single profitability measure.

4.3.1 Accounting Based Performance

The common measure used for accounting performance is Return on Assets (ROA). Muth and Donaldson (1998) and Carpenter et al. (2001) argue that ROA reflects the ability of management to utilize company assets efficiently, which are ultimately shareholders' assets. ROA is measured as the ratio of net income divided by total assets. Previous studies that utilized ROA as a proxy for company performance include Halebian & Finkelstein (1993), Carpenter et al. (2001), Erhardt et al. (2003), Jackling and Johl (2009), and Chao and Kumar (2010).

The second proxy for accounting performance is Return on Sales (ROS). ROS is a barometer of the competitive advantage of company and competitive or resource flexibility (Shrader et al., 1997). It is also widely used to evaluate a company's operational efficiency (Ghahroudi, 2011). Following Shrader et al. (1997), the ratio of net income over net sales is employed in the present study to measure ROS.

4.3.2 Market Based Performance

Market-based performance is usually measured by Tobin's Q and stock returns. Tobin's Q provides a viewing window into the company through the market value of the securities issued and captures the long-term impact of company actions (Hu & Izumida, 2008). Barzegar and Babu (2008) argue that the Tobin's Q ratio shows the ability of the management to create income from an asset base. Another benefit of Tobin's Q is a signal of the wealth position of the major providers of funds to the company (shareholders and creditors) (Carter et al., 2010). Wiwattanakantang (2001) and Klapper and Love (2004) use the ratio of market value of equity plus total liabilities to total assets. Thus, the calculation of Tobin's Q can be shown below:

$$\text{Tobin's Q} = \frac{\text{Market value of equity} + \text{total liabilities}}{\text{Total assets}}$$

The second proxy of market performance is stock market returns. According to Carpenter et al. (2001), stock returns indicate how effectively a company is governed based on shareholders' interests. According to Aman and Nguyen (2008), share prices indicate the

better performance and lower risk related to good corporate governance. This study follows Carpenter et al. (2001) to measure stock returns. The formula is as below:

$$\text{Stock Returns} = \frac{(\text{Price}_t + \text{Dividend}_t - \text{Price}_{t-1})}{\text{Price}_{t-1}}$$

Furthermore, share prices used in this study is closing price at year end. Table 4.2 summarizes the measurements used in the current research.

Table 4.2
Operationalisation of Company Performance

Variables	Description	Source
<i>Company Performance</i>		
ROA	Net income divided by total assets	Annual report
ROS	Net income divided by net sales	Annual report
Tobin's Q	The market value of equity plus total liabilities divided by the total assets	Annual report
Stock returns	$(\text{Price}_t + \text{Dividend}_t - \text{Price}_{t-1}) / (\text{Price}_{t-1})$	Annual report and company report

4.4 Variable Measurement of Directors' Diversity

This study divides the independent variables into two categories, namely, directors' diversity and ownership concentration. The present research employs Blau index (Blau, 1977) to calculate directors' diversity. There are some benefits of Blau index, such as it is an appropriate measure of heterogeneity (Miller & Triana 2009). The other benefit of Blau index is it is most favourable measure to capture diversification within a group of individual in an organization (Harrison & Klein, 2007). There is no negative value in Blau index. The value of Blau index consists of a zero point to represent homogeneity in the sample data until bigger numbers (less than 1) when there is a higher diversity.

Prior studies have used the Blau index to measure diversity, such as Campbell and Minguez-Vera (2008), Miller and Triana (2009), Kaczmarek et al. (2012), Wellalage (2012) and Diaz-Fernandez and Gonzalez-Rodriguez (2014). Campbell and Minguez-Vera (2008) examined the effect of gender diversity and company performance. They used four measures of gender diversity, i.e., dummy, the percentage of women directors, the Blau index and the Shannon index. Miller and Triana (2009) and Kaczmarek et al. (2012) used Blau index to measure demographic diversity of directors. The next section discusses the measurement of the directors' diversity.

4.4.1 Ethnicity Diversity

There are two dominant ethnic groups in Indonesian business, i.e., the Javanese and Chinese ethnic groups. According to Okten and Osili (2004), Indonesian ethnicity includes the Javanese (45% of Indonesia's population), Sundanese (14%), Malays (7.5%), Madurese (7.5%), Chinese (3%) and others (23%). The Javanese is not only the dominant part of the population, but they also dominate culturally (Tomagola, 2010). Most of the popular national leaders are from this ethnic group. Therefore, Indonesian company culture is also very much influenced by the Javanese culture. According to Retsikas (2007), the Javanese ethnic group can be described as soft, tender and delicate, timid and cool-tempered, avoiding open conflict, agreeable and reserved, lacking in desire for adventure and with capacity for hard manual labour.

The other ethnic group is the Chinese. Its population is small (3%) but it dominates Indonesian businesses (Turner & Allent, 2007). The present study concentrates on three ethnic groups, i.e., Javanese, Chinese, and other groups. Following prior work of Wellalage (2012), directors' ethnic diversity is computed by using the Blau Index (Blau, 1977).

$$1 - \sum_{i=1}^n P_i^2$$

With P_i being the proportion of individuals in each category (Javanese, Chinese, and other), and n is equal to number of Board size. The value of the Blau index for ethnic diversity can be ranged from 0 when only one ethnic group is represented, to a maximum of 0.67, when the ethnicity of the directors is in equal numbers to all three ethnic groups represented on Supervisory Board and Board of Directors.

4.4.2 Nationality Diversity

The second variable of directors' diversity is nationality diversity. Kaczmarek et al. (2012) measure level of nationality diversity of directors using Blau index (Blau, 1977)

$$1 - \sum_{i=1}^n P_i^2$$

With P_i being the proportion of individuals in each category (local and non-local directors on both Boards), and n is equal to number of Board size. The range of Blau index value is from 0 if only one nationality on the Supervisory Board and Board of Directors to 0.50 which occurs if equal number of local and non-local directors represented on the Supervisory Board and Board of Directors. Thus, the present research utilizes Blau index to count nationality diversity.

4.4.3 Gender Diversity

The third variable of directors' diversity is gender diversity. Campbell and Minguez-Vera (2008) and Miller and Triana (2009) utilized Blau index to investigate gender diversity.

Thus, the current research employs the Blau index to compute gender diversity.

$$1 - \sum_{i=1}^n P_i^2$$

With P_i being the proportion of individuals in each category (man and women), and n is equal to number Board size. The range of Blau index value for gender diversity is from 0 if only one gender (man or women) on the Supervisory Board and Board of Directors to 0.50 if equal numbers of men and women on the Supervisory Board and Board of Directors represented in the company.

4.4.4 Experience Diversity

The fourth variable to proxy directors' diversity is experience diversity. Directors' experience diversity refers to board members who have experience in business, public service, academics, accountancy, law and others. Kim and Lim (2010) utilized the ratio of Board composition who have experience as government servants, accountants and lawyers to total Board composition in a company and year. Diaz-Fernandez and Gonzalez-Rodriguez (2014) used Blau index to measure international experience diversity of directors. This study measures experience diversity by using the Blau index.

$$1 - \sum_{i=1}^n P_i^2$$

With P_i being the proportion of individuals in each category (business, public service, academic, accountancy, law and others), and n is equal to number of Board size. The value of the Blau index for experience diversity can be ranged from 0 when only one type of experience is represented on Supervisory Board and Board of Directors, to a maximum of 0.83 when experience is in equal numbers to all six experiences represented on Supervisory Board and Board of Directors.

4.4.5 Qualification Diversity

The qualifications of directors are measured by educational level. Cheng et al. (2010) used a dummy variable to measure education level where “1” was used if the board members have a bachelor’s degree or above and “0” otherwise. Ujunwa et al. (2012) employed total number of Ph.D qualification on the company Board to total number of board members to compute board’s skill. Diaz-Fernandez and Gonzalez-Rodriguez (2014) used Blau index to count level of educational diversity. The current research also conducts Blau index to compute directors’ qualification diversity.

$$1 - \sum_{i=1}^n P_i^2$$

With P_i being the proportion of individuals in each category (lower than bachelor’s, bachelor’s, master’s and doctorate level on the Board), and n is equal to number of Board size. The range of Blau index value is from 0, if only one qualification level on the Supervisory Board and Board of Directors to 0.75 if equal number of all qualifications level (lower than bachelor’s, bachelor’s, master’s and doctorate level) represented on Supervisory Board and Board of Directors.

4.4.6 Board Composition

Board composition is proportion of Board independence in Supervisory Board. The proportion of Board composition to total number of Supervisory Board in a company is employed by many authors (e.g., Vafeas and Theodorou, 1998; Hossain et al., 2001; Haniffa & Hudaib, 2006; Kim, 2007; Cheng, 2008; and Lefort & Urzua, 2008). Therefore, this study measures Board composition as the proportion of Supervisory Board members' independence relative to total number of the Supervisory Board.

4.4.7 Board Size

The six variables is Board size. Prior studies of Bozec (2005), Mak and Kusnadi (2005), Basu et al. (2007), and Cheng (2008) utilize the number of directors on Board as proxy of Board size. Following the existing literature, the number of directors on the Supervisory Board and Board of Directors are employed in the present study to assess Board size.

4.4.8 Multiple Directorships

Percentage of Board of Directors in a company, who have at least one additional directorship in other companies is known as multiple directorships. It is proposed by earlier research (e.g., Feris et al., 2003; Harris & Shimizu, 2004; Haniffa & Hudaib, 2006; and Cooper & Uzun, 2012). Therefore, the present study employs the proportion of Supervisory Board and Board of Directors who hold more than one directorships in other

companies divided total number of Supervisory Board and Board of Directors. Table 4.3 summarizes the measurements of directors' diversity used in the present study.

Table 4.3
Operationalisation of Directors' Diversity

Variables	Description	Source
<i>Directors' Diversity</i>		
Ethnicity	Blau index = $1 - \sum_{i=1}^n P_i^2$	Annual report and company information
Nationality	Blau index = $1 - \sum_{i=1}^n P_i^2$	Annual report
Gender	Blau index = $1 - \sum_{i=1}^n P_i^2$	Annual report
Experience	Blau index = $1 - \sum_{i=1}^n P_i^2$	Annual report
Qualification	Blau index = $1 - \sum_{i=1}^n P_i^2$	Annual report
Composition	The proportion of Supervisory Board independence to total Supervisory Board members	Annual report
Size	Total number of Supervisory/ Board of Director	Annual report
Multiple directorships	The proportion of both Boards hold more than one Board to total number of directors	Annual report

4.5 Variable Measurement of Ownership Concentration

4.5.1 Directors Shareholding

Craswell et al. (1997), Han and Suk (1998), Short and Keasey (1999), and Basu et al. (2007) used the percentage of shares owned by all members of the Board. Rose (2005) and Chou (2013) used the percentage of cumulative shares owned by both the Supervisory Board and the Board of Directors. Thus, the present study uses the percentage of shares owned by both Boards: the Supervisory Board and the Board of Directors (direct ownership) to measure directors shareholding.

4.5.2 Family Ownership

Maury (2006), Basu et al. (2007), and Achmad et al. (2009) used a dummy variable as a proxy for family ownership. Choi et al. (2007) measured family ownership by using the percentage of shares held by the largest family owners and associated shareholders, shares owned by affiliated companies. Therefore, the present study employs percentage of company shares held by family owners and stocks held by the affiliated company, including direct and indirect owners.

4.5.3 Foreign Ownership

To measure foreign ownership, the percentage of company ownership owned by all foreign shareholders is employed. Foreign ownership includes both institutional and individual shareholders. This measure is used by several authors (e.g., Oxelheim & Randoy, 2003; Douma et al., 2006; Patibandla, 2006; Haat et al., 2008; Gul et al., 2010; and Colpan & Yoshikawa, 2012). Table 4.4 summarizes the measurements of ownership concentration.

Table 4.4
Operationalisation of Ownership Concentration

Variables	Description	Source
<i>Ownership</i>		
Director Shareholding	Percentage of company shares held by both Boards members.	Annual report
Family Ownership	Percentage of shares owned by the family Owners and affiliated company.	Annual report
Foreign Ownership	Percentage of company shares owned by all foreign shareholders.	Annual report

4.6 Variable Measurement of Control Variables

This study has five control variables: (i) quality of external auditor; (ii) company size; (iii) company age; (iv) company growth; and (v) company leverage. It is included in the regression models in order to control for other potential influence on company performance. The measurement for each control variable is discussed below.

4.6.1 Quality of External Auditor

According to De Angelo (1981), audit quality is the probability that auditor will both discover and report a breach in the client's accounting system. Watkins et al. (2004) define quality of audit as auditor reputation and monitoring strength. The quality of the external auditor gives a signal to shareholders that the company is having good corporate governance. Lin and Liu (2009) and Syed-Mustapha-Nazri et al. (2012) suggest that a company would hire a high quality external auditor to signal effective audit monitoring and good corporate governance compared to lower quality auditors. Finally, it improves the company performance.

Ismail et al. (2006), Huafang and Jianguo (2007), and Wu (2012) measured audit quality by categorizing the size of the external auditor as Big Four or non-Big Four. Therefore, this study uses the Big Four or non-Big Four as the measurement of quality of the external auditor.

4.6.2 Company Size

Large companies are likely to employ more skilled managers (Himmelberg et al., 1999). With regards to company performance, a larger company which is managed by a professional manager will be more profitable. Larger companies may be able to perform better since they have higher levels of business diversification (Darmadi, 2013). In addition, a larger company may increase the confidence of investors in safeguarding their interests (Tam & Tan, 2007). Thus, larger companies are better in improving company performance than small companies. The natural logarithm of total assets has been employed to calculate company size by several researchers (e.g., Thonet & Poensgen, 1979; Craswell et al., 1997; Gani & Jermias, 2006; Perrini et al., 2006; Campbell & Minguez-Vera, 2007; Bennedsen et al., 2008; and Colpan & Yoshikawa, 2012). Thus, this study uses natural logarithm of total assets to assess the company size.

4.6.3 Company Age

The number of years since starting point of a company is used by (Arosa et al., 2010) to measure company age. Company age is considered to be related to company performance. Therefore, senior companies are identical to older company. Senior company is likely to have better experienced, receive the benefits of learning and are related with first mover advantages. However, older companies are also less flexible in their ability to adapt to competitive pressures (Douma et al., 2006). Therefore, this study measures the company age by the number of years from inception to 2010.

4.6.4 Company Growth

Mak and Kusnadi (2005), Chan et al. (2011), and Colpan and Yoshikawa (2012) measured company growth with sales growth. Sales growth is measured by sales for the current year less sales in the previous year divided by sales in the previous year. The present study utilizes sales growth to measure company growth. Table 4.5 demonstrates the measurements of control variables used in this study.

Table 4.5
Operationalisation of Control Variables

Variables	Description	Source
<i>Control Variables</i>		
Quality Auditor	A dummy variable coded; 1 if the auditor is from the Big Four companies and 0 otherwise	Annual report
Company Size	The natural logarithm of total assets	Annual report
Company Age	The number of years from inception to 2010	Annual report
Company Growth	Sales for the current year less in the previous year divided by sales in the previous year	Annual report
Company Leverage	Debt divided by total assets	Annual report

4.6.5 Company Leverage

Higher leverage of companies increases agency problem in terms of monitoring costs (Akhtaruddin & Haron, 2010). Hutchinson and Gul (2004) state that leverage indicates how companies choose to finance operations. In addition, Houmes et al. (2012) report that systematic risk increases when managers choose cost structures with higher operating leverage. Total debt divided by total assets has been used to proxy of the company leverage by many researchers (e.g., Short and Keasey, 1999, Mak & Kusnadi,

2005; Erickson et al., 2005; Akhtaruddin & Haron, 2010; and Foong & Idris, 2012). Thus, the present study measures company leverage by using total debt to total assets.

4.7 Model Specification and Analysis

Following the research of Himmelberg et al. (1999), Campbell and Minquez-Vera (2008), Mohamed-Yunos et al. (2012), and Nyamongo and Temesgen (2013), this study uses the panel data techniques. It comprises of a time series for each cross-sectional member in the data set (Wooldridge, 2003). The term “panel data” refers to the pooling of observations on a cross-section of households, countries or companies over several time periods (Baltagi, 2005).

There are several advantages of panel data. De Jager (2008) notes the several benefits if research use the panel data. Panel data can produce sounder parameter estimates. Besides, the panel data also has more degrees of freedom. In addition, it possesses the capability to study the dynamics of data arrangement from one to another period. Meanwhile, Baltagi (2005) identifies benefits of using panel data include its ability to: (i) control for individual heterogeneity; (ii) produce more degrees of freedom, more variability, more informative data, less collinearity among the variables, and more efficiency; (iii) more excellence to study the dynamics of data arrangement; (iv) be preferable to measure and identify effects that are simply not observable in data set of pure time series or cross section; and (v) quantify micro panel data gathered on individuals and companies more accurately than similar variables measured at the macro-level.

Campbell and Minquez-Vera (2008) point out that panel data analysis can eliminate any unobservable heterogeneity in sample. De Andres and Vallelado (2008); and Gurbuz and Aybars (2010) argue that when the sample is a combination of cross section and time series data, thus the panel data analysis is more suitable tool. In addition, it come up with a large number of observations, reduces the collinearity among explanatory variables and increases degree of freedom (Hu & Izumida, 2008).

Prior research on directors' diversity and ownership concentration have utilized the panel data (e.g., Kim, 2005; Campbell & Minquez-Vera, 2008; Ameer et al., 2010; Shan & McIver, 2011; Mohamed-Yunos et al. 2012; Jurajda & Stancik, 2012; Wellalage et al., 2012; Nyamongo & Temesgen, 2013; and Diaz-Fernandez & Gonzalez-Rodriguez, 2014). In a study in China, Shan and McIver (2011) used Ordinary Least Squares (OLS) fixed effects methods to test whether the corporate governance mechanisms influence the financial performance.

Campbell and Minquez-Vera (2008) investigated gender diversity using panel data analysis comprising non-financial companies listed in Madrid for 1995-2000 periods. They used Hausman test to examine the presence of any correlation between unobservable heterogeneity and the independent variables. From this Hausman test result, the fixed effects model was chosen. In addition, two-stage least squares (2SLS) was employed in order to control for the possible endogeneity of the variables which could bias the coefficients obtained. Jurajda and Stancik (2012) utilized panel data regression techniques of 4,049 companies over the 1995-2005 periods.

The multiple regressions for the study are as follow:

$$\begin{aligned}
 CP_{it} = & a + \beta_1 SEDE_{it} + \beta_2 SNDN_{it} + \beta_3 SGDG_{it} + \beta_4 SExpDExp_{it} + \beta_5 SQDQ_{it} + \beta_6 SC_{it} + \beta_7 \\
 & SZDZ_{it} + \beta_8 MSMD_{it} + \beta_9 DS_{it} + \beta_{10} FOp_{it} + \beta_{11} FrO_{it} + \beta_{12} QA_{it} + \beta_{13} CS_{it} + \beta_{14} CA_{it} + + \beta_{15} \\
 & CG_{it} + \beta_{16} CL_{it} + e \dots\dots\dots (1)
 \end{aligned}$$

Where:

- CP = Company performance as measured by Return on Assets, Return on Sales, Tobin’s Q and Stock returns
- SEDE = Supervisory Board and Board of Directors’ Ethnicity Diversity
- SNDN = Supervisory Board and Board of Directors’ Nationality Diversity
- SGDG = Supervisory Board and Board of Directors’ Gender Diversity
- SExpDExp = Supervisory Board and Board of Directors’ Experience Diversity
- SQDQ = Supervisory Board and Board of Director’ Qualification Diversity
- SC = Supervisory Board Composition
- SZDZ = Supervisory Board and Board of Directors Size
- MSMD = Multiple directorships of Supervisory Board and Board of Directors
- DS = Supervisory Board and Board of Directors Shareholding
- FOp = Family Ownership
- FrO = Foreign Ownership
- QA = Quality of External Auditor
- CS = Company Size
- CA = Company Age
- CG = Company Growth
- CL = Company Leverage

This study applies multivariate analysis. Multivariate analysis is selected to answer the complex association amongst corporate governance variables and company performance as it has also been used by researchers in previous studies (Adam & Ferreira, 2009; Jackling & Johl, 2009; and Carter et al., 2010). This type of analysis is used because it can analyse the multiple variables to answer the complex relationship which is impossible to do by using univariate or bivariate analysis (Hair et al., 1998). However, a few assumptions about the multivariate analysis should be resolved before multivariate analysis are conducted, namely normality, multicollinearity and heteroscedasticity.

4.7.1 Normality

Normality may be the most common assumption in applying statistical procedures as in the classical linear regression model where the (unobserved) disturbance vector is assumed to be normally distributed. Non-normal data will lead to substantially incorrect statements in the analysis of economic models. The data is said to be normal if the standard skewness is within ± 1.96 and standard kurtosis ± 3 (Haniffa &Hudaib, 2006 and Abdul-Rahman & Mohamed-Ali, 2006).

4.7.2 Multicollinearity

Multicollinearity problem occurs if a condition in which two or more independent variables in a multiple regression model are highly correlated (Gujarati, 1995). It would be a perfect multicollinearity if the correlation between two independent variables is equal to 1 or -1. There are a few techniques used to detect multicollinearity problems in the model, such as Variance Inflation Factor (VIF), Pearson Correlation Matrix, etc. In this study, VIF and Pearson Correlation Matrix are used. If Pearson Correlation result is higher than 0.80, it means that there is a correlation among independent variables (Gujarati, 1995). In addition, the common rule of thumb for VIF is that VIF value should not exceed 10 to avoid multicollinearity problem (Gujarati, 2003).

4.7.3 Heteroscedasticity

Heteroscedasticity is a problem when unequal variance is present and it is one of the most classical assumption violations (Hair et al., 1998) in multivariate regression. This problem has to be solved as it will cause a biased value for the true variance and the Best Linear Unbiased Estimator (BLUE) cannot be achieved. White General Heteroscedasticity test can be used to detect the Heteroscedasticity problem (Wooldridge, 2003). In addition, Wooldridge (2003) suggests that once the heteroscedasticity problem is identified, it can be solved by applying White Heteroscedasticity Consistent Variance.

4.8 Test for Hypotheses

Test for hypotheses in panel data starts by using the random effects and fixed effects models to control for the heterogeneity effects. A fixed effects model assumes differences in intercept across groups or time periods; however, the slope is constant. Meanwhile, a random effects model would have a random constant error (Greene, 2003). To determine the presence of any correlation between unobservable heterogeneity and the independent variables, the Hausman test is performed in this study. According to Campbell and Minguez-Vera (2008), Hausman test examines the equality of the coefficients of the fixed effects estimations and the random effects estimations. The Hausman test differentiates the random contrafixed effects under the null hypotheses that the individual effects are uncorrelated with the other regressors in the model (Hausman, 1978). When it is

correlated (H_0 is rejected), a random effects model provides biased estimators; thus, the fixed effects model is more favourable.

The result of the Hausman test is presented as final result. Then, it looks for model fitness by using F statistic. The judgment is used to decide the fitness of the model by comparing α and significant value of F statistic. If significant value of F statistic is lower than 0.05, the model is fit. The next procedure is to interpret the adjusted R^2 to get explanation on how much the explanatory variables can explain the dependent variable. Finally, the hypothesis is rejected or accepted based on the t statistics or significant value. The hypothesis is accepted if significant value is smaller than or equal to 0.10 (10%); otherwise it is rejected.

4.9 Additional Test

The study also performs additional analysis to investigate if the implementation of the revised Code (as opposed to the old Code) improves corporate governance practices in enhancing company performance. Therefore, this analysis utilizes two samples of data sets, i.e., old Code data (2004-2006) and revised Code data (2007-2010). The previous study of McKnight et al. (2009) investigated the impact of adopting Cadbury Code of Best Practice on the corporate performance of UK companies by using panel data. In addition, Wellalage and Scringeour (2012) used panel data to investigate the effect of ethnic directors on agency conflict before and during the financial crisis data set in Sri Lanka. This study follows McKnight et al. (2009) and Wellalage and Scringeour (2012).

