DOES COMMISSIONER/DIRECTOR BOARD MEMBERS DIVERSITY MATTER?

Widyahayu Warmmeswara Kusumastati, University of Indonesia and Jenderal Soedirman University

ABSTRACT

This research aims to know the impact of commissioner/director board member diversity on a company's performance. The diversity includes diversity in age, gender, tenure, culture, education level, expertise (accounting and financial expertise, legal expertise, and business expertise), business and industry experiences. The research method of this research is as follow: first, this research constructed the Index of Commissioner Board Members Diversity and Index of Director Members Diversity. Each element in the Commissioner/Director Board Members Diversity Index (which are age diversity, gender diversity, etc.) is measured by Herfindahl Index. Herfindahl Index is used to express the diversity of board members characteristic. Then, each elements is combined together to construct Index of Commissioner Board Members Diversity and Index of Director Members Diversity. Second, this study employed multiple linear regression tests. The research was done on the Indonesian Stock Market during 2014-2018. The results showed that commissioner/director member's diversity matters. Commissioner/director member diversity influences the company's performance.

Keywords: Commissioner/Director, Board Member Diversity

INTRODUCTION

The board of commissioners is one of the many corporate governance mechanisms that have been researched recently. In a country with a one-tier board system, the existence of a board of commissioners is used as an extension of the shareholders to control the management of the company. The diversity of members of the board of commissioners is considered important because it can increase creativity and innovation, so that problems that occur in the company can be resolved properly, and can better understand the company's market share and have access to the resources needed by the company (Carter et al., 2003; Mishra & Jhunjhunwala, 2013). Several previous studies can prove that the diversity of characteristics of board members affects company performance (Bernile et al., 2018; Kagzi & Guha, 2018).

Meanwhile, in countries with two-tier board systems, there are two boards with different functions. First, the board of commissioners whose function is to provide advice and supervision to the company (based on the Indonesian Financial Service Authority Rules No.33/POJK.04/2014). This provision of advice and supervision is carried out by several committees on the board of commissioners, such as the risk monitoring committee, nomination, and remuneration committee, audit committee, and others. Second, directors who are assigned and fully responsible for managing public companies for the benefit and in line with the objectives of the public company (based on Indonesian Financial Service Authority Rules No.33/POJK.04/2014). The duties of the board of directors are carried out by several functions or directorates, namely the production function, marketing function, financial function, and others. Although strategic decision-making is carried out together, technical decision-making is still carried out by each function/directorate (on the board of directors) and each committee (on the board of commissioners).

The diversity of the characteristics of the board of commissioners is thought to affect company performance. Several previous studies have shown that the diversity of characteristics of members of the board of commissioners and directors is important. For example, Hoang, et al., (2018), proved that demographic attribute diversity within the board of commissioners had a positive effect on continuing disclosure. Meanwhile, diversity between boards of commissioners (*i.e.,* differences in the size of the board of commissioners) proved to have no significant effect on the company's ongoing disclosure.

This research was conducted in Indonesia by taking a sample of public companies included in the agricultural industry. This was done because Indonesia is a country that adopts a two-tier board system. In addition, because Indonesia is an agricultural country, this study took agricultural industry companies as the sample.

This research was conducted by examining the influence of the commissioner/director board index on the company's performance. The results of this study showed that commissioner/director diversity influences a company's performance significantly.

The research gap in this study is that there is no previous research that constructs the commissioner/director diversity index with some characteristics of the members of the board of commissioners/directors simultaneously. Thus, the contribution of this research is to provide empirical evidence regarding the index of commissioner/director board members' characteristics.

This paper is organized as follows: the second section reviews the theories, related literature, and hypothesis development. The third section describes the research design, sample employed, and data analysis method. The fourth section presents the empirical results, while the conclusions are presented in the final section.

Theories, Literature Review, and Hypothesis

Human Capital Theory

Becker developed this theory (1964). Becker (1964) defined human capital resources as activities that, by increasing human capital, can influence future monetary and physical income. Attending schools, workshops, and medical care, as well as obtaining price and income information, are examples of methods used (Teixeira, 2014).

