

## The Role of Women's Leadership in Manufacturing Companies Listed on the Indonesia Stock Exchange

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**Abstract:** *This study aims to determine the role of women on the board of directors in increasing firm value through financial performance. The research object was all manufacturing companies listed on the Indonesia Stock Exchange in 2017. The sampling technique used purposive sampling on condition that the company had a board of directors and a female commissioner and did not experience a loss during the observation year. The research data used secondary data in the form of annual financial statements that were downloaded through the official website of the Indonesia Stock Exchange (IDX). Hypothesis testing used WarpPLS analysis. The results showed that the presence of women on the board had a negative impact on financial performance, the financial performance had a positive and significant effect on firm value, and the presence of women on the board had a significant negative effect on firm value through financial performance.*

**Keywords:** *the role of women on the board, the company's financial performance, firm value*

**Abstrak:** *Tujuan penelitian ini adalah untuk mengetahui peranan wanita dalam jajaran dewan dalam meningkatkan nilai perusahaan melalui kinerja keuangan. Objek penelitian adalah seluruh perusahaan manufaktur yang listing di Bursa Efek Indonesia tahun 2017. Teknik pengambilan sampel menggunakan purposive sampling dengan syarat perusahaan memiliki dewan direksi maupun komisaris perempuan dan tidak mengalami kerugian pada tahun pengamatan. Data penelitian menggunakan data sekunder berupa laporan keuangan tahunan yang diunduh melalui web resmi Bursa Efek Indonesia (BEI). Pengujian hipotesis menggunakan analisis WarpPLS. Hasil penelitian menunjukkan bahwa keberadaan wanita dalam dewan memiliki dampak negative terhadap kinerja keuangan, kinerja keuangan berpengaruh positif dan signifikan terhadap nilai perusahaan, dan keberadaan wanita dalam dewan berpengaruh negative signifikan terhadap nilai perusahaan melalui kinerja keuangan.*

**Kata kunci:** *peranan wanita dalam dewan, kinerja keuangan perusahaan, nilai perusahaan*

## 1. Introduction

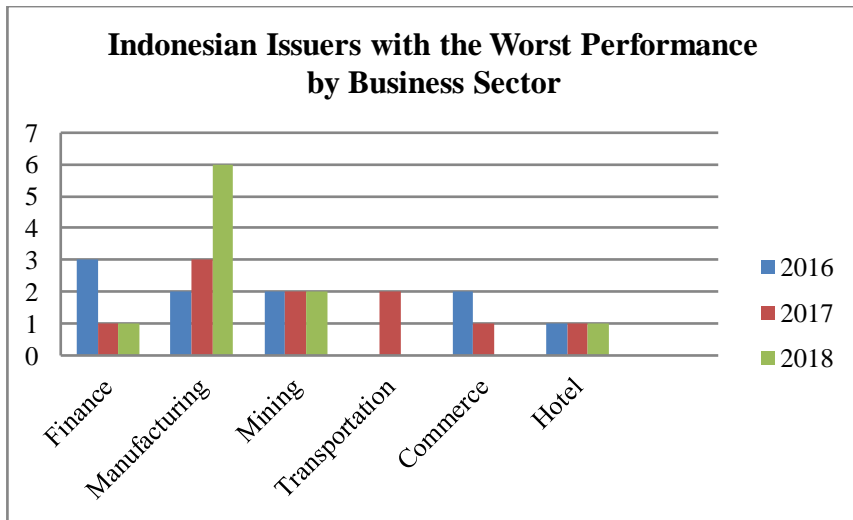
The company, as an organization, generally has specific objectives that will be achieved to meet the interests of the company's owners. The success of achieving company goals is a measure of the achievements that have been achieved by management. The performance achievements made by management are stated in the financial statements and reflected in the stock market price after the publication of the financial statements. Financial statements as a medium of communication between management and users of financial statements have an essential role for the company. Investors rely heavily on all the information contained in financial statements when determining the decision to invest.