4.10 Summary

This chapter discusses the population, sample, measurement of each variable and the unit of analysis. Two types of Board are performed to investigate the association between directors' diversity, ownership concentration and company performance namely, the Board of Directors and the Supervisory Board. The present study uses panel data analysis. This study also conducts additional analysis to examine whether the implementation of revised Code improves company performance than old Code. Thus, it uses two samples of data sets, i.e., old Code (2004-2006) and revised Code (2007-2010).

CHAPTER FIVE

RESULTS AND DISCUSSION

5.0 Introduction

Chapter five provides the findings of the relationship between directors' diversity, ownership concentration and company performance. The discussion in the current chapter is organized into five sections. Section 5.1 discusses sample classification and Section 5.2 focuses on descriptive statistics. Section 5.3 describes the preliminary analysis of the data which consists of checking for outlier, normality, multicollinearity and heteroscedasticity. Section 5.4 shows results and discussion of panel data. Section 5.5 explains additional test for old and revised Code data. Finally, the last section presents the summary.

5.1 Sample Classification

The sample of this research is all companies listed on the IDX during the seven-year period, 2004-2010. There are 135 of 418 listed companies in 2004 that did not disclose the information needed in this study, such as directors' nationality diversity. Thus, this study excludes those companies with incomplete financial and non-financial information. It resulted in the sample size of 283 companies with full information for the period under investigation, i.e., 2004-2010. The companies involved in this study come from 10 different industries, collected from a period of 7 years, which then yielded 1,981

companies-year observations. The data was collected from various sources, such as corporate website and the IDX's website. Table 5.1 presents the final sample of the present study.

As presented in Table 5.1, the large sample companies are from finance and banking industry (21.5%). This is followed by miscellaneous industry (18.4%), trade and service and investment industry (17.2%), basic and chemical industry (12.4%), and property, real estate and construction industry (10.9%). The remaining companies are consumer goods industry (7.1%), agriculture industry (4.3%), mining industry (3.9%), infrastructure, utilities and transportation industry (3.9%), and public (0.4%).

Table 5.1
Number of Samples by Industry Classification

No	Industry Classification	Total	%	Data Unavailable	Total sample	%
1	Agriculture	14	3.3	(2)	12	4.3
2	Mining	11	2.6	-	11	3.9
3	Basic and Chemical	57	13.6	(22)	35	12.4
4	Miscellaneous	64	15.4	(12)	52	18.4
5	Consumer Goods	43	10.3	(23)	20	7.1
6	Property, Real Estate, and Construction	37	8.9	(6)	31	10.9
7	Infrastructure, Utilities, and Transportation	18	4.3	(7)	11	3.9
8	Finance and Banking	89	21.3	(28)	61	21.5
9	Trade, Service and Investment	79	18.9	(30)	49	17.2
10	Public Company	6	1.4	(5)	1	0.4
Total		418	100	135	283	100

5.2 Descriptive Statistics

The descriptive statistics before discarding outliers are reported in Table 5.2. Firstly is for company performance, second for directors' diversity, third (ownership concentration) and finally for control variables. The Table shows mean, median, standard deviation, minimum and maximum of company performance, directors' diversity, ownership concentration and control variables for the sample year 2004-2010. To examine whether the implementation of the new Code of Corporate Governance influences policies taken by the company, this study adds some information for company performance, director and ownership concentration based on old (2004-2006) and revised Code (2007-2010) periods as can be seen from Table 5.3 to Table 5.13.

Focusing first on proxies of company performance in Table 5.2, the average (median) percentage of ROA is 5.57% (2.48%) and ROS is on average 4.10% (4.00%) suggesting the ability of directors to manage assets and costs efficiently. The maximum percentage of ROA and ROS are 241.06% and 489.32%. On further investigation, there are three companies having ROA of more than 100% and 13 companies for ROS. However, the minimum percentage of ROA and ROS is very low of -170.70% and -217.60%. Further, the average value of accounting performance is higher than market performance. The mean (median) Tobin's Q of the sample is 1.90% (1.05%), showing that market value of the companies is greater than value of the company assets.

Table 5.2*Descriptive Statistics before Detecting Outliers for 2004-2010 (n=1,981)*

Company performance					
	Mean	Median	Std	Min	Max
ROA (%)	5.57	2.48	66.03	-170.70	241.06
ROS (%)	4.10	4.00	194.62	-217.60	489.32
TQ (%)	1.90	1.05	7.32	-0.08	198.97
SRt (%)	0.41	0.44	1.98	-0.99	45.09
Directors' diversity					
SE (index)	0.41	0.44	0.19	0.00	0.67
DE (index)	0.35	0.44	0.22	0.00	0.67
SN (index)	0.09	0.00	0.18	0.00	0.50
DN (index)	0.09	0.00	0.17	0.00	0.50
SG (index)	0.13	0.00	0.19	0.00	0.50
DG (index)	0.14	0.00	0.19	0.00	0.50
Sexp (index)	0.49	0.50	0.17	0.00	0.80
Dexp (index)	0.45	0.44	0.16	0.00	0.79
SQ (index)	0.45	0.48	0.19	0.00	0.75
DQ (index)	0.39	0.44	0.20	0.00	0.75
SC (proportion)	0.39	0.33	0.14	0.00	1.00
SZ (person)	4.19	4.00	1.86	2.00	12.00
DZ (person)	4.45	4.00	2.05	2.00	13.00
MS (proportion)	0.56	0.57	0.27	0.00	1.00
MD (proportion)	0.41	0.33	0.32	0.00	1.00
Ownership concentration					
DS (%)	2.76	0.00	9.06	0.00	75.74
Fop (%)	28.04	17.59	30.02	0.00	99.89
FrO (%)	27.33	16.29	29.55	0.00	99.74
Control variables					
QA (Big-4)	0.37	0.00	0.48	0.00	1.00
CS (Rp billion)	8,187.42	819.56	32,688.09	0.01	449,775.00
CA (years)	30.03	27.00	18.14	2.00	154.00
CG (%)	28.45	13.44	155.44	-294.04	315.99
CL (%)	56.20	53.90	35.06	-82.43	298.00

Notes: ROA (Return on Assets), ROS (Return on Sales), TQ (Tobin's Q), SRt (Stock Return), SE (Supervisory Board's ethnicity diversity), DE (Board of Directors' ethnicity diversity), SN (Supervisory Board's nationality diversity), DN (Board of Directors' nationality diversity), SG (Supervisory Board's gender diversity), DG (Board of Directors' gender diversity), Sexp (Supervisory Board's experience diversity), Dexp (Board of Directors' experience diversity), SQ (Supervisory Board's qualification diversity), DQ (Board of Directors' qualification diversity), SC (Supervisory Board Composition), SZ (Supervisory Board size), DZ (Board of Directors size), MS (multiple directorships of Supervisory Board), MD (multiple directorships of Board of Director). DS (Director shareholding), Fop (Family ownership), FrO (Foreign ownership), QA (Quality of external auditor), CS (Company size), CA (Company age), CG (Company growth) and CL (Company leverage).

When the value of Tobin's Q is higher than 1.0, it implies that the company can produce higher value with utilize available resources (Campbell & Minquez-Vera, 2008). The mean (median) of stock returns is lower than other proxies of dependent variables at only 0.41% (0.44%).

Distribution sample in terms of performance indicators is presented in Table 5.3. There are 65 (22.97%) of 283 companies having negative ROA and ROS in the 2004-2006 period, decreasing to 48 (16.96%) companies in 2007-2010 period. Out of 283 companies, 218 companies had good accounting performance during the 2004-2006 period, with a slight increase to 235 companies for the 2007-2010 period. Unfortunately, the market performances of Indonesian listed companies indicate higher number of companies with Tobin's Q less than 1. Table 5.3 demonstrates that the number of companies having Tobin's Q value of less than 1.0 is around 122 (43.11%) in the 2004-2006 period, going up to 141 (49.82%) for the 2007-2010 period. Tobin's Q is no more than 1.0; it indicates poor utilization of available resources (Campbell and Minquez-Vera, 2008). In addition, the average number of companies having negative stock returns is 107 (37.81%) in 2004-2006 period, decreasing to 104 (36.75%) for the 2007-2010 period. Further, it is look like the accounting performance is better than market performance is measured by Tobin's Q and stock returns for the 2004-2010 period.

Table 5.2 presents the summary statistics of directors' diversity. The first independent variable of directors' diversity is directors' ethnicity diversity. The average directors' ethnicity diversity is almost the same between Supervisory Board (SE) and Board of Directors (DE). Based on the sample of present study, the means indices of Supervisory

Board's(SE) and Board of Directors' (DE) ethnicity diversity are 0.41 and 0.35, respectively; and 0.44 on the median for both Boards. The ethnicity diversity index of both Boards ranges from zero to 0.67 for maximum.

Table 5.3
Distribution Sample in Terms of Performance Indicators

Dependent Variables	2004-2006		2007-2010	
	Mean	(%)	Mean	(%)
ROA & ROS:				
Negative	65	22.97	48	16.96
Positive	218	77.03	235	83.04
Total samples	283	100.00	283	100.00
Tobin's Q:				
< 1	122	43.11	141	49.82
> 1	161	56.89	142	50.18
Total samples	283	100.00	283	100.00
Stock returns:				
Negative	107	37.81	104	36.75
Positive	176	62.19	179	63.25
Total samples	283	100.00	283	100.00

Notes:

Mean indicates the average number of companies from the 2004-2006 and 2007-2010 periods.

Table 5.4 provides the distribution Board in terms of ethnicity diversity. Table 5.4 shows the composition Board based on ethnicity diversity are almost similar for both periods. Supervisory Board members are Javanese (27%), Chinese (45%) and other ethnics (26%) in 2003-2006 period. It is very close to the revised Code, i.e., Javanese (26%), Chinese (44%) and other ethnics (28%). Surprisingly, more than half of the Board of Directors members are dominated by Chinese (54%), followed by other ethnics (24%), and Javanese (21%). It shows that the Chinese were the dominant board members during the 2004-2010 period because of family companies belongs to Chinese family.

Table 5.4
Distribution of Board in Terms of Ethnic Diversity

Ethnicity	2004-2006				2007-2010			
	Supervisory Board		Board of Director		Supervisory Board		Board of Director	
	Mean	(%)	Mean	(%)	Mean	(%)	Mean	(%)
Java	329	27.65	265	21.27	321	26.93	279	21.92
China	546	45.88	675	54.17	535	44.88	679	53.34
Other	315	26.47	306	24.56	336	28.19	315	24.74
Total director	1190	100.00	1246	100.00	1192	100.00	1273	100.00

Notes:

Mean indicates the average number of directors from the 2004-2006 and 2007-2010 periods.

The second directors' diversity is directors' nationality diversity and the average of directors' nationality diversity is lower for both types of Boards. In Table 5.2, the findings point out that average index of Supervisory Board's (SN) and Board of Directors' (DN) nationality diversity is 0.09 on board members. During the 2004-2006 period, 66 (23.32%) and 61 (21.56%) of the companies had one or more non-local Supervisory Board members and Board of Directors. It is slightly higher - 71 (25.09%) and 73 (25.80%) of companies having non-local Supervisory Board members and Board of Directors in the 2007-2010 period. Further inspection on the data reveals that there are only 143 (12.02%) non-local director seats on the Supervisory Board for the 2004-2006 period, with a slight increase of around 13.59% in 2007-2010 period. Meanwhile, the number of non-local Board of Directors is 143 (11.48%) for the 2004-2006, which slightly increased to 165 (12.96%) for the 2007-2010 period as provided in Table 5.5.

Table 5.5
Distribution of Board in Terms of Nationality Diversity

Nationality	2004-2006				2007-2010			
	Supervisory Board		Board of Director		Supervisory Board		Board of Director	
	Mean	(%)	Mean	(%)	Mean	(%)	Mean	(%)
Australia	11	7.69	10	6.99	10	6.17	6	3.64
Belgium	3	2.10	3	2.10	2	1.23	2	1.21
Brazil	2	1.40			3	1.85	2	1.21
China	11	7.69	4	2.8	5	3.09	3	1.82
Denmark					1	0.62		
Ecuador			1	0.7	1	0.62	1	0.61
Finland			1	0.7				
France	1	0.70	1	0.70	5	3.09	2	1.21
Germany	8	5.59	9	6.29	5	3.09	5	3.03
Hungary							1	0.61
India	11	7.69	13	9.09	13	8.02	18	10.91
Italy	1	0.70			1	0.62		
Japan	13	9.09	29	20.28	17	10.49	32	19.39
Korea	2	1.40					2	1.21
Malaysia	13	9.09	12	8.39	23	14.2	22	13.33
New Zealand			4	2.8	1	0.62	2	1.21
Netherlands	3	2.10	5	3.50	4	2.47	3	1.82
Norway			1	0.7			1	0.61
Philippines	10	6.99	16	11.19	10	6.17	17	10.3
Poland							1	0.61
Qatar					2	1.23		
Singapore	22	15.39	7	4.89	19	11.73	8	4.85
South Africa	2	1.40						
Switzerland	1	0.70	2	1.40	1	0.62	3	1.82
Taiwan	1	0.70	3	2.10	1	0.62	6	3.64
Thailand							2	1.21
Turkey	1	0.70			4	2.46	5	3.03
UK	13	9.09	9	6.29	14	8.64	12	7.27
US	14	9.79	13	9.09	20	12.35	9	5.45
Non-local	143	100.00	143	100.00	162	100.00	165	100.00
Local	1047		1103		1030		1108	
Total director	1190		1246		1192		1273	

Notes:

Mean indicates the average number of directors from the 2004-2006 and 2007-2010 periods.

Most of non-local directors come from Asian countries, such as Singapore, Malaysia and Japan. It is followed by the US and the UK. However, the majority of Supervisory Board members (87.98%) and Board of Directors (88.52%) are local directors during the old Code and with a slight decrease during the revised Code - 86.41% and 87.04%, respectively. It can then be concluded that most of both Boards members are from local directors.

Table 5.6
Distribution of Board in Terms of Gender Diversity

Gender	2004-2006				2007-2010			
	Supervisory Board		Board of Director		Supervisory Board		Board of Director	
	Mean	(%)	Mean	(%)	Mean	(%)	Mean	(%)
Women	108	9.08	114	9.14	105	8.81	136	10.68
Man	1082	90.92	1132	90.86	1087	91.19	1137	89.32
Total director	1190	100.00	1246	100.00	1192	100.00	1273	100.00

Notes:

Mean indicates the average number of directors from the 2004-2006 and 2007-2010 periods.

Table 5.2 notes the mean indices of gender diversity on Supervisory Board (SG) and Board of Directors (DG) is 0.13 and 0.14. However, the range of Blau index of gender diversity is zero for a minimum to a maximum index of 0.50. The standard deviation of gender diversity is 0.19 for both Boards. Table 5.6 reports the average percentage of Supervisory Board seats held by women to total Board seats of approximately 9.08%, going down to 8.81% in the 2007-2010 period. Moreover, the average Board of Directors' seats held by women is 9.14% with a slight increase of 10.68% for the 2007-2010 period. This average is less than 11% found by Simpson et al. (2010) for 1,500 US companies and slightly higher than the 8% for 228 Malaysian companies prior to the IPO,

reported by Ahmad-Zaluki (2012). Further, the percentage of women on both Boards appears to be extremely low relative to the number of women in the population and many companies do not have women directors. In-depth investigation finds that 190 (67.14%) and 179 (63.25%) of 283 companies do not have women on the Supervisory Board and Board of Directors for the period 2004 to 2010. This implies that only few women hold director positions on both Boards compared to male.

Table 5.7
Distribution of Board in Terms of Experience Diversity

Experience	2004-2006				2007-2010			
	Supervisory Board		Board of Director		Supervisory Board		Board of Director	
	Mean	(%)	Mean	(%)	Mean	(%)	Mean	(%)
Business	566	47.56	524	42.06	524	43.96	517	40.61
Public service	194	16.3	47	3.77	200	16.78	51	4.01
Academic	62	5.21	15	1.21	76	6.38	20	1.57
Accountancy	61	5.13	93	7.46	78	6.54	92	7.23
Law	20	1.68	8	0.64	27	2.27	14	1.10
Other	287	24.12	559	44.86	287	24.07	579	45.48
Total director	1190	100.00	1246	100.00	1192	100.00	1273	100.00

Notes:

Mean indicates the average number of directors from the 2004-2006 and 2007-2010 periods.

In relation to experience diversity, Table 5.2 declares the average indices of Supervisory Board (Sexp) of 0.49 and Board of Directors (Dexp) of 0.45. The maximum index of Supervisory Board's experience diversity (Sexp) is 0.80 and 0.79 for Board of Directors'(Dexp) with minimum for both Boards at zero over the seven-year period. Table 5.7 provides distribution of Boards in term of experience diversity. The present study classifies directors into six categories: business, public service, academic,

accountancy, law and others (directors who have work experiences except in business, public service, academia, accountancy and law). In this respect, 47.56% of Supervisory Board experience is in business in the 2004-2006 period, declining to 43.96% for the 2007-2010 period.

The second measurement of experience is public service. Of 1,190 Supervisory Board members, there are 194 (16.30%) having experience as public service, 62 (5.21%) as academic, 61 (5.13%) as accountancy, 20 (1.68%) as law and 287 (24.12%) as others (except business, public service, academics, accountancy and law) slightly changing during the 2007-2010 period. Table 5.7 shows the majority of Supervisory Board members are from the business background. This result is similar with the US study of Siciliano (1996) who finds that 58.2% of board members hail from the business sector. For Board of Directors, the highest experience is from the others group 44.86% (most Board of Director members are employees), followed by business - 42.06%, accountants - 7.46%, public service - 3.77%, academicians - 1.21% and lawyers - 0.64%.

The next element of directors' diversity is qualification. Table 5.2 reports the average indices of qualification diversity for Supervisory Board (SQ) members and Board of Directors (DQ) is about 0.45 and 0.39. As reported in Table 5.8, the percentage of Supervisory Board members who have education lower than bachelor's (20.67%), bachelor's (48.82%), master's (21.01%) and doctorate level (9.50%) for the 2004-2006 period, with slight change during the 2007-2010 period for lower than bachelor's (19.12%), bachelor's (45.64%), master's (25.00%) and 10.24% for doctorate

qualification. Further, this study finds a majority of Board of Directors (55.78%) hold bachelor's degree, 15.49% have lower than bachelor's, 26.97% master's level and 1.76% hold doctorate qualification over the 2004-2006 period, slightly decreasing and increasing for the 2007-2010 period. Finally, very few Supervisory Board members (9.50%) and Board of Directors (1.76%) have doctorate background during the sample periods. Unfortunately, more than half of both board members hold lower than master's degree for the period 2004 to 2010.

Table 5.8
Distribution of Board in Terms of Qualification Diversity

Qualification	2004-2006				2007-2010			
	Supervisory Board		Board of Director		Supervisory Board		Board of Director	
	Mean	(%)	Mean	(%)	Mean	(%)	Mean	(%)
Less bachelor	246	20.67	193	15.49	228	19.12	157	12.33
Bachelor	581	48.82	695	55.78	544	45.64	707	55.54
Master	250	21.01	336	26.97	298	25.00	381	29.93
Doctorate	113	9.50	22	1.76	122	10.24	28	2.20
Total director	1190	100.00	1246	100.00	1192	100.00	1273	100.00

Notes:

Mean indicates the average number of directors from the 2004-2006 and 2007-2010 periods

Table 5.2 notes the mean proportion of Supervisory Board composition (SC) is 0.39. This result is in line with both Chen et al. (2005) and Yammeesri and Herath (2010). They found the proportion of directors composition is not more than 0.32. Even though there is a regulation for companies listed on the IDX to have Board composition of at least one independent director⁹, some Indonesian companies do not have Board composition on

⁹ Mandatory since 2003

their Supervisory Board. Further inspection finds that nine (3.18%) companies have no Board composition on the Supervisory Board over the three-year (2004-2006) period.

Table 5.9
Distribution of Sample in Terms of Board Composition

Composition	2004-2006		2007-2010	
	Mean	(%)	Mean	(%)
<30%	39	13.78	35	12.37
30%	156	55.12	117	41.34
> 30%	88	31.10	131	46.29
Total	283	100.00	283	100.00

Notes:

Mean indicates the average number of companies from the 2004-2006 and 2007-2010 periods.

Table 5.9 shows that more than 35 (10%) of listed companies have Supervisory Board composition of less than the requirement by the Code. The percentage of Supervisory Board composition appears to decline to around six (2.12%) companies during the 2007-2010 period. However, one of the companies listed declared all Supervisory Board members as Board composition during the 2004-2006 period, which increased to four companies for the 2007-2010 period. Compared to the US, Indonesian Boards are characterized by less Supervisory Board composition. For example, Erickson et al.'s (2005) study in the US found the mean proportion of director Board composition on the Board is about 0.69.

Table 5.2 point out that the total number of directors on the Supervisory Board (SZ) is ranged from a minimum of two to a maximum of thirteen. For Board of Director size (DZ) is from two to twelve.

Table 5.10
Distribution of Sample in Terms of Board Size

Size	2004-2006				2007-2010			
	Supervisory Board		Board of Director		Supervisory Board		Board of Director	
	Mean	(%)	Mean	(%)	Mean	(%)	Mean	(%)
<7	252	89.05	245	86.57	250	88.34	242	85.51
7	12	4.24	15	5.30	13	4.59	12	4.24
>7	19	6.71	23	8.13	20	7.07	29	10.25
Total sample	283	100.00	283	100.00	283	100.00	283	100.00

Notes:

Mean indicates the average number of companies from the 2004-2006 and 2007-2010 periods.

Therefore, the average size of both Boards is four persons. It is smaller than eight members reported for Malaysian companies (Ameer et al., 2010 and Kamardin & Haron, 2011) and five members founded by Rose (2005) for Danish companies who adopt the two-tier Board system. Table 5.10 shows information about Board size¹⁰ of the samples. Surprisingly, there are 252 (89% companies) and 245 (86%) companies having Supervisory Board members and Board of Directors lower than seven members for the 2004-2006 period. However, there is not much difference for the 2007-2010 period, whereas 250 (88%) and 242 (86%) companies have Supervisory Board members and Board of Directors of less than seven. It indicates the average size of directors in Indonesian companies is small.

In terms of multiple directorships, Table 5.2 notes that more than half (56%) of the Supervisory Board (MS) members sit on more than one Board in other companies during

¹⁰Lipton & Lorsch (1992) note that small Board size should be limited to seven or eight members.

the sample period. This result is similar with prior study of Kamardin and Haron (2011) who find more than 50% of independent directors have at least one directorship in Malaysian listed companies. For the multiple directorships of Board of Directors (MD), around 0.41 (41%) director members are categorized as over committed. Multiple directorships of both Boards in a company can be ranged from 0 if no multiple directorships to 1 if all board members have directorships. The maximum value indicates that all board members in a company hold two or more directorships across companies. Further examination shows 33 (11.66%) companies are controlled and monitored by busy Supervisory Board members. It slightly increases to 38 (13.43%) for the 2007-2010 period. However, the number of companies managed by busy directors declined from 33 (11.66%) in the three-year period to 28 (9.89%) in the 2007-2010 period.

