

CHAPTER I

INTRODUCTION

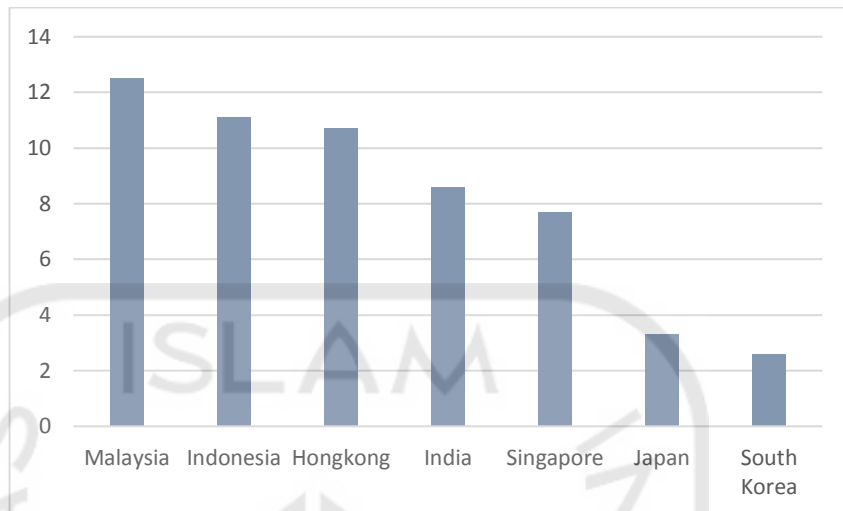
1.1. Background

Corporate governance system divides the corporate structure into one-tier board and two tier boards. In a one-tier board structure, the board of directors and board commissioner are same, while the two-tier structure separates the board of directors and the board of commissioner (Jungmann, 2007). This system has a purpose to control and directing to achieve the firm performance. Two-tier corporate governance consists of system, structure, and process consist of elements such as board of directors, board of commissioners, general meeting of shareholders, corporate secretary, and auditor (internal and external auditor).

Nowadays in an existing company, directors have an important role in corporate governance to improve firm performance (Campbell & Mínguez-Vera, 2008). The function of board of directors is a decision maker while board of commissioner is a controller. In corporate governance, the board of commissioners and the board of directors can affect the company performance. The board gender diversity could boost the objective and comprehensive of decision-making, since it was taken from a variety of perspectives. One of the diversity in corporate governance structures is gender.

This study was conducted in Indonesia which follows to a two-tier board system that focused on the board of commissioners and the board of directors. According Undang-Undang, Nomor 40 Tahun 2007 regarding *Perseroan Terbatas* explains that Company Structure is a General Meeting of Shareholders, Directors and Board of Commissioners. The role of Board of Directors has the authority and is fully responsible for the management, the benefit of the company, in accordance with the purposes and objectives, and representing the company itself. While the Board of Commissioners has a special supervision in accordance with the articles of association and provides advice to the Directors.

The board gender diversity gives a better result. Because it comes from different perspective of each member. According to the study of Desvaux et al., (2017) in Asia the composition of women sitting on corporate boards and executive committees has grown since 2016, particularly in India and Southeast Asian countries. However, there are also huge inequalities across Asia, and the percentage of women in corporate governance structure is very low in some countries such as Japan and South Korea.



Source: Centre of Governance Institutions and Organizations 2016

Figure 1.1 Female Board Members in Asia

There are several banks that almost all of board commissioner and director are women such as Bank CIMB Niaga Tbk, Bank Maspion, ICBC Indonesia, Bank Royal Indoensia, and Bank Lampung. Compared to another country in Southeast Asia, Indonesia women's representations on board member are lower than Malaysia 12.5% and 11% higher than Hong Kong 10%, India 8.6%, Singapore 7.7%, Japan 3.3% and South Korea 2.6%. During 2013, there are also four enterprises who have women in top management which are Karen Agustawan as Board of Director from PT Pertamina, Intan Abdams Katopo as Board of Director PT Hotel Indonesia Natour, Mira Amahorseya as Board of Director PT Sarinah, and Upik Rosalina Wasrin as Board of Director of Sang Hyang seri. It indicates that Indonesia has huge women equalities through corporate governance structure.