Information from financial statements has a function as a means of information as well as a tool for management's accountability to the owner of the company and a depiction of indicators of company success and as material in consideration of decision making (Harahap, 2004). The company's performance is reflected in the financial figures reported in the financial statements. Every policy strategy implemented by the company does not always produce performance results that are in line with expectations. The Indonesia Stock Exchange always ranks the ten worst companies in performance every year; this is done to provide a warning or coaching for the survival of the company. During the last three years, it is known that the distribution of ten companies that went public with the worst performance based on business sectors is illustrated in Figure 1.

Based on Figure 1, it can be seen that the majority of companies going public with the worst performance are dominated by companies engaged in manufacturing. For three years in a row, continued to experience a significant increase. According to signaling theory, financial statement information, which is an embodiment of company performance reporting is a signal given to interested parties regarding past performance and prospects of the company in the future. Companies with poor performance, indicate a failure in past performance and the possibility of failure for the company in the future. Research results of Campbell and Mínguez-Vera (2008); Lückerrath-Rovers and Gov (2013); Mahadeo, Soobaroyen, and Hanuman (2012) found that the composition of the

board affected company performance; one of the features of the composition of the board is gender diversity. Gender diversity had a positive and significant effect on company performance.

Figure 1.  
 Issuers in Indonesia with the Worst Performance in the Past Three Years (Source: Secondary Data Processed, 2018)



Stephenson and Nt (2004) explained that it is one of the competitive advantages for a company to have women on the board. Women have a deeper understanding of the market and consumers, and besides being more innovative, women have a high level of thinking about social and community affairs. In addition, women have basic traits that are not owned by men. Women have the ability to multitasking, namely the ability to do several things at once, and women have the talent to establish networking and negotiation. With these unique characteristics, it is expected that the presence of women on the board can improve company performance. Vafaei, Ahmed, and Mather (2015) found the results of research that gender diversity in the top management team had a positive effect on the quality of accounting reporting. This is consistent with the findings of Appiadjei, Ampong, and Nsiah (2017), who found that financial performance measured by using Return on Equity (ROE) and Total Return on Shareholders (TRS)

increased 34% along with the increasing number of women in the ranks of top management.

A study by business consultant Grant Thornton showed that at the end of 2016, the number of Indonesian career women who occupied important positions in a company or top manager position ranked sixth in the world with a percentage of 36%. This is supported by the results of research conducted by Accenture Indonesia (a global management consulting company) in 2016, which found that by 2030, the number of women who occupied high positions in the company would increase rapidly. According to signaling theory, the presence of female members on the board of the company will give a signal that the company has established good corporate governance to create transparency, accountability, responsibility, independence, and fairness for investors. Doldor, Vinnicombe, Gaughan, and Sealy (2012) found that there are four benefits to a company when it has a board with diverse gender backgrounds, which is able to improve financial performance, opportunities to attract broader talent, be more responsive to the market, and be able to strengthen corporate governance policy.

The board structure in companies in Indonesia follows a two-tier system, which consists of directors as managers and commissioners as the supervisory party (Wardhani, 2008). The board of directors is the party that directly manages the company on behalf of the company both inside and outside the company. The board of directors must determine the policy direction and strategy of resources owned by the company so that it will increase the value of the company. The composition of the board of commissioners and directors in a company is believed to affect the value of the company both in the short and long term. According to signaling theory, the presence of female members on the board of the company will give a signal that the company has established good corporate governance to create transparency, accountability, responsibility, independence, and fairness for investors. Investors will gain confidence that their investment will get a good return, so the market values the company with a high value that is reflected in the market price of the company's shares.

The diversity of board members provides unique characteristics for companies that can create value-added for shareholders and increase firm value. Isidro and Sobral

(2014) found that the increasing number of women on the board of directors could increase the value of the company both directly and indirectly. The results of this study are consistent with the results of the research of Agyemang-Mintah and Schadewitz (2018); Carter, D'Souza, Simkins, and Simpson (2010); Lückerath-Rovers and Gov (2013) who found that the presence of women in the board of commissioners and directors had a positive effect on firm value. Bilimoria (2006) found that the presence of women on the board of directors increased the external legitimacy and reputation of the company. The presence of women in the company's board is one of the most commonly used measures of board diversity in research. The presence of women on the board of the company indicates that the company provides equal opportunities for everyone (non-discrimination), has a broad understanding of the market and consumers of the company, which in turn will enhance the reputation (legitimacy) and value of the company (Brammer, Millington, & Pavelin, 2007). Thus it can be concluded that the presence of women in the board structure can improve company performance and firm value.