Table 5.11 demonstrates the distribution of the Board in terms of multiple directorships. Of 1,190 Supervisory Board members, 528 (44%) hold only one directorship, 257 (21%) hold two directorships, 163 (13%) hold three directorships and 93 (7%) hold four directorships; while 149 (12.52%) Supervisory Board members hold five or more directorships over the three-year period. Furthermore, the percentage of multiple directorships of Boards is not much different between both (2004-2006 and 2007-2010) periods. The number of Board of Directors for 283 companies is 1,246 in the 2004-2006 period. From 1,246 directors, 782 (62%) hold only one position, while a further 209 (17%) and 100 (8%) hold two and three directorships. About 49 (4%) directors hold four directorships and 106 (9%) hold five or more directorships over the 2004-2006 period.

Table 5.11
Distribution of Board in Terms of Multiple Directorships

Number of Multiple Directorships	2004-2006				2007-2010			
	Supervisory Board		Board of Director		Supervisory Board		Board of Director	
	Mean	(%)	Mean	(%)	Mean	(%)	Mean	(%)
1	528	44.37	782	62.76	528	44.30	797	62.61
2	257	21.60	209	16.77	263	22.06	222	17.44
3	163	13.70	100	8.03	154	12.92	96	7.54
4	93	7.82	49	3.93	87	7.30	56	4.40
5	66	5.55	56	4.49	61	5.12	48	3.77
6	28	2.35	19	1.53	38	3.19	18	1.41
7	18	1.51	8	0.65	21	1.76	14	1.10
8	17	1.43	10	0.80	21	1.76	11	0.86
9	9	0.75	3	0.24	5	0.42	2	0.16
10+	11	0.92	10	0.80	14	1.17	9	0.71
Total	1190	100.00	1246	100.00	1192	100.00	1273	100.00

Note:

Mean indicates the average number of directors from the 2004-2006 and 2007-2010 periods

Table 5.11 reports that there is a quite high level of multiple directorships within Indonesian companies compared to the Australian study of Kiel and Nicholson (2006) who find 81% of the directors in the Top 100 Australian companies hold no other directorships; while 13% hold two directorships and only 6% hold less than five directorships. It is also supported by Cooper and Uzun (2012). They find the maximum directorships held by directors are five directorships in US companies, although the NACD¹¹ (1996) guideline in the US recommends that Board of Directors hold not more than 3 directorships. In Malaysia, Board of Directors are enabled to seat as directors in other companies with maximum 10 for listed companies and 15 directorships for unlisted

¹¹The National Association of Corporate Directors (NACD) Guidelines

companies¹², but in Indonesia, there is no rule limiting the number of directorships a person may hold.

The descriptive statistics for the ownership concentration are given in Table 5.2. The average of director shareholding (DS) of the sample companies is only 2.76% of the common stock ownership. The maximum share held by directors is around 75.74%. Further investigation finds that three companies have quite high percentage of director shareholding (50%-100%) over the 2004-2010 periods. In relation to family ownership (Fop), the present study finds the mean of family ownership is 28.04%, with the maximum of family ownership being extremely high at 99.89% over the seven-year period. The number of companies owned by family owners with the percentage shares of up to 50% is around 82 (28%) companies. It implies that some listed companies are owned by family and affiliated companies. This result supports the statement of Claessens et al. (2000) who believe that most companies in emerging countries are controlled by family owners. With respect to other ownership concentrations, foreign ownership (FrO) ranges from zero to 99.74%, which a mean of 27.33%. It looks higher than previous research in China of Gul et al. (2010) who find the average of foreign ownership to be only 3.8%.

Table 5.12 shows a breakdown of the sample by share based on ownership concentration (director, family and foreign ownership) during the 2004-2006 and 2007-2010 periods. Between periods (2004-2006 and 2007-2010), the average number of director shareholding, family and foreign ownership with slightly change. Out of 283 companies,

¹²KLSE Listing Requirements (Kamardin & Haron, 2011).

261 (92.23%) of the companies are held by directors with smaller shares (0%-10%) over the 2004-2006 period. It slightly increased to 93.64% during the 2007-2010 period. In line with a prior study conducted in Hong Kong (Lam & Lee, 2012), companies are categorized as family-controlled when one family owns 10% or more of their shares. In fact, more than half of company sample is owned by family owners with percentage of shares higher than 10% to 100% over the seven-year periods.

Table 5.12
Distribution of Share Based on the Ownership Concentration

Share (%)	2004-2006						2007-2010					
	Director		Family		Foreign		Director		Family		Foreign	
	Mean	%	Mean	%	Mean	%	Mean	%	Mean	%	Mean	%
0-10	261	92.23	129	45.58	130	45.82	265	93.64	129	45.58	112	39.58
10-20	9	3.18	17	6.01	34	12.01	7	2.47	22	7.78	31	10.95
20-50	10	3.53	55	19.44	54	19.08	9	3.18	51	18.02	60	21.20
50-100	3	1.06	82	28.97	65	23.09	2	0.71	81	28.62	80	28.27
Total	283	100	283	100	283	100	283	100	283	100	283	100

Notes:

Mean indicates the average number of companies from the 2004-2006 and 2007-2010 periods.

Moving to foreign ownership, 45.58% companies are owned by foreigners with shares less than 10%; and 54.42% companies are held by foreigners with percentage of shares higher than 10% for the 2004-2006 period. Therefore, there are 65 companies, increasing to 80 companies owned by majority of foreign shareholders (50%-100%) for the four-year (2007-2010) period. It indicates that some of the listed companies do not comply with certain rules, even though there is regulation that the maximum for foreigners to invest in Indonesian PLCs is not more than 49% of shares outstanding.

For control variables in Table 5.2, the mean of quality of external auditor (QA) is 37%. This finding implies that more than 35 % of companies listed in Indonesia Stock Exchange were audited by one of the “Big Four” Audit companies. As can be seen from the Table 5.13, it indicates that 107 of 283 (37.81%) companies hired the “Big Four” audit company for the 2004-2006 period. Six companies changed from “Big Four” to “non-Big Four” audit companies in the four-year period. A total of 101 (35.69%) companies were audited by the “Big Four” audit company in the 2007-2010 period.

The second control variable is company size (CS). Table 5.2 presents company size in terms of total assets ranging from Rp 0.01 billion (approximately US\$ 1,000.00) to Rp 449,775.00 billion (approximately US\$ 44.98 billion), with the mean Rp 8,187.42 billion (approximately US\$ 0.82 billion).

Following prior study by Martin et al. (2008)¹³, the present study classifies companies into small (assets < Rp 47.600 million), medium (assets < Rp 193.800 million) and large (assets > Rp 193.800 million). Further, the distribution sample based on company size in Table 5.13 shows that 18 (6.36%) of 283 companies are categorized small, 20.85% (medium) and 72.79% (large) companies during the 2004-2006 period. Interestingly, the number of large companies has increased from 72.79% (2004-2006 period) to 80.92% (2007-2010 period).

¹³Martin et al. (2008) divide company size into small (assets <£2.8m), medium (assets <£11.4m) and large (assets >£11.4m). £1,- is equal to Rp 17.000,- (on date July 2013).

Table 5.13
Distribution of Sample Based on Control Variables

Variables	2004-2006		2007-2010	
	Mean	(%)	Mean	(%)
Audit quality:				
Big Four	107	37.81	101	35.69
Non-Big Four	176	62.19	182	64.31
Total sample	283	100.00	283	100.00
Company size:				
Small < Rp 47.600m	18	6.36	18	6.36
Medium < Rp 193.800m	59	20.85	36	12.72
Large > Rp 193.800m	206	72.79	229	80.92
Total sample	283	100.00	283	100.00
Company age:				
Young < 10 years	16	5.66	9	3.18
Medium = 10 years	4	1.41	3	1.06
Old > 10 years	263	92.93	271	95.76
Total sample	283	100.00	283	100.00
Company growth:				
Low < 13%	133	47.00	142	50.18
Medium 13%	6	2.12	6	2.12
High > 13%	144	50.88	135	47.70
Total sample	283	100.00	283	100.00
Company leverage:				
Low <35%	68	24.03	71	25.09
Medium 35%	5	1.77	3	1.06
High >35%	210	74.20	209	73.85
Total sample	283	100.00	283	100.00

Notes:

Mean indicates the average number of companies from the 2004-2006 and 2007-2010 periods.

The other control variable is company age (CA). The companies in the samples are mostly established companies with the average of company age (CA) of about 30 years (Table 5.2). This result is almost similar with previous work of Sing and Gaur (2009) who found the mean of company age is 26 years. In line with prior study of Kuhn

(2013)¹⁴, this study divides companies into three age groups; young, medium and old company. Table 5.13 reports the young, medium and old companies. Out of 283, 16 companies are categorized as young, four companies as medium and 263 as old in the 2004-2006 period; older companies slightly increased to 271 (95.76%) in the 2007-2010 period.

One way to measure the success and performance of companies is growth. On average, Indonesian companies are growing companies as indicated by sales growth ratio (CG) of 28.45% (Table 5.2). This result is close to the value obtained by Mak and Kusnadi (2005) where the mean sales growth is 21%. In line with prior work of Chan et al. (2011)¹⁵, this study splits company growth into high, medium and low level of growth based on median value (13%). Table 5.13 shows that 133 (47.00%) companies are low level CG. A total of six (2.12%) companies are at medium-growth level. Further, 144 (50.88%) companies have experienced high-growth level in the 2004-2006 period, with slightly change in the 2007-2010 periods. Moreover, the mean and median of debt to total asset ratio (CL) is 56.20 and 53.90% as shown in Table 5.2. Following previous study of Berger et al. (1997), this study classifies company into three groups based on leverage level¹⁶. As can be seen in Table 5.13, only 68 (2004-2006) and 71 (2007-2010) companies are classified into low level of leverage. Unfortunately, more than 200 of 283 companies are categorized as high level of leverage, showing that the Indonesian companies have high leverage.

¹⁴A company is considered as older establishment if the company age is above ten years.

¹⁵ Chan et al. (2011) perform median to split sales growth into high-growth and low-growth levels.

¹⁶ Berger et al. (1997) classify leverage level into: low level of leverage if book value leverage < 35% and high level of leverage if book value leverage > 35%.

5.3 Preliminary Data Analysis

Before performing regression analysis, the present study conducted outlier and classical assumptions test. The next section discusses data cleaning processes.

5.3.1 Outlier Test

The data must be clear from outliers before conducting analysis because outliers can produce non-normal data and bias result. Outliers in data sets can provide strong effects on the OLS estimates, specifically in small samples (Wooldridge, 2003). There are few methods to identify outliers. One of them is Grubb's test. By using Grubb's procedure, each variable is tested one by one. Firstly, the mean and the standard deviation from all values of each variable are calculated. Secondly, the Z value is calculated using that formula as can be seen below.

$$Z = \frac{|\text{Mean} - \text{Value}|}{\text{SD}}$$

Thirdly, the result of Z value is compared to a critical Z value. The critical Z value has been given by statistical table based on the observation number. Further, the number of observations for 283 companies from 2004 to 2010 is 1,981. The critical Z value for 1,981 observations is around 4.20. Both Z value and critical Z value are compared. If Z value > critical Z value, it is identified as an outlier and the null hypothesis is rejected

(Barnett and Lewis, 1994). Thus, the present study uses Grubb's extreme studentised deviate test.¹⁷

Once an outlier is detected, the value of that outlier is replaced to the second highest value. Grubb's test can detect only one outlier at a time. Therefore, this step must be repeated until no further outliers are detected. As described in Table 5.14, it reports the summary of all variables and the percentage of outliers that were winsorised. Table 5.14 shows that all financial data for dependent variables have outliers. The ROA has 34 (1.72%) outliers; ROS has outliers more than ROA. It is around 62 (3.13%). Tobin's Q has 51 (2.57%) outliers, while, stock returns has 39 (1.97%) outliers.

For hypotheses variables, directors' diversity variables are likely to be far from outliers due to using Blau index to measure these variables. It is because the maximum value of Blau index is less than one. However, only Board composition and director shareholding have outliers of 15 (0.76%) and 62 (3.13%) as presented in Table 5.14. Moving to control variables, the outliers still exist where CS has 72 (3.63%) outliers, CA (19 or 0.96%), CG (46 or 2.32%) and CL (29 or 1.46%). These variables are financial data and therefore, the range of data is quite wide.

5.3.2 Descriptive Statistics after Remedying Outliers

New descriptive statistics after detecting outliers and number of outlier observations for the total sample of 283 companies are presented in Table 5.14.

¹⁷GraphPad software is used to detect the outliers.

Table 5.14
Descriptive Statistics after Remedying Outliers for 2004-2010 (n=1,981)

Company performance							
	Outliers	%	Mean	Median	Std	Min	Max
ROA (%)	34	1.72	3.45	2.48	9.54	-32.99	42.00
ROS (%)	62	3.13	4.34	4.00	28.53	-113.00	108.90
TQ (%)	51	2.57	1.39	1.06	1.07	-0.09	5.86
SRt (%)	39	1.97	0.29	0.08	0.85	-0.99	3.85
Directors' diversity							
SE (index)	0	0.00	0.41	0.44	0.19	0.00	0.67
DE (index)	0	0.00	0.35	0.44	0.22	0.00	0.67
SN (index)	0	0.00	0.09	0.00	0.18	0.00	0.50
DN (index)	0	0.00	0.09	0.00	0.17	0.00	0.50
SG (index)	0	0.00	0.13	0.00	0.19	0.00	0.50
DG (index)	0	0.00	0.14	0.00	0.19	0.00	0.50
Sexp (index)	0	0.00	0.49	0.50	0.17	0.00	0.80
Dexp (index)	0	0.00	0.45	0.44	0.16	0.00	0.79
SQ (index)	0	0.00	0.45	0.48	0.19	0.00	0.75
DQ (index)	0	0.00	0.39	0.44	0.20	0.00	0.75
SC (proportion)	15	0.76	0.39	0.33	0.14	0.00	0.88
SZ (person)	0	0.00	4.19	4.00	1.86	2.00	12.00
DZ (person)	0	0.00	4.45	4.00	2.05	2.00	13.00
MS (proportion)	0	0.00	0.56	0.57	0.27	0.00	1.00
MD (proportion)	0	0.00	0.41	0.33	0.32	0.00	1.00
Ownership concentration							
DS (%)	62	3.13	2.15	0.00	5.79	0.00	26.02
Fop (%)	0	0.00	28.04	17.59	30.02	0.00	99.89
FrO (%)	0	0.00	27.33	16.29	29.55	0.00	99.74
Control variables							
QA (Big Four)	-	-	0.37	0.00	0.48	0.00	1.00
CS (Rp billion)	72	3.63	4,973.00	819.56	11,733.00	0.15	54,100.00
CA (years)	19	0.96	29.81	27.00	16.99	2.00	101.00
CG (%)	46	2.32	19.64	13.44	46.50	-126.60	205.76
CL (%)	29	1.46	55.73	53.90	32.50	-8.20	192.18

Notes: ROA (Return on Assets), ROS (Return on Sales), TQ (Tobin's Q), SRt (Stock Return), SE (Supervisory Board's ethnicity diversity), DE (Board of Directors' ethnicity diversity), SN (Supervisory Board's nationality diversity), DN (Board of Directors' nationality diversity), SG (Supervisory Board's gender diversity), DG (Board of Directors' gender diversity), Sexp (Supervisory Board's experience diversity), Dexp (Board of Directors' experience diversity), SQ (Supervisory Board's qualification diversity), DQ (Board of Directors' qualification diversity), SC (Supervisory Board Composition), SZ (Supervisory Board size), DZ (Board of Directors size), MS (multiple directorships of Supervisory Board), MD (multiple directorships of Board of Director), DS (Director shareholding), Fop (Family ownership), FrO (Foreign ownership), QA (Quality of external auditor), CS (Company size), CA (Company age), CG (Company growth) and CL (Company leverage).

As shown for the dependent variables in Table 5.14, the average for ROA, ROS, Tobin's Q and stock returns are 3.45%, 4.34%, 1.39% and 0.29%, respectively. The ROA and ROS reveal similar results because of high variation for minimum of -32.99% and -113.00% and the maximum of 42% and 108.90%, respectively. The average Tobin's Q is 1.39. The average Tobin's Q is higher than one and close to the values obtained by Campbell and Minguez-Vera (2008). As suggested by Carter et al. (2010), the market value of the companies is greater than the book value of the assets when the value of Tobin's Q is higher than one. Overall, the accounting and market performance of the companies in the sample is a positive value on average for the seven-year periods.

The index value of ethnicity diversity of directors can be ranged from a low of 0 to a high of 0.67, with mean index of Supervisory Board's (SE) and Board of Directors' (DE) ethnicity diversity being 0.41 and 0.35, respectively. It shows that there is variation in ethnics of director members.

As for nationality diversity, the average index of Supervisory Board's (SN) and Board of Directors' (DN) nationality diversity is 0.09. This value indicates that there are remarkably few non-local directors on the Supervisory and Board of Director. Moreover, the index of Supervisory Board's (SG) and Board of Directors' (DG) gender diversity varies between 0 and 0.50, with average of 0.13 and 0.14, respectively. It indicates that both Supervisory Board and Board of Directors are male dominated as presented in Table 5.14.

The fourth hypothesized variable is director experience diversity. As shown in Table 5.14, the average of Supervisory Board's (Sexp) and Board of Directors' (Dexp) experience diversity are 0.49 and 0.45, respectively, where the highest possible Blau score is 0.83. It suggests high variation in previous experience of director members, especially in business, public service, academics, accountancy and law. Further, the mean indices of Supervisory Board's qualification diversity (SQ) and Board of Directors' qualification diversity (DQ) are 0.45 and 0.39, showing that director members have diverse education levels from bachelor's to doctorate. The highest possible Blau score is 0.75.

The average of Supervisory Board composition (SC) is 0.39. It seems to be complying with Indonesian regulations where the percentage of SC must be at least 0.30 of the total number of Supervisory Board members. Table 5.14 notes the average size of both Boards; Supervisory Board (SZ) and Board of Directors (DZ) are four persons. The numbers of both Boards are eight. Lipton and Lorsch (1992) recommended that the number of directors should be not more than eight members for Board effectiveness. The maximum of SZ and DZ are 12 and 13 persons.

In terms of multiple directorships, the means of Supervisory Board (MS) and Board of Directors (MD) holding more than one directorship are 0.56 and 0.41. It indicates that half of the director members are generally classified as busy directors due to multiple appointments in other companies. It appears that multiple directorships are common in Indonesia.

Table 5.14 reports the descriptive statistics of the ownership concentration. On average, percentage of director shareholding (DS) is 2.15%, greatly lower than the mean of family (Fop) and foreign ownership (FrO). The mean percentage of family and foreign ownership are 28.04% and 27.33%, respectively. It is also attractive to be documented that the maximum Fop and FrO in the sample companies are 99.89% and 99.74%, showing a high concentration of ownership and control in some Indonesian companies.

Table 5.14 shows descriptive statistics for control variables. The result for the quality of external auditor variable (QA) shows that less than 40% of companies listed in Indonesia Stock Exchange are audited by one of the Big Four audit companies. The total companies asset as proxy of company size (CS) ranges from minimum of Rp 0.15 billion (approximately US\$ 15,000.00) to maximum of Rp 54,100.00 billion (approximately US\$ 5.41 billion). It indicates that the assets of publicly traded companies vary widely. However, the mean value of CS is Rp 4,973.00 billion (approximately US\$ 0.50 billion). The average age of companies (CA) is 29.81 years, suggesting that most Indonesian companies are long established. The mean for company growth (CG) is 19.64%. However, the minimum CG is quite low of -126.60%. The mean leverage of the sample companies (CL) seems fairly high at 55.73.

Table 5.15 shows the mean and mean difference of directors' diversity variables for both Boards using independent samples t-test. Table 5.15 reports that the difference between Supervisory Board and Board of Directors is statistically significant at less than 1% level of significance for all variables of directors' diversity.

Table 5.15***The Results of t-test for Supervisory Board and Board of Director***

Variable	Supervisory Board Mean	Board of Director Mean	Mean Difference	Supervisory Board vs. Board of Director t-stat (P-value)
Ethnicity diversity	0.41	0.35	0.53	8.04 (0.00***)
Nationality diversity	0.09	0.08	-0.01	-2.29 (0.02***)
Gender diversity	0.13	0.13	-0.01	-2.17 (0.03***)
Experience diversity	0.49	0.45	0.05	9.43 (0.00***)
Qualification diversity	0.45	0.39	0.06	10.08 (0.00***)
Board Size	4.17	4.49	-0.25	-4.10 (0.00***)
Multiple directorships	0.56	0.40	0.15	-16.02(0.00***)

5.3.3 Results of Normality

Normality could be evaluated by using skewness and kurtosis value of the variables (Pallant, 2001). Table 5.16 shows the results of normality and transformation. Following previous research of Haniffa and Hudaib (2006); and Abdul-Rahman and Mohamed-Ali (2006)¹⁸, the results in Table 5.16 indicate that most of financial data, such as ROA, ROS, Tobin's Q, stock returns (Srt), director shareholding, CS, CA, CG and CL are not normal. The data with high skewness and kurtosis must be transformed into natural of logarithm. If the result is still higher than standard skewness and kurtosis, it must be transformed again into square root. Since there was no severe skewness, this study employed the natural of logarithm and square root transformation (Tabachnick & Fidel, 2007). ROA and ROS were transformed into natural of logarithm (Ln). Market-based performance indicators were transformed using square root.

¹⁸ Data can be said to be normal if the standard skewness is within ± 1.96 and standard kurtosis of ± 3 .

Table 5.16
Normality and Transformation

	Transformation							
					Ln		Sqrt	
	Skewness		Kurtosis		Skewness	Kurtosis	Skewness	Kurtosis
	Stat	SE	Stat	SE	Stat	Stat	Stat	Stat
ROA	0.26	0.06	5.17	0.11	-0.98	1.78		
ROS	-1.22	0.06	7.85	0.11	-0.871	1.68		
TQ	2.58	0.06	7.22	0.11	-0.06	3.96	1.58	3.19
SRt	2.22	0.06	6.06	0.11			1.26	1.09
SE	-1.05	0.06	0.16	0.11				
DE	-0.59	0.06	-0.93	0.11				
SN	1.35	0.06	-0.03	0.11				
DN	1.43	0.06	0.29	0.11				
SG	0.97	0.06	-0.86	0.11				
DG	0.76	0.06	-1.20	0.11				
Sexp	-1.31	0.06	2.20	0.11				
Dexp	-1.26	0.06	2.29	0.11				
SQ	-1.16	0.06	0.81	0.11				
DQ	-0.91	0.06	-0.19	0.11				
SC	0.38	0.06	1.71	0.11				
SZ	1.26	0.06	1.29	0.11				
DZ	1.26	0.06	1.41	0.11				
MS	-0.17	0.06	-0.46	0.11				
MD	0.33	0.06	-0.94	0.11				
DS	3.26	0.06	9.81	0.11	-0.39	-0.74		
Fop	0.57	0.06	-1.09	0.11				
FrO	0.75	0.06	-0.79	0.11				
QA	0.55	0.06	-1.7	0.11				
CS	3.36	0.06	10.57	0.11	-0.09	0.39		
CA	1.87	0.06	4.85	0.11	-0.39	1.29		
CG	1.64	0.06	5.54	0.11	-0.66	1.64		
CL	1.32	0.06	3.93	0.11	-2.73	12.28	-0.18	1.08

Notes:ROA (Return on Assets), ROS (Return on Sales), TQ (Tobin's Q), SRt (Stock Return), SE (Supervisory Board's ethnicity diversity), DE (Board of Directors' ethnicity diversity), SN (Supervisory Board's nationality diversity), DN (Board of Directors' nationality diversity), SG (Supervisory Board's gender diversity), DG (Board of Directors' gender diversity), Sexp (Supervisory Board's experience diversity), Dexp (Board of Directors' experience diversity), SQ (Supervisory Board's qualification diversity), DQ (Board of Directors' qualification diversity), SC (Supervisory Board Composition), SZ (Supervisory Board size), DZ (Board of Directors size), MS (multiple directorships of Supervisory Board), MD (multiple directorships of Board of Director). DS (Director shareholding), Fop (Family ownership), FrO (Foreign ownership), QA (Quality of external auditor), CS (Company size), CA (Company age), CG (Company growth) and CL (Company leverage).

