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Board Diversity and Its Effects on Performance and Risk: A Study in Banking Firms in Indonesia

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Abstract:
Research aims: This study examines the effect of board diversity on firm performance and risk in Indonesia's banking firms.
Design/Methodology/Approach: The population in this study was the banking industry in Indonesia obtained from the Bloomberg database, OSIRIS database, and company annual reports. The sampling technique used in this study was purposive sampling. The sample in the study consisted of 160 company-years of observation for 40 listed banks in Indonesia. The period of the analysis was from 2014 to 2018.
Research findings: The results showed that a woman director had a positive effect on performance. The results also revealed that a woman director had a negative effect on the risk because a woman director could correct bias in important decisions. These results are consistent with resource dependence theory that different types of directors provide additional beneficial resources to the firm. This paper then confirms that in banks, the type of diversity seems to be vital because a more diverse board provides more valuable resources, which should improve firm performance and reduce risk. Otherwise, based on the research data, the small number of foreign directors made their existence not affecting performance and risk.
Theoretical contribution /Originality: There is still a lack of previous studies that examined the effect of board diversity on performance and risk, especially regarding the heterogeneity of the directors' nationality in Indonesia. Based on the explanation, this research is expected to contribute to the knowledge regarding the diversity of directors in Indonesia in managing performance and risk.
Practitioner/Policy implication: Based on the empirical evidence, directors' gender diversity had a positive effect on optimizing firm performance and minimizing risk. Thus, the company's policy regarding the diversity of directors can be considered, especially about the existence of a woman director.
Research limitation/Implication: This study only took a sample of companies included in the banking industry, so this study's results are not necessarily generalizable to companies with different industry types. This study also looked at the diversity of directors based on the directors' demographic characteristics, namely gender and nationality. Future research may use or add to other types of diversity.
Keywords: Board Diversity; Firm Performance; Risk

Introduction

In a country with a bank-based financial system, such as in Indonesia, the role of banking is crucial. If a bank goes bankrupt, it will reduce public confidence in the bank, creating a bank rush and leading to systemic risk. Banks' role in a country with a bank-based financial system is not only to provide loans but also to own shares in the company to reduce the cost of bankruptcy. Bank will execute the company's bankruptcy costs because it will support the company when it experiences difficulties. Seeing the critical role of banks in Indonesia, a bank's sustainability needs to be appropriately managed, one of which is by driving performance and risk, which has trade-offs between the two.

The firm performance determines the firm value, which can reflect the prosperity of shareholders as well. Therefore, optimizing firm value is a firm goal. Companies that have a good performance should be able to minimize the risk. One of the risks in banking is credit risk. Lending is part of the core banking activities, given the role of banks as intermediary institutions. According to Ghosh and Maji (2014), success in credit activities relies heavily on the skills, knowledge, imaginative thoughts, and professional experience of bank employees to identify and analyze precisely possible threats at the initial stage when credit decisions are made and to solve problems throughout the duration of credit from the credit agreement. One of the parties that play an essential role in managing firm performance and risk is the company directors' role in implementing corporate governance. Company directors' role in controlling the company can be seen from directors' role in maximizing company value by increasing performance and reducing risk. Because of the framework of the corporate governance mechanism, optimization of the role of the board of directors in controlling, managing, and supervising the company can be carried out through the mechanism of regulating the role and behavior of the board of directors (board governance), including the composition of the board of directors in the company or the diversity of directors (Innayah, Pratama, Hanafi, 2020).

