DO WOMEN ON BOARDS REALLY IMPACT FIRM GROWTH?

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Abstract

The issue of gender equality is one part of Indonesia's SDGs target. Gender equality refers to equality between men and women in fulfilling rights and obligations. One of the targets of Indonesia's SDGs for gender equality is to strengthen policies and legislation to increase gender equality and women's empowerment. These situations unquestionably impact the influence of women on board. This study examines the growth of LQ 45 businesses in Indonesia in connection to the number of female directors. This study was conducted using quantitative research approaches. In Indonesia, between 2019 and 2021, 34 LQ45 companies were chosen for the sample utilizing purposeful selection. This study shows that the presence of women on the board of directors will not have a favourable effect on the LQ 45 firm's growth in Indonesia between 2019 and 2021.

Keywords: Firm Growth, LQ 45, Women on Boards.

I. INTRODUCTION

Thanks to the women's rights movement, women are now working more than ever [1]. There are regulations governing the minimum proportion of women on the board of directors in some nations, including France, Germany, India, and the Netherlands [2]. More women are being elected to corporate boards of directors in various nations, including Australia, Canada, India, Japan, the UK, and the US[2]. In Indonesia, the percentage of women on board directors matched the ASEAN average of 14.9% [3].

The increase in female employment and even the implementation of a minimum quota for women on the board of directors raised concerns about the effects of hiring more women for a company. Researchers and politicians still have different opinions on the impact of having more women on company boards of directors. The presence of female directors is an essential need for potential investors [4]. A diverse group of women on board may increase the board's strategic impact and function [5]. For instance, increasing the number of women on corporate boards of directors may improve the accountability and transparency of corporate governance systems by lowering fraud [6]. Women directors who ensure efficient monitoring can reduce agency issues and promote company innovation [7]. Women board members' "power sharing" tendencies can improve company governance and lessen CEO dominance [8]. Women on boards of directors, particularly independent ones, can provide the board of directors with independent viewpoints [9] and a fresh angle on changes to the company's strategic direction [10].

However, the inclusion of women in firm senior positions might also result in greater actual earnings management and higher audit cost [11]. Additionally, having women on the board of directors might make executive tasks less effective since a more diverse board of directors creates more communication barriers, which increases organizational and operational risks for the business and lowers performance [12].

There has been prior research on the impact of gender diversity on the board of directors on firm performance [13]–[16], as well as the impact of gender diversity on earnings quality [17]–[20] and earnings management [21]. Several earlier studies that attempted to examine how gender affected pay and company success are not comparable to this one. This study investigates the effect of women on a board of directors on a company's growth. Incorporations in LQ 45 between 2019 and 2021 are the sample period. Purposive sampling is used to collect samples, and it meets several requirements, including the need for firms to be categorized as LQ 45 for at least one year in a row and to have the necessary data. By regressing panel data with STATA, data analysis was carried out.

According to the findings, having more women on the board of directors has no beneficial effect on the growth of the business. It demonstrates that having women on the board of directors can't occasionally positively impact a company's growth. This evidence is expected to be a consideration for policymakers to reconsider setting the minimum quota for the presence of women on the board of directors.

This paper proceeds as follows. In the literature review section, this study explains women on boards and firm growth. The hypotheses development section follows this. Then, continued method, result and discussion. This paper ends with a conclusion, limitations, and implications.

II. Literature Review And Hypothesis Development

A. Women on Board

Gender composition is a female and male composer on the board of directors who will influence the realization of good corporate governance. The existence of men and women is considered to have differences in the implementation of governance. There are different points of view in decision-making due to how humans think in developing their ideas, the knowledge possessed, experiences experienced and ways to solve problems. A diverse proportion of boards of directors have more diverse ideas that are creative and innovative compared to the board of commissioners [22]. Women on the board of directors who are risk-averse will be encouraged to make production decisions with high compliance standards by the presence of women in the board's makeup [23]. Women directors can more effectively balance the interests of all stakeholders and represent the interests of shareholders, particularly minority shareholders. To improve agency difficulties, having female board members will act as a governance mechanism [24]. The inclusion of women on the board is representative of a projection of gender diversity on the company's board of directors.

B. Hypothesis Development

Research on the impact of female directors on corporate boards offers contradictory empirical findings. There are two distinct currents, for instance, regarding business performance. Claim that the performance of the firm is improved by the participation of women on the board of directors [13], [15], [16]. Some contend that having female directors on corporate boards is associated with higher-quality earnings and that having women there harms a company's performance [25]. Empirical evidence suggests that having women on the board of directors might be beneficial [19]. However, it has little influence on the company's earnings quality [20].

The Australian Report of the Industry Task Force on Leadership and Management [26] states that women directors from the economic side are considered profitable for a company. The report explains that having women on the board of directors can reduce the likelihood of company failure. Homogeneous groups tend to have homogeneous ways of solving corporate problems, which is the opposite of heterogeneous groups [26].