Turning now to the independent variables, director shareholding (DS) and three control variables (CS, CA and CG) were transformed into natural of logarithm (Ln) and CL was transformed into square root. Therefore, the results of normality test of the present study show no normality problems exist for all of independent variables.

5.3.4 Results of Multicollinearity

The Pearson correlation and VIF are applied to investigate the presence of multicollinearity between two or more independent variables. Tables 5.17 and 5.18 present the results of Pearson correlation¹⁹ and VIF²⁰ among the variables. All variables were measured over the sample period from 2004 to 2010.

Table 5.17 shows there is highest correlation among independent variables, i.e., Board of Directors' nationality diversity (DN) and Supervisory Board's nationality (SN) at 0.60. However, these correlations are still below 0.80. Thus, it proposes that there is no multicollinearity problem, since the correlations between two independent variables are relatively moderate.

The VIF is another method to check multicollinearity problem in this study as shown in Table 5. 18. From this Table, it can be seen the VIF is much lower than 10 which is in the range of 1.12 to 2.34. As such severe, no multicollinearity problem exists.

¹⁹ Multicollinearity may be a problem when the correlation exceeds 0.80 (Gujarati, 1995).

²⁰ VIF value should not exceed 10 to avoid multicollinearity problem (Gujarati, 2003).

Table 5.17

Pearson's Correlation

	ROA	ROS	TQ	SRt	SE	DE	SN	DN	SG	DG	Sexp	Dexp	SQ	DQ	SC	SZ	DZ	MS	MD	DS	Fop	FrO	QA	CS	CA	CG	CL
ROA	1																										
ROS	0.67**	1																									
TQ	0.24**	0.12**	1																								
SRt	0.22**	0.22**	0.19**	1																							
SE	-0.03	0.05*	0.02	0.03	1																						
DE	0.01	0.02	0.11**	0.01	0.21**	1																					
SN	0.12**	0.09**	0.11**	0.09**	0.16**	0.16**	1																				
DN	0.09**	0.04	0.15**	0.07**	0.09**	0.21**	0.60**	1																			
SG	-0.09**	-0.09**	-0.12**	0.01	-0.07**	-0.08**	-0.13**	-0.03	1																		
DG	-0.03	0.03	-0.04	-0.05*	-0.03	-0.06**	-0.04	0.01	0.08**	1																	
Sexp	0.03	0.06**	0.09**	0.05*	0.15**	0.07**	0.15**	0.11**	0.05*	-0.03	1																
Dexp	0.02	0.00	-0.01	0.02	0.07**	0.12**	0.02	0.05*	0.04	0.03	0.03	1															
SQ	0.07**	0.04	0.03	0.07**	0.07**	0.04	0.13**	0.11**	0.09**	0.01	0.32**	0.08**	1														
DQ	0.04	-0.03	0.07**	-0.00	0.01	0.06*	0.09**	0.17**	0.07**	0.02	0.04	0.15**	0.13**	1													
SC	0.00	0.12**	0.03	-0.02	0.09**	0.00	0.06**	0.02	0.01	0.04	0.01	0.06**	0.00	0.02	1												
SZ	0.11**	0.15**	0.09**	0.09**	0.25**	0.15**	0.38**	-0.06**	-0.06**	0.31**	0.09**	0.36**	0.16**	-0.01	-0.01	1											
DZ	0.12**	0.16**	0.09**	0.09**	0.20**	0.16**	0.34**	0.39**	-0.05*	0.03	0.17**	0.17**	0.22**	0.24**	0.09**	0.57**	1										
MS	-0.00	-0.04	-0.04	-0.04	-0.02	-0.03	-0.02	0.08**	0.02	-0.05*	0.03	-0.13**	0.03	0.06**	0.05*	0.07**	0.15**	1									
MD	-0.04	-0.08**	-0.09**	-0.02	0.00	-0.09**	-0.07**	-0.04	-0.05*	-0.06**	-0.05*	-0.03	-0.02	0.03	-0.10**	0.03	-0.06**	0.32**	1								
DS	0.09**	-0.09**	-0.13**	-0.03	-0.03	-0.00	-0.12**	-0.09**	0.12**	0.05*	-0.05*	-0.06*	-0.01	-0.05*	-0.05*	-0.13	-0.14**	0.00	-0.00	1							
Fop	-0.01	-0.02	-0.12**	0.00	-0.03	-0.11**	-0.21**	-0.17**	0.10**	0.04	-0.05*	0.00	-0.02	0.02	-0.06*	-0.11**	-0.08**	0.17**	0.13**	0.05*	1						
FrO	0.06*	0.03	0.09**	-0.01	0.02	0.13**	0.42**	0.39**	-0.03	0.01	0.11**	0.04	0.04	0.06*	0.01	0.12**	0.18**	-0.06*	0.00	0.17**	0.52**	1					
QA	0.25**	0.18**	0.09**	0.09**	0.15**	0.12**	0.34**	0.31**	-0.01	-0.01	0.15**	0.05*	0.16**	0.04	0.02	0.29**	0.39**	-0.00	-0.09**	-0.15**	-0.12**	0.26**	1				
CS	0.12**	0.25**	-0.08**	0.13**	0.18**	0.07**	0.28**	0.24**	-0.01	-0.08**	0.21**	0.12**	0.25**	0.09**	0.14**	0.51**	0.53**	0.02	-0.00	-0.11**	-0.08**	0.09**	0.44**	1			
CA	0.16**	0.04	-0.05*	0.07**	-0.00	0.02	0.19**	0.15**	-0.02	-0.03	0.12**	0.03	0.15**	0.08**	0.02	0.22**	0.28**	-0.05*	-0.09**	-0.13**	-0.03	0.17**	0.26**	0.32**	1		
CG	0.17**	0.15**	0.04	0.06**	0.04	-0.19	0.03	0.06**	0.02	-0.00	-0.01	-0.01	-0.01	-0.03	0.00	0.03	0.05*	0.04	0.05*	-0.02	-0.03	0.04	0.07**	0.13**	-0.01	1	
CL	-0.12**	-0.18**	0.11**	-0.03	0.03	0.02	-0.01	0.03	-0.01	0.01	0.06**	0.03	0.05*	0.12**	-0.05*	0.09**	0.12**	-0.05*	-0.12**	0.01	-0.01	0.02	0.02	0.15**	0.13**	0.01	1

Notes: ***, ** and * indicate that a significant at 1%, 5% and 10% level

ROA (Return on Assets), ROS (Return on Sales), TQ (Tobin's Q), SRt (Stock return) SE (Supervisory Board ethnicity diversity), DE (Board of Director ethnicity diversity), SN (Supervisory Board nationality diversity), DN (Board of Director nationality diversity), SG (Supervisory Board gender diversity), DG (Board of Director gender diversity), Sexp (Supervisory Board experience diversity), Dexp (Board of Director experience diversity), SQ (Supervisory Board qualification diversity), DQ (Board of Director qualification diversity), SC (Supervisory Board composition), SZ (Supervisory Board size), DZ (Board of Director size), MS (Multiple directorships of Supervisory Board), MD (Multiple directorships of Board of Director), DS (Director shareholding), Fop (Family ownership), FrO (Foreign ownership), QA (Quality of external auditor), CS (Company size), CA (Company age), CG (Company growth) and CL (Company leverage)

Table 5.18
Variation Inflation Factors

Variables	Unstandardized coefficients		Standardized coefficients		Sig.	Collinearity statistics VIF
	B	Std. error	Beta	T		
Constant	2.25	0.51		0.00	1.00	
SE	0.00	0.25	0.00	0.00	1.00	1.26
DE	0.00	0.21	0.00	0.00	1.00	1.22
SN	0.00	0.34	0.00	0.00	1.00	2.14
DN	0.00	0.36	0.00	0.00	1.00	2.04
SG	0.00	0.25	0.00	0.00	1.00	1.23
DG	0.00	0.24	0.00	0.00	1.00	1.12
Sexp	0.00	0.28	0.00	0.00	1.00	1.26
Dexp	0.00	0.28	0.00	0.00	1.00	1.12
SQ	0.00	0.24	0.00	0.00	1.00	1.35
DQ	0.00	0.23	0.00	0.00	1.00	1.21
SC	0.00	0.37	0.00	0.00	1.00	1.27
SZ	0.00	0.03	0.00	0.00	1.00	2.29
DZ	0.00	0.03	0.00	0.00	1.00	1.99
MS	0.00	0.20	0.00	0.00	1.00	1.52
MD	0.00	0.14	0.00	0.00	1.00	1.31
DS	0.00	0.02	0.00	0.00	1.00	1.22
Fop	0.00	0.00	0.00	0.00	1.00	2.06
FrO	0.00	0.00	0.00	0.00	1.00	2.34
QA	0.00	0.11	0.00	0.00	1.00	1.53
CS	0.00	0.03	0.00	0.00	1.00	2.11
CA	0.00	0.09	0.00	0.00	1.00	1.35
CG	0.00	0.04	0.00	0.00	1.00	1.13
CL	0.00	0.02	0.00	0.00	1.00	1.21

Notes:

SE (Supervisory Board's ethnicity diversity), DE (Board of Directors' ethnicity diversity), SN (Supervisory Board's nationality diversity), DN (Board of Directors' nationality diversity), SG (Supervisory Board's gender diversity), DG (Board of Directors' gender diversity), Sexp (Supervisory Board's experience diversity), Dexp (Board of Directors' experience diversity), SQ (Supervisory Board's qualification diversity), DQ (Board of Directors' qualification diversity), SC (Supervisory Board Composition), SZ (Supervisory Board size), DZ (Board of Directors size), MS (multiple directorships of Supervisory Board), MD (multiple directorships of Board of Director), DS (Director shareholding), Fop (Family ownership), FrO (Foreign ownership), QA (Quality of external auditor), CS (Company size), CA (Company age), CG (Company growth) and CL (Company leverage).

5.3.5 Results of Heteroscedasticity

Table 5.19 presents White General Heteroscedasticity results. From this test, the results indicate that there are heteroscedasticity problems²¹ for all dependent variables because of the F-test reject the null hypothesis. In addition, White General Heteroscedasticity test reports that variance is not constant and heteroscedasticity exists. Thus, Heteroscedasticity problem can be repaired with White Heteroscedasticity Consistent Variance. According to Gujarati (2003), White Heteroscedasticity Consistent Variance is simple in its execution and suitable in all of statistical software for example Eviews.

Table 5.19
White General Heteroscedasticity Test

	ROA	ROS	Tobin's Q	Stock return
F-statistics	1.64	1.75	3.33	1.45
(P-value)	0.00	0.00	0.00	0.00
Ho(null)	Rejected	Rejected	Rejected	Rejected

5.3.6 Results of Hausman Test

This study utilizes the panel data analysis. Panel data analysis is a common approach used in finance and accounting research in which the data consists of time series and cross section data. Baltagi (2005) defines panel data as the unifying of observations on a cross-section of sample, such as households, countries, and companies, over several time periods. In addition, Wooldridge (2003) argues that a panel data set is a data set that contains of each cross-sectional data over a time series. Therefore, random and fixed

²¹ Heteroscedasticity problem can be resolved by using White consistent variance (Wooldridge, 2003).

effects models are two alternative models that might be used in a panel data. Baltagi (2005) suggests that the random effects or fixed effect model can be used to assess the panel data. To select random effects or fixed effects model, the present study applies the Hausman test as proposed by Hausman (1978).

The present study utilizes Hausman test to distinguish among random and fixed effects of variables. Having been regressed the company performance against directors' diversity and ownership concentration using random effects and fixed effects, Hausman test shows that there are significant (P-value < 0.05) random cross-sections for all dependent variables as shown in Table 5.20. Therefore, H_0 is rejected (at $\alpha=5\%$), since a random effects model results in a biased estimator. Thus, the fixed effects model is preferred for all proxies of company performance.

Table 5.20
Hausman Test

	ROA	ROS	Tobins' Q	Stock return
Chi-Sq statistics	79.25	84.28	71.05	35.54
(P-value)	0.00***	0.00***	0.00***	0.04**
Ho(null)	Rejected	Rejected	Rejected	Rejected

Notes:

*** and ** indicate that a significant at 1% and 5% level.

5.4 Results and Discussion Based on Return on Assets

The main goal of the current research is to examine the effect of directors' diversity, ownership concentration and company performance, particularly in Indonesia. Results and discussions of Supervisory Board's and Board of Directors' diversity are separated.

The findings of the current research are shown in Table 5.21 and grouped into three groups. First, it consists of the result of directors' diversity. In this group, there are eight variables for directors' diversity: (i) directors' ethnicity diversity; (ii) directors' nationality diversity; (iii) directors' gender diversity; (iv) directors' experience diversity; (v) directors' qualification diversity; (vi) Supervisory Board composition; (vii) Board size; and (viii) multiple directorships.

For the second group presents the result for ownership concentration. As for the ownership concentration, there are three variables: (i) director shareholding; (ii) family ownership; and (iii) foreign ownership. This study employs quality of external auditor (QA), company size (CS), age (CA), growth (CG) and company leverage (CL) as control variables which can be seen in third group. Table 5.21 demonstrates the findings of ROA as proxy of company performance.

5.4.1 Directors' Diversity

Seven directors' diversity variables were found to be significant: Board of Directors' ethnicity diversity (DE), Supervisory Board's nationality diversity (SN), Supervisory Board's gender diversity (SG), Supervisory Board's experience diversity (Sexp), Board of Directors' qualification diversity (DQ), Supervisory Board composition (SC) and Supervisory Board size (SZ). Only multiple directorships have no impact on company performance.

Table 5.21
Empirical Findings of Panel Data Regression for ROA (n=1981)
Directors' diveristy

Variables	Coefficient	t-statistic	P-value
Constant	-0.79	-0.49	0.62
SE	-0.16	-0.49	0.61
DE	-0.21	-1.69	0.09*
SN	0.53	2.05	0.04**
DN	-0.15	-0.78	0.43
SG	-0.76	-4.15	0.00***
DG	0.07	0.81	0.42
Sexp	-0.26	-1.75	0.07*
Dexp	0.19	1.35	0.17
SQ	-0.22	-1.19	0.23
DQ	0.19	1.91	0.05**
SC	-0.63	-2.39	0.01***
SZ	-0.04	-1.83	0.06*
DZ	-0.03	-1.17	0.24
MS	0.17	0.93	0.35
MD	0.26	1.48	0.13
Ownership concentration			
DS	-0.00	-0.07	0.94
Fop	2.71	0.97	0.32
FrO	0.00	0.81	0.41
Control variables			
QA	-0.00	-0.06	0.95
CS	-0.06	-2.31	0.02**
CA	1.04	2.45	0.01***
CG	0.08	5.28	0.00***
CL	-0.07	-7.14	0.00***
R ²	56.87%		
Adj. R ²	49.01%		
F value	7.24 (p = .00)		

Notes: ROA (Return on Assets), SE (Supervisory Board's ethnicity diversity), DE (Board of Directors' ethnicity diversity), SN (Supervisory Board's nationality diversity), DN (Board of Directors' nationality diversity), SG (Supervisory Board's gender diversity), DG (Board of Directors' gender diversity), Sexp (Supervisory Board's experience diversity), Dexp (Board of Directors' experience diversity), SQ (Supervisory Board's qualification diversity), DQ (Board of Directors' qualification diversity), SC (Supervisory Board Composition), SZ (Supervisory Board size), DZ (Board of Directors size), MS (multiple directorships of Supervisory Board), MD (multiple directorships of Board of Director). DS (Director shareholding), Fop (Family ownership), FrO (Foreign ownership), QA (Quality of external auditor), CS (Company size), CA (Company age), CG (Company growth) and CL (Company leverage). ***, ** and * indicate that a significant at 1%, 5% and 10% level.

5.4.1.1 Ethnicity Diversity

The results of ethnicity diversity show mixed results. First, the result indicates that Supervisory Board's ethnicity diversity (SE) has an insignificant effect on company performance. On the other hand, Board of Directors' ethnicity diversity (DE) has a significant negative estimated coefficient ($t = -1.69$, $\alpha = 10\%$). Thus, hypotheses are rejected. According to Erhardt et al. (2003), a high ethnic diversity of Board of Directors creates better innovation and high quality decision-making at the individual and boardroom levels. However, the result does not support the resource dependency theory. The negative result of Board of Directors ethnicity indicates that high ethnic diversity produces poor decision-making at Board of Directors level.

The result shows that more homogeneous Board perform better than those with diverse directors. One possible explanation is directors' ethnicity diversity creates homogeneous sub-groups in the Boardroom. Thus, it increases intra-team conflict and lowers group cohesiveness, and therefore group loss, which leads to decreased group performance (Li & Hambrick, 2005). In addition, high level of directors' diversity also increases communication costs and creates coordination problems that impede company performance (Anderson et al., 2011). These results are inconsistent with the finding in the US by Erhardt et al. (2003) and Carter et al. (2010). Carter et al. (2010) do not find a significant relationship between ethnic minority diversity and company performance. In contrast, Erhardt et al. (2003) find that Board of Directors' ethnic diversity is positively impact on company performance.

5.4.1.2 Nationality Diversity

Contrary to Mersland (2009) who finds negative association between the proportion of international directors and microfinance institutions' performance, this study finds that higher nationality diversity of Supervisory Board (SN) increases the company performance as proxy of ROA. The result indicates that SN is better in monitoring and controlling Board of Directors based on shareholders' interest than Boards with homogeneous nationality of directors. This finding is being in accordance to existing work of Kaczmarek et al. (2012) who find non-British nationals have a significant and positive relationship with the level of directors' nationality diversity. Thus, the second hypothesis is accepted. This finding supports the agency theory, which suggests that nationality diversity of board members provides better control and monitoring of agents based on shareholders' interest. Kim et al. (2010) note that non-local directors are more independent and effective in monitoring management than local director members. Although the nationality diversity of board members is dominated by local Board (>87%), non-local Supervisory Board members bring about a positive effect on company performance.

Caligiuri et al. (2004), argue that the Board of Directors' national diversity is likely to possess a diversity of cultural values, attitudes and preferences. It will provide broader informational resources, skill sets, and culture capital. In contrast, Board of Directors' nationality diversity (DN) does not appear to be associated with company performance.

However, this result is in contrast with a prior study of Unjuwa et al. (2012) who find non-local Board has positive impact on financial performance.

5.4.1.3 Gender Diversity

As shown in Table 5.21, Supervisory Board's gender diversity (SG) has a negative impact on company performance. Hence, companies with higher gender diversity are associated with lower accounting performance. This result contrasts the hypothesis 3a and the results of prior work of (e.g., Harrigan, 1981; Smith et al., 2006; and Campbell & Minguez-Vera, 2008). This result implies that gender diversity brings directors with different backgrounds. It may also have different perspectives that affect in control and monitor of Board of Director effectively. There is a low number of women on the Supervisory Board (10%); thus, male dominated Supervisory Board is involved in decision-making. In addition, gender diversity creates conflicts due to different opinions that would reduce company performance (MK & Mohamad-Sori, 2012).

Contrary to the result of SG, DG is an insignificantly associated with company performance. Thus, Hypothesis 3b is also rejected. This finding is similar to those obtained by Shukeri et al. (2012) who find that gender diversity has no association with company performance in Malaysian companies.

5.4.1.4 Experience Diversity

In terms of experience directors' diversity, Table 5.21 shows that Supervisory Board's experience diversity (Sexp) has a significant and negative association with ROA. The negative result implies that the higher diversity in experience of Supervisory Board reduce the company performance. However, past research that focused on educational background of directors (e.g., Siciliano, 1996 and Rose, 2007) find that directors' educational background has no effect on company performance.

In another recent study on China, Shan and McIver (2011) find that professional knowledge/work experience of Supervisory Board members does not significantly affect company performance. One possible reason is that more diversity in Supervisory Board's experience creates agency conflict between Supervisory Board members because they have different experiences, thereby lowering their ability to control the Board of Directors efficiently. In addition, Supervisory Board may fail in conducting business strategy because they have less flexibility in boardroom. In contrast, the result shows that Dexp has no significant impact on company performance.

5.4.1.5 Qualification Diversity

Hypotheses 5 states that Board of Directors' qualification diversity (DQ) has a significantly positive related to company performance. Table 5.21 shows that Supervisory Board's qualification diversity (SQ) has an insignificant impact on

company performance. Conversely, DQ has positive impact on ROA ($t = 1.91$, $\alpha = 5\%$). Thus hypothesis 5b is accepted. The positive result supports the resource dependency theory which posits that Board of Director and Supervisory Board carry out resources to the company as a result of their backgrounds (Zald, 1996). However, Payne et al. (2009) note that knowledge of board members has a positive impact on Board effectiveness but not in terms of qualification diversity. A similar study was undertaken by Cheng et al. (2010) who report that the education level of chairpersons has a significant positive influence on Chinese companies' performance.

The positive result explains that higher index of DQ increases company performance. Diversity in educational level of Board of Directors affects the quality in making decision taken by the Board of Directors, because more variation in educational levels creates heterogeneity in intellectual competence which produces new strategies for better company performance. Moreover, education diversity of directors may facilitate board members' learning from others that will improve teamwork skills (Diaz-Fernandez & Gonzalez-Rodriguez, 2014). In addition, Cheng et al. (2010) recommend that the level of education for Board of Director is considered as image of their intellectual competence.

5.4.1.6 Board Composition

In terms of Supervisory Board composition (SC), the regression result notes that SC has a negative association with ROA. The negative finding interprets that the higher the proportion of SC, the lower the ROA. Thus, hypothesis is rejected. The result is

inconsistent with Nuryanah and Islam (2011) but consistent with a prior study of Ericson et al. (2005), Abidin et al. (2011), and Shukeri et al. (2012). They note that proportion of director composition has a negative link to company performance. The current result is strongly similar with argument of Singh and Gaur (2009) who believe that it may be more beneficial to have less independent directors for emerging economy companies.

One possible reason for negative result is that Supervisory Boards may likely be just symbolic because Supervisory Board members and Board of Directors are dismissed and selected by shareholders under the Indonesian corporate governance system. It differs from other countries which also adapt the Continental European system, such as the Netherlands, where shareholders appoint and dismiss Supervisory Board members. The Board of Directors is elected and fired by the Supervisory Board. Thus, Supervisory Board has more power to choose Board of Directors who has better capabilities to control the agent's task and to enhance shareholders' wealth.

5.4.1.7 BoardSize

Table 5.21 also reveals that Supervisory Board size (SZ) has a significant and negatively related to company performance which is measured by ROA. The coefficient of SZ is significant and negative at the 10 % level. Thus, Hypothesis 7a is accepted. Furthermore, a larger Supervisory Board is related to poorer performance. This finding is in agreement with the existing literature from the US (e.g., Bozec, 2005 and Erickson et al., 2005). According to Chancharat et al. (2012), there is a trade-off between aggregate information and the increased costs of decision making related to Board size. Further, negative result

can be explained in that larger SZ is less effective in monitoring the Board of Directors actions and is too costly in terms of salary. Thus, the present study supports the previous study of Boyle and Ji (2013) who note that larger Board might not be effective due to less responsibility of individual directors, and coordination and processing problem that finally can lead to poor decision-making process as disadvantages of large Boards. Contrary to SZ, coefficient for Board of Director size (DZ) is not significant, whereas Haniffa and Hudaib (2006) find that DZ has negative association with market performance. Therefore, this result is not consistent with the hypothesis. Thus, the hypothesis 7b is rejected.