The 'glass ceiling' phenomenon widely discussed in the 2000s states that there are invisible barriers for women to occupy higher positions at a certain level in the company (Bexter and Wright, 2000), requiring them to have additional competence to gain directorships. It indicates that women have skills and intelligence as directors (Eagly and Carli, 2003). Previous research has found several contributions from women directors on the board. Adams, Gray, and Nowland (2010) argued that women directors exhibit more independent thinking. Then, some literature pointed to the importance of gender as a risk-related decision-making factor. According to Barsky, Juster, Kimball, and Shapiro (1997), one of the most prominent attributes of women is their risk aversion. Women directors can correct bias in important decisions, especially those related to strategic and risk oversight, by thinking about problems and detailing solutions so that women are often perceived as more conservative than men (Wiersema and Bantel, 1992; Cabo, Gimeno, and Nieto, 2009; Innayah and Pratama, 2019). Related to the presence of women on the board of directors, several countries have established regulations regarding the board's composition. In 2006, Norway was the first country in the world to implement a gender quota on directors, namely by deciding that a minimum of 40 percent of board members must be women. This regulation was followed by Scandinavian countries, Spain, Iceland, and France, which have issued regulations to oblige a quota for the number of women on board members (Adams & Ferreira, 2009).

In addition to the diversity of directors in terms of gender, the diversity of directors from the nationality is currently being discussed. Specifically, the Indonesian economy has developed and involved massive foreign investment. Ruigrok et al. (2007) stated that the increasing internationalization of business led to increased demand for directors with the necessary knowledge and contacts in foreign markets. In this case, it is possible that foreign directors qualify and relate the company to a different context from the country where the company operates. Seeing the importance of banking, the management of resources carried out by company management is crucial, which also causes the importance of international competence in management, one of which is the board of directors who manages the company's activities. The international business environment demands foreign board members as representatives of international stakeholders. Based on the explanation above about the effect of a woman director on performance and risk, this study examines whether women directors positively affect firm performance. This study also examines whether women directors have a negative effect on risk.

Previous literature has suggested the critical role of having foreign directors. Directors with different nationalities introduce heterogeneity of ideas, experiences, and viewpoints (Ezat and El-Masry, 2008; Samaha et al., 2012). Besides, board diversity can reduce information asymmetry and associated agency costs, increasing domestic companies' financial flexibility by increasing the number of potential investors and financing opportunities and expanding the flow of knowledge and technology across borders (Fogel, Lee, Lee, & Palmberg, 2013). In line with this, Carter, D'Souza, Simkins, and Simpson, (2010) found a significant positive relationship between the percentage of ethnic minority directors on directors and Tobin's Q. Similar results were also stated by Choi, Park, and Yoo (2007) in Korea. This result is in line with the belief that the presence of women and foreigners is necessary to improve performance and reduce risk. Based on the explanation above about the foreign director's role, this study tries to examine whether foreign directors positively affect firm performance. This study also examines whether foreign directors have a negative effect on risk.

Although gender diversity has become a topic in policymaking in many countries, such as countries in Europe, this policy's implementation is not yet precise, especially in Indonesia. Also, the heterogeneity of the board of directors' nationality is still not considered too important, especially in Indonesia. This study is also interested in conducting tests on foreign directors' effect on performance and risk, which get minimal attention on previous research, especially in Indonesia. Based on the background above, this study has several research objectives. First, this study aims to examine women directors' effect on performance at companies operating in Indonesia's banking industry. Second, this study aims to investigate the effect of foreign directors on the risk of companies operating in Indonesia's banking industry. Third, this study aims to scrutinize women directors' effect on performance at companies operating in Indonesia's banking industry. Fourth, this study aims to analyze foreign directors' effect on the risk of companies operating in Indonesia's banking industry.

This study also has several contributions on theoretical, practice, and business policy. For theoretical contribution, this study is expected to contribute to board diversity knowledge, especially concerning performance and risk. For empirical contribution, this study is presumed to enrich the concept of board diversity and determine its impact on performance and risk, especially in the banking sector. In business policy contribution, this study is hoped to be used as consideration for managers regarding the existence of women and foreign directors in the bank, especially in companies in developing countries, such as Indonesia.

Literature Review and Hypotheses Development

Resource Dependence Theory

Resource dependence theory (hereinafter referred to as RDT), suggested by Pfeffer and Salancik (1978), provides a theoretical foundation for the board diversity. RDT believes that the board should connect companies with other external organizations to address environmental dependence. There are four advantages of external relations, according to Pfeffer and Salancik (1978), namely the availability of services such as knowledge and skills, the development of contact networks with vital components for the business, the willingness to help essential organizations or entities, and the creation of credibility for the company in the external environment.

