CHAPTER II

REVIEW OF RELATED LITERATURE

2.1. Theoretical Review

2.1.1. Agency Theory

Managers of the company has given a power by owners and stakeholders to make a decision. Every manager has their own decision thus it can make a conflict in decision making. This problem arising from how to induce the agent to act in the best interest of the principal. Agency theory is happened when conflicts interest occur and individuals involve in corporative behaviour, the conflicts happen between the shareholder or owner and the manager (Jensen, n.d.). This statement explains when individual as an agent is hire other agent to manage the company and the other agent should make a decision towards the company. This theory intended to minimize its damage to shareholder wealth, its means that only a steady conclusion which appears and its needed for another (McColgan, 2001). Agency theory is arising when the company wants gain more profit with efficient cost and manage by professionals' employees. It also known as resolving problem theory.

2.1.2. Resource Dependency Theory

According to Pfeffer and Salancik (1978) in Loasby resource dependency theory is a theory that focuses on external relations held by the most important divisions to overcome and solve organizational problems arising from the surrounding environment (Loasby, 1979). The board members serve to connect companies with other external organizations to address environmental deployment. According to pfeffer, there are three attributes of corporate board linkage benefits, including: advice and consultation, legitimacy and communication channels. Gender differences in the board of commissioners and the board of directors are also very possible to produce better information. Women can facilitate communication well, connecting companies, female workers, and the general public.

2.1.3. Stakeholder Theory

Stakeholders are all parties in internal and external that have relationships which influenced the company is directly or indirectly. Stakeholders theory explain the successful of the stakeholder concept in of business ethics and society (Freeman & McVea, 2001). This theory explains that all of stakeholders have right to get information of company activities. Stakeholders also help company management to manage the company efficiently. Its depends on the ability of the company to meet their personal expectations and maximize the utility. This approach also maintains the importance of investing in the relationship with those who have a stake in the company (Freeman & McVea, 2001). Thus it included management to makes and implement the strategic plan. The purpose of this theory is to put moral value from management of the company to the company processes (Freeman & McVea, 2001). The purpose of this theory is to maximise the firm value. In general, this theory as an effort to show about who has interests, related, and engaged in business activities.

2.1.4. Corporate Governance

Corporate governance is a basis tool to build an environment of accountability, trust and transparency. It deals with the company activities, between managers and shareholders (Detthamrong, Chancharat, & Vithessonthi, 2017). Corporate governance is carry lower financial and non-financial risk and generate higher return. Corporate governance is a company system to control its company. By having good corporate governance the company become more efficient and transparent, and build trust between the employees (World Bank, 2014). Corporate governance offers company objectives, includes management, plan and internal control to measure corporate performance. Corporate governance is the main tool to reduce conflicts and could effect on a firm capital structure (Detthamrong et al., 2017).

2.1.5. Corporate Governance Structure

Corporate governance structure of listed companies consists of internal auditor, external auditor, corporate secretary, general meeting of shareholders, Board of Committees, Board of Directors, and Board of Commissioners (World Bank, 2014). The function of general meeting of shareholders is give right to shareholders to participate in GMS due to profit and losses of the company. In this meeting concludes the results of the company during the period. All of board directors present the company performance and they responsible to the results (World Bank, 2014). Board of Commissioners responsible to management regulation and its implementation. This board should capable to make regulation to the company, and they obedience the regulation to the whole company activities. On the other word they have capability to ensure company activities in line with the company objectives (World Bank, 2014). Board of Directors is responsible to daily activities of its company. The Board of Directors is responsible to the general meeting of shareholders (World Bank, 2014). They plays an important part, the optimal board size depends on the firm's characteristics and checking costs (Detthamrong et al., 2017). The other board is Board of Committees, they have responsible to manage and handle or give some guidance to the board directors and board commissioners. This board suggest to create audit committee, risk policy committee, nomination and remuneration committee (World Bank, 2014).

External auditor is one the important structure in corporate governance. It showed that the auditor provides an annual and independent opinion about consolidated financial statements (World Bank, 2014). The last are internal auditor and corporate secretary. The function of this auditor is to strengthen the corporate governance of the company meanwhile the corporate secretary is follow the progress of regulations on capital market, ensure the convenience of information of the company, give opinions Board of Directors, and doings as a communicator between company, *Otoritas Jasa Keuangan* and the public. All of corporate governance structure has their own responsibilities to the company, but they have the same objective to the company. Their job description explain that they also have right to make decision for the company and they also responsible the stakeholder of the company.