Research results on the role of women in the council still lead to contradictory results. Adams and Ferreira (2009) found different results, the results of their study showed that the existence of a women's council did not affect Tobin's Q and ROA as a proxy for financial performance and firm value. Despite increasing the effectiveness of American companies, the presence of women on the board had a negative effect on firm value. Carter et al. (2010); Rose (2007) found that there was no relationship between gender diversity in the board and company performance. Ahern and Dittmar (2012); Protasovs (2015); Vo and Bui (2017) found that gender diversity had a negative impact on firm value because female directors had less experience than male directors. Gordini (2017) research results showed that gender diversity in directors had a significant positive effect on firm value, but did not have an effect on company financial performance.

Based on the differences in the results of previous studies and the increasing number of women in the board of directors in Indonesian *go-public* companies, this study seeks the relationship of gender diversity variables empirically as measured by

the percentage of women in the board of directors towards firm value with company performance as a mediating variable. Financial performance was chosen as a mediating variable because the differences in the results of research that are still diverse will affect firm value. Companies with good financial performance will increase the company's reputation in the eyes of stakeholders, so investors will be more confident to invest so that the company's stock market price increases. The existence of women on the board is believed to enrich input, ideas in developing strategies that will be taken by the company for the sake of increasing financial performance so that in the long run, it will be able to increase the value of the company.

## **2. Theoretical Framework and Hypothesis Development**

### **Agency Theory**

Agency theory is a contractual view of the company where shareholders and managers sign a contract specifically how managers must manage funds from shareholders, and how the results will be shared between the two (Jensen and Meckling, 1976). As the executor of activities in the company, the manager must manage all the funds that have been given by shareholders properly. Effective oversight by the board will prevent misallocation of funds and ultimately can increase shareholder value. Adams and Ferreira (2009) stated that the presence of women on the board can provide its own pattern on the composition of the board and has a tendency to give more fruitful results compared to the homogeneous composition of the board; moreover, women are inherently more stable than men. For this reason, having women on the board of directors can help make more informed decisions with lower risk. With a good supervisory function, management performance is expected to be more qualified and ultimately can increase the firm value.

#### *2.1. The Presence of Women on The Board Has an Effect on Financial Performance*

Stephenson and Nt (2004) explained that one of the competitive advantages for a company by having women on the board. Women have a deeper understanding of the market and consumers, and besides being more innovative, women have a high level of

thinking about social and community affairs. In addition, women have basic traits that are not owned by men. Women have a multitasking ability, namely the ability to do several things at once, and women have a talent to establish networking and negotiation. With these unique characteristics, it is expected that the presence of women on the board can improve financial performance. Krishan and Parson (2005) found the results of research that gender diversity in the top management team had a positive effect on the quality of accounting reports. This is consistent with the findings of Catalyst (2004), who found that financial performance measured by using Return on Equity (ROE) and Total Return on Shareholders (TRS) increased 34% along with the increasing number of women in the top management. Adams and Ferreira (2009) found different results, the results of their study showed that the presence of women on board had no effect on Tobin's Q and ROA as proxies of financial performance and firm value. The results of research supported it by Protasovs (2015), which found that there was no relationship between gender diversity in the board and the company's financial performance.

*H1: The presence of women on the board has a positive effect on financial performance.*

## *2.2. The Presence of Women on The Board Has A Direct Effect on Firm Value*

A study by business consultant Grant Thornton showed that at the end of 2016, the number of Indonesian career women who occupied important positions in a company or top manager position ranked sixth in the world with a percentage of 36%. In modern companies, the board of directors has two critical functions, namely the supervisory function and the function of providing access to resources (Hillman & Dalziel, 2003). If the presence of women on the board is able to improve both functions, the firm value will increase. Some previous studies have found an increase in the supervisory function of the board with the presence of women on the board, which for several reasons: (a) the unique characteristics of women bring a diversity of skills and experience to the board (Bilimoria, 2006; Hillman & Dalziel, 2003; Terjesen, Sealy, & Singh, 2009); (b) women increase variation in decision making and types of leadership (Rosener, 2011); (c) women increase the independence of the board (Carter et al., 2010); (d) women have better behavior (Clarke, 2003).