Hillman, Cannella, and Paetzold (2000) build RDP and prove that directors' diversity can provide businesses with valuable and varied resources. Besides, diversity has the potential to enhance the input given to management by the board because of the unique information that comes from the diversity of directors. According to RDT, diversity of directors can offer new information that will help to make smarter choices (Carter et al., 2010). A more representative board would also have more useful services, contributing to improved firm performance (Carter et al., 2010).

The diversity of directors was seen in this study in terms of gender and nationality. Terjesen, Sealy, and Singh (2009) concluded that the presence of gender diversity in directors would make businesses have special human capital. As with ethnicity, researchers also suspect that various nationalities can make businesses have special human resources. Researchers suggest that the variety of human capital within the board that makes these resources special will affect the company's actions, impacting performance and risk.

Board Gender Diversity

According to the Expectancy Violation Theory, people, who perform positive behaviors that are not supposed to do so based on their stereotypes, will be judged more positively by effectively executing positive behaviors relative to individuals expected to do so (Lanaj and Hollenbeck, 2015). Consequently, depending on the Expectancy Violation Theory viewpoint, women who perform agent actions should be judged more favorably than men who perform the same behavior. The persistence of the 'glass ceiling' phenomenon, which was extensively discussed in the 2000s, claims that there are invisible barriers for women to hold higher roles at a particular stage of the organization (Bexter and Wright, 2000), forcing them to have extra powers to take on the board positions. This competence suggests that women have competence and intellect while in directors' roles (Eagly and Carli, 2003).

Adams and Ferreira (2009) suggest that women director practice greater caution in tracking and taking positions on committees responsible for transparent reporting and reporting consistency, such as audit committees and corporate governance. Adams, Gray, and Nowland (2010) claim that women executives have more critical thought. The study also indicates that investors support the appointment of a woman director to the board.

Board Nationality Diversity

Previous research has indicated that foreign directors contribute more than just financial contributions, broadening the cooperation between technological and administrative skills, growing ingenuity and innovation. Directors of diverse nationalities introduce a plurality of thoughts, backgrounds, and perceptions (Ezat and El-Masry, 2008; Samaha et al., 2012). Besides, the diversity of directors will minimize the intelligence asymmetry and related costs of the agency, improve domestic businesses' strategic stability by expanding the number of potential customers and investment opportunities, and increase the transfer of expertise and technologies across borders (Fogel et al., 2013). In line with this, Carter et al. (2010) observed a crucial positive association between the proportion of directors of ethnic minorities and Tobin's Q. Choi et al. (2007) published similar findings in Korea. Analysis by Muttakin et al. (2016) showed that foreign directors appear to do well with CSR. Then, foreign directors also tend to be more independent (Ruigrok et al., 2007).

Board Diversity and Performance

Gender diversity of directors would affect performance in more appropriate evaluation and debate on more rigorous topics that are also found inappropriate by male directors (Huse and Solberg 2006). Morally, from a fresher perspective, women should address complicated challenges that can minimize the formulation of intelligence techniques (Francoeur, Laballe, & Sinclair-Desgagne, 2008); promote the production of effective communication and the development of stronger relationships (Hillman, Shropshire, & Cannella, 2007). Several studies have shown that women's inclusion on the board of directors would boost the firm's efficiency (Deszo and Ross, 2012; Luckerath-Rovers, 2013; Post and Bryon, 2015; Isidro and Sobral, 2015). Based on the explanation above, the hypothesis proposed in this study is as follows:

H*$_1$*:* *Women directors have a positive effect on performance.