Upper Echelon Theory

This theory states that organizational results are partly influenced by the characteristics of managers (Hambrick & Mason, 1984). The logical thinking process is as follows: the manager cannot observe all aspects of the organization and its environment, therefore, the attention area is limited, so that the vision is also limited (Hambrick & Mason, 1984). Because the manager’s perception is limited, he selectively perceives only several phenomena that are included in his vision (Hambrick & Mason, 1984). Then, only some information selected for processing is interpreted by managers (Hambrick & Mason, 1984).

Board of Commissioner/Director Member Characteristics

Age is considered as one of the board of commissioner/director member's characteristics that are important to study because it describes the ability, experience, and motivation of a person, as well as effective decision making (Xu et al., 2017). The results prove that CEOs make less financial fraud when the average age of board members decreases (Xu et al., 2017).

The results of previous studies showed that there is a significant relationship between board gender diversity and company performance (Conyon & He, 2017; Ali et al., 2017). The gender diversity of board members is negatively related to the level of information asymmetry in the capital market (Abad et al., 2017).

Culture is presented by the nationality of the commissioner/director board member. The presence of foreign directors is positively associated with the heterogeneity of shareholders, international market operations, and operational performance (Estelyi & Nisar, 2016). The reason is that foreign directors bring knowledge about international markets (Estelyi & Nisar, 2016). However, cultural diversity was also found to be negatively associated with company performance (Meca, 2015; Masulis et al., 2012). Foreign board members are also found to have poor meeting attendance records and are associated with the possibility of financial reporting fraud (Masulis et al., 2012).

Tenure describes how long someone is a member of the board of commissioners/directors in the company (Lu et al., 2017). Tenure diversity is important because board members with long and short tenure have different knowledge about the company. Previous research proved that the longer the tenure of board members, the better the company's performance (Lu et al., 2017). Meanwhile, Vafeas (2003) proposed two hypotheses on the tenure of board members. Expertise hypothesis, views that if someone becomes a member of the company board, then this is due to his/her expertise. While management-friendliness hypothesis stated that if someone becomes a board member in a company; then this is due to the excellent friendship between management and board members.

Romano & Guerrini (2014) proved that board members' educational backgrounds affect companies' performance. A director, with a bachelor's degree and is a senior director, harms companies' profitability. Next, Sitthipongpanich & Polsiri (2015) proved that a CEO, with a doctoral degree, proved to negatively associate with company values.

The expertise's considered important to be examined in this study are accounting and financial expertise, legal expertise, and business expertise. The members of the board of commissioner, who also serve as the audit committee chairman, must master the financial reporting process (including the audit process) to ensure good quality of financial reporting (DeFond et al., 2005). Legal expertise is also needed as a supervisor (monitor) rather than as a signal of the quality of financial reporting (Krishnan et al., 2011). Next, business expertise is also important to be studied, because the members of the board of commissioners/directors, with business expertise, are considered to have the ability to learn company strategies easier and quicker (Holmstrom, 2005).

This study only examined the busyness of the members of the board of commissioners. This research did not examine the busyness of the members of the board of directors, because it is the consequence of his/her responsibility. A busy member of the board of commissioner is considered to have better abilities in providing advice and supervision to the company (Cashman et al., 2012). Field and Mkrtchyan (2013); Cashman et al., (2012) prove that the director's busyness is positively related to firm value.

Industrial experience means that the member of the board of commissioners/directors has experience being a member of the board of commissioners, directors, or managers in a particular industry for several years. Board members with industrial experience produce higher company value (Drobetz et al., 2018).

Hypothesis Development

According to human resource theory, the board of commissioners/directors brings a variety of knowledge, expertise, and experience, as well as unique human resources, into the board of commissioners' meeting rooms, which benefits the company (Talavera et al., 2018).