Women on the board of directors can accelerate organizational growth compared to a board filled only by men [27]. The diversity within the board of directors will create more perspectives and ideas. It is useful for increasing innovation and work creativity. Women have a democratic leadership style and can be sensitive to others, which is suitable for the communication process at work. Good communication established in teamwork can reduce the existence of information asymmetry. Women's leadership can help companies grow and create a better business atmosphere [27]. Therefore, the hypotheses in this study are:

H1: The presence of women on the board positively affects the company's growth.

III. Research Methods

This study uses secondary data in a quantitative method. This study combined cross-sections and time series data as panel data. Purposive sampling was employed to gather the sample for this study, with the following requirements: (1) the firm must be classed as an LQ 45 company in Indonesia for the 2019–2021 period, and (2) the company must have all necessary research data. The findings of the purposive sampling included 102 observations and data for 34 firms from 2019 to 2021, as shown in Table I.

Information on the independent variable, such as the proportion of female directors on corporate boards, is obtained from the company's annual report. A Google search page for the dependent variable in the form of firm growth is obtained from the company's annual financial statements. In contrast, control variables in the form of size and audit quality are obtained from the company's annual financial statements.

This study used regression panel data processed with STATA for data analysis. First, one of the three suitable panel data models was selected: ordinary least square, fixed effect, or random effect. Panel data model selection is made by conducting the Chow test and Hausman test. Based on the tests performed, the model suitable for use in this study is the random effect. It is because the results of the Chow test show a value of Prob > F = 0.54, and the Hausman test shows a value of Prob > Chi2 = 0.88.

TABLE I. The Result of Purposive Sampling

No.	Sample Criteria	Total Sample
1.	The firm must be classed as an LQ 45 company in Indonesia	45
2.	The firm must be classed as an LQ 45 company in Indonesia for the 2019–2021 period	34
3.	The firm must have all the necessary research data	34
	Total Firm	34
	Total Sample (Total Firm x 3 Years)	102

TABLE II. SUMMARY OF VARIABLES AND MEASUREMENTS

Variable Type	Description
Dependent Variable	
$Growth_{it}$	The total change in assets from the beginning to the end of the year divided by the total assets at the beginning of the year [28]
Independent Variable	
$Woman1_{it}$	The presence of women on the board of directors, as measured by dummy variables, has a value of 1 if there are women on the board of directors and 0 if there are no women on the board of directors. It is used as the main test [12].
$Woman2_{it}$	The percentage of the number of women on the board of directors measures the presence of women on the board of directors. It is used as an additional test [12].
Control Variable	
$Audit_{it}$	The dummy variable has a value of 1 for companies audited by Big Four Public Accountants and a value of 0 for other than Big Four [29]
$Size_{it}$	Natural logs of total assets [12].

The research model used in this study is as follows:

$$Growth_{it} = \beta_0 + \beta_1 Women_{it} + \beta_2 Size_{it} + \beta_3 AUD_{it} + \varepsilon_{it} \quad (1)$$

Descriptions :
$Growth_{it}$: firm growth
$Woman_{it}$: the number of female directors on corporate boards
$Audit_{it}$: quality audit of the company
$Size_{it}$: firm size

IV. RESULTS AND DISCUSSION

A. Descriptive Statistics

The purpose of descriptive statistical analysis is to get a picture of the phenomenon or characteristic of the data, and the characteristics of the data described are the characteristics of its distribution [30]. The test results for descriptive statistical variables in this study are shown in Table III.

According to the descriptive statistical test findings, the minimum growth value is -0.23, with a maximum value of 1.68. It means that not all companies experience positive growth during the observation year. Furthermore, the presence of women on the board of directors, as measured by dummy variables, has a mean value of 0.77. A value close to 1 shows that almost all companies have female board members during the year. Similarly, the audit quality is close to 1 (0.86), meaning that the Big Four Public Accountants audited almost all companies observed. Finally, observed companies have a size range between a minimum value of 29.91 to a maximum value of 37.99.

B. Main Results

This study aims to ascertain the impact of having female directors on the growth of LQ 45 firms in Indonesia from 2019 to 2021. The study's findings should offer concrete proof of how having female directors on corporate boards has an impact. Table IV displays the panel data regression findings.

Based on the regression results using the main measurement of the dummy variable of women's presence ($woman1_{it}$) shown in Table IV, the hypothesis in this study is not supported because the variable coefficient ($woman1_{it}$) is negative with a significance level of > 5%. The data in Table IV also shows that the results of the multicollinearity test of this research model do not experience multicollinearity problems because the VIF value of each variable is less than 10.