According to Ramaswamy (2001), foreign directors' participation offers a range of opportunities in the sense of organizations in developed countries. Foreign directors will send out strong messages on the company's plan to grow worldwide. Directors of diverse nationalities introduce a plurality of thoughts, backgrounds, and perceptions (Ezat and El-Masry, 2008; Samaha et al., 2012). Besides, board diversity would minimize intelligence asymmetry and related agency costs, improve the financial resilience of domestic businesses by growing the number of potential customers and investment opportunities, and expand the transfer of expertise and technologies across boundaries (Fogel et al., 2013); also, increase the freedom of foreign directors (Ruigrok et al., 2007). Based on the explanation above, the hypothesis proposed in this study is as follows:

H*$_2$*:* *Foreign directors have a positive effect on performance.

Board Diversity and Risk

The previous research has pointed to the importance of gender as a consideration in risk-taking. One of the most influential features of women is their risk-aversion (Barsky et al., 1997). Women directors can correct bias in important decisions, particularly those relating to strategic and risk oversight, by thinking about challenges and detailing strategies so that women are often viewed as more cautious than men (Wiersema and Bantel, 1992; Cabo, Gimeno, and Nieto, 2009). Bellucci, Borisov, and Zazzaro (2010) and Beck, Behr, and Guttler (2014) focused on the effects of gender diversity in the banking context. Bellucci et al. (2010) found that women credit officers were more risk-averse than male credit officers and restricted credit supply to potential borrowers. Beck et al. (2014) uncovered that loans managed by woman loan officers substantially lowered the default rate. Based on the explanation above, the hypothesis proposed in this study is as follows:

H*$_3$*:* *Women directors have a negative effect on risk.

Although there is still not much research on foreign directors' role on risk, previous studies have examined how foreign ownership could influence decision making, such as risk-taking decisions. Vo (2016) examined the effect of foreign ownership on risk-taking activities in companies in Vietnam, and the results showed that the presence of foreign ownership could reduce corporate risk-taking because foreign investors focused more on a long-term perspective. Given the foreign investors’ characteristics who tend to avoid risk, researchers are interested in examining whether the diversity of directors’ nationalities seen from foreign directors' presence can reduce risk. Diversity in the board of directors is related to the diversity of cognitive and information held by members of the company's board of directors (Kim and Rasheed, 2014). According to Du, Jian, and Lai (2017), a diverse board has superior cognitive abilities than a homogeneous board because it can reduce the risk of "group thinking" and improve the quality of decision making. Based on the description above, the hypothesis proposed in this study is as follows:

H_4**:** *Foreign directors have a negative effect on risk.*

Research Method

Sample

The population used in this study was the banking industry in Indonesia, which was obtained from the Bloomberg database, OSIRIS database, and company annual reports. This study's sampling technique was purposive sampling with the criteria, i.e., banking firms in Indonesia with complete data used in this study during 2014-2018. The sample used in the study consisted of 160 company-years of observation for 40 listed banks in Indonesia. The period of the analysis was from 2014 to 2018. The banking industry was chosen because the banking industry has a vital role in maintaining economic stability, so they need to be appropriately monitored. Apart from performance, banking risk is also significant to be monitored to mitigate systematic risk.

Independent Variables

The proportion of Women Directors (WomanDir). According to García-Meca, García-Sánchez, and Martínez-Ferrero (2015) and Innayah et al. (2020), the proportion of woman director was proxied by the proportion of woman director, calculated using the formula:

The proportion of Woman Director = Number of Woman in Director/Number of Members of Directors

The proportion of Foreign Director (ForeignDir). Referred to Du et al. (2017), the composition of foreign directors was calculated by the proportion of foreign director composition, calculated using the formula:

The proportion of Foreign Directors Composition = Number of Foreign Directors in Directors/Number of Members of Directors.