The diverse age of commissioner/director board members is assumed to have a positive influence on a company's performance (Talavera et al., 2018). Old directors are assumed to have enough experience in the operating company, while young directors are assumed to be energetic, and capable with new technology (Mishra dan Jhunjhunwala, 2013). That's why, board, of diverse ages, have a better understanding of market and industry conditions that will improve the company's performance.

Companies with female members of the board of commissioner/director are expected to improve the company's performance because the female director brings creativity, innovation, and new knowledge in the board room so that it becomes a competitive advantage for the company (Ahmadi et al., 2018); female directors have better multi-tasking skills, and better communication skills than male directors (Ahmadi et al., 2018; Conyon & He, 2017); female directors are more inclined to different opinions, generate information from all other board members, and adopt cooperative decision making to stimulate cooperation in groups (Conyon & He, 2017), gender diversity can reduce 'group thinks', which is the tendency of individuals act in groups to succumb to consensus decisions without critical evaluation of the ideas or opinions of other board members (Conyon & He, 2017).

The more diverse the culture, the higher the company's performance. This is because companies with foreign directors can make better cross-border acquisitions when the target of acquisition is the countries of origin of the foreign directors, better explore opportunities in the international market (Estelyi & Nisar, 2016).

Commissioner/director's tenure has also a strong impact on company performance. Previous research has shown that directors need three to four years to gain sufficient knowledge of the company, as well as more time to understand the company in more detail (Lu et al., 2017).

Members of the board of commissioners/directors with various levels of education have diverse perspectives, thoughts, and networks (Sittipongpanich & Polsiri, 2015; Bernile et al., 2018). This is necessary to understand the company and then to improve the company's performance.

The diversity of commissioners/directors board member's expertise is thought to improve company performance. Accounting and financial expertise are needed to oversee the financial reporting process carried out by the company (De Fond, 2005). Legal expertise is needed to help companies to comply with applicable rules or laws (Krishnan et al., 2011). As for business expertise, companies are needed to win the competition in the industry where the company is located (Holmstrom, 2005; Sitthipongpanich & Polsiri, 2015). All of this expertise is needed to manage the company, to improve company performance.

The diversity of industry experience is thought to have a positive effect on company performance. Members of the board of commissioners/directors with industry experience are more aware of opportunities and threats in the industry where the company is located, more familiar with products from the industry and the technology used (Drobetz et al., 2018). These are needed to improve the company's performance.

Furthermore, the diversity of the busyness of commissioners/directors board members is thought to have a positive effect on the company's performance. Busy directors are considered to have a lot of experience and can provide advice on the company's decision-making (Ferries et al., 2018). While less busy directors are considered to have a lot of time to focus on the company (Cashman et al., 2012). Busy and less busy board members have different benefits to the company, both are needed to improve the company's performance.

H1: Commissioner board member diversity influences the company's performance.

Based on the upper echelon theory, the organizational outcome is the output of top management characteristics (Hambrick & Mason, 1984). To create organizational outcome, top management use strategies. These strategies are influenced by managerial background characteristics (Hambrick & Mason, 1984). For example, directors with accounting and financial expertise will make financial strategies better than a director with law expertise.

Filley, et al., (1976) stated that homogenous groups are best for routine problem solving, while the heterogeneous group is best for novel problem-solving. This is because diverse opinion, knowledge, and background produced by directors board, enable directors to make several alternatives of problem-solving that is useful for unstable conditions.

Diverse directors/top management are diverse in age (Xu et al., 2017; Talavera et al., 2018), gender (Abad et al., 2017; Ahmadi et al., 2018; Ali et al., 2017; Conyon & He, 2017), culture (Estelyi dan Nisar, 2016), tenure (Lu et al., 2017), an education level (Romano & Guerrini, 2014; Sittipongpanich dan Polsiri, 2015), school origin (Bernile et al., 2018), and industry experience (Drobetz et al., 2018). Diverse directors will bring diverse knowledge, experience, and point of view that will give benefit companies. Because of that, the next hypothesis is:

H2: Director board member's diversity influences the company's performance.