5.4.1.8 Multiple Directorships

In terms of multiple directorships, the results show that there does not appear to be any association between multiple directorships and company performance for both types of Boards: Board of Directors (MD) and Supervisory Board (MS). Therefore, the finding contradicts the prediction made in Hypotheses 8. While, this result is largely consistent with prior evidence (e.g., Feris et al., 2003; Harris & Shimizu, 2004; and Kiel & Nicholson, 2006). Even though, higher number of multiple directorship held by a director, it does not affect company performance, but it may contribute to improving their capabilities. In addition, Harris and Shimizu (2004) find that multiple directorships do not have a detrimental effect, but a favourable impact on crucial factor of strategic decisions.

5.4.2 Ownership Concentration

Overall, this study finds that ownership concentration has no effect on ROA. This finding support prior research of Demsetz and Lehn (1985), Citak (2007), and Arosa et al. (2010). Theyalso reveal that ownership concentration is not one of determinants of company performance. It is also supported by Choi et al. (2012) who report aninsignificant effect between ownership concentration and technological innovation performance.

5.4.2.1 Director Shareholding

It is hoped director shareholding (DS) can create the arrangement of interests amongSupervisory Boards, Board of Directors and principals. However, thisfinding suggests that director shareholding held by both the Board of Directorsand Supervisory Board is not significantly impact on accounting performance. Prior studies on the role of director shareholding (e.g., Short & Keasey, 1999; Cui & Mak, 2002; Schiehl, 2006; Basu et al. 2007; and Park & Jang, 2010) in affecting company performance show mixed results. Short and Keasey (1999), Basu et al. (2007), and Park and Jang (2010) find director shareholding is significantlyand positivelyrelated to company performance.

In contrast, director shareholding (DS) has a negative association with company performance (Cui & Mak, 2002 and Schiehl, 2006). The finding of this study is in line with Demsetz and Lehn (1985), Kesner (1987), and Vafeas and Theodorou (1998). It

indicates that the higher percentage DS reduce the company performance. Thus, the current study does not support the argument that greater DS is more closely aligned with the interests of both agents and principals.

5.4.2.2 Family Ownership

Unlike the US studies by Martinez et al. (2007) and Silva and Majluf (2008) who find family ownership (Fop) has a positive association with company performance, the present study claims family control is an insignificantly associated with ROA. This result support earlier empirical studies from other emerging market evidence (e.g., Chen et al., 2005; Maury, 2006; and Choi et al., 2007). Thus, the finding does not support hypothesis and the agency theory.

5.4.2.3 Foreign Ownership

Another ownership concentration variable is foreign ownership (FrO). The regression result shows that foreign ownership is an insignificantly effect on ROA. The finding of the present study is in line with earlier studies (e.g., Qi et al., 2000 and Gul et al., 2010) but contradicts expectations as outlined in hypotheses development and previous work of Ameer et al. (2010) who find that high percentage of foreign ownership improve company performance.

Even though the maximum percentage of shares owned by foreign shareholders is high at 99.74% with average of 27.33%, but the result reveals a higher percentage of foreign ownership has no significant impact on company performance. A possible explanation for this result is that foreign investors are not familiar with the company's business where they invest. Moreover, they appear to have no confidence to monitor agent effectively.

5.4.3 Control Variables

Table 5.21 shows most of the control variables are significant except quality of external auditor (QA). Company size (CS) and company leverage (CL) negatively and significantly impact on company performance. However, company age (CA) and company growth (CG) have significant and positively effect on ROA.

5.4.3.1 Quality of External Auditor

The first control variable is quality of external auditor (QA); the regression result shows that QA does not impact on company performance. This result is consistent with Huafang and Jianguo (2007) and Shan and McIver (2011) but inconsistent with the agency theory which posits that QA reduces the information asymmetry costs between agents and principals through quality of financial reporting. Therefore, the agency problem and costs would decrease and finally increase the company performance. Further, the emerging market companies may select a Big Four audit firm to improve their credibility in the eyes of foreign shareholders (Peters et al., 2011) and as a signal for their credibility in

financial statements (Liu & Lai, 2013); but this study finds no significant association between QA and accounting performance.

5.4.3.2 Company Size

The present research shows that CS has a negative effect on ROA. The finding indicates that larger companies tend to have poor performance. In addition, larger companies are more diversified with higher bureaucratic and agency costs (Choi et al., 2007). The result contrasts the earlier studies of Chhibber and Majumdar (1999), Short and Keasey (1999), and Makand Kusnadi (2005), which suggest that larger companies have higher performance.

5.4.3.3 Company Age

Since older companies are a key factor in influencing company performance, thus the third control variable is company age (CA). The finding shows that CA has a positive impact on company performance. It suggests that older companies are more experienced and stronger than younger companies. This result is contrary to a previous paper of Chang and Shin (2007) who find CA has a negative effect on company performance.

5.4.3.4 Company Growth

Sales growth is a proxy of company growth (CG). The current finding reports that company growth positively affect ROA. The result is in line with Maury (2006) and

Renders and Gaeremynck (2012) who find sales growth has a positive effect on company performance. It implies that increasing sales growth of companies improves company performance.

5.4.3.5 Company Leverage

This study finds strong support for company leverage (CL) has significant and negative effect on company performance. The result of the present study is similar with prior work of Grove et al. (2011), Foong and Idris (2012) and Renders and Gaeremynck (2012). It contradicts to prior study of Klein et al. (2005) who find CL is significant and positive associated to company performance. This result indicates that increased leverage is associated with high agency cost for interest payment and poor company performance.

Table 5.21 presents the results of directors' diversity, ownership concentration and company performance as measured by ROA. The adjusted R^2 for ROA is 49.01 % by using fixed effects regression. It implies that exogenous deviations from the optimal level explain about 50.99% of directors' diversity and ownership concentration. This magnitude is lower than the finding in the earlier empirical study on corporate governance such as Choi et al. (2007). They find that the adjusted R^2 can reach 78% using firm fixed effects regressions for the value of Board composition. In addition, the result of F statistics shows that p-value is less than 1% and it suggests that the model is fit.

5.5 Results and Discussion Based on Return on Sales

Table 5.22 presents the empirical findings of regression analysis with ROS as the dependent variable along with the control variables.

5.5.1 Directors' Diversity

From Table 5.22, the findings of directors' diversity show mixed results. Six independent variables are significant at 1% to 10%. They are Supervisory Board's nationality diversity (SN), Supervisory Board's gender diversity (SG), Board of Directors' gender diversity (DG), Board of Directors' experience diversity (Dexp), Supervisory Board size (SZ) and Board of Directors multiple directorships (MD).

5.5.1.1 Ethnicity Diversity

Opposite to expectations, the finding in current research of Indonesian companies finds that ethnicity diversity has an insignificant association with ROS for both Boards: Supervisory Board (SE) and Board of Directors (DE). Further, the finding has no potential to support the resource dependency and agency theories. It indicates that high ethnicity diversity does not give a positive effect on company performance. The finding of present study is in agreement with previous work of Carter et al. (2010) and Wellalage and Scrimgeour (2012) who find that minority ethnic diversification of directors is negative and significant at 1% level on company performance in global financial crisis but no effect when non-global financial crisis times.

Table 5.22
Empirical Findings of Panel Data Regression for ROS (n=1981)
Directors' diversity

Variables	Coefficient	t-statistic	P-value
Constant	-0.42	-0.20	0.83
SE	-0.00	-0.01	0.99
DE	-0.16	-0.73	0.46
SN	0.83	3.70	0.00***
DN	0.00	0.03	0.97
SG	-0.53	-1.90	0.05**
DG	0.45	2.93	0.00***
Sexp	-0.06	-0.51	0.61
Dexp	0.30	1.88	0.06*
SQ	-0.01	-0.03	0.97
DQ	0.09	-0.60	0.54
SC	-0.61	-1.54	0.12
SZ	-0.05	-1.69	0.09*
DZ	0.01	0.17	0.86
MS	0.04	0.33	0.74
MD	0.29	1.64	0.10*
Ownership concentration			
DS	-0.03	-0.71	0.47
Fop	5.60	0.17	0.86
FrO	-0.00	-0.03	0.97
Control variables			
QA	-0.05	-0.29	0.76
CS	-0.02	-0.63	0.53
CA	0.77	1.79	0.07*
CG	0.09	5.68	0.00***
CL	-0.07	-5.15	0.00***
R ²	58.24%		
Adj. R ²	50.63%		
F value	7.66 (p = .00)		

Notes: ROS (Return on Sales), SE (Supervisory Board's ethnicity diversity), DE (Board of Directors' ethnicity diversity), SN (Supervisory Board's nationality diversity), DN (Board of Directors' nationality diversity), SG (Supervisory Board's gender diversity), DG (Board of Directors' gender diversity), Sexp (Supervisory Board's experience diversity), Dexp (Board of Directors' experience diversity), SQ (Supervisory Board's qualification diversity), DQ (Board of Directors' qualification diversity), SC (Supervisory Board Composition), SZ (Supervisory Board size), DZ (Board of Directors size), MS (multiple directorships of Supervisory Board), MD (multiple directorships of Board of Director). DS (Director shareholding), Fop (Family ownership), FrO (Foreign ownership), QA (Quality of external auditor), CS (Company size), CA (Company age), CG (Company growth) and CL (Company leverage). ***, ** and * indicate that a significant at 1%, 5% and 10% level.

5.5.1.2 Nationality Diversity

Supervisory Board's nationality diversity (SN) continues to be positively significant in ROS ($t = 3.70$, $\alpha = 1\%$). The result is consistent with hypothesis and prior studies of Oxelheim and Randoy (2003), Choi et al. (2007), and Ameer et al. (2010). They note that high percentage of non-local directors has a significant and positive related to company performance. Further, high nationality diversity of board members provides diversity in culture, knowledge and ability to control and monitor agents effectively. In addition, non-local Supervisory Boards have a global relationship to produce unique resources and global market for their products. In contrast, Board of Directors' nationality diversity (DE) is found to have no impact on ROS. These results are similar with earlier findings on ROA model.

5.5.1.3 Gender Diversity

A hypothesis 3 reveals a positive relationship exists on directors' gender diversity and company performance. Table 5.22 shows that SG is negative and significant on ROS ($t = 1.90$, $\alpha = 5\%$). Thus, the hypothesis 3a is rejected. Previous studies have also found a negative relationship on gender diversity and company performance, such as Jurkus et al. (2010) and Unjunwa et al. (2012). Thus, the hypothesis 3a does not support the agency theory: SG is less effective in control and monitoring of Board of Directors' behaviour and quality of management decisions. Thus, this result suggests that company performance is worse when the SG is higher. Women on the Supervisory Board are less

likely to be equipped with the requisite skills to deal with the uncertainty of business environment. The finding further supports the idea that too much Supervisory Board monitoring can reduce shareholder value (Adams & Ferreira, 2007).

In contrast to earlier finding, the result shows that DG positively influences ROS. This finding is particularly strong in estimations when ROS is used as the dependent variable ($t = 2.93$, $\alpha = 1\%$). Thus, the hypothesis 3b is accepted. This positive result concurs with the finding of Harrigan (1981), Hyland and Marcellino (2002), Campbell and Minguez-Vera (2008), Dwyer et al. (2003), and Ren and Wang (2011), who suggest that the proportion women on Board of Directors provide benefits to company.

Furthermore, a positive result indicates that higher gender diversity on Board of Directors increases company performance. Therefore, this result supports the resource dependency theory, which posits that the uniqueness of women on the Board would increase company performance. In addition, gender diversity leads to be a better understanding of customers. The proportional number of women and men on the Board of Directors create unique resources to the company.

5.5.1.4 Experience Diversity

Hypothesis 4 predicts that directors' experience diversity is in significantly and positively associated to company performance. However, the result is inconsistent with the hypothesis. The current research finds that no significant relationship between Sexp and

company performance. On the other hand, Dexp has significant positive association with company performance ($t = 1.88, \alpha = 10\%$). This result supports the hypothesis. The result is in agreement with a previous study (Bozec, 2005) that supports the proportion of Board with government experience has a positive association with company valuation.

The positive result indicates that higher index of Dexp increases company performance. Therefore, directors' experience creates positive value for more efficient and effective company operations. As suggested by the resource dependency theory, Board of Directors who has professional background is perceived as strategic resources (experience, expertise, reputation and information) for the company (Hillman & Dalziel, 2003; and Payne et al., 2009).

5.5.1.5 Qualification Diversity

As shown in Table 5.22, the regression result shows that qualification diversity of both Boards: SQ and DQ has no effect on ROS. Thus, there is no support for hypothesis and the previous paper of Cheng et al. (2010) who find high education level of director increases company performance.

5.5.1.6 Board Composition

Supervisory Board composition (SC) is found to have an insignificant on ROS. Hypothesis 6 is not supported. Therefore, this finding does not support the agency theory

which posits that higher percentage of SC on board members tends to be easier in monitoring Board of Directors' actions. One of the possible reasons could be that Supervisory Board composition is appointed to become a part of Supervisory Board members in order to comply with certain requirements of the NCG.²² Thus, this result supports the argument by Jackling and Johl (2009) who believe that the lack of Board composition because of the strong family ownership pattern. Furthermore, this result is similar with a previous Asian study of Chitnomrath et al. (2011) who find the proportion of outside directors in the planner does not significantly influence post-bankruptcy performance.

5.5.1.7 BoardSize

The result of Boardsize in Table 5.22 is similar with the result above (ROA) where Supervisory Board size (SZ) is negatively relationship with ROS. The result of the present study is consistent to that reported in Continental European system for example Van Ees et al. (2003). Hence, companies with a larger Supervisory Board are related to being less effective in monitoring and controlling the Board of Directors. However, more than 80% of Indonesia's listed companies are categorised as having small-sized Supervisory Boards. Thus, this finding supports the hypothesis and the results from other existing literatures (e.g., Bozec, 2005; Bennedsen et al., 2008; Cheng, 2008; and Huang, 2010).

²² NCG (National Committee on Governance)

In terms of Board of Directors size (DZ), there is no association between DZ and ROS. The lack of statistical significance of the coefficient on DZ is consistent with Chen and Nowland (2010). Thus, the result does not support the hypothesis. On the other hand, the result contradicts the general perception of the resource dependency theory, which posits that larger Boards bring external resources into the company, thus increasing company performance.

5.5.1.8 Multiple Directorships

Contrary to expectations, this study finds that multiple directorships of Supervisory Boards (MS) have no impact on ROS. The finding is in contrast to the earlier work of Haniffa and Hudaib (2006), Jackling and Juhl (2009), and Ahn et al. (2010) who declare a negative relationship between multiple directorships and company performance.

In line with the supporting theory of the current study (resource dependency theory), multiple directorships of Board of Directors (MD) has significant and positive associated with company performance. Thus, increased multiple directorships can enhance better company value. This supports the substitution hypothesis that multiple appointments of Board of Directors give a positive effect on company by the directors being more skilled, experienced (Sarkar & Sarkar, 2009) and having ability to oversee environmental unpredictability by providing information (Pfeffer & Salancik, 1978). The finding is also consistent with Pery and Peyer (2005) and Sarkar and Sarkar (2009).

5.5.2 Ownership Concentration

Moving to Table 5.22, ownership concentration continues to be insignificantly associated with ROS. These findings are in line with the empirical evidence of ROA. Thus, these findings imply that ownership concentration does not give a positive effect on company performance. Moreover, the finding does not support the previous research, such as Hu and Izumida (1985).

5.5.2.1 Director Shareholding

In line with the result shown on ROA, director shareholding (DS) also has no effect on another accounting measurement (ROS). The result contradicts the early work of Florackis et al. (2009). They find that DS has significant and positive impact on company performance.

5.5.2.2 Family Ownership

Contrary to expectations, this study finds that shares held by family (Fop) have no effect on company performance. The lack of statistical significance of the coefficient on family ownership variable is consistent with Chen et al. (2005), who report an insignificant association between family owners who hold below 5% shares and company performance. Another study by Chang and Shin (2007) finds that family ownership has an insignificantly associated to company performance.

5.5.2.3 Foreign Ownership

Another ownership concentration variable is foreign ownership (FrO). The regression result shows that FrO is insignificantly associated with ROS. It indicates that higher proportion of shares held by foreigners does not create better company performance. Thus, the result does not support hypothesis and previous work of Choi et al. (2012). They find that higher foreign ownership brings higher technological innovation performance. Further, Gurbuz and Aybars (2010) claim that minority foreign owners perform better than local owners, particularly in operating profitability. However, the finding is consistent with previous study in China under the Continental European system (Shan and McIver, 2011).

5.5.3 Control Variables

For the control variables, the relationship between CL and company performance is significant and negative (Table 5.22). In contrast, CA and CG have a positive and significant impact on company performance. Other control variables, QA and CS do not have significant association with company performance.

5.5.3.1 Quality of External Auditor

Consistent with previous result of ROA, quality of external auditor (QA) continues to have insignificantly associated to company performance measured by ROS. This finding

contradicts prior papers (e.g., Chiang & He, 2010; Liu & Lai, 2012; and Wu, 2012) which conclude that QA has significant effect on company performance.

5.5.3.2 Company Size

The present study finds that company size (CS) has an insignificantly correlation with accounting performance measurement (ROS). This finding indicates that the company size has no impact on better company performance. This finding appears to be inconsistent with Yuan et al. (2008) and Chen and Nowland (2010).

5.5.3.3 Company Age

Table 5.22 demonstrates that there is a significantly positive association between company age (CA) and ROS. Contrary to Chhibber and Majumdar (1999), this study concludes that older companies have been flexible in reacting superior performance than younger companies.

5.5.3.4 Company Growth

Moving to other control variables, company growth (CG) is found to have a positive impact on ROS. The finding indicates that improve CG will impact on the higher the ROS. The present finding seems to be consistent with other research which found a

positive and significant association between CG and company performance (Short & Keasey, 1999).

5.5.3.5 Company Leverage

The present study finds that company leverage (CL) has a significant and negative correlation with company performance. This finding is in line with Hossain et al. (2001), Chang and Shin (2007), and Grove (2011), who assert a negative association between CL and company performance. The negative impact of CL on ROS is ineffective monitoring by debt holders.

Table 5.22 demonstrates the regression results for the effect of directors' diversity, ownership concentration, control variables and ROS. The regression produced an adjusted R^2 of 50.63%. It indicates that 50.63 % of variance in company performance can be explained by independent variables. Furthermore, with the acceptance of a significant level of 1 %, the F-statistics suggests the ROS model is significant (P -value < 1%).

5.6 Results and Discussion Based on Tobin's Q

To examine the effect of directors' diversity and ownership concentration on market performance (Tobin's Q), Table 5.23 gives the regression results of the present study.

Table 5.23
Empirical Findings of Panel Data Regression for Tobin's Q (n=1981)
Directors' diversity

Variables	Coefficient	t-statistic	P-value
Constant	7.67	-3.03	0.00
SE	0.38	0.62	0.53
DE	-0.99	-3.62	0.00***
SN	0.05	0.07	0.94
DN	2.34	2.42	0.01***
SG	-1.22	-3.35	0.00***
DG	-0.43	-0.78	0.43
Sexp	-0.56	-1.49	0.13
Dexp	-1.24	-3.03	0.00***
SQ	0.92	1.92	0.05**
DQ	0.89	1.59	0.11
SC	-0.47	-0.68	0.49
SZ	0.07	1.01	0.31
DZ	0.06	1.41	0.15
MS	-0.51	-1.69	0.09*
MD	0.38	1.01	0.31
Ownership concentration			
DS	-0.03	-0.34	0.73
Fop	-0.00	-1.86	0.06*
FrO	0.00	0.62	0.53
Control variables			
QA	-0.34	-1.79	0.07*
CS	-0.32	-7.40	0.00***
CA	2.18	2.99	0.00***
CG	0.05	-1.11	0.26
CL	0.11	2.44	0.01***
R ²	71.19%		
Adj. R ²	65.95%		
F value	13.57 (p = .00)		

Notes: TQ (Tobin's Q), SE (Supervisory Board's ethnicity diversity), DE (Board of Directors' ethnicity diversity), SN (Supervisory Board's nationality diversity), DN (Board of Directors' nationality diversity), SG (Supervisory Board's gender diversity), DG (Board of Directors' gender diversity), Sexp (Supervisory Board's experience diversity), Dexp (Board of Directors' experience diversity), SQ (Supervisory Board's qualification diversity), DQ (Board of Directors' qualification diversity), SC (Supervisory Board Composition), SZ (Supervisory Board size), DZ (Board of Directors size), MS (multiple directorships of Supervisory Board), MD (multiple directorships of Board of Director). DS (Director shareholding), Fop (Family ownership), FrO (Foreign ownership), QA (Quality of external auditor), CS (Company size), CA (Company age), CG (Company growth) and CL (Company leverage). ***, ** and * indicate that a significant at 1%, 5% and 10% level.

5.6.1 Directors' Diversity

Six independent variables have significant relationships with Tobin's Q. More specifically, Board of Directors' ethnicity diversity (DE), Supervisory Board's gender diversity (SG), Board of Directors' experience diversity (Dexp) and multiple directorships of Supervisory Board (MS) have significant and negatively associated to Tobin's Q. In contrast, Board of Directors' nationality diversity (DN) and Supervisory Board's qualification diversity (SQ) have a positive impact on market performance.

5.6.1.1 Ethnicity Diversity

Hypothesis 1a states that Supervisory Board's ethnicity diversity (SE) has a significantly and positive impact on company performance. From the empirical finding in Table 5.23, the SE variable is found to have no significant associated to company performance. Therefore, hypothesis 1a is not accepted. However, a negative relationship is found between Board of Directors' ethnicity diversity (DE) and Tobin's Q ($t = 3.62$, $\alpha = 1\%$). Thus, hypothesis 1b is also rejected. Overall, the results do not support the hypotheses. This finding is similar with earlier empirical study of Carter et al. (2010) who find an insignificant association between ethnic minority diversity and company performance. In contrast, Shukeri et al. (2012) find that ethnic diversity is positive associated to company performance.

The directors' ethnicity diversity does not support the agency and resource dependency theories. The agency theory believes that higher ethnicity diversity will increase independence of Supervisory Board to control and monitor the actions taken by the Board of Directors.

The resource dependency theory posits that ethnicity diversity of directors bring director with more innovative, creative, and higher quality in making decision at personal and group levels. The negative result implies that higher ethnicity diversity will lower the company performance because there are many ethnic groups in Indonesia. Therefore, it causes differences in culture, behaviour and mindset of directors. Individual with different ethnic context tends to have diversity in norms, values and attitudes that cause a reflection of their cultural heritage (Cox et al., 1991). This makes it difficult to make decisions and to achieve the strategic objectives. Thus, the present study supports the finding of Anderson et al. (2011) where greater diversity may not necessarily increase Board efficacy.

5.6.1.2 Nationality Diversity

In terms of the second variable on directors' diversity, Supervisory Board's nationality diversity (SN) has an insignificant impact on market performance. The coefficient of the Board of Directors' nationality diversity (DN) is significant at the 1% level ($t = 2.42$). DN surprisingly has the potential to enhance company performance. A possible explanation for this is that more diverse in nationality of Board of Directors can produce

contacts in the global market and better knowledge in order to link the company to different external resources. Thus, this finding strongly supports hypothesis 2b, which suggests if more diverse of Board in term of nationality will increase company performance. However, the results contradict the earlier work in Continental European system by Rose (2007), which suggests that no significant relationship between the presence of non-local directors and company performance.

5.6.1.3 Gender Diversity

Similar to accounting performance results, Supervisory Board's gender diversity (SG) continues to be negatively significant on Tobin's Q. This finding implies that increasing the gender diversity, the lower the company performance. The result is consistent with Jurkus et al. (2010) but inconsistent with the hypothesis. By investigating the relation between directors' gender diversity and company performance, the finding offers some explanation that the proportion of women on the Supervisory Board may decrease the monitoring of the management actions as women are not as tough as men and have different idea with man. It can create conflict within Supervisory Board members.