2.1.6. Woman on Board Member

Globally, gender interest in management structure becomes greater. Gender interest is proof by recent findings that showed how interest can explain gender difference in several areas. The interest represent beliefs, returns, and financial knowledge of women and men. It also present a social model thinking through the reaction of information (Driva, Lührmann, & Winter, 2016). Gender consist of two types; Male and Female. It's the social difference (Driva et al., 2016). The greater gender in management structure have interest in greeting, developing, and recognizing a wide range of leaderships behaviours in order to strengthen the organizational performance (Desvaux et al., 2017). From several studies showed that one of the principles of board management should ensure all of company activities, effective monitoring of the management, and responsible to the public and shareholders (Musa, Debnárová, Musová, & Krištofík, 2017). The presence of female directors creates a beneficial and more comprehensive in decision-making process for firms. Because females generally expend more effort on their tasks as compared to male (Kılıç & Kuzey, 2016).

According to Smith it stated that the link between ethnic and gender representation on boards and financial performance in a sample of US companies, concluding that gender diversity positively impacted firm performance (Kılıç & Kuzey, 2016). On corporate governance, the board variety has been measured to be an instrument to increase the effectiveness (Kılıç & Kuzey, 2016). Variety can be categorized as gender, age, ethnicity, knowledge, education, values and perception. In this study, we will focus on gender on the corporate governance. Diversity among board members perceived as high profitably and better return on equity in context of firm performance (Hassan, Marimuthu, & Kaur Johl, 2015). Variety also increases the quality of decisions made at individual and group levels in the organizations. In addition to greater gender diversity in top management, companies therefore have every interest in welcoming, nurturing, and recognizing a wide range of leadership behaviours, in order to reinforce all the dimensions of organizational performance.

2.1.7. Firm Performance

Firm performance can be measured using financial analysis that can reflect both the good and bad performance of the company in certain period. According to McKinney stated that a strong correlation between the presence of women in company top management and better financial results (Desvaux et al., 2017). In firm performance measurement uses seven aspects to measures the company. Firm performance can be measure by profitability, growth, market value, customer's satisfaction, employee's satisfaction, environmental performance and social performance (Santos & Brito, 2012). Financial firm performance can be measure by accounting based performance or market based performance. In this study will used accounting based performance since it measured by profitability. Profitability measures the ability of the company to generate returns. Growth measures the firm ability to increase its capacity. And then market value means the amount of external valuation on firm's future performance. Customers satisfaction represent that the company should offer them with greatest good and facilities to meet customers' expectations. The next is employee's satisfaction, it means related to the human resources in the company itself. The last is social and environmental performance represent the company should have responsibilities to the society that affected by the company operation. The example of social and environmental performance is when mining company do their operation, they should have responsible to the continuity of the environment. Because mining company will dig the location and they should responsible to their future environment.

2.1.8. Firm Performance Measurement

Based on the firm performance based accounting, the effective indicator can be measure by several analysis ratios. For profitability of the company it can be measure by return on assets, return on equity, return on investment, earning per share, and return on capital employed (Al-Matari, Al-Swidi, & Fadzil, 2014). This measurement calculates the estimated long run performance and it can meet company expectations in the future.

Profitability is one indicator to measure the financial performance of a company. Profitability described as a user of total assets and net assets effectively (Ramadhani & Adhariani, 2015).

One of the analysis is Return on Asset (ROA). This analysis indicates company's capability to allocate and manage the resources effectively. ROA is how much is profit being generated for each cash of the company has in assets. The higher ROA creates efficient profitability, it stated that ROA represent as indicator of gender diversity studies (Kılıç & Kuzey, 2016). By calculating the net income of the company, the higher the ROA value, the more efficient profit generated from the use of the company's assets. The other measurement is return on equity (ROE). ROE is how well the company using shareholders' equity. This measurement indicates the evaluation, representing the return on shareholder investments (Kılıç & Kuzey, 2016). Besides measuring the firm performance, this study also measures the investment of the company using market to book ratio.

2.1.9. Risk Taking

These days, due to financial crisis, the board members need to improve the effectiveness of risk. In Bank, there are 3 types of risk there are credit risk, market risk and liquidity risk (Haryati & Kristijadi, 2016). Risk is something that is measured by utility of effectiveness performance, distribution of profits and losses that are linked.

2.1.10. Risk Taking Measurement.

According to Abou-El-Sood (2014), risk taking can be measure by Non-Performing Loans since because banks with a higher non-performing loans are expected to reduce their risky loan positions in the following year. While the others stated that risk taking can be measure by Capital Adequacy Ratio, Equity to Assets Ratio, and Z-Score (Ska & Weill, 2018).