Dependent Variables

Firm Performance (Firm_Perf). Referred to García-Meca et al. (2015) and Innayah et al. (2020), the firm performance was proxied by ROA (return on assets). The following formula calculates the ROA proxy:

ROA = Profit before tax/Average total assets

Risk (Risk). According to Ghosh and Maji (2014), credit risk was calculated by:

Credit risk = Net non-performing loans/Net advances

Control Variables

In this study, four control variables were involved:

1) **Board Size (BoardSize)**. Board size was calculated by the number of members of the board of directors in the banking firm.
2) **Bank Size (BankSize)**. The size of the bank was measured by the natural logarithm of the total assets of the banking firm in year t.
3) **Net Interest Margin (NIM)**. Net interest margin is determined by dividing Income from Net Interest by Total Earning Assets.
4) **Loan to Asset Ratio (LTAR)**. Loan to Asset Ratio was gauged by dividing Loan by Total Asset.

Statistical Test

This study employed a model analysis of panel data regression. First, the researcher conducted a Hausman test to determine which panel data regression model to use, namely fixed effect regression or random effect regression (Gujarati and Porter, 2009). Based on the Hausman test results, the panel data regression model used in this study was the fixed effect regression. The model used to test the four hypotheses in this study is as follows:

Model 1. The effect of Board Diversity on Firm Performance

$$\mathbf{Firm\_Perf} = \boldsymbol{\beta_0} + \boldsymbol{\beta_1 WomanDir} + \boldsymbol{\beta_2 ForeignDir} + \boldsymbol{\beta_3 BoardSize} + \boldsymbol{\beta_4 BankSize} + \boldsymbol{\beta_5 NIM} + \boldsymbol{\beta_6 LTAR} + \boldsymbol{\varepsilon_t}$$

Model 2. The effect of Board Diversity on Risk

$$\mathbf{Risk} = \boldsymbol{\beta_0} + \boldsymbol{\beta_1 WomanDir} + \boldsymbol{\beta_2 ForeignDir} + \boldsymbol{\beta_3 BoardSize} + \boldsymbol{\beta_4 BankSize} + \boldsymbol{\beta_5 NIM} + \boldsymbol{\beta_6 LTAR} + \boldsymbol{\varepsilon_t}$$

Where:

Firm_Perf	= Firm Performance
Risk	= Credit Risk
WomanDir	= Proportion of Woman Director
ForeignDir	= Proportion of Foreign Director
BoardSize	= Control Variable of Board Size
BankSize	= Control Variable of Bank Size
NIM	= Control Variable of Net Interest Margin
LTAR	= Control Variable of Loan to Asset Ratio
ε_t	= error term

Result and Discussion

Table 1 shows the descriptive statistical values of the variables used in this study. Based on Indonesia Financial Service Authority (Otoritas Jasa Keuangan) Regulation (POJK, 2014), banks are required to have three members of the board of directors. Based on the descriptive statistics, the average number of directors in the Indonesian banking sector sampled in this study was six people, so that the number has met the POJK requirements.

Table 1 Descriptive Statistic for Selected Variables

Variables	Max	Min	Mean	Std. Dev.
Firm_Perf (%)	4.04	-3.65	1.258653833	1.134427678
Risk (%)	0.26	0.00	0.025193434	0.026291829
WomanDir	0.75	0.00	0.167537518	0.187627125
ForeignDir	0.50	0.00	0.087643579	0.142450932
Board_Size	14.00	3.00	6.615	2.636575935
Bank_Size	20.76	13.86	17.03326294	1.80851636
NIM	16.64	0.56	5.346762193	2.122006206
LTAR	1.62	0.00	0.86466028	0.095505035

As previously explained, there are no official regulations regarding the existence of women directors in Indonesia. However, Worldbank, in 2011, through the International Finance Corporation (IFC), established a program to increase understanding and awareness of the existence of women directors in developing countries, including Indonesia. Based on the Women in Business 2020 report (Grant Thornton International, 2020), ASEAN countries, including Indonesia, have been in the third rank of the highest percentage of women directors in the world. Based on the descriptive statistics, the average number of women directors in Indonesian banks sampled in this study was two of the total number of directors. It indicated that banks in Indonesia have started to be interested in paying attention to the presence of women in top management. Based on descriptive statistics, the average number of foreign directors in the Indonesian banking sector sampled in this study was one person from the total number of directors. The Firm_Perf variable had a mean value of 1.256, while the risk variable had a mean value of 0.025. Overall, the descriptive statistics of each variable can be seen in Table 1.