RESEARCH METHODS

Data Collection and Sample Selection

This study's data comes from financial statements, notes to financial statements, and Thomson Reuters Data Stream. The population consists of all public companies that are listed on the Indonesia Stock Exchange. The following criteria were used to select samples at random with a purpose (purposive random sampling): First, registered on the Indonesia Stock Exchange as agriculture industry, during the research period, which was 2014 to 2018. The research period was chosen from 2014 to 2008, based on the Indonesian Financial Services Authority Regulation No. 33/POJK.04/2014 on the board of commissioners and directors, as well as the 2014 Annual Report Award (ARA), which began to include the diversity of the board of commissioners and directors as a criterion for good corporate governance. Second, had the necessary data for this study.

Data Analysis Method

To begin, this research creates an Index of Commissioner/Director Board Member Diversity. Second, a multiple linear regression test is used in this study to examine the impact of commissioner/director board diversity on a company's performance.

Following Bernile, et al., (2018), components constructing Index, are normalized by deducting it with its average and then dividing it with its standard deviation. This is done so that their scales are comparable, and then each component is given the same weight. Every component constructing index is calculated by Herfindahl Index, except age and tenure. Age and tenure are calculated by standard deviation. Herfindahl Index is used because it can reflect the diversity of each component. To calculate the index, diversity of age was added with a diversity of tenure. Because, age and tenure have the same characteristics, which is the more diverse of age/tenure, the higher the index. Meanwhile, the higher the gender/culture/education/expertise/ busyness/industry experience, the lower the index. That is why gender, culture, expertise, busyness, and industry experience were deducted from the commissioner/director board diversity index.

The Index of Commissioner Board Members Diversity (IKDK) and Index of Director Members Diversity (IKD) is calculated as follow:

$$IKDK_{i,t} = STDZ(AGE_{i,t}) - STDZ(GENDER_{i,t}) - STDZ(CULTURE_{i,t}) + STDZ(TENURE_{i,t}) - STDZ(EDUCATION_{i,t}) - STDZ(EXPERTISE_{i,t}) - STDZ(BUSY_{i,t}) - STDZ(IND\ EXP_{i,t}) \quad (1)$$

$$IKD_{i,t} = STDZ(AGE_{i,t}) - STDZ(GENDER_{i,t}) - STDZ(CULTURE_{i,t}) + STDZ(TENURE_{i,t}) - STDZ(EDUCATION_{i,t}) - STDZ(EXPERTISE_{i,t}) - STDZ(IND\ EXP_{i,t}) \quad (2)$$

While the components of the Index are calculated as follows:

$$AGE_{i,t} = stdev(BOARD\ AGE_{i,t}) \quad (3)$$

$$GENDER_{i,t} = \left(\frac{TotalFemale_{i,t}}{TotalBoardMember_{i,t}}\right)^2 + \left(\frac{TotalMale_{i,t}}{TotalBoardMember_{i,t}}\right)^2 \quad (4)$$

$$CULTURE_{i,t} = \left(\frac{Total\ Indonesian\ Culture_{i,t}}{Total\ Board\ Member_{i,t}}\right)^2 + \left(\frac{Total\ Foreign\ Culture_{i,t}}{Total\ Board\ Member_{i,t}}\right)^2 \quad (5)$$

$$TENURE_{i,t} = sd(Member\ In\ Years_{i,t}) \quad (6)$$

$$EDUCATION_{i,t} = \left(\frac{Total\ Bachelor\ Degree_{i,t}}{Total\ Board\ Member_{i,t}}\right)^2 + \left(\frac{Total\ Master\ Degree_{i,t}}{Total\ Board\ Member_{i,t}}\right)^2 + \left(\frac{Total\ Doctoral\ Degree_{i,t}}{Total\ Board\ Member_{i,t}}\right)^2 + \left(\frac{Total\ Other\ Degree_{i,t}}{Total\ Board\ Member_{i,t}}\right)^2 \quad (7)$$