Carter et al. (2010), who examined Fortune 1000 Companies, found that the presence of women on the board had a positive effect on firm value. The results of the study are in line with Campbell and Mínguez-Vera (2008), who found that the higher the number of women on the board in Spanish companies, then the firm value would increase. However, there are some results of previous studies that found no relationship between women on the board and firm value. Rose (2007) concluded that there was not enough evidence to prove that the presence of women on the board could increase the firm value. These results are the same as the results of research by Adams and Ferreira (2009), which found that while increasing the effectiveness of companies in America, the presence of women on the board had a negative effect on the firm value. Based on the phenomena and differences in the results of previous studies, the second hypothesis proposed in the study is:

*H2: The presence of women on the board has a positive effect on firm value.*

### *2.3. The Presence of Women in The Board Of Commissioners and Directors has an Indirect Effect on Firm Value by Mediating Financial Performance.*

Board of commissioners and directors has a vital role in every decision making, and are fully responsible for overseeing management performance. The presence of gender diversity in the composition of the board of commissioners and directors is expected to be able to contribute to improving the quality of accounting reports. The nature of women who tend to be careful and conscientious has a good impact on the company, especially in terms of the quality of financial statements. Qualified financial statements will increase the confidence of users of financial statements on the truth of the information contained in financial statements. The confidence of the users of financial statements will increase the firm value, which will be reflected in the stock market value. Adams and Ferreira (2009) examined the effect of the presence of women on the board on Tobin's Q as a proxy for firm value, and ROA as a proxy for corporate financial performance, they found a negative effect. However, in some cases, female variables had a positive and significant effect. With the inconsistency of the results of



previous studies, it is indicated that the presence of women on the board has an indirect relationship on the firm value. The third research hypothesis is:

*H3: The presence of women on the board has an indirect effect on firm value by mediating financial performance.*

### **3. Research Method**

The population in this study was all manufacturing companies listed on the Stock Exchange in 2017. The research sample was determined by using the purposive sampling method on the condition that (1) having complete data in the annual report and stock price; (2) no loss; and (3) having a women's council. Based on the results of sample selection, it was known that there were only 40 companies that met the requirements for research samples. Research data was in the form of annual auditing reports for 2017, which can be downloaded via the website [www.idx.co.id](http://www.idx.co.id). The dependent variable in this study was the value of the company measured by Tobin's Q. The independent variable was the presence of women in the board of directors and the board of commissioners measured by using the percentage of female board members compared to the total number of board members, while the mediating variable was in the form of financial performance variables measured using by Return on Equity (ROE). Analysis tools to test research hypotheses used WarpPLS analysis.

### **4. Results and Discussion**

Testing the hypothesis in this study used WarpPLS analysis with WarpPLS 6.0 test equipment. Table 1 shows the testing results of the model.

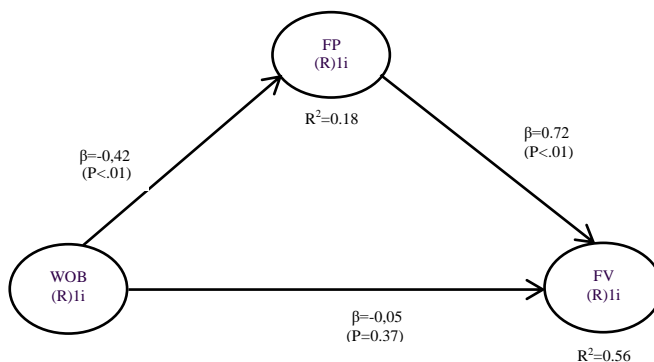
Based on the results in Table 1, it can be stated that the model was good with all the criteria being met. The adjusted  $R^2$  coefficient of 0.531 means that the variability of firm value can be explained by gender diversity and financial performance by 53.1%. In comparison, the remaining 46.9% is explained by other variables outside the research model. As for the results of the research model and the results of hypothesis testing are explained as follows.