Contrary to SG, Board of Directors' gender diversity (DG) is found to have an insignificant association with company performance. The result is similar with previous papers of Siciliano (1996), Kochan et al. (2003), and Miller and Triana (2009) who find Board's gender diversity has no significant association with company performance. It appears that gender diversity does not affect company performance. It is difficult to

explain this result, but it might be related to low numbers of women sitting on the Board. It is apparent from descriptive statistics that the average index of DG is 0.13, whereas the maximum index is 0.50. It means that the proportion between men and women is very low. The low level of gender diversity might not impact on Board of Directors' tasks and finally company performance. Overall, the results of directors' gender diversity do not support the hypotheses.

5.6.1.4 Experience Diversity

The result of experience diversity indicates that Supervisory Board experience diversity (Sexp) is an insignificantly related to company performance. In contrast, Board of Director experience diversity (Dexp) is found to have a significantly negative association with company performance ($t = 3.03$, $\alpha = 1\%$). Thus, the result is inconsistent with expectation but consistent with a prior study by Kim and Lim (2010) who find that high proportion of outside directors who are financial or have accountants experience reduces company performance. Furthermore, more diverse experience of Board of Director does not help in making directors' decision-making process more efficient and effective because of different perspectives and high conflict between directors.

5.6.1.5 Qualification Diversity

As shown in Table 5.23, qualification diversity of Supervisory Board (SQ) has a significant and positively impact on Tobin's Q ($t = 1.92$, $\alpha = 5\%$). Thus, hypothesis 5a is

accepted. It indicates that more qualification diversity improves quality of Supervisory Board's tasks. Thus, it improves ability of the Supervisory Board to monitor and control Board of Directors' action. This result is in line with Chiang and He (2010), who assert that a positive association between the continuing education of Supervisory Board and transparency. In contrast, Diaz-Fernandez and Gonzalez-Rodriguez (2014) find that education-level diversity has a significant and negative impact on company performance. However, the study finds no significant relationship between Board of Directors' qualification diversity (DQ) and Tobin's Q.

5.6.1.6 Board Composition

In line with result shown on ROS, Supervisory Board composition (SC) is also found to have no relationship with Tobin's Q. It indicates that the proportion of Supervisory Board composition has no association with better company performance. Thus, this hypothesis is rejected. This result is similar to that obtained by Chen and Nowland (2010) who found Board composition is an insignificantly related to company performance in non-family-owned companies.

5.6.1.7 Board Size

Table 5.23 reports the result of Supervisory Board (SZ) and Board of Directors size (DZ). Both Board types have an insignificant relationship to market performance. The result is in line with earlier empirical finding of Yammeesri and Herath's (2010) who claim that

Board size is not significantly associated to Thai company performance. The finding is also similar with a local study of Nuryanah and Islam (2011). However, the finding of this study is in contrast with Haniffa and Hudaib (2006) who found an adverse relationship between Board size and market performance. The finding of the present study does not support H7.

5.6.1.8 Multiple Directorships

Moving to multiple directorships, the result for both Boards are mixed. For multiple directorships of Supervisory Board (MS), the finding appears to be more consistent with expectations. The hypothesis states that multiple directorships by Supervisory Board will hamper the ability of Board to monitor and control Board of Directors effectively. The result of current study is in line with prior research (e.g., Booth & Deli, 1996; Fich & Shivdasani, 2006; Ahn et al., 2010; and Grove et al., 2011). Thus, this study supports the statement by Haniffa and Hudaib (2006) who argue that multiple directorships have negative association with company performance. The finding is not significant when multiple directorships by Board of Directors (MD) are employed.

5.6.2 Ownership Concentration

Table 5.23 contains partial findings of regression analysis of ownership concentration. Contrary to the results of accounting performance above, ownership concentration as measured by family ownership (Fop) is significantly related to market performance

(Tobin's Q). However, director shareholding (DS) and foreign ownership (FrO) are not associated with market performance. Overall, the regression results of ownership concentration and market performance do not support the hypotheses which posits that ownership concentration has a significantly and positive relationship with company performance. The finding of the present research is consistent with a previous study of Barzegar and Babu (2008) who found that ownership concentration an insignificantly impacts on accounting performance and significantly negative on market performance.

5.6.2.1 Director Shareholding

Similar to the result of earlier finding on accounting performance, director shareholding (DS) is again reported to have an insignificant relationship with Tobin's Q for proxy of market performance. Thus, the result does not support the hypothesis. It indicates that directors as owners do not give value to company performance. Therefore, this study does not support the agency theory which posits that DS is an internal mechanism for reducing agency conflict between agents and principals.

5.6.2.2 Family Ownership

The coefficient on the proportion of shares held by family (Fop) is a significant and negatively at 10% level ($t = 1.86$). The result implies that higher shares held by family reduce market performance. If a family holds and controls the company too closely, they will be more likely to pursue strategies that are beneficial for the family rather than the

company. It is consistent with statement of Bae et al. (2012). They argue that many family companies in emerging markets have ownership structures that benefit controlling families at the expense of minority shareholders.

However, previous works of Silva and Majluf (2008) and Shyu (2011) found positive and negative effect between family ownership and company performance. They find family ownership has significant and positive relationship with company performance when lower proportions of shares are held by family. On the other hand, high proportions of family owners reduce company performance in emerging markets. In brief, family ownership is related to poor company performance in developing countries.

5.6.2.3 Foreign Ownership

The regression result regarding ownership concentration finds that foreign ownership (FrO) is an insignificant effect on company performance. Thus, this finding is rejected. Furthermore, this result is consistent for other different measurements of company performance (ROA, ROS and Tobin's Q) and previous paper from two-tier Board system of Shan and McIver (2011). The finding implies that the presence of foreign shareholders does not push local companies towards better company performance through goods produced, technology and quality of corporate governance. This result is contrary to many previous studies (e.g., Patibandla, 2006; Choi, 2007; Haat et al., 2008; and Sueyoshi et al., 2010).

5.6.3 Control Variables

Moving to control variables, four control variables have significant impact: (i) quality of external auditor (QA); (ii) company size (CS); (iii) company age (CA); and (iv) company leverage (CL). In contrast, only CG has no association with market performance as presented in Table 5.23.

5.6.3.1 Quality of External Auditor

Contrary to Chiang and He (2010) and Liu and Lai (2012), this study finds that companies audited by Big Four accounting companies (QA) have lower market performance. This result contradicts the agency theory which posits that QA reduces agency costs between principal and agents by improving quality of financial reporting. One possible reason for this result is that external auditors in Big Four accounting companies are likely to ensure that companies have complied with certain right in financial reporting but they cannot actively control and monitor the companies. Nevertheless, the agency cost increases when companies select Big Four auditors because fees of Big Four audit companies is bigger compared to non-Big Four audit companies.

5.6.3.2 Company Size

The regression result from Table 5.23 suggests a negative association between company size (CS) and company performance. It implies that large company produce poor

company performance. In addition, directors in small companies better manage the company's operations and enhance shareholders' interest than directors in large companies. According to Chhibber and Majumdar (1999), larger companies are more likely inefficient because of poor of control by directors in strategy and operational activities of the company. This result is in line with previous research of Shan and McIver (2011)

5.6.3.3 Company Age

The finding contradicts the earlier paper of Renders and Gaeremynck (2012) who found company age (CA) has a significant negative association with company performance. Furthermore, the result shows a positive and significantly association between CA and company performance. This result is in line with other proxies of dependent variables, i.e., accounting performance.

5.6.3.4 Company Growth

The result for company growth (CG) contradicts previous research of Chen and Nowland(2010) who found a positive and significantly association between CG and Tobin's Q. The present study finds no association between CG and Tobin's Q. Therefore, this finding is not similar with accounting performance results.

5.6.3.5 Company Leverage

Contrary to the result of accounting performance, companies with higher leverage (CL) have better market performance. The result of this control variable is consistent with the work of Yuan et al. (2008) and Nuryanahand Islam (2011). Although the result using Tobin's Q is slightly weak, but the result indicates that creditors have incentive and ability to control the agents effectively to enhance company performance. In addition, the more a company's leverage impacts on being monitored more by creditors and reducing the need for institutional monitoring of the company (Yuan et al. 2008).

In Table 5.23, F statistics for Tobin's Q is 13.57 with level of significance 0.000. Therefore, it indicates the model is really fit due to the F statistics being far lower than 0.05 ($\alpha < \alpha = 1\%$). This reveals a high adjusted R^2 of 65.95% for the panel data analysis using Tobin's Q for proxy of company performance. High adjusted R^2 is similar to those obtained by Shan and McIver (2011) at 73%.

The present study observes that adjusted R^2 of Tobin's Q is higher than accounting performance model (ROA and ROS models). It implies that the variables of directors' diversity and ownership concentration have better explanation the variation in Tobin's Q. This present finding seems to be consistent with previous result (Mak & Kusnadi, 2005).

5.7 Results and Discussion Based on Stock Returns

Table 5.24 reports the findings of analysing market performance, explaining the effect of directors' diversity, ownership concentration, control variables and stock returns.

5.7.1 Directors' Diversity

The result of stock returns shows mixed results. In Table 5.24, five independent variables are significant: (i) Board of Directors' Ethnicity diversity (DE); (ii) Supervisory Board's Nationality diversity (SN); (iii) Board of Directors' nationality diversity (DN); (iv) Supervisory Board composition (SC); and (v) Board of Directors size (DZ).

5.7.1.1 Ethnicity Diversity

Similar with Tobin's Q results, SE continues to be insignificant but DE has a significantly negative association with stock returns. Thus, the hypothesis 1 of this study is rejected.

The result is inconsistent with the agency and resources dependency theories but consistent with Carter et al. (2010) who report a negative association between ethnicity diversity and company performance. This is because more diverse Boards may be less friendly towards each other and experience more conflict in a group (Jackson & Joshi, 2004).

Table 5.24
Empirical Findings of Panel Data Regression for Stock Returns (n=1981)
Directors' diversity

Variables	Coefficient	t-statistic	P-value
Constant	-8.72	-0.79	0.42
SE	-0.48	-0.32	0.75
DE	-2.25	-3.30	0.00***
SN	2.09	2.57	0.01***
DN	0.99	1.90	0.05**
SG	0.15	0.16	0.87
DG	0.47	0.61	0.54
Sexp	0.56	0.89	0.36
Dexp	0.65	1.16	0.24
SQ	-0.09	-0.09	0.92
DQ	0.49	0.69	0.48
SC	-2.52	-1.99	0.04**
SZ	-0.20	-0.69	0.48
DZ	0.20	1.81	0.06*
MS	0.02	0.02	0.98
MD	-0.50	-1.12	0.26
Ownership concentration			
DS	-0.07	-0.32	0.74
Fop	0.00	1.08	0.27
FrO	-0.02	-3.75	0.00***
Control variables			
QA	-0.19	-0.29	0.76
CS	0.05	0.24	0.80
CA	4.00	1.29	0.19
CG	0.09	0.73	0.46
CL	-0.09	-0.86	0.38
R ²	25.20%		
Adj. R ²	11.58%		
F value	1.85 (p = .00)		

Notes: Srt (Stock Return), SE (Supervisory Board's ethnicity diversity), DE (Board of Directors' ethnicity diversity), SN (Supervisory Board's nationality diversity), DN (Board of Directors' nationality diversity), SG (Supervisory Board's gender diversity), DG (Board of Directors' gender diversity), Sexp (Supervisory Board's experience diversity), Dexp (Board of Directors' experience diversity), SQ (Supervisory Board's qualification diversity), DQ (Board of Directors' qualification diversity), SC (Supervisory Board Composition), SZ (Supervisory Board size), DZ (Board of Directors size), MS (multiple directorships of Supervisory Board), MD (multiple directorships of Board of Director). DS (Director shareholding), Fop (Family ownership), FrO (Foreign ownership), QA (Quality of external auditor), CS (Company size), CA (Company age), CG (Company growth) and CL (Company leverage). ***, ** and * indicate that a significant at 1%, 5% and 10% level.

5.7.1.2 Nationality Diversity

In line with accounting performance, the present study finds that the association between Supervisory Board's nationality diversity (SN) and market performance is significantly positive ($t = 2.57$, $\alpha = 1\%$). Board of Directors' nationality diversity (DN) have a significant and positively association with market performance as measured by stock returns ($t = 1.90$, $\alpha = 5\%$). This indicates that nationality diversity of directors creates value in the long-term sustainable of the companies. As found by Oxelheim and Randoy (2003), most of the company with non-local board members are also owned by large foreign ownership, greater tendency towards foreign listing and greater likelihood of being a foreign subsidiary than companies without such board members. Overall, the findings promote consistent with the hypotheses and are similar with previous studies of Oxelheim and Randoy (2003) and Choi et al. (2007) who found that the proportion of non-local directors is a significant and positively associated to company performance.

This finding supports the agency and resource dependency theories. The agency theory suggests that nationality diversity of board members give benefit in terms of better control and monitoring of agents based on shareholders' interest. Further, adding non-local outsider directors on the Board can improve monitoring opportunities (Oxelheim & Randoy, 2003). The resource dependency theory posits that directors with nationality diversity can acquire and maintain the critical resources to contribute to company performance. The positive result implies that increasing nationality diversity of directors will lead to better company performance. Nationality diversity of Supervisory Board

signals that companies are more willing to be monitored and controlled by heterogeneous rather than homogeneous directors because non-local directors can align the interests of both shareholders and managers. In addition, non-local directors also bring their skills, knowledge and experience which differ from local directors. Therefore, nationality diversity directors create positive value in order to better manage the company.

5.7.1.3 Gender Diversity

The regression results regarding gender diversity suggest that Supervisory Board (SG) and Board of Directors (DG) gender diversity have no association with stock returns. These findings are consistent with evidence from the Continental European system by Rose (2007). Other recent studies in the US by Carter et al. (2003) and Adams and Ferreira (2009) report that high gender diversity increases company performance. Thus, the hypothesis is rejected. Furthermore, this finding does not support both the agency and resource dependency theories.

5.7.1.4 Experience Diversity

The fourth hypothesis predicts that directors' experience diversity is positively related to market performance. This study finds no support regarding the association between directors' experience diversity of Supervisory Board (Sexp), Board of Directors (Dexp) and stock returns. Thus, the results do not support the hypotheses.

5.7.1.5 Qualification Diversity

Contrary to expectations, the finding of the current research shows that qualification diversity of both Boards, Supervisory Board (SQ) and Board of Directors (DQ) have an insignificant relationship with market performance. Further, the finding does not support prior research of Cheng et al. (2010) who suggest that the education level of directors improves company performance.

5.7.1.6 Board Composition

Contrary to expectations, Supervisory Board composition (SC) has significantly and negatively association with stock returns. The finding is similar to Fernandes (2008) who found that lower proportion of Board composition produces better alignment between managers' and shareholders' interests. Another recent study on two-tier Board system by Shan and McIver (2011) also report a negative and significant association between SC and market performance for proxy of Tobin's Q. The negative result can be explained in that SC is generally not effective in monitoring manager's actions. The less effective of Supervisory Board composition in their task because of they do not much power to control and monitor the agents. In addition, the negative result of this study supports the previous research of Shan and McIver (2011) who found the Supervisory Board is ineffective in reducing the agency problem in China's companies. Less power of Supervisory Board is because of the recruitment system in Indonesia.

5.7.1.7 Board Size

Supervisory Board size (SZ) is not significantly related to company performance. Thus, large SZ does not give benefit to stock returns. The finding is contrary to Continental European findings of Van Ees et al. (2003) who found SZ is significantly and negatively associated to company performance.

As hypothesized in 7b, the number of Board of Directors size (DZ) is positive and significant on company performance ($t = 1.81$, $\alpha = 10\%$). Although the result using stock returns is slightly weak, it indicates that this hypothesis is accepted. The finding supports previous studies, such as Mak and Kusnadi (2005), Haniffa and Hudaib (2006), and Huang (2010). This result is important in order to support the resource dependency theory which posits that improving the number of Board of Directors produces a higher diversity in expertise and knowledge to enhance company performance (Pfeffer, 1972). Therefore, large Board directors potentially bring more knowledge, expertise and experience that can offer better decision-making, in turn enhancing shareholders' wealth. The finding contrasts the earlier research of Van Ees et al. (2003), who found that larger DZ has no impact on Dutch companies.

5.7.1.8 Multiple Directorships

The regression results regarding multiple directorships suggest that there is no relationship between multiple directorships and stock returns for both Supervisory Board

(MS) and Board of Directors (MD). Thus, the hypothesis is rejected. This finding may have an implication that increasing the number of multiple directorships held by each director does not give benefit to company's stock returns. This result is contrary to many previous studies (Loderer & Peyer, 2002; Fich & Shivdasani, 2006; Haniffa & Hudaib, 2006; and Jackling & Johl, 2009).

5.7.2 Ownership Concentration

As shown in Table 5.24, the results show that only foreign ownership (FrO) has significant effect on stock returns. The results are as below.

5.7.2.1 Director Shareholding

In terms director shareholding (DS), the finding does not provide clear support for the hypothesis that increased proportion of shares held by directors creates better company performance for all proxies of the dependent variable. The result supports previous local studies of Abidin et al. (2011) and Nuryanah and Islam (2011). Further, the result is also consistent with evidence on the Continental European system by Van Ees et al. (2003) and Krivogorsky (2006) but contrary with finding in the UK by Short and Keasey (1999). They find director shareholding has a significant and positively relationship with company performance.

5.7.2.2 Family Ownership

This finding indicates that high proportion of shares held by family (Fop) has no impact on better company performance. In addition, the result does not support the statement of Demsetz and Lehn (1985) who believe that shareholders' concentration can better monitor the agents and reduce agency conflict. Thus, the hypothesis is rejected. This result is similar with Chang and Shin (2007) and Qi et al. (2000). They found that foreign ownership does not increase company performance.

5.7.2.3 Foreign Ownership

As indicated in hypothesis 11, increased foreign ownership (FrO) will reduce agency cost through better monitoring. However, the result does not support the hypothesis. The finding suggests that increased proportion of shares by foreign owners reduces company performance. This result contradicts previous research of Chhibber and Majumdar (1999), who investigated the effect of foreign ownership and company performance, where the foreign ownership was grouped into three levels: (i) foreign owners below 25 percent; (ii) investment between 25 and less than 40 percent; and (iii) 40 percent or above. They found that foreign owners holding more than 40 percent shares have a significant and positively association with company performance.

Hence, the result does not support the prediction of the agency theory, which posits that foreign owners have better skills and more independent to monitor the company. It means that foreign investors are likely not familiar with company business because of space and

language barriers. This problem creates high information asymmetry between local and foreign investors. According to Huafang and Jianguo (2007), the presence of foreign owners increases information asymmetry due to space and language barriers. Furthermore, information asymmetry will reduce when foreign shareholders become more familiar with language and company business where they invest.

5.7.3 Control Variables

Table 5.24 demonstrates the regression results of control variables. In contrast to earlier findings, however, the results show no significant relationship between control variables (quality of external auditor, size, age, growth and company leverage) and company performance as measured by stock returns.

5.7.3.1 Quality of External Auditor

The first control variable is quality of external auditor (QA). The finding suggests that QA, measured by Big Four audit firm, has no association with stock returns. Therefore, this result does not support the opinion that companies with better quality auditors provide better financial information, investor protection and lower agency conflict. This finding is inconsistent with a prior study of Wu (2012) who found that companies audited by Big Four audit companies are more likely to have a higher fee cost.

5.7.3.2 Company Size

The current study finds an insignificant relationship between company size (CS) and stock returns. This result contradicts the previous work of Chen and Nowland (2010) who report a negative relationship between CS and company performance, but is supported by prior evidence of Bozec (2005).

5.7.3.3 Company Age

Company age (CA) have an insignificant association with stock returns. However, the finding of this study does not support the previous studies, such as Patibandla (2006), who found CA has a negatively significant effect on company profitability.

5.7.3.4 Company Growth

Table 5.24 shows that company growth (CG) has no relationship with company performance. The result is inconsistent with Maury (2006) who found CG has a significantly positive association with company performance.

5.7.3.5 Company Leverage

This study finds that CL has no relationship with stock returns. This finding is inconsistent to those obtained by Grove et al. (2011) who found CL is associated with poor company performance.

The fourth proxy of company performance is stock returns. Based on the statistical analysis shown in column four of Table 5.24, the adjusted R^2 value for stock returns is 11.58%. The value of adjusted R^2 for stock returns is lower than other proxies of company performance. Small value of adjusted R^2 for this proxy implies that there are other variables that explain the variation in stock returns measurement. Further, the F statistic is 1.85 with the p-value 0.00 which is less than 0.01. Thus, it means that the model is fit.

5.8 Additional Test

Additional tests of this study examined whether the implementation of the revised Code (2006) has a significant impact on corporate governance practices in enhancing company performance compared to the old Code (2001). Further, the regression results were separated into two (old and revised Code). The number of observations of old Code is 849 and 1,132 for the revised Code. The analysis data procedure, such as descriptive statistics, outlier, normality, multicollinearity and heteroscedasticity, were done and no problems were found. The results (descriptive statistics, normality, multicollinearity, heteroscedasticity and hausman test) for old and revised Code data are reported in exhibits (page 297-305).

Further, Table 5.25 gives the results of old and revised data based on ROA. Table 5.26 discuss the results of old and revised data based on ROS. Table 5.27 and Table 5.28 provide the results for market performance by using Tobin's Q and stock returns.

This Table is grouped into three. First group indicates the regression results of directors' diversity. Second group presents the results of ownership concentration. Finally, the regression results of control variables are given in third group.

5.8.1 Results and Discussion Based on Return on Assets

The results of Table 5.25 indicate that directors' diversity does not significantly affect ROA for the old and revised Code. Only Board of Directors' experience diversity (Dexp) and Board of Directors' ethnicity diversity (DE) have significant association with company performance.

5.8.1.1 Directors' Diversity

In Table 5.25, Supervisory Board's ethnicity diversity (SE) is found to have no impact on company performance for both the 2004-2006 and 2007-2010 periods. However, Board of Directors' ethnicity diversity (DE) has significant negative relationship with company performance. On the other hand, increasing Board of Directors' ethnicity diversity (DE) reduces the company performance when the 2007-2010 data was regressed. Further, the result for the 2007-2010 period is similar with the results of the 2004-2010 period reported on ROA (Table 5.25).