$$EXPERTISE_{i,t} = \left(\frac{Total\ Act\ Fin\ Expertise_{i,t}}{Total\ Board\ Member_{i,t}}\right)^2 + \left(\frac{Total\ Law\ Expertise_{i,t}}{Total\ Board\ Member_{i,t}}\right)^2 + \left(\frac{Total\ Business\ Expertise_{i,t}}{Total\ Board\ Member_{i,t}}\right)^2 + \left(\frac{Total\ Other\ Expertise_{i,t}}{Total\ Board\ Member_{i,t}}\right)^2 \quad (8)$$

$$BUSY_{i,t} = \left(\frac{Total\ One\ Company\ Com_{i,t}}{Total\ Board\ Member_{i,t}}\right)^2 + \left(\frac{Total\ 2\ Companies\ Coms_{i,t}}{Total\ Board\ Member_{i,t}}\right)^2 + \left(\frac{Total\ 3\ Companies\ Coms_{i,t}}{Total\ Board\ Member_{i,t}}\right)^2 + \left(\frac{Total\ 4\ Companies\ Coms_{i,t}}{Total\ Board\ Member_{i,t}}\right)^2 + \left(\frac{Total\ 5\ Companies\ Coms_{i,t}}{Total\ Board\ Member_{i,t}}\right)^2 \quad (9)$$

$$IND\ EXP_{i,t} = \left(\frac{Total\ One\ Ind\ Exp_{i,t}}{Total\ Board\ Member_{i,t}}\right)^2 + \left(\frac{Tot\ More\ Than\ One\ Ind\ Exp_{i,t}}{Total\ Board\ Member_{i,t}}\right)^2 \quad (10)$$

Next, to test the influence of the Index of Commissioner Board Diversity (IKDK) and Index of Director Diversity (IKD), on a company's performance; this research use regression equation as follow (Ahmadi et al., 2018; Conyon dan He, 2017; Estelyi dan Nisar, 2016;):

$$ROE_{i,t} = \alpha + \beta_1 IKDK_{i,t} + \beta_2 IKD_{i,t} + \beta_3 BOARD\ SIZE_{i,t} + \beta_4 INDEP_{i,t} + \beta_5 BOARD\ MEETING_{i,t} + \beta_6 LEV_{i,t} + \beta_7 SALES_{i,t} + \varepsilon \quad (11)$$

While the dependent and independent variables are calculated as follows:

$$ROE_{i,t} = \frac{IBEI_{i,t}}{Tot\ Equity_{i,t}} \quad (12)$$

$$BOARD\ SIZE_{i,t} = Total\ Board\ Member_{i,t} \quad (13)$$

$$INDEP_{i,t} = \left(\frac{Total\ Independent\ Boaed\ Member_{i,t}}{Total\ Board\ Member_{i,t}}\right)^2 + \left(\frac{Total\ Non\ Independent\ Boaed\ Member_{i,t}}{Total\ Board\ Member_{i,t}}\right)^2 \quad (14)$$

$$BOARD\ MEETING_{i,t} = Tot\ Annual\ Board\ Meeting_{i,t} \quad (15)$$

$$LEV_{i,t} = \frac{Tot\ Debt_{i,t}}{Tot\ Assets_{i,t}} \quad (16)$$

$$SALES_{i,t} = Log\ (Tot\ Sales_{i,t}) \quad (17)$$

Where:

$IKDK_{i,t}$/ $IKD_{i,t}$ =Commissioner/Director Board Members Diversity Index of the company "i" in year "t"
$AGE_{i,t}$/ $GENDER_{i,t}$/$CULTURE_{i,t}$ =Age /Gender/Culture diversity Index of company "i" in year "t"
$TENURE_{i,t}$/ $EDUCATION_{i,t}$ Tenure diversity Index of the company "i" in year "t"
$EXPERTISE_{i,t}$/ $BUSY_{i,t}$ =Expertise/ Busyness diversity Index of company "i" in year "t"
IND $EXP_{i,t}$=Industry experience diversity Index of the company "i" in year "t"
BOARD $AGE_{i,t}$=Age of each commissioner/director board member of the company "i" in year "t"
$ROE_{i,t}$=Return on Equity on the company "i" in year "t"
BOARD $SIZE_{i,t}$=Size of commissioner/director board on the company "i" in year "t"
$INDEP_{i,t}$=Index of independency of Commissioner Board Member on the company "i" in year "t"
BOARD $MEETING_{i,t}$=Total Commissioner/director board meeting on the company "i" in year"t"
$IBEI_{i,t}$=Income before Extraordinary Item on the company "i" in year "t"
$LEV_{i,t}$=Leverage on the company "i" in year "t"
Total $Female/Male_{i,t}$=Total female/male board member of the company "i" in year "t"
Total Board $Member_{i,t}$=Total board member of the company "i" in year "t"
Member in $Years_{i,t}$=Total years in which board member hold the position on the company "i" in year "t"
Total Bachelor/Master/Doctoral/Other $Degree_{i,t}$=Total board member of the company "i" in year "t" that hold bachelor/master/doctoral/other degrees as the latest degree
Total Act Fin/Fin/Business/other $Expertise_{i,t}$=Total board member of the company "i" in year "t" that has accounting and financial/law/business/other expertise
Total One/2/3/4/5 Companies $Coms_{i,t}$=Total board member of the company "i" in year "t" who serves as a commissioner board member in one/2/3/4/5 companies
Total One/More than One Ind $Exp_{i,t}$=Total board member of the company "i" in year "t" that has only one/more than one industry experience
Tot $Equity_{i,t}$/ $Debt_{i,t}$/$Asset_{i,t}$ =Total Equity/Debt/Assets on company "i" in year "t"
Total Independent/Non-Independent Board $Member_{i,t}$=Total independent/non-independent commissioner board member on the company "i" in year "t"
Tot Annual Board $Meeting_{i,t}$=Total Commissioner/director Board meeting annually on the company "i" in year "t"
$SALES_{i,t/}$ Tot $Sales_{i,t}$=Total Sales/ Total Sales in Rupiah on company "i" in year "t"

EMPIRICAL RESULTS

This study employs a sample of agricultural-related public companies listed on the Indonesia Stock Exchange. This study includes 21 agricultural companies. This study employs 104 company years of data over a 5-year research period (2014-2018). Only one company year was not used in this study due to a lack of data.

Table 1 REGRESSION RESULTS				
$ROE_{it} = \alpha_0 + \beta_1 IKDK_{it+} \beta_2 IKD_{it+} \beta_3 BOADSIZE_{it+} \beta_4 INDEP_{it+} \beta_5 BOARD\ MEETING_{it+} \beta_6 LEV_{it+} \beta_7 SALES_{it+} \varepsilon_{it}$				
Variable	**Sign Expectation**	**Coeficient**	**t-value**	**Significancy value**
IKDK	+	6.568,636	-2.56	*0.057
IKD	+	-11.766,130	1.93	**0.012
BOARD SIZE	+	7.749,983	1.57	0.119
INDEP	+	15.813,270	0.55	0.585
BOARD MEETING	+	-556,043	-0.22	0.823
LEV	-	-1,172	-22.67	***0.000
SALES	+	-23.797,66	-1.65	0.103

Konstanta	No expectation	1.038.094	11.76	***0.000
N=91 R-Square 86.83% Prob. F (Stat) ***0.000				
***Significant on 99%; ** Significant on 95%; * Significant on 90%				

The significance value of the Index of Commissioner Board Member Diversity (IKDK) is 0.057, according to the table above. As a result, we can conclude that the Index of Commissioner Board Member Diversity has a significant impact on a company's performance (ROE) at a significance level of 90%. Then we can accept hypotheses one.

The human capital theory can explain this result. Diverse commissioner board members can bring their distinct human capital to the commissioner board meeting room, benefiting the company (Becker, 1964). A company can use the commissioner board's capabilities to improve its performance.