There are several previous studies conducted regarding the relation of corporate governance to firm performance and risk taking such as Abou-el-sood, (2018); Campbell & Mínguez-Vera, (2008); Faccio, Marchica, & Mura, (2016); Kılıç & Kuzey, (2016); Ramadhani & Adhariani, (2015); Ska & Weill, (2018). One of the studies was Kılıç and Kuzey (2016) stated that there is still no agreement regarding the link between board gender diversity and firm financial performance based upon the mixed and sometimes contradictory results in prior study. While, another study from Ska and Weill, (2018) also explains that there is consideration that women on board will perform less risky in banks based on prior study. Therefore, this study extends the current literature in the context of Indonesia, showing that a female member on the board can enhance the financial performance and risk taking of a company. Accordingly, the purpose of this study is to determine the influence of board gender diversity on corporate governance structure on Firm performance and risk taking. Previous study more focused on the influence of corporate governance on the firm performance.

1.2. Problem Formulation

Study on women's gender in the board of commissioners and the board of directors to firm performance and risk taking in Indonesia is needed, since the board of commissioners and board of directors a decision maker in determining company performance in the future. Gender of the board of commissioners and board of directors produces different consequences for firm performance and risk taking.

1. Does the proportion of female on board of directors affect firm performance?
2. Does the proportion of female on board of commissioners affect firm performance?
3. Does the proportion of female on board of directors affect firm risk taking?
4. Does the proportion of female on board of commissioners affect firm risk taking?

1.3. Research Objective

Based on the problem formulation, this study wants to know the role of women in the board of commissioners and board of directors to the firm performance and firm risk taking, thus this study aims:

1. To describe whether the proportion of female on board of directors affects firm performance.
2. To describe whether the proportion of female on board of commissioners affects firm performance.
3. To describe whether the proportion of female on board of directors affects firm risk taking.
4. To describe whether the proportion of female on board of commissioners affects firm risk taking.

1.4. Research Contribution

The results of this study are expected to provide benefits for various parties, for the academics, the companies and the government stated as follows:

1. For Academics

To enrich the results of empirical studies and reference materials on study on corporate governance in Indonesia, especially those related to women's gender in the board of commissioners and board of directors. In addition, the writer believes the results of the study will be an additional idea in study on behavioural finance.

2. For Companies

As a reference for improving performance firms and firm risk taking by taking into account the composition of board members in corporate governance mechanisms and the establishment of gender-based development and performance improvement programs.

3. For Government

As a material consideration for the assessment and design of regulations regarding the composition of board members in Indonesian Banking Industry. This study is expected to provide input to the government in determining policies for Banks registered with the *Otoritas Jasa Keuangan*.

1.5. Research Scope

In this study, the writer control the banks samples as follows:

1. The board structure under study adheres to the two-tier board system
2. Data used for analysis is data of all Banks registered in the *Otoritas Jasa Keuangan* for the period 2015-2017

1.6. Systematics of Writing

The systematics of writing in this study are as follows:

CHAPTER 1: INTRODUCTION

This chapter presents the background of the study, the problem formulation of research, the research objectives, the research scope, the research contributions, and the systematics of writing

CHAPTER 2: REVIEW OF LITERATURE REVIEW

This chapter describes the explanation of the literature review, the relationship between the variables, review of previous study, and hypothesis development.

CHAPTER 3: RESEARCH METHODOLOGY

This chapter explains the research method which is a reference for scientific analysis consisting of population and research samples. Operational definitions of variables and data analysis methods used.

CHAPTER 4: DATA ANALYSIS AND DISCUSSION

This chapter contains descriptive statistical analysis, selection of the best model, the results of the classical assumption test and hypothesis testing that has been constructed in this research and the results of hypothesis testing.

CHAPTER 5: CONCLUSION AND RECOMMENDATIONS

This chapter presents the conclusions, recommendations, and limitations of the research. The conclusions are based on the data analysis and discussion. The recommendation of this research will be possible for future research. Meanwhile, the limitations of this research can be cover in the future.