Table 1.  
Evaluation of Structural Models

Criteria	Value	Acceptance Limits	Conclusions
APC	0,001	≤ 0,05	Model Fit
ARS	0,003	≤ 0,05	Model Fit
AARS	0,004	≤ 0,05	Model Fit
AVIF	1,207	Ideal if ≤ 3,3	Model Fit
AFVIF	1,894	Ideal if ≤ 3,3	Model Fit
Tenenhaus GoF	0,557	Great if ≥ 0.36	Model Fit
SPR	1	Acceptable if ≥ 0.7	Model Fit
RSCR	1	Acceptable if ≥ 0.9	Model Fit
SSR	1	Acceptable if ≥ 0.7	Model Fit
NLBCDR	1	Acceptable if ≥ 0.7	Model Fit

Source: Secondary Data Processed, 2018

Figure 2.  
Research Model



#### 4.1. Effect of Women's Presence on the Board on Company Financial Performance

Based on the results of the study in Table 2, it is known that the coefficient value was -0.419, which means that there was a negative relationship between the presence of women on the board will reduce the company's financial performance. The significance level of 0.05 indicated that the negative effect was significant. It can be concluded that the presence of women on the board negatively and significantly affected the company's

financial performance. The more the role of women in the leadership of manufacturing companies will further reduce the level of company financial performance. The development of technology that is increasingly developing, especially in companies engaged in manufacturing, requires speed in making major decisions in the use of appropriate technology to be applied to companies. However, women have a better tendency in communication, and they do not have the ability to be more sensitive and skilled in the use and creation of technology.

Table 2.  
Results of Hypothesis Testing

No	Hypothesis	Coefficient	P-value	$\alpha$	Conclusion
1	The presence of women on the board has a positive effect on financial performance	-0.419	<0,001	0,05	H <sub>1</sub> rejected
2	Financial Performance has a positive effect on Firm Value	0,723	<0,001	0,05	H <sub>2</sub> accepted
3	The presence of women on the board affects Firm value through financial performance	-0,302	0,002	0,05	H <sub>3</sub> rejected

Source: Secondary Data Processed, 2018

The financial performance in this study was proxied by ROE, which means that investors as the party, who invested the funds, are very interested in getting information on the profits generated by the company on investments that investors have invested. The women's council tended not to be able to make the most of the company's equity; they were more interested in securing equity than developing for maximum return. The results of this study are in line with the results of Ahern and Dittmar's (2012) study which found that the increase of women's quota on the board caused a substantial decrease in company performance, the share price was very significant after the addition of women on the board. In addition, the presence of women on the board added many changes to the characteristics of the board because female directors had less experience.

Terjesen et al. (2009) stated that gender diversity on the board also affected unique human resources. According to Terjesen et al. (2009), women have the same quality of resources as men, including at the level of education, but women tend to lack experience

as business experts. Human resource theory predicts that the diversity of the board will influence board performance as a result of the diversity and uniqueness of human resources, but the effect can be positive or negative from a financial performance perspective. The results of this study contradict the research results of Carter et al. (2010); Protasovs (2015); Rose (2007); Schrand, Ascherl, and Schaefers (2018); Wachudi and Mboya (2012) who found that the presence of women on the board did not affect company performance, it was likely to affect depending on the type of business. Whereas Adams and Ferreira (2009); Bear, Rahman, and Post (2010); Campbell and Mínguez-Vera (2008); Conyon and He (2017); Joecks, Pull, and Vetter (2013); Julizaerma and Sori (2012); Kılıç (2016); Moreno-Gómez (2018) found that the presence of women in the board was able to improve company performance significantly.