2.2. The Relationship Between the Variable

From the several studies showed that there is the influence of gender diversity in corporate governance structure. It shows that female in top management have positive effects on firm performance (Adusei, Akomea, & Poku, 2017). The others indicate that gender diversity have several impacts to the firm performance such as; better quality of decision making, improved corporate governance and ethics, and better to use of the talent (Musa et al., 2017). Corporate governance influence economic and company performance, because they missed of business chances and financial problems would extent rapidly to others company (Hassan Che Haat, Abdul Rahman, & Mahenthiran, 2008). There are strong correlations between different gender equality indicators across 95 countries and with indicators of overall economic development such as per capita GDP and urbanization, and found that these two indicators are linked strongly with virtually all aspects of gender equality in society (Desvaux et al., 2017). It can conclude that both male and female has opportunity to become board in corporate governance structure.

2.3. Review of Previous Study

From several studies concluded that gender in corporate governance structure had several impact to firm performance. Board directors are responsible of daily activities of its company. The board has the control to hire, fire and pay the top-level decision managers and to approve and monitor crucial decisions. Board of directors are generally acknowledged as an key tool for observing the work of managers (Hassan Che Haat et al., 2008). All of corporate governance activities can influence the firm performance. The board should have same objectives to the company.

The amount of the risks taken by the decision maker can be influenced by diversity, one of which is gender diversity. Gender diversity in corporate governance structure such as in Board of Commissioners and Board of Directors will encourage objective and comprehensive decision-making because decisions can be pinched from a variety of perspectives (Ramadhani & Adhariani, 2015). It concluded that in corporate governance, the structure of corporate governance has strong effect actions to the firm performance.

With having good corporate governance, firm can produce their profit effectively. Good governed companies are capable to engage more investment from overseas institution investors and it will affect the profitability in a positive way (Pillai, 2012). Corporate governance measured to be main instrument of firm responsibility in economic parts (Musa et al., 2017).

Companies with female CEO’s tend to grow brighter and less acquisition and debt. This is indicated by lower levels of investment and debt in companies managed by the women CEO. However, the company performance that have female CEO tends to be better than the company's performance rather than the male CEO. This statement proof that female CEO’s tend to take low risk.

Table 4. 1 Literature Review

Tittle	Purposes	Variable	Results
Board and management gender diversity and financial performance of microfinance institutions (Adusei et al., 2017)	To investigate the effect of board gender diversity on the Management performance of MFI.	Independent variable: Board and management gender diversity Variable dependent: financial performance of microfinance intuitions	MFIs with more female board members are better to predict the homo social reproduction theory as well as bottom-up theory. Second female board members hurt the financial performance, but there is no significant relationship between female managers and MFI financial performance.

Diversity, Corporate Governance and Implication on Firm Financial Performance (Hassan et al., 2015)	To examine the effect of diversity on board of directors with regard to firm financial performance.	Independent variable: Diversity, corporate, and implication. Dependent variable: Firm Financial Performance.	Based on the findings it will draw a conclusive statement in the context of diversity and its impact on firm financial performance.
Pengaruh Keberagaman Gender Terhadap Kinerja Keuangan Perusahaan dan Efisiensi Investasi (Ramadhani & Adhariani, 2015)	To examine the influence of gender diversity on boards commissioners and directors of the company's financial performance and efficiency of investment.	Independent variable: Keberagaman Gender Dependent variable: Kinerja Perusahaan (ROA).	The results indicate that gender diversity on boards of commissioners and board of directors does not have a significant effect, both of financial performance as well as to the efficiency of the investment.
The effect of board gender diversity on firm performance: evidence from Turkey (Kılıç & Kuzey, 2016)	To determine board characteristics of listed companies in Turkey and investigate the effect of board gender on the performance of these companies.	Independent Variable: Board gender diversity. Dependent Variable: Tobin's Q, ROI, ROA, ROE, ROS.	The gender composition of BoD has attracted significant attention by many parties including policymakers, regulatory bodies, governments, companies, managers, and shareholders, because of its impact on corporate governance.

Corporate governance and risk taking: the role of board gender diversity (El-Sood, 2018)	To investigate the association between board gender diversity and bank risk taking in an emerging market context	Independent Variable: Risk Taking Dependent Variable: Female CEO	Female directorship is found to be negatively associated with bank risk taking, after controlling for concentrated ownership structure, managerial ownership, board size and outside directorship.
CEO gender, corporate risk-taking, and the efficiency of capital allocation (Faccio, Marchica, & Mura, 2016)	To investigate the relation between CEO gender, corporate risk-taking choices, and the efficiency of capital allocation.	Independent Variable: Female CEO Dependent Variable: Leverage.	Statistically significant association between CEO gender and corporate risk-taking.
The effect of GCG implementation and risk profile on financial performance at go-public national commercial (Haryati & Kristijadi, 2014)	To test the effect of the risk profile and the application of GCG on financial performance at go-public national commercial banks.	Independent Variable: Good Corporate Governance Dependent Variable: Risk Profile and Financial Performance.	Risk profile has no significant and positive effect on the performance of the bank.
Does CEO gender matter for bank risk? (Skałaa, & Weillb, 2018)	To provide new evidence on the relation between the gender of CEOs and bank risk	Independent Variable: Female CEO Dependent Variable: Bank Risk	Female CEO is significantly positive when explaining the capital adequacy and equity to assets and not significant for

			both credit measures.