Table 2 displays the results of the overall hypothesis testing in this study. Hypothesis 1 testing aimed to answer whether women directors had a positive effect on firm performance. Firm performance was proxied by financial performance, namely ROA. Hypothesis 1 testing revealed a significant positive influence between WomanDir and Firm_Perf with a coefficient of 0.7440347 at the 10% significance level. Therefore, hypothesis 1, stating that women directors positively affected firm performance, was supported.

The results indicated that if there were women directors in the company, the company's performance would increase. The results can be explained by the glass ceiling phenomenon, which means that there is an invisible barrier for women to occupy a higher position at a level in the company (Bexter and Wright, 2000). Hence, if women are in the position of directors, they have additional competencies not owned by men. Therefore, there was a positive relationship between women directors and the performance of companies operating in the banking industry in Indonesia. This study's results are consistent with previous research that found that the presence of women on the board of directors could improve firm performance (Deszo and Ross, 2012; Luckerath-Rovers, 2013; Post and Bryon, 2015; Isidro and Sobral, 2015).

Table 2 Results of Hypotheses Testing

Independent Variable	Dependent Variable	
	Model 1	**Model 2**
	Firm_Perf	**Risk**
Const	6.553528 (4.65)***	-.0295574 (-0.91)
WomanDir	.7440347 (2.30)*	-.0169357 (-1.72)*
ForeignDir	.1126184 (0.19)	.0121772 (0.90)
Board_Size	.1515915 (4.91)***	-.0015067 (-0.95)
Bank_Size	-.4115031 (-5.24)***	.0015451 (0.69)
Nim	.2357486 (6.51)***	.0026466 (2.95)***
Ltar	-.7903659 (-1.76)	.0299148 (1.55)
R^2 Within	0.2229	
F	48.35	
Prob > F	0.0011	

Note: *** significant at 1%; ** significant at 5%; * significant at 10%

Based on the results, this study gives empirical evidence about a woman director's effect on performance in the Indonesian banking sector. This research also contributes to the practical field by emphasizing the effect of a woman director on performance so that companies need to consider the presence of woman directors possibly to encourage increased performance. This research can be used as consideration for policymakers to review the need for minimum requirements in setting quotas for the existence of women directors with more attention to these directors' experience and abilities.

Hypothesis testing 2 aimed to examine whether foreign directors had a positive effect on firm performance. Hypothesis 2 testing showed that ForeignDir did not affect Firm_Perf with a coefficient of .1126184. It indicated that the presence of foreign directors in the company did not affect firm performance. Therefore, hypothesis 2, stating that foreign directors positively affected firm performance, was not supported. Although the research results exposed that foreign directors did not affect firm performance, the effect of this positive coefficient has several reasons. The data in this study indicated that foreign directors were the minority. According to Marimuthu and Kolandaisamy (2009), a small number of foreign directors would not affect performance.

Hypothesis 3 testing aimed to examine whether women directors had a negative effect on risk. Hypothesis 3 testing disclosed a significant negative effect between WomanDir and risk with a coefficient of -.0169357 at the 10% significance level. Therefore, hypothesis 3 was supported that women directors had a negative effect on risk. The results signified that if there were women directors in the company, it would reduce the risk. Therefore, a negative relationship was found between women directors and risk. This study's results are consistent with previous studies that uncovered that women as directors had the nature to avoid risk (Barsky et al., 1997), one of which was a credit risk. Bellucci et al. (2010) and Beck et al. (2014) found that women credit officers were more risk-averse than male credit officers and limit credit availability to new borrowers. The existence of this risk aversion allows women directors to correct bias in important decisions, especially those related to strategic and risk oversight, by thinking about problems and detailing solutions, so that women are often perceived as more conservative than men (Wiersema and Bantel, 1992; Cabo, Gimeno, and Nieto, 2009). Beck et al. (2014) also discovered that loans handled by women credit officers had a significant reduction in default rates. Based on the precautionary principle, women directors can reduce risk.