#### *4.2. Effect of Financial Performance on Firm Value*

The test results showed that the significance value of the effect of financial performance on firm value was  $< 0.05$ , which means that financial performance had a significant positive effect on firm value. The higher ROE obtained by the company becomes a positive signal for investors so that it will increase changes in the increase in stock prices. Company performance, which in this study was measured by ROE, was a picture of the success of managers in managing a company, and in making tactical decisions for the company's progress. The higher ROE reflects the more effective and efficient policies that have been taken by management. ROE is an indicator commonly used to measure a company's financial performance, always being the information reported in financial statements. Investors will be interested in investing a number of funds by considering one financial ratio, namely ROE. The higher the company's financial performance, the more it will attract investors to invest so that the company's value increases. The results of this study are in line with research conducted by Chen and Chen (2011); Hatem (2017); Luthfiah and Suherman (2018); Tui, Nurnajamuddin, Sufri, and Nirwana (2017). These studies found that high company financial

performance was a good indicator of company progress and able to influence investor decisions that can ultimately increase firm value.

#### *4.3. Effect of Women's Presence on the Board on Firm Value through Company Financial Performance*

The presence of women in the composition of the board is a strategy carried out as a form of implementation of good corporate governance, in which the company accommodates every input from everyone, including respect for the role of women. With the presence of the women's council, it is expected that decisions taken by the company will be more diverse and can accommodate all views, to improve financial performance, which is one of the benchmarks of the company's success for investors. With the increase in financial performance automatically, the market will respond positively so that the company's value increases, as evidenced by rising stock prices. Carter et al. (2010) found that the diversity of board members provides unique characteristics for companies that can create value-added for shareholders and increase firm value. The results of this study indicated that the significance value for the indirect effect of the presence of women on the board on the company showed a number  $<0.05$  but had a negative coefficient value, which means that the female council will reduce the value of the company through financial performance.

The test results showed that the presence of women on the board of commissioners and board of directors could reduce the value of the company, even though the company's financial performance was high. The existence of gender diversity in the composition of the board of commissioners and directors, especially in manufacturing companies, is considered a minority by investors. This is because the nature of the manufacturing industry is quite hard, requiring relatively fast innovation strategies so that a more masculine board figure is needed. The nature of women who tend to be careful, repeatedly think before making a decision, afraid of something new, more afraid of the risk of failure, has become its own weaknesses in the development of the company, especially for manufacturing companies. A careful, detailed, more suitable female character is needed for business sectors such as banking or other financial

institutions. Thus the number of women who occupy positions in top managers in manufacturing companies is considered negative for stakeholders. The results of this study are in line with Winasis and Yuyetta (2017), who found that the presence of gender diversity in the executive had a negative effect on firm value. However, the results of this study contradicted to Isidro and Sobral (2014). He found that the increasing number of women on the board of directors could increase the value of the company both directly and indirectly. Bilimoria (2006) found that the presence of women on the board of directors increased the external legitimacy and reputation of the company.

The numbers in the financial statements are the result of company performance, which is the application of the policies that have been made by the leadership of the company. Gender diversity in the composition of the board affects the policies chosen to affect financial performance. The increasing number of women on the council will lead to increased perspectives in the decision-making process so that it will increase the tendency for conflict to occur. Although according to signaling theory the existence of female members on the board of the company will give a signal that the company has established good corporate governance so as to create transparency, accountability, responsibility, independence, and fairness for investors, but it does not necessarily increase the value of the company.

## **5. Conclusion and Suggestion**

The conclusion of this research is that the women's council had a weak role in increasing the value of companies, especially manufacturing companies. Directly the female council had a negative effect on the company's financial performance, and the financial performance had a significant positive effect on the firm value. In contrast, indirectly, the female council was able to reduce the firm value. This is because the characteristics of women, who tend to be more careful, repeatedly think in decision making, fear of the risk of failure, fear of trying something new, not in accordance with the demands of manufacturing industry conditions that are quite hard and require innovation in company development. In addition, the presence of a women's council

will increase the difference in views that can lead to conflict that weakens the performance of the company, which in turn can reduce the value of the company in the eyes of stakeholders. The suggestion for further research is to be able to examine the role of women not only on the board of commissioners and directors but also to be able to examine other sectors besides manufacturing.

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