For example, the company's commissioner board members are of varying ages. The young commissioner board member will provide the company with rapid adaptation to new technology, has a strong sense of adventure (Mishra & Jhunjhunwala, 2013), and is able to socialize with other young entrepreneurs (Kagzi & Guha, 2018). Meanwhile, an old commissioner board member will provide a company with human capital that has a good relationship with senior managers/directors of well-established companies (Kagzi & Guha, 2018), has more experience and broad knowledge (Mishra & Jhunjhunwala, 2013), and is less likely to commit fraud (Talavera et al., 2018). The company's performance will improve as a result of the diverged human capital.

The diverged expertise of commissioner board members will also contribute to diverged human capital. Law expertise will contribute to firm compliance with the law in Indonesia (Krishnan et al., 2011). Accounting and financial expertise will provide the company with human capital who can oversee the financial reporting process, and make sure high quality of financial reporting (DeFond et al., 2005). While business expertise will contribute to human capital who can learn the company’s strategies fast and easily (Holmstrom, 2005; Sittipongpanich & Polsiri, 2015).

This result research, which is Commissioner Board Member Diversity Index increase company’s performance on 90% confidence level, support the research results of Bernile et al., (2018), Kagzi & Guha (2018). If related to the next research result, that Director Board Member Diversity Index increase company’s performance on 95% confidence level, there is a possibility that the influence of the Director Board Member Diversity Index is enough to increase the company’s performance, so that the Commissioner Board Member Diversity Index has low influence to company’s performance.

Based on table 1, we can see also that the significance value of the Index of Director Member Diversity (IKD) is 0.012. Then, we can accept hypothesis two, which stated that director member diversity influences the company’s performance.

The result is following the upper echelon theory. Organizational outcomes can be predicted by managerial background characteristics (Hambrick & Mason, 1984). The organizational outcome, which is firm performance, is the result of top management strategies. Strategies are the reflection of knowledge, opinion, and background of top management (Hambrick & Mason, 1984). In this research, the diversity of director board members was found to influence firm performance. The diversity includes diversity in age, gender, tenure, culture, education level, expertise, and industry experiences.

The short and long tenure of directors also contributes benefits to companies. Directors with short tenure have new ideas, views, and opinions about the problems faced by the company. While long tenure has deep knowledge about the company so that he/she can solve the company’s problem thoroughly (Lu et al., 2017).

The education level of directors contributes benefits to the company. Directors with diverse education levels (bachelor's degree, master's degree, doctoral degree, and other degrees) give different opinions and points of view about problems faced by the company (Sittipongpanich & Polsiri, 2015), so that company's performance will improve.

CONCLUSIONS

Based on regression test results, commissioner/director board member diversity influences the company's performance. So, the diversity in commissioner and director board member characteristics matters.

REFERENCES

David, A., Lucas-Perez, M.E., Minguez-Vera, A., & Yague, J. (2017). Does gender diversity on corporate boards reduce information asymmetry in equity markets? *Business Research Quarterly,* 20, 192-205.

Ali, A., & Bouri, N.N.D.A. (2018). Chief executive officer attributes, board structure, *gender* diversity, and firm performance among french cac 40 listed firms. *Research in International Business and Finance,* 44, 28 – 226.

Mohsin, A., & Azmi, W. (2016). Religion in the boardroom and its impacts on Islamic banks' performance. *Review of financial economics,* 31, 83-88.

Becker, G.S. (1964). Human capital: A theoretical and empirical analysis with special reference to education. chicago. IL: University Chicago Press.

Gennaro, B., Bhagwat, V., & Yonker, D.S. (2018). Board diversity, firm risk and corporate policy. *Journal of Financial Economics,* 127, 588–612.

Boyd, B. (1990). Corporate linkage and organizational environment: A test of the resouce dependence model. *Strategic Management Journal,* 11, 419-430.

Carter, D.A., Simkins, B.J., & Simpson, W.G (2003). Corporate governance, diversity board, and firm value. *The Financial Review,* 38, 33-53.