Table 5.25
Empirical Findings of Panel Data Regression for ROA
Directors' diversity

Variables	2004-2006			2007-2010		
	Coefficient	t-stat	P-value	Coefficient	t-stat	P-value
Constant	1.46	0.73	0.46	-4.90	-0.97	0.33
SE	0.12	0.26	0.78	-0.06	-0.13	0.88
DE	0.03	0.08	0.93	-0.31	-2.34	0.01***
SN	0.75	1.24	0.21	0.26	0.52	0.59
DN	-0.32	-0.43	0.66	-0.24	-0.61	0.53
SG	-0.48	-0.92	0.35	-0.70	-1.55	0.12
DG	-0.35	-0.84	0.39	0.27	1.06	0.28
Sexp	0.43	0.90	0.36	-0.21	-0.94	0.34
Dexp	0.88	1.80	0.07*	-0.04	-0.21	0.83
SQ	-0.49	-1.25	0.21	0.05	0.21	0.83
DQ	-0.54	-1.31	0.19	-0.06	-0.77	0.44
SC	-0.67	-1.25	0.20	0.63	1.42	0.15
SZ	-0.08	-1.27	0.20	-0.01	-1.29	0.19
DZ	-0.02	-0.42	0.67	0.02	1.16	0.24
MS	0.00	0.01	0.98	0.10	0.50	0.61
MD	-0.46	-1.32	0.18	0.29	1.36	0.17
Ownership concentration						
DS	0.16	2.07	0.03**	0.02	0.41	0.67
Fop	-0.00	-1.07	0.28	0.00	1.18	0.23
FrO	0.00	0.94	0.34	0.00	0.39	0.69
Control variables						
QA	0.02	0.11	0.91	-0.00	-0.03	0.97
CS	0.03	0.51	0.60	-0.05	-1.70	0.08*
CA	0.00	0.00	0.99	2.07	1.50	0.13
CG	0.09	4.30	0.00***	0.05	3.60	0.00***
CL	-0.05	-1.83	0.06*	-0.08	-4.18	0.00***
R ²	73%			64%		
Adj. R ²	59%			51%		
F value	5.00	p = .00		4.97	p = .00	

Notes: ROA (Return on Assets), SE (Supervisory Board's ethnicity diversity), DE (Board of Directors' ethnicity diversity), SN (Supervisory Board's nationality diversity), DN (Board of Directors' nationality diversity), SG (Supervisory Board's gender diversity), DG (Board of Directors' gender diversity), Sexp (Supervisory Board's experience diversity), Dexp (Board of Directors' experience diversity), SQ (Supervisory Board's qualification diversity), DQ (Board of Directors' qualification diversity), SC (Supervisory Board Composition), SZ (Supervisory Board size), DZ (Board of Directors size), MS (multiple directorships of Supervisory Board), MD (multiple directorships of Board of Director). DS (Director shareholding), Fop (Family ownership), FrO (Foreign ownership), QA (Quality of external auditor), CS (Company size), CA (Company age), CG (Company growth) and CL (Company leverage). ***, ** and * indicate that a significant at 1%, 5% and 10% level.

Supervisory Board's experience diversity (Sexp) is not associated with ROA for both periods. However, Board of Directors' experience diversity (Dexp) has a significant and positive association with ROA for 2004-2006 period but insignificant in the 2007-2010 period. Other directors' diversity variables (nationality, gender, and qualification diversity) are unrelated to company performance for both Boards. In addition, Supervisory Board (SC) composition, Board size (SZ and DZ) and multiple directorships (MS and MD) also have no impact on company performance. Thus, it implies that there is no significant effect when a company follows the old or revised Code of Corporate Governance on company performance.

Overall, it can be noted that directors' diversity variables have no significant impact on company performance, even though the revised Code has been implemented. The result of current research supports previous study of Nuryanah and Islam (2011) who found that the implementation of corporate governance practices is still not effective in Indonesia. Moreover, this finding is not similar with prior research from the UK by McKnight et al. (2009) who found companies which adopted the Code increased company performance.

5.8.1.2 Ownership Concentration

In terms of ownership concentration, director shareholding (DS) is positively associated with company performance relating to the three-year period but not associated in relation to the 2007-2010 period. Except for director shareholding, other variables of ownership concentration do not show significant difference between the 2004-2006 and 2007-2010

periods. These findings show family ownership (Fop) and foreign ownership (FrO) have no association with company performance.

5.8.1.3 Control Variables

Considering control variables, the findings report a consistent positive association between company growth (CG) and performance but a negative relationship between company leverage (CL) and ROA for the 2004-2006 and 2007-2010 periods, as presented in Table 5.25. However, company size (CS) is significantly and negatively associated with ROA in the 2007-2010 period. Furthermore, there are insignificant relationships between other control variables (quality of external auditor and company age) and ROA in both periods.

Table 5.25 provides the panel data regression results. It reveals a higher adjusted R^2 (59.01%) in the 2004-2006 than the 2007-2010 period (51.75%). Further, these results are still higher compared to the whole sample regressed (49.01%) with the same dependent variable. The F significant value is much less than 1% and it implies that the model is really fit.

5.8.2 Results and Discussion Based on Return on Sales

The regression results of ROS for 2004-2006 and 2007-2010 periods are shown in Table 5.26.

Table 5.26
Empirical Findings of Panel Data Regression for ROS
Directors' diversity

Variables	2004-2006			2007-2010		
	Coefficient	t-stat	P-value	Coefficient	t-stat	P-value
Constant	3.81	7.28	0.00	-5.62	-0.93	0.35
SE	0.00	0.05	0.95	0.36	0.98	0.32
DE	-0.08	-0.38	0.69	-0.56	-1.89	0.05**
SN	1.70	4.02	0.00***	0.83	1.39	0.16
DN	-0.70	-3.43	0.00***	0.00	0.03	0.97
SG	0.73	1.15	0.24	-1.21	-4.62	0.00***
DG	0.58	17.17	0.00***	0.00	0.02	0.98
Sexp	5.35	0.00	0.99	0.17	0.62	0.53
Dexp	-0.02	-0.10	0.95	0.17	0.57	0.56
SQ	-0.27	-1.85	0.06*	0.24	0.67	0.49
DQ	-0.60	-1.39	0.16	-0.27	-1.47	0.14
SC	-1.26	-6.52	0.00***	0.93	5.56	0.00***
SZ	-0.17	-12.08	0.00***	-0.09	-2.78	0.00***
DZ	0.00	0.02	0.98	0.06	1.26	0.20
MS	-0.29	-6.69	0.00***	-0.09	-0.57	0.56
MD	-0.43	-3.83	0.00***	0.38	0.98	0.32
Ownership concentration						
DS	0.10	10.57	0.00***	0.00	0.02	0.98
Fop	-0.00	-3.63	0.00***	0.00	0.10	0.91
FrO	0.00	1.19	0.28	-0.00	-3.04	0.00***
Control variables						
QA	0.14	0.90	0.36	0.24	3.83	0.00***
CS	0.06	1.89	0.05**	-0.01	-0.27	0.78
CA	-0.29	-1.63	0.10*	2.06	1.29	0.19
CG	0.04	8.61	0.00***	0.06	3.86	0.00***
CL	-0.10	-6.94	0.00***	-0.02	-0.78	0.43
R ²	77%			62%		
Adj. R ²	65%			48%		
F value	6.30	(p = .00)		4.48	(p = .00)	

Notes: ROS (Return on Sales), SE (Supervisory Board's ethnicity diversity), DE (Board of Directors' ethnicity diversity), SN (Supervisory Board's nationality diversity), DN (Board of Directors' nationality diversity), SG (Supervisory Board's gender diversity), DG (Board of Directors' gender diversity), Sexp (Supervisory Board's experience diversity), Dexp (Board of Directors' experience diversity), SQ (Supervisory Board's qualification diversity), DQ (Board of Directors' qualification diversity), SC (Supervisory Board Composition), SZ (Supervisory Board size), DZ (Board of Directors size), MS (multiple directorships of Supervisory Board), MD (multiple directorships of Board of Director). DS (Director shareholding), Fop (Family ownership), FrO (Foreign ownership), QA (Quality of external auditor), CS (Company size), CA (Company age), CG (Company growth) and CL (Company leverage). ***, ** and * indicate that a significant at 1%, 5% and 10% level.

5.8.2.1 Directors' Diversity

Contrary to the ROA results, directors' diversity variables show mixed results between the 2004-2006 and 2007-2010 periods when ROS was used to measure company performance. Supervisory Board's ethnicity (SE) diversity has no significant impact in both periods. However, negative relationship occurs between Board of Directors' ethnicity diversity (DE) ($t = 1.89$, $\alpha = 5\%$) and company performance for the 2007-2010 period but no significant relationship for the 2004-2006 period. In the 2004-2006 period, nationality diversity of Supervisory Board's (SN) is positively associated with ROS but negatively associated for Board of Directors' nationality diversity (DN). Nationality diversity of both Boards is insignificantly associated with ROS in the 2007-2010 period.

In terms of gender diversity, the results are not consistent between the 2004-2006 and 2007-2010 periods. No significant relationship is found between Supervisory Board's gender diversity (SG) and company performance.

However, there is positively relationship exists between Board Directors' gender diversity (DG) and company performance in the three-year period. For the 2007-2010 period, SG has a negative association with company performance and an insignificant relationship between DG and company performance. Further, there does not appear to be any relationship between directors' experience diversity of both Boards (Sexp and Dexp) and ROSs in both the 2004-2006 and 2007-2010 periods. However, the present study finds a significant negative effect only for Supervisory Board's qualification diversity

(SQ) in the 2004-2006 period but no significant relationship between directors' qualification diversity of both Boards (SQ and DQ) and company performance in the four-year period.

In terms of Supervisory Board composition (SC), the finding shows significant results for both periods. SC is reported to have a negative and significant effect on ROS ($t = 6.52$, $\alpha = 1\%$) for the 2004-2006 period. The opposite is true when 2007-2010 data was used where Supervisory Board composition has significant and positive relationship with ROS ($t = 5.56$, $\alpha = 1\%$). It suggests that higher proportion of SC added value to the company in the 2007-2010 period. It means that SC has played a role in controlling and monitoring effectively the Board of Directors.

The coefficient of SZ variable of current study is negative and statistically significant at 1% level for both periods. Vice versa, the Board of Directors size (DZ) variable does not have any relationship with ROS in the 2004-2006 and 2007-2010 periods. The coefficients of multiple directorships for Supervisory Board (MS) and Board of Directors (MD) variables are significantly negative at 1% level for the 2004-2006 and insignificant in the 2007-2010 periods. These results indicate no significant effect of the Code in terms of multiple directorships to company performance even though companies have used the revised Code. Overall, directors' diversity variables have a negative impact on company performance, even though the revised Code has been implemented except for the Board composition variable.

5.8.2.2 Ownership Concentration

The number of shares owned by Supervisory Board and Board of Directors (DS) is reported to have a significant and positively ($\alpha = 1\%$) relationship with ROS in the 2004-2006 period and insignificant association when the 2007-2010 period was regressed. The result shows that family ownership (Fop) is significantly and negatively associated with company performance. This result indicates that family-controlled Indonesian businesses perform poorly when the old Code is used. However, family control has no significant impact on company performance under the revised Code. Foreign ownership (FrO) has a significant and negatively association with company performance in the 2007-2010 period and not in the 2004-2006 period.

Overall, the results of ownership concentration as measured by family (2004-2006) and foreign ownership (2007-2010) are strongly negative and significant at 1% level with ROS. It implies that even though the Code has been revised, agency conflict still continue happen among large and minority shareholders, thus producing poor monitoring of the agents' decisions. As suggested by Singh and Gaur (2009), the conflict among large and minority shareholders is common in emerging markets.

5.8.2.3 Control Variables

With regards to the old Code sample, most control variables are significant except quality of external auditor (QA). Company size (CS) and growth (SG) are significantly and

positively related to ROS. This result is consistent with other accounting performance measurements (ROA) and the whole sample on accounting performance (1,981 observations for seven-year period) in Table 5.21. Two other control variables (CA and CL) are significant and negatively associated to company performance. However, for the 2007-2010 sample, only two control variables (quality of external auditor and company growth) have positive impact on company performance at 1%; while, CS, CA, and CL have no association with ROS.

The F-value for both samples is 6.30 and 4.48, respectively. This indicates that the model is far more fit due to the significant level being less than 0.01. Similar to ROA, the adjusted R^2 for the old Code sample is highest (65.61%) compared to the revised Code sample (48.44%). It implies that directors' diversity and ownership concentration are explained more in the 2004-2006 period rather than the 2007-2010 period.

5.8.3 Results and Discussion Based on Tobin's Q

Table 5.27 contains Tobin's Q results for directors' diversity, ownership concentration and control variables.

5.8.3.1 Directors' Diversity

The regression result of the effect of ethnicity diversity of Supervisory Board's (SE) indicates a significant and positive association with Tobin's Q for 2004-2006 period and insignificant relationship in the 2007-2010 period.

Table 5.27
Empirical Findings of Panel Data Regression for Tobin's Q
Directors' diversity

Variables	2004-2006			2007-2010		
	Coefficient	t-stat	P-value	Coefficient	t-stat	P-value
Constant	4.68	4.68	0.00	17.07	1.07	0.28
SE	0.96	14.07	0.00***	-0.86	-1.00	0.31
DE	0.54	0.82	0.40	-1.71	-4.62	0.00***
SN	0.16	11.08	0.27	-0.91	-0.95	0.33
DN	-1.24	-1.71	0.08*	3.36	2.42	0.01***
SG	-0.12	-0.08	0.93	-2.09	-8.29	0.00***
DG	-0.06	-0.07	0.93	0.04	0.10	0.91
Sexp	-0.37	-0.69	0.48	-0.12	-0.88	0.37
Dexp	-1.60	-1.71	0.08*	-2.01	-2.60	0.00***
SQ	2.28	11.62	0.00***	-0.05	-0.06	0.94
DQ	1.79	2.18	0.02**	-1.22	-3.88	0.00***
SC	0.37	1.24	0.21	-0.78	-0.79	0.42
SZ	-0.12	-1.14	0.25	-0.17	-3.42	0.00***
DZ	0.16	2.27	0.02**	0.18	2.68	0.00***
MS	-0.88	-5.13	0.00***	-0.01	-0.04	0.96
MD	0.63	6.07	0.00***	-1.46	-5.63	0.00***
Ownership concentration						
DS	0.00	0.03	0.97	-0.01	-0.22	0.81
Fop	0.01	2.73	0.00***	0.00	0.18	0.85
FrO	-0.00	-0.37	0.70	-0.00	-0.84	0.40
Control variables						
QA	0.31	6.04	0.00***	-0.21	-1.01	0.31
CS	-0.21	-1.69	0.09*	-0.36	-2.85	0.00***
CA	-1.39	-1.46	0.14	0.60	0.13	0.89
CG	-0.02	-1.59	0.11	0.04	0.70	0.48
CL	0.00	0.09	0.92	0.11	1.88	0.06*
R ²	84%			78%		
Adj. R ²	75%			70%		
F value	9.47	(p = .00)		9.84	(p = .00)	

Notes: TQ (Tobin's Q), SE (Supervisory Board's ethnicity diversity), DE (Board of Directors' ethnicity diversity), SN (Supervisory Board's nationality diversity), DN (Board of Directors' nationality diversity), SG (Supervisory Board's gender diversity), DG (Board of Directors' gender diversity), Sexp (Supervisory Board's experience diversity), Dexp (Board of Directors' experience diversity), SQ (Supervisory Board's qualification diversity), DQ (Board of Directors' qualification diversity), SC (Supervisory Board Composition), SZ (Supervisory Board size), DZ (Board of Directors size), MS (multiple directorships of Supervisory Board), MD (multiple directorships of Board of Director). DS (Director shareholding), Fop (Family ownership), FrO (Foreign ownership), QA (Quality of external auditor), CS (Company size), CA (Company age), CG (Company growth) and CL (Company leverage). ***, ** and * indicate that a significant at 1%, 5% and 10% level.

There is no significant association between Board of Directors' ethnicity diversity (DE) and Tobin's Q for the 2004-2006 period and significantly negative relationship for the 2007-2010 period. The regression coefficients of Supervisory Board's nationality diversity (SN) are an insignificant in both periods (2004-2006 and 2007-2010). However, the regression coefficient of Board of Directors' nationality diversity (DN) is negative ($t = 1.71$, $\alpha = 10\%$) in the 2004-2006 period and significantly positive ($t = 2.42$, $\alpha = 1\%$) in the 2007-2010 period. The positive result in the 2007-2010 period supports expectation that nationality diversity of directors provides broader information resources to better manage the company based on shareholders' wealth.

In terms of gender diversity, the current research reports that no association between gender diversity and company performance in the 2004-2006 data for both Boards: Supervisory Board's (SG) and Board of Directors' (DG). In contrast, Supervisory Board's gender diversity (SG) has a negative impact on company performance but not significant for DG, by using the 2007-2010 period. The 2004-2006 and 2007-2010 findings in Table 5.27 show an insignificant relationship between Supervisory Board's experience diversity (Sexp) and company performance. Vice versa, the results of the analysis of Board of Directors presents a negative relationship between directors' experience diversity (Dexp) and company performance at $\alpha = 10\%$ (2004-2006) and $\alpha = 1\%$ (2007-2010).

Interestingly, directors' qualification variable is found to have positive and negative impact on company performance when using Tobin's Q. Current study finds a significant and positive effect between directors' qualification and Tobin's Q in the 2004-2006

period for both Boards: Supervisory Board's (SQ) and Board of Directors' (DQ). In contrast, a negative relationship is found for DQ for the 2007-2010 period. Overall, based on these findings, there is little evidence to support the hypothesis. Two variables in the three-year period, Supervisory Board's ethnicity diversity (SE) and qualification diversity of both Boards (SQ and DQ) have positive impact on company performance. It is not consistent when the 2007-2010 period was regressed; only Board of Directors' nationality diversity (DN) has a positive and significantly impact on company performance. In fact, the important thing that can be taken from the above findings is that there is no effect of the revised Code on company performance.

Table 5.27 reports that Board composition (SC) is found to have an insignificant effect on company performance. Therefore, the present study finds that a significant and negative association between Supervisory Board size (SZ) and Tobin's Q in the 2007-2010 period. Conversely, Board of Directors size (DZ) has significant and positively association with Tobin's Q for both periods. Therefore, it is in line with expectations. It appears that small SZ is better in monitoring Board of Directors' actions effectively; larger numbers of Board of Directors with divergent backgrounds in terms of experience and knowledge provide resources to the company.

The evidence in 2004-2006 period suggests that multiple directorships of both Boards: MS and MD have positive and negative effects on company performance; while MS is strongly negative and significant at level 1%, MD is strongly positive and significant at

level 1%. Thus, these findings support the expectation. Therefore, only MD has a significantly negative relationship with company performance in the 2007-2010 period.

Overall, the main results of directors' diversity variables in this section show that: (i) Supervisory Board's ethnicity (SE), qualification diversity of both Boards (SQ and DQ), Board of Directors size (DZ) and multiple directorships of Board of Directors (MD) are found to have a positive and significant effect on company performance but nationality, Board of Directors' experience diversity and multiple directorships of Supervisory Board (MS) have a negative and significant association with Tobin's Q in the 2004-2006 period; (ii) For the 2007-2010 results, Board of Directors' ethnicity diversity (DE), Supervisory Board's gender diversity (SG), Board of Directors' experience diversity (Dexp), Board of Directors' qualification diversity (DQ), Supervisory Board size (SZ) and multiple directorships of Board of Directors (MD) have a significant and negative relationship with Tobin's Q. In contrast, only Board of Directors' nationality diversity (DN) and Board of Directors size (DZ) show a positive and significant association with Tobin's Q; (iii) the presence of directors' diversity generates poor company performance except Board of Directors' nationality diversity (DN), when companies used the revised Code of Corporate Governance practice.

5.8.3.2 Ownership Concentration

In considering ownership concentration, except for family ownership (Fop), other variables' results (director shareholding and foreign ownership) do not show significant

difference between old and revised Code data. However, family ownership indicates that control by family shareholders enhanced company performance in the 2004-2006 period but there was no significant effect in the 2007-2010 period.

5.8.3.3 Control Variables

For the control variables, quality of external director (QA) has a strongly positive ($t = 6.04$, $\alpha = 1\%$) impact when companies followed the old Code but was not significant after the revised Code was adopted. Further, the size of company (CS) has a weakly significant and negatively impact on Tobin's Q ($t = 1.69$, $\alpha = 10\%$) in the 2004-2006 period and highly significant negative ($t = 2.85$, $\alpha = 1\%$) impact in the 2007-2010 period. In contrast, other control variables: company age (CA) and sales growth (CG) have no relationship with market performance. For company leverage (CL), the finding shows no significant relationship between CL and Tobin's Q in the 2004-2006 period but positive relationship in the 2007-2010 period.

Overall, the result shows that the adjusted R^2 for the old and revised Codes are 75.30% and 70.46%, respectively. Similar to the accounting performance, the adjusted R^2 is still higher in the 2004-2006 period compared to the 2007-2010 period. In addition, F value for the 2004-2006 and 2007-2010 data is 9.47 and 9.84, respectively; therefore the model is far more fit due to the significance being less than 0.000.

5.8.4 Results and Discussion Based on Stock Returns

The last dependent variable is stock return. The findings of stock returns are shown in Table 5.28.

5.8.4.1 Directors' Diversity

Except for gender and qualification diversity, the results of other variables of directors' diversity do not show any significant relationship with stock returns. In addition, the result shows that Board of Directors' (DG) gender diversity has negative and significant effect ($t = 2.17$, $\alpha = 5\%$) but Supervisory Board's qualification diversity (SQ) has significantly positive impact on company performance ($t = 2.00$, $\alpha = 5\%$). Overall, the results show weak evidence to state that directors' diversity variables could improve stock returns in the 2004-2006 period.

Results are different when including the relationship between directors' diversity variables and stock returns by using the 2007-2010 data. Further, the finding shows mixed results. Directors' ethnicity diversity has a significant effect; Supervisory Board's ethnicity diversity (SE) has negative ($t = 2.24$, $\alpha = 5\%$) impact; and Board of Directors' ethnicity diversity (DE) has positive ($t = 5.06$, $\alpha = 1\%$) effect on stock returns. However, directors' nationality diversity is found to be significantly positive ($t = 2.25$, $\alpha = 5\%$) only on Supervisory Board's nationality diversity (SN). However, Board of Directors' gender diversity (DG) does not have an impact on stock returns.

Table 5.28
Empirical Findings of Panel Data Regression for Stock Returns
Directors' diversity

Variables	2004-2006			2007-2010		
	Coefficient	t-stat	P-value	Coefficient	t-stat	P-value
Constant	-0.10	-0.07	0.94	-73.10	-3.13	0.00
SE	-0.03	-0.04	0.96	-3.55	-2.24	0.02**
DE	0.17	0.25	0.79	3.92	5.06	0.00***
SN	0.96	0.88	0.37	5.97	2.25	0.02**
DN	-0.44	-0.38	0.69	-1.00	-0.43	0.66
SG	0.66	0.89	0.37	-0.57	-0.35	0.71
DG	-1.64	-2.17	0.02**	-0.75	-0.47	0.63
Sexp	-0.45	-0.52	0.59	-3.60	-3.81	0.00***
Dexp	-0.63	-0.71	0.47	-1.59	-0.76	0.44
SQ	1.56	2.00	0.04**	-0.67	-0.50	0.61
DQ	-0.08	-0.12	0.90	2.40	3.93	0.00***
SC	-0.01	-0.01	0.98	3.43	2.95	0.00***
SZ	0.22	2.13	0.03**	0.35	1.06	0.28
DZ	0.01	0.12	0.90	0.10	0.74	0.45
MS	-0.60	-1.03	0.30	-1.36	-1.63	0.10*
MD	-0.21	-0.44	0.65	0.62	0.84	0.40
Ownership concentration						
DS	0.00	0.04	0.96	-0.21	-1.27	0.20
Fop	-0.00	-0.63	0.52	0.01	0.99	0.31
FrO	-0.00	-0.60	0.54	0.00	0.82	0.41
Control variables						
QA	0.45	1.32	0.18	0.06	0.17	0.86
CS	0.21	2.10	0.03**	-0.00	0.16	0.99
CA	-0.24	-0.93	0.34	22.81	3.56	0.00***
CG	0.19	2.35	0.01***	-0.23	-1.52	0.12
CL	-0.05	-0.82	0.41	-0.06	-2.09	0.03**
R ²	7%			38%		
Adj. R ²	4%			16%		
F value	2.74	(p = .00)		1.71	(p = .00)	

Notes: Srt (Stock Return), SE (Supervisory Board's ethnicity diversity), DE (Board of Directors' ethnicity diversity), SN (Supervisory Board's nationality diversity), DN (Board of Directors' nationality diversity), SG (Supervisory Board's gender diversity), DG (Board of Directors' gender diversity), Sexp (Supervisory Board's experience diversity), Dexp (Board of Directors' experience diversity), SQ (Supervisory Board's qualification diversity), DQ (Board of Directors' qualification diversity), SC (Supervisory Board Composition), SZ (Supervisory Board size), DZ (Board of Directors size), MS (multiple directorships of Supervisory Board), MD (multiple directorships of Board of Director). DS (Director shareholding), Fop (Family ownership), FrO (Foreign ownership), QA (Quality of external auditor), CS (Company size), CA (Company age), CG (Company growth) and CL (Company leverage).***, ** and * indicate that a significant at 1%, 5% and 10% level.