C. Additional Analysis

In this study, additional analysis was also carried out to strengthen the testing of the main results. Additional analyses were performed using different measurements for the variable ($woman_{it}$). If the main test uses a dummy variable, then the additional analysis ($woman_{it}$) is determined by the proportion of women on the board of directors. Table V below shows further analytical findings.

Using additional variables, such as the proportion of women on the board of directors, as a basis for the regression findings ($woman2_{it}$), the hypothesis in this study is not supported because the variable coefficient ($woman2_{it}$) is negative with a significance level of > 5%. The data in Table V also shows that the results of the multicollinearity test of this research model do not experience multicollinearity problems because the VIF value of each variable is less than 10.

TABLE III. DESCRIPTIVE STATISTICS OF RESEARCH VARIABLE

Variable	n	Min	Max	Mean	Std
$Growth_{it}$	102	-0.23	1.68	0.08	0.21
$Woman1_{it}$	102	0	1	0.77	0.43
$Audit_{it}$	102	0	1	0.86	0.36
$Size_{it}$	102	29.91	37.99	32.13	1.55

TABLE IV. FEMALE DIRECTORS AND FIRM GROWTH (1)

Variable	Sample Period 2019-2021	
	$Growth_{it}$ Coef. (t-value)	VIF
(constant)	-0.13	
	(-0.43)	
$Woman1_{it}$	-0.04	4.42
	(-0.45)	
$Audit_{it}$	0.051	7.33
	(0.99)	
$Size_{it}$	0.01	8.52
	(0.66)	
N	102	

The definition and measurement of variables refer to Table II.

TABLE V. FEMALE DIRECTORS AND FIRM GROWTH (2)

Variable	Sample Period 2019-2021	
	$Growth_{it}$ Coef. (t-value)	VIF
(constant)	-0.13	
	(-0.45)	
$Woman2_{it}$	-0.09	2.32
	(-0.40)	
$Audit_{it}$	0.04	6.94
	(1.26)	
$Size_{it}$	0.00	
	(1.26)	8.22
N	102	

The definition and measurement of variables refer to Table II.

D. Women Directors and Firm Growth

This study's hypothesis focuses on determining how having more women on the board of directors affects firm growth. Table IV and Table V show the panel data regression findings for the association between the presence of women and the growth of LQ 45 enterprises in Indonesia using the observation period from 2019 to 2021. Regression results for primary testing ($woman1_{it}$) and additional analysis ($woman2_{it}$) indicate that the hypothesis in this study is not supported. It shows that having more women on the board of directors has no beneficial effect on the growth of the business. The presence of women can have a detrimental effect on businesses, according to some earlier research. For instance, it may result in higher actual earnings management and audit costs [10]. Additionally, having women on the board of directors might make executive functions less effective since a more diverse board of directors creates more communication barriers, which raises organizational and operational risks for the business and degrades performance [11]. Additionally, other studies offer factual proof that the number of women on a board of directors does not affect a firm's profitability standard [20].

Another thing to consider is the occurrence of covid-19 in 2020 and or 2021. The pandemic that occurred around the world had a significant impact on the Indonesian economy and the international world. This condition certainly has an impact on the company's growth conditions. Several LQ 45 companies in Indonesia showed negative growth during 2020 and or 2021, including (1) Adaro Energy, (2) AKR Corporindo, (3) Astra International, (5) Gudang Garam, (6) H.M. Sampoerna, (7) Indocement Tunggal Prakarsa, (8) Indo Tambangraya Megah, (9) Japfa Comfeed Indonesia, (10) Jasa Marga, (11) Bukit Asam, (12) Semen Indonesia, (13) United Tractors, and (14) Unilever. Based on these data, it can be seen that almost 1/3 of companies classified as LQ 45 in Indonesia experienced negative growth during the Covid-19 pandemic. Because the impact of Covid-19 is stronger for the decrease in the company's state, the presence of female directors has no bearing.

V. Conclusion, Implications, And Limitations

This study aims to ascertain the effect of having women on boards of directors on the growth of LQ 45 firms in Indonesia from 2019 to 2021. According to the findings, women's involvement on boards of directors did not contribute to the growth of LQ 45 firms in Indonesia between 2019 and 2021. The thing to consider is the factor of the COVID-19 pandemic in 2020-2021 in Indonesia. Most LQ 45 companies experienced negative growth during 2020-2021 during the covid-19 pandemic. This condition can make the existence of women not influenced because the impact of Covid-19 is greater for the decline in company conditions. In addition, some previous research [14], [20], [25], [31] also shows that the presence of women on the board of directors has a negative impact and has no effect on improving the company for the better.

This study suggests that having female directors on the board does not necessarily benefit the business. Therefore, authorities must consider how successful the current quotas for the representation of women on company boards of directors are. The amount and duration of the observation periods employed are one of the study's many weaknesses. Thus, future studies may increase the number of control variables and lengthen the observation duration.

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