George, C.D., Gillian, S.L., & Jun, C. (2012). Going overboard? On busy directors and firm value. *Journal of Banking & Finance,* 36, 3248 - 3259.

Martin, C.J., & He, L. (2017). Firm performance and boardroom *gender* diversity: A quantile regression approach. *Journal of Business Research,* 79, 198-211.

Fond, D.M.I., Hann, R.N., & Hu, X. (2005). Does the market value financial expertise on audit committees of the board of directors? *Journal of Accounting Research,* 43,153-193.

Wolfgang, D., Meyerinck, F.V., Oesch, D., & Schmid, M. (2018). Industry expert directors. *Journal of Banking and Finance,* 92, 195-215.

Saghy, E.K., & Nisar, T.M. (2016). Diverse boards: Why do firms get foreign nationals on their boards? *Journal of Corporate Finance,* 39, 174–192.

Stephen, F.P., Jayyaraman, N., & Min-Y, D. (2018-b). Better directors or distracted directors? An international analysis of busy boards. *Global Finance Journal.* Article in Press.

Field, Laura Casares dan Anahit Mkrtchyan. (2017). The effect of director experience on acquisition performance. *Journal of Financial Economics,* 123, 48-511.

Filley, A.C., House, R.J., & Kerr, S. (1976). *Managerial process and organizational behavior.* Glenview, III, Scott Foresman.

Donald, H.C., & Mason, P.A. (1984). Upper echelons: The organization as a reflection of its top managers. *Academy of Management,* 9(2), 193-206.

Abeysekera, H.T.C.I., & Ma, S. (2018). Board diversity and corporate social disclosure: Evidence from vietnam. *Journal of Business Ethics,* 151, 833-852.

Holmstrom, B. (2005). Pay without performance and the managerial power hypothesis: A comment. *Journal of Corporation Law,* 30, (4), 703-715.

Gua, K.M.D.M. (2018). Does board demographic diversity influence firm performance? Evidence from indian-knowledge intensive firms. *Benchmarking: An International Journal,* 25 (3), 1028-1058.

Krishnan, J., Wen, Y., & Zhao, W. (2011). Legal Expertise on corporate on corporate audit committee and financial reporting quality. *The Accounting Review,* 86, 2099-2130.

Cheng-Shou, L., Chen, A., & Kao, L. (2017). How product market competition and complexity influence the job-learning effect and entrenchment effect of board tenure. *International Review of Economics and Finance,* 50, 175-195.

Garcia, M.E., Sanchez, I.M.G., & Ferrero, J.M. (2015). Board diversity and its effects on bank performance: An international analysis. *Journal of Banking and Finance,* 53, 202-214

Ronald, M., & Fei-Xie, C.W.D. (2012). Globalizing the boardroom – the effect of foreign directors on corporate governance and firm performance. *Journal of Accounting and Economics.* 53, 527 – 554.

Kumar, M.R., & Jhunjhunwala, S. (2013). *Diversity and the Effective Corporate Board.* Academic Press.

Giulia, R., & Guerrini, A. (2014). The effects of ownership, board size, and board composition on the performance of water utilities. *Utility Policies,* 31, 18-28.

Thitima, S., & Polsiri, P. (2015). Do the ceo and board characteristics matter? A study of thai family firms. *Journal of FamilyBusinessStrategy,* 6, 119-129

Oleksandr, T., Yin, S., & Zhang, M. (2018). Age diversity, directors personal values, and bank performance. *International Review of Financial Analysis,* 55, 60-79.

Nuno, T.P. (2014). Gary becker's early work on human capital – collaborations and distinctiveness. *Journal of Labor Economics,* 3, 12.

Vafeas, N. (2003). Length of board of tenure and outside director independence. *Journal of Business Finance Accounting,* 30, 1043-1064.

Yuehua, X., Zhang, L., & Chen, H. (2017). Board age and corporate financial fraud: An interactionist view. *Long Range Planning.* Article in Press.