As shown in Table 5.28, experience diversity for both Boards (Sexp and Dexp) does not have a relationship in the 2004-2006 period. In contrast, Supervisory Board's Experience diversity (Sexp) has a negative relationship when using the 2007-2010 period. As can be seen above, these results present that most directors' diversity variables except gender diversity have a significant association with market performance, particularly stock returns in the 2007-2010 period. These findings indicate improvement on market performance, particularly stock returns in the 2007-2010 period.

In the 2004-2006 period, Board composition has an insignificant association with stock returns. In contrast, higher proportion of Supervisory Board composition (SC) has a significantly positive relationship with stock returns ($t = 2.95$, $\alpha = 1\%$) in the 2007-2010 period. It indicates that large proportion of SC fosters stronger corporate governance. It also implies that the 2007-2010 period is more effective in corporate governance practice and enhancing company performance than the 2004-2006 period. In terms of Board size, this study finds that Supervisory Board size (SZ) is positively and significant at 5% level but not significant for Board of Directors size (DZ) in the 2004-2006 period. Considering the 2007-2010 period, evidence shows that Board size (SZ and DZ) do not affect company performance.

The result for the sub-sample of 2004 to 2006 in Table 5.28 indicates no statistically significant association between multiple directorships of both Boards (MS and MD) and stock returns; there is a negative relationship between MS and company performance but no significant association with MD in the 2007-2010 period.

5.8.4.2 Ownership Concentration

In terms of ownership concentration, there are three proxies to measure ownership concentration: (i) director shareholding (DS); (ii) family ownership (Fop); and (iii) foreign ownership (FrO). The results for all the proxies of ownership concentration show an insignificant relationship between ownership concentration and stock returns in both the 2004-2006 and 2007-2010 periods. In brief, the result of the present study shows that ownership concentration do not improve company performance. Thus, the result strongly supports the previous papers in the Anglo-Saxon system from the US, Demsetz and Lehn (1985) and Continental European system, Shan and McIver (2011) from China.

5.8.4.3 Control Variables

In third group of Table 5.28 shows the results of control variables for the stock returns. The size of company (CS) and sales growth (CG) are positively related to stock returns. Meanwhile, quality of external auditor (QA), age (CA) and company leverage (CL) has no relationship with stock returns in the 2004-2006 period. For the 2007-2010 period, only CA is significant and positive related to company performance. CL is significantly and negative at the 5% level. For other control variables, the present study does not find QA, CS and CG have association with company performance.

The last few statistics of Table 5.28 reveal that the P-value for each Code is significant at the 1% level and the adjusted R^2 of the old Code is 4.51% and much lower than adjusted

R^2 of the 2007-2010 periods, which is 16.22%. The results indicate that stock returns in the 2007-2010 period results are more associated with the performance of Indonesian companies than the 2004-2006 period results.

5.9 Summary

This study explains the central importance of directors' diversity and ownership concentration in determining company performance. Table 5.29 and 5.30 provide the summary of the results of directors' diversity, ownership concentration and company performance as measured by accounting and market performance.

Returning to the research questions have been introduced at the beginning of the present study, it can be concluded that some variables of directors' diversity affect accounting and market performance. The main conclusion that can be interpreted from this study is that the relationship between all variables of Supervisory Board's diversity and accounting performance shows mixed results. Supervisory Board's nationality diversity (SN) has a significantly positive relationship with accounting performance. Supervisory Board's Gender diversity (SG) and Supervisory Board Size (SZ) have significant and negative effect on accounting performance. Thus, only SN and SZ support the hypotheses. Furthermore, other variables of Supervisory Board's diversity have no effect on accounting performance. This study finds no significant relationship between Supervisory Board's diversity and market performance.

Table 5.29
Summary of Regression Results for Accounting Performance (n=1981)

Variables	Predicted Sign	Accounting Performance	
		ROA	ROS
Directors' diversity			
SE	+		
DE	+	-	
SN	+	+	+
DN	+		
SG	+	-	-
DG	+		+
Sexp	+	-	
Dexp	+		+
SQ	+		
DQ	+	+	
SC	+	-	
SZ	-	-	-
DZ	+		
MS	-		
MD	+		+
Ownership concentration			
DS	+		
Fop	+		
FrO	+		
Control variables			
QA	+		
CS	+	-	
CA	+	+	+
CG	+	+	+
CL	-	-	-

Notes: ROA (Return on Assets), ROS (Return on Sales), SE (Supervisory Board's ethnicity diversity), DE (Board of Directors' ethnicity diversity), SN (Supervisory Board's nationality diversity), DN (Board of Directors' nationality diversity), SG (Supervisory Board's gender diversity), DG (Board of Directors' gender diversity), Sexp (Supervisory Board's experience diversity), Dexp (Board of Directors' experience diversity), SQ (Supervisory Board's qualification diversity), DQ (Board of Directors' qualification diversity), SC (Supervisory Board Composition), SZ (Supervisory Board size), DZ (Board of Directors size), MS (multiple directorships of Supervisory Board), MD (multiple directorships of Board of Director). DS (Director shareholding), Fop (Family ownership), FrO (Foreign ownership), QA (Quality of external auditor), CS (Company size), CA (Company age), CG (Company growth) and CL (Company leverage). ***, ** and * indicate that a significant at 1%, 5% and 10% level.

Table 5.30
Summary of Regression Results For Market Performance (n=1981)

Variables	Predicted Sign	Market Performance Tobins' Q	Srt
Directors' diversity			
SE	+		
DE	+	-	-
SN	+		+
DN	+	+	+
SG	+	-	
DG	+		
Sexp	+		
Dexp	+	-	
SQ	+	+	
DQ	+		
SC	+		-
SZ	-		
DZ	+		+
MS	-	-	
MD	+		
Ownership concentration			
DS	+		
Fop	+	-	
FrO	+		-
Control variables			
QA	+	-	
CS	+	-	
CA	+	+	
CG	+		
CL	-	+	

Notes: TQ (Tobin's Q), Srt (Stock Return), SE (Supervisory Board's ethnicity diversity), DE (Board of Directors' ethnicity diversity), SN (Supervisory Board's nationality diversity), DN (Board of Directors' nationality diversity), SG (Supervisory Board's gender diversity), DG (Board of Directors' gender diversity), Sexp (Supervisory Board's experience diversity), Dexp (Board of Directors' experience diversity), SQ (Supervisory Board's qualification diversity), DQ (Board of Directors' qualification diversity), SC (Supervisory Board Composition), SZ (Supervisory Board size), DZ (Board of Directors size), MS (multiple directorships of Supervisory Board), MD (multiple directorships of Board of Director). DS (Director shareholding), Fop (Family ownership), FrO (Foreign ownership), QA (Quality of external auditor), CS (Company size), CA (Company age), CG (Company growth) and CL (Company leverage). ***, ** and * indicate that a significant at 1%, 5% and 10% level.

This study finds a positive relationship between Board of Directors' nationality diversity and market performance. On the other hand, Board of Directors' ethnicity diversity has a negative effect on market performance. In addition, other variables of Board of Directors' diversity have no effect on market performance. This study also finds that Board of Directors' diversity variables have no significant relationship with accounting performance.

In terms of ownership concentration, this study finds that ownership concentration has an insignificantly positive impact on both performance measurements. This result contradicts the hypotheses and fails to support the agency theory. With regards to control variables, company age and company growth have significant and positive relationship with accounting performance; while company leverage has a negative effect on accounting performance. However, there is no relationship between the control variables and market performance.

Having analysed the full sample, this study tried to find out whether there is any effect of the revised Code on company performance. Tables 5.31 and 5.32 provide the summary of results by using data of the old (2004-2006) and revised Codes (2007-2010) for accounting and market performance.

The present study finds slight differences between the results of the 2004-2006 and 2007-2010 periods. From Table 5.31, it can be seen that directors' diversity of both Boards has no effect on accounting performance.

Table 5.31
Summary of Results for Accounting Performance (Old and Revised Periods)

Variables	Predicted Sign	2004-2006		2007-2010	
		ROA	ROS	ROA	ROS
Directors' diversity					
SE	+				
DE	+			-	-
SN	+		+		
DN	+		-		
SG	+				-
DG	+		+		
Sexp	+				
Dexp	+	+			
SQ	+		-		
DQ	+				
SC	+		-		+
SZ	-		-		-
DZ	+				
MS	-		-		
MD	+		-		
Ownership concentration					
DS	+	+	+		
Fop	+		-		
FrO	+				-
Control variables					
QA	+				+
CS	+		+	-	
CA	+		-		
CG	+	+	+	+	+
CL	-	-	-	-	

Notes: ROA (Return on Assets), ROS (Return on Sales), TQ (Tobin's Q), Srt (Stock Return), SE (Supervisory Board's ethnicity diversity), DE (Board of Directors' ethnicity diversity), SN (Supervisory Board's nationality diversity), DN (Board of Directors' nationality diversity), SG (Supervisory Board's gender diversity), DG (Board of Directors' gender diversity), Sexp (Supervisory Board's experience diversity), Dexp (Board of Directors' experience diversity), SQ (Supervisory Board's qualification diversity), DQ (Board of Directors' qualification diversity), SC (Supervisory Board Composition), SZ (Supervisory Board size), DZ (Board of Directors size), MS (multiple directorships of Supervisory Board), MD (multiple directorships of Board of Director), DS (Director shareholding), Fop (Family ownership), FrO (Foreign ownership), QA (Quality of external auditor), CS (Company size), CA (Company age), CG (Company growth) and CL (Company leverage). ***, ** and * indicate that a significant at 1%, 5% and 10% level.

Table 5.32

Summary of Results for Market Performance (Old and Revised Periods)

Variables	Predicted Sign	2004-2006		2007-2010	
		Tobins' Q	Srt	Tobins' Q	Srt
Directors' diversity					
SE	+	+			-
DE	+			-	+
SN	+				+
DN	+	-		+	
SG	+			-	
DG	+		-		
Sexp	+				-
Dexp	+	-		-	
SQ	+	+	+		
DQ	+	+		-	+
SC	+				+
SZ	-		+	-	
DZ	+	+		+	
MS	-	-			-
MD	+	+		-	
Ownership concentration					
DS	+				
Fop	+	+			
FrO	+				
Control variables					
QA	+	+			
CS	+	-	+	-	
CA	+				+
CG	+		+		
CL	-			+	-

Notes: ROA (Return on Assets), ROS (Return on Sales), TQ (Tobin's Q), Srt (Stock Return), SE (Supervisory Board's ethnicity diversity), DE (Board of Directors' ethnicity diversity), SN (Supervisory Board's nationality diversity), DN (Board of Directors' nationality diversity), SG (Supervisory Board's gender diversity), DG (Board of Directors' gender diversity), Sexp (Supervisory Board's experience diversity), Dexp (Board of Directors' experience diversity), SQ (Supervisory Board's qualification diversity), DQ (Board of Directors' qualification diversity), SC (Supervisory Board Composition), SZ (Supervisory Board size), DZ (Board of Directors size), MS (multiple directorships of Supervisory Board), MD (multiple directorships of Board of Director), DS (Director shareholding), Fop (Family ownership), FrO (Foreign ownership), QA (Quality of external auditor), CS (Company size), CA (Company age), CG (Company growth) and CL (Company leverage). ***, ** and * indicate that a significant at 1%, 5% and 10% level.

The empirical evidences show that corporate governance variables produce poorer accounting performance. In contrast to accounting measurement, only Supervisory Board's qualification diversity has a significant and positive relationship with market performance for the 2004-2006 period (Table 5.32). When the 2007-2010 data is used, only Board of Directors' ethnicity diversity has a negative relationship with accounting performance and insignificant relationship between directors' diversity and market performance. It implies that although the revised Code of Corporate Governance has already been adopted by the companies, it has however no effect on improving company performance.

The present study provided the summary which corroborates the conclusion of great deal of the prior research in this field, such as Aguilera and Cuervo-Cazurra (2009); and Cheung et al. (2001). They state that a better Code can benefit companies by improving company performance, market reactions and future market valuation. These results differ from the finding of a study in the UK by McKnight et al. (2009) who investigated the effect of adopting the Cadbury Committee's Code of Best Practices on company performance of UK companies and concluded that company performance increased after adopting the Code. In addition, the result shows that ownership concentration does not give a positive effect in controlling and monitoring the agents when the revised Code is being practiced. This result supports international papers (e.g., Demsetz and Lehn, 1985; Citak, 2007; Choi et al., 2012; Arosa et al., 2010). The finding also reflects that change of Corporate Governance Code does not have any significant impact on ownership concentration in practice.

CHAPTER SIX

CONCLUSION AND RECOMMENDATION

6.0 Introduction

Chapter six discusses conclusion and recommendation of the current study. It is organized into three sections. Section 6.1 describes the summary. Section 6.2 discusses the implication of the present study. Section 6.3 is on limitations and suggestions for future research.

6.1 Summary

The first objective of this study is to determine any relationship between Supervisory Board's diversity and company performance exists. Second, the present study investigates the relationship between Board of Directors' diversity and company performance. Third, the study examines the relationship between ownership concentration and company performance. Finally, the purpose of this study is to investigate the effect of implementing the revised Code on company performance.

One of the significant evidences that emerges from the present study is the results are mixed for all proxies of the dependent variable. The summary results for the whole sample is reported in Tables 5.29 (accounting performance) and 5.30 (market performance). As can be seen in Table 5.29, SN and SZ support the hypothesis.

Moreover, SG has a significant and negative effect on accounting performance. In terms of Board of Directors, this study finds insignificant relationship between Board of Directors' diversity and accounting performance. For market performance as reported in Table 5.30, the results show that Board of Directors' ethnicity diversity has a negative effect on market performance; while Board of Directors' nationality diversity has a positive effect on market performance. Therefore, ownership concentration has no significant effect on both accounting and market performance.

Table 5.31 and Table 5.32 report the regression result of accounting and market performance for 2004-2006 and 2007-2010 periods. Tables (5.31 and 5.32) show unstable results for each measurement of company performance. The multiple regression results note that only a few independent variables produce stable findings. Table 5.31 shows directors' diversity of both Boards has no significant impact on accounting performance in the 2004-2006 period. Only director shareholding has a significant and positive association with accounting performance following the old Code period. However, Board of Directors' ethnicity diversity has a negative relationship with accounting performance in the 2007-2010 period. For market performance, the results of old Code data produce weak support on market performance, particularly. Only Supervisory Board's qualification diversity has a positive effect on market performance in 2004-2006 period. However, directors' diversity of both Boards and ownership concentration has insignificant association with market performance following 2007-2010 period.

There are several possible explanations for this evidence. Firstly, Indonesia has adapted the Continental European System which differs from the Anglo-Saxon system. Under two-tier Board system, the Supervisory Board has the responsibility to select and fire members of the Board of Directors. However, Indonesia has modified the Continental European system in which the controlling shareholders select and fire members of Both Boards. In addition, the Supervisory Board has no power to elect the Board of Directors. Therefore, the Supervisory Board appears less effective in reducing the agency problem (Shan & McIver, 2011). It creates high information asymmetry between the Board of Directors and Supervisory Board (Jungmann, 2006). In brief, the presence of Supervisory Board is more symbolic rather than advisory.

Secondly, Indonesia follows the French Civil law which offers weak protection for investors. Therefore, the level of company's corporate governance is lower due to weaker legal system. The present conclusion seems to be consistent with the findings of La Porta et al. (1998) and Klapper and Love (2004). Consequently, Corporate Governance Code has been revised in 2006 but the practice of corporate governance still disappointing. This statement is supported by the fact that the number of companies that experience poor performance is still high. About 16.96% (48) companies have negative ROA under the revised Code of Corporate Governance.

Thirdly, Indonesian listed companies have weakness in the appointment of board members. It is evidenced by more than 65 % Supervisory Board and Board of Directors having education lower than master's level. In fact, there are a limited number of

directors who have higher qualification in Indonesian companies. For instance, higher qualification level of directors reflects their intellectual competence. Intellectual competence of directors is an important factor for directors to solve business problems more effective and efficient. Besides, multiple directorships are unlimited in Indonesia. Directors who hold multiple directorships will divide their attention over many companies. Further, they have no time to do their main task well. Therefore, low level of intellectual competence and multiple directorships of directors may affect their performance. As a consequence, directors are unsuccessful in enhancing company performance.

Concentrated ownership might produce the effectiveness of principals in controlling and monitoring agents. It reduces the agent's (i.e., managers') interest and thus, encourages them to operate the company based on the shareholders' interest. However, this study finds a negative association between ownership concentration and company performance for 2004-2010 samples. Overall, the results on accounting performance are similar with the findings of Demsetz and Lehn (1985); and Chen et al. (2005), who also found no significant and positive association between ownership concentration and accounting performance. However, the results on Tobin's Q and stock returns for measure market performance of company predict the presence of family and foreign ownership destroys company performance. It concurs with a previous study of Klein et al. (2005) who found that there is an insignificant association between ownership concentration and accounting performance. Similar to the accounting-based performance, however, concentrated

ownership has no significant association with all proxies of company performance under the revised Code.

In general, there is a mixed finding for control variables and company performance. However, when the old and revised Code data were regressed separately, the findings show that there are no significantly different impacts between the old and revised Codes on company performance in Indonesia. Overall, the results of the current study support the finding of previous local studies done by Nuryanah and Islam (2011). They found that implementation of corporate governance practices is still ineffective in Indonesia. Even though Indonesia already has a system of corporate governance, the practice is still relatively lagging compared to developed countries (Darmadi, 2011).

6.2. Implications of the Study

6.2.1 Policy Implications

The empirical findings of the present study have several important implications for future practice. As mentioned in the earlier chapter, Indonesia has a unique two-tier Board system, is one of 20 largest economies in the world (Darmadi, 2013) and has more than 400 distinct native ethnicities (Efferin and Hopper, 2007). Based on the conclusions generated above, the government through the OJK²³, can be more stringent, provide more detailed guidance and highlight examples of good practice. In addition, the government has to formulate the regulatory framework to regulate the appointment and dismissal

²³ OJK is Indonesia Authority for Financial Services

mechanism for the Supervisory Board. For example, Indonesia can adapt the German and Chinese law where at least one Supervisory Board member is chosen by employees (Van Ees et al., 2003 and Yang et al., 2011). Thus, it will encourage the role of the Supervisory Board in a company.

Regarding the ownership concentration, government agencies, such as the OJK, may consider an ownership structure that encourages the lowering of agency problem and agency cost. As concluded above, agency conflict in the Indonesian context differs from other countries, where, agency conflict exists between major and minor owners. Therefore, the government should come up with ownership regulations, especially for listed companies.

Since the revised Code of Corporate Governance has been implemented, many companies have disclosed their current report compared to under the old Code period. However, some companies still do not follow the Code of Corporate Governance practice regarding the percentage of Supervisory Board composition. In term of multiple directorships, there is no rule for the maximum number of directorships determined by the Indonesian Code of Corporate Governance. Although the revised Code describes the tasks of the Supervisory Board and Board of Directors, it does not give further explanation of how those tasks should be done. Moreover, the findings of both the old and revised Code periods are not much different. Specifically, the revised Code of Corporate Governance is not adequate to guide and improve corporate governance. Thus, it needs additional reforms.

Immediate action can be used by the government to revise the existing Code of Corporate Governance, by considering the percentage of women on the Board of Directors (e.g., at least 30%). One of the reasons to include women on both Boards is they are more independent and embody a large pool of human capital that is available to the company (Simpson et al., 2010). Moving to nationality diversity variable, the present study finds nationality diversity of both Boards improves company performance. Even though the percentage of non-local directors on the Supervisory Board and Board of Directors is low (less than 15% of board members), the presence of nationality diversity of directors has proven to contribute towards performance. Hence, it could be also probably included in the next revised Code of Corporate Governance because non-local Board provides broader industry experience (Unjuwa et al., 2012).

Investors may make use of this finding by considering that company performance is not much determined by the Supervisory Board. However, investors should look at the diversity of Board of Directors when selecting companies to invest in, especially nationality, experience and qualification diversity. Regarding ownership concentration, current and potential investors may not consider the ownership concentration due to weak support of the result for the relationship between ownership concentration and company performance.

6.2.2 Theoretical Implications

These findings also have a number of important theoretical implications. Regarding the finding of the Supervisory Board, it can be concluded that there is a weak support for the

agency theory. The results suggest that Supervisory Board is not an effective mechanism to mitigate agency conflict in Indonesia.

There are several variables that are associated with company performance but in contrast to the predicted sign. Therefore, it needs other theories to support this kind of findings. The possible theory that may explain this phenomenon is the Behaviour theory of the Board (Van Ees et al., 2009). The Behaviour theory of the Board and corporate governance will be closer to actual board behaviour than traditional economic approach (Van Ees et al., 2009).

In terms of Board of Directors diversity results, this study supports the resource dependency theory. Thus, Board of Directors is as crucial link between the organization and the important resources to enhance Indonesian company performance. Further, the Board of Directors of Indonesian companies also play a strategic role. The Board of Directors also connects the Indonesian companies with external resources and even brings their capital into the company, in terms of human capital and relational capital. In brief, the Board of Directors mitigate unlink between the company and external resources. Moving to the ownership concentration, it also has an unpredicted significant sign. For example, family and foreign ownership have a negative significant relationship with Tobin's Q and stock returns, respectively.

6.3 Limitations and Suggestions for Future Research

6.3.1 Limitations

Finally, a number of limitations need to be considered. First, the number of companies involved in the present study is limited due to the nature of the data. The sample selection is based on the companies that disclose directors' diversity information. It makes the findings of this study not generalizable to other companies (non-disclosing companies). Although the sample is adequate,²⁴ a bigger sample could achieve more robust results.

Second, this study uses accounting-based performance (ROA and ROS) and market-based performance (Tobin's Q and stock returns). In addition, directors' diversity uses the Blau index as proxy. Other alternative measurements are available for this diversity, such as Sannon Index.

6.3.2 Suggestions for Future Research

This research has thrown up many questions in need of further investigations. First, further research might investigate the association between other variables (e.g., audit committee) of corporate governance and company performance. The presence of audit committee can help the Supervisory Board in implementing, monitoring and improving corporate governance practices.

²⁴ Minimal sample is 201 (krejcie & Morgan, 1970)

Second, further research regarding the role of directors' diversity could be advanced by using other diversities, such as religious' diversity (also suggested by Carter et al., 2010). Third, further work needs to be done to establish whether directors' diversity in Indonesia is different from other countries. Therefore, a study by using the country-level data should be investigated.

Finally, the future research can concentrate on dividing the sample into two: age diversity-productive age (below 55 years old) and less productive age (above 55 years old). Boards with productive age are more energetic and innovative in decision making than Boards with less productive age. Moreover, most Supervisory Board members are from large family-shareholdings who own the company because of the presence of higher concentrated ownership, such as in the case of family ownership. It is supported by Zald (1969) who claims that the power of the Board and manager will decline if one individual or higher family-controlled companies. In addition, this study finds that family company is a common organizational type in Indonesia. It is evidenced that family-owned companies account for approximately more than 90% of outstanding shares. Thus, future studies could use family ownership as intervening variable for the relationship between directors' diversity and company performance.

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