Based on the results, this study provides empirical evidence about a woman director's effect on risk in the Indonesia Banking sector. This research also contributes to the practical field by emphasizing the effect of a woman director on risk so that companies need to consider the presence of woman directors possibly to reduce risk. This research can be employed as a consideration for policymakers to review the need for minimum requirements in setting quotas for the existence of women directors with more attention to these directors' experience and abilities.

Hypothesis testing 4 aimed to examine whether foreign directors had a negative effect on risk. Hypothesis testing 4 revealed that ForeignDir had no effect on risk with a coefficient of .0121772. It indicated that the presence of foreign directors in the company did not affect risk. Therefore, hypothesis 4, which stated that foreign directors had a negative effect on risk, was not supported. Similar to hypothesis 2, foreign directors were a minority in Indonesia's banking companies, so that the presence of foreign directors did not affect the risk. Masulis et al. (2012) stated that foreign directors tend to be less able to familiarize themselves with the country where they work, so they do not understand management methods. It will influence their decision making, including decision making in terms of risk. Boubakri, Cosset, and Saffar (2013) found that foreign ownership was positively related to corporate risk-taking. The high risk-taking from foreign owners was influenced by existing governance, including top management, because they were the foreign owners' extension. From the characteristics of foreign ownership, researchers suspect that foreign directors' characteristics also have a high risk-taking preference, which increases the company's risk.

Based on the research results, it was proven that the diversity of directors seen from the presence of women directors could improve performance and reduce company risk. It aligns with the resource dependence theory (RDT), which states that diversity can improve a company's quality in making decisions so that it can affect the excellent management of firm performance and risk. However, the presence of foreign directors did not affect the company's performance and risk. It happened because the number was small even though foreign directors play a useful role in the company.

Conclusion

This study examined the effect of board diversity on performance and risk in Indonesian banking firms during 2014-2018. This study's first objective was to examine the positive effect of a woman director and firm performance in the Indonesian banking firm. The results showed that a woman director had a positive effect on firm performance. It signified that the existence of a woman director could improve firm performance because of their governance role. This study's second objective was to investigate the positive effect between the foreign director and firm performance in the Indonesian banking firm. The results revealed that the foreign director did not affect firm performance. Based on research data, a small number of foreign directors caused their governance role not to affect firm performance.

This study's third objective was to analyze the negative effect between a woman director and risk in an Indonesian banking firm. The results exposed that women had a negative effect on firm performance. It indicated that the existence of a woman director could reduce credit risk because of their governance role. This study's fourth objective was to scrutinize the negative effect between a foreign director and risk in an Indonesian banking firm. The results uncovered that the foreign director did not affect risk. Based on research data, a small number of foreign directors caused their governance role not to affect risk.

This study has several implications in the theoretical (empirical evidence), practice fields, and business policy. First, this research contributes to the theoretical field by adding references to board diversity's effect on performance and risk. Second, this research contributes to the practical field by emphasizing the effect of board diversity on performance and reducing risk; therefore, companies need to consider the diversity of directors possibly to encourage increased performance and risk reduction. Third, this research can be utilized as a consideration for policymakers to review the need for minimum requirements in setting quotas for the existence of women directors and foreign directors with more attention to these directors' experience and abilities.

This study has several inherent limitations. First, this study only took a sample of companies involved in the banking sector, so that the results of this study are not necessarily generalizable to companies with different types of industry. Future studies can use companies from different types of industries and compare them to know the effect of board diversity on performance and risk from a more comprehensive perspective of various industries. Second, this study looked at the diversity of directors from the directors' demographic characteristics, namely gender and nationality only. Future research can employ or add to the diversity of others. Diversity can be seen from two perspectives: demographics and cognitive. Demographic diversity includes gender, age, race, ethnicity, and nationality. Meanwhile, cognitive diversity covers knowledge, education, values, perceptions, affective, and personality characteristics.

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