

**THE ROLE OF WOMEN ON BOARD AND
FINANCIAL PERFORMANCE IN INDONESIA**

THESIS DRAFT

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ABSTRACT

This study examines the presence and roles of women on board in Indonesian Public Listed Companies in the context of financial and manufacturing industries, related with their financial performance. Further, this study also investigate about more women on board comparing with less women on board, in order to identified the better one, more women or less women. The sample consists of all companies in financial and manufacturing sector industries over the period 2004-2008, which in sum 227 companies with 1155 observations. The result of this study with using Return on Equity (ROE) and Return on Sales (ROS) as the performance measurement is no positive and significant influence toward women on board both in financial and manufacturing sector industries. From that empirical result, can be concluded that in Indonesia the role of women is not increasing the company's performance significantly. But, if comparing between financial and manufacturing, financial have a better result than manufacturing sector industries in the context of their women's role. And if compare more women with less women on board in financial and manufacturing sector, more women have better empirical result than less one.

Keywords: Corporate governance, role of women on board, firm performance

CHAPTER I

INTRODUCTION

1.1 Background

The Asian financial crisis in 1997 has highlighted the problems of corporate governance among South East Asian corporations. This crisis becomes a major indicator that corporate governance practices in East Asia need improvements. One of the improvements is to introduce corporate governance codes, directing companies how to best improve their corporate governance practices (Nowland, 2007). As one of the most affected countries, Indonesia has corporate governance reform at the main point of the national agenda. This might be seen reasonable, 'since the corporations are substantial part of the economic system and the implementation of best governance practices might have a significant impact on the economy' (Lukviarman, 2005).

One of the main points in sound governance is agency theory. In Zahra and Pearce (1989) research state that, the role of boards has been guided by four different theoretical perspectives, and agency theory become the most crucial in economics and various research related with boards. This theory also become the only perspective that covers the strategic role of boards, which the function of boards are monitoring, controlling, providing information, and linking the corporation to external environment (Monks and Minow, 2004 and Carter et al., 2007) and controlling become a form of one beneficial mechanism of sound governance (Lukviarman, 2005).

As mention above, agency theory play an important role on board, that is to resolve problems between managers and shareholders by setting compensation and replacing managers that do not create value for the shareholders. Diversity of board that link with that theory suggests that more diverse board is a better monitor and controlling the managers since board diversity increase board independence (Carter et al., 2007), but if linked with firm performance, Hermalin and Weisbach (2000) state that agency theory does not provide a clear prediction of the role of board diversity in firm value. Contrary with that, Francoeur et al., (2007) argue that from an agency standpoint, board diversity would improve or impair sound governance and also corporate financial performance.

Several researcher found the reasons why female directors be in the low numbers: '(1) Companies do not know where to look for qualified female candidates; (2) CEOs fear appointing women who are not currently board members; (3) CEOs are concerned that women will have a "women's agenda;" (4) CEOs believe that women are unqualified.' (Peterson and Philpot, p. 178, 2006).

Since those facts, so many study about the existence of women in boardroom. The disparity between women and men regarding prevalence in top management positions still prompts debate and study as to extent of systematic bias against female managers and professionals as they seek positions of increasing authority and responsibility. Perhaps, key to female advancement and parity is their presence and involvement among board of directors. As in Burke (1994) studies, male CEOs recognize that their female directors make unique and positive contributions (Peterson and Philpot, 2006).

CHAPTER V

CONCLUSION

The preceding chapter has present the empirical results and this chapter provides conclusions drawn from the findings and discussions presented in the previous chapter, followed by an assessment of the potential limitations present in this study and possible future directions for research.

5.1 Research Conclusions

The objective of this study is to get empirical result that shows whether women on board have a role in the company, which seen by its financial performance, and then to answer the hypothesis about the proposition of women on board, in majority or minority toward firm performance, that measured by ROE and ROS.

This research investigates hypotheses states that there are insignificant influences of the board characteristic variables towards banking financial performance of Indonesian Islamic banks which covers five years data, the results are:

1. There is no significant influence between women on board toward financial performance measured by ROE and ROS in financial and manufacturing sector industries. But in comparing financial and manufacturing sector, financial has better role of women inside than manufacturing one in increase

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