2.4. Hypothesis Development

Resource dependency theory believed that there was a possibility relationship board diversity and performance firms. However, agency theory also argues that there is no significant relationship between board diversity and firm performance, although the proportion woman on board gives better management supervision. On corporate governance, the board variety has been measured to be an instrument to increase the effectiveness (Kılıç & Kuzey, 2016). Variety can be categorized as gender, age, ethnicity, knowledge, education, values and perception. In this study, we will focus on gender on the corporate governance. Diversity among board members perceived as high profitably and better return on equity in context of firm performance (Hassan et al., 2015). Variety also increases the quality of decisions made at individual and group levels in the organizations.

According to McKinney stated that a strong correlation between the presence of women in company top management and better financial results (Desvaux et al., 2017). The presence of female directors creates a beneficial and more comprehensive in decision-making process for companies. Because females generally expend more effort on their tasks as compared to male (Kılıç & Kuzey, 2016). According to Smith it stated that the link between ethnic and gender representation on boards and financial performance in a sample of US companies, concluding that gender diversity positively impacted firm performance (Kılıç & Kuzey, 2016). Even though the member is diverse, they will have creative and innovative ideas to take decision for the company.

H1a: *The proportion of female on board directors affect positively firm performance*.

H1b: *The proportion of female on board commissioner affect positively firm performance.*

Female in corporate governance structure possess more effective leadership styles and have better management skills. Female leaders use five of those leadership behaviours more often than their male counterparts: people development, expressing expectations and rewarding success, role-modelling, inspiration, and participative decision-making (Desvaux et al., 2017). Stakeholder theory believe that there no significant association exits between gender diversity and firm financial performance, putting women on the board is still giving a good signal to stakeholders and society.

Women, through their leadership behaviours, help to improve companies' organizational performance by reinforcing five of the dimensions (vision, motivation, accountability, leadership, work environment, and values), and particularly the last three (Desvaux et al., 2017). Thus the greater gender diversity in top management, companies therefore have every interest in welcoming, nurturing, and recognizing a wide range of leadership behaviours, in order to reinforce all the dimensions of organizational performance. The effective leadership styles create good firm performance. Female also more well-ordered to manage the company rather than male board.

Bank boards are expected to boost risk taking in an attempt to align risk preferences. Diverse boards including females have a relatively different insight and a fresh perspective. Based on resource dependence theory, boards serve as a link to the firm with other organizations to benefit from information expertise, support from important groups and the creation of legitimacy for the firm.

This study tends to analyse the differences in gender characteristics of risk-taking behaviour applies. Thus that female in top management avoid funding and investment. Female board tend to avoid risks thus female board make funding and investment decisions with lower levels of rather than to male board. Thus big companies should have consideration for women.

H2a: *The proportion of female on board directors affect positively firm risk taking.*

H2b: *The proportion of female on board commissioner affect positively firm risk taking.*

2.5. Theoretical Framework

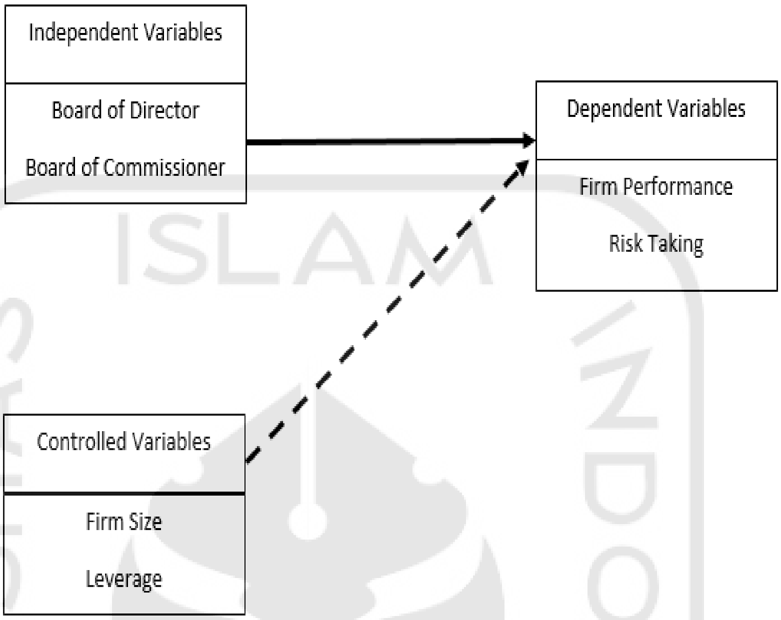

Figure 2.1 Theoritical Framework