CHAPTER 1
INTRODUCTION

1.1 Introduction

This chapter provides information about background of study, problem statement of the study, research objective, research question, significant of study, limitation of study, and definition of key terms.

1.2 Background of the Study

Companies play an important role in increasing the country's economic growth. This has a relationship with the contribution of companies in having jobs, and the creation of economic resources, as well as tax revenues to the state. Manufacturing companies are business entities that operate machinery, equipment and labor in a medium process to convert raw materials into finished goods that have a sale value (Salamadian, 2017).

The company's financial performance is a description of the company's financial condition in a certain period with the company's activities generating profits effectively and efficiently. Financial performance is one of the determinants for potential investors in determining stock investment. For companies, maintaining and improving financial performance is one of the obligations so that investors have an interest in making or maintaining investments in stocks. Financial performance can provide an overview of the work results and financial condition of a company over a certain period of time.

Company profits can show their financial performance. The more profit that is made, the better the financial performance achieved as expected. It shows the company's ability to manage existing resources, which makes it important (Nurhayati, 2020).

The Board of Directors as the company's internal party is responsible for managing the company. all members of the Board of Directors carry out their duties and make decisions in accordance with the division of tasks and authority.

The board of directors is responsible for managing the company with good faith and full responsibility, as well as personally for the company's losses arising from the negligence of the directors in carrying out their duties for the benefit of the company. The more members of the Board of Directors, the more specific the division of tasks for each member will be. In addition, the more members of the Board of Directors, the better the network with external parties of the company (Salamadian, 2017).

1.2.1 Background of Board of Director

Available resources are essential for business growth and sustainability. Boards of directors bring valuable resources to the company through the external networks and relationships they build. Therefore, various attributes of the board of directors play an important role in improving financial performance through change and decision making. If the number of directors is relatively large, they may concentrate on more than one thing. They can also spread across the different areas they control, letting them focus more on the tasks and authority assigned to them. A larger board of directors can help build relationships with the company's external environment.

1.2.2 Background of Financial Performance

Companies that have good external relations can build networks and ensure the availability of resources. If the company is confident in terms of the availability of resources, operational sustainability in obtaining good financial performance will be easily achieved. If the board of directors did their job of managing the company, they would make strategic decisions more efficiently.

1.3 Problem Statement

According to Meier (2015), good corporate governance aims to encourage management and the board known as committees to achieve the goals desired by the company and shareholders. In most companies in Indonesia, the board of directors consists of a board of directors as managers and a board of commissioners as supervisors. Most of the companies in Indonesia collapsed due to lack of corporate governance. A good corporate governance system is one way a company can achieve its goals. The board of directors is an important organization that looks after the interests of the company's shareholders and is responsible for leading and directing the company (Wardhani, 2017). The board of directors also plays an important role in determining the company's strategy.

As shown, large companies have greater financial power to drive performance; however, because they are more difficult to control, they also face greater agency problems, which require better corporate governance. A good corporate management mechanism will ensure that management acts in the best interest of the company and ensures that the investment is returned in a manner that is reasonable, appropriate, and efficient as possible.

The mechanism that can be used to overcome this problem is to implement good corporate governance, one of which is by assessing the characteristics of the board of directors in previous studies, many of which judged it by size and gender criteria, the results of which were very visible and significant.

One of the important issues in corporate governance faced by managers, directors and shareholders in modern companies is gender composition and board size. Gender and sex differences have been debated for a long time. Gender is a term that refers to the characteristics of a person related to their gender and identity which are directed at their social role in society. According to the World Health Organization (WHO), gender can be defined as the differences in roles and status that exist between women and men, which are formed by society based on cultural values that prevail over a certain period of time (Armas, 2016). Human resources related to race or gender are usually considered very important and sensitive.

In addition, gender diversity is considered as one of the important ways to improve company management (Ferrero et al., 2015). Evidence abounds that gender-diverse boards help them make decisions. In addition, the board is made up of different gender types has been proven improve company reputation, increase customer views, and improve company performance.

Today, there are still differences between men and women in the workplace. Because men are considered to have the assertive, strong, and tough qualities needed to be a leader, men are considered to be more capable of leadership than women.

Conversely, women are considered delicate, gentle, and sensitive. Previous research has found that female directors have a positive impact on company performance, but research has found that many companies still haven't really implemented gender equality when faced with the condition of the roles of men and women in decision making. First, women's participation in the company helps decision making. For example, women's participation on company boards can help avoid projects that are too dangerous because women are usually more risk averse than men and are very careful. Second, men and women are cognitively different and have different norms, behaviors, beliefs and perspectives. This cognitive pattern will enable the board to consider broader options and solutions related to company problems (Konrad et al, 2018).

The size of the board of directors plays a major role in the diversity that contributes as a resource to the company. The small size of the board of directors saves costs on external directors while still motivating internal directors to disclose personal information because internal directors have better incentives. The most effective optimal board of directors of a company with low verification costs to external board members and low personal gain to internal board members.

The diversity of directors is considered very important because it tends to increase organizational independence, so that perspectives from various points of view can be used to solve management problems. Several cases related to the implementation of corporate governance have been recorded in Indonesia and some of them are family companies, such as the case of the Blue

Bird company in 2004, the Sinar Mas Group company in 2020, the Garuda Indonesia airline in 2019, PT Katarina Utama Tbk in 2012, and PT Asuransi Jiwasraya Persero in 2019. The implementation of corporate governance is something that needs to be monitored by a company because it directly affects vital things, namely the financial performance of the company Dwivedi & Jain (2005), and the number of cases that have emerged related to the implementation of corporate governance which has an impact on the financial performance of the company, as well as the inconsistent results provided by previous studies regarding the relationship between corporate governance and financial performance.

From these problems, the main purpose of this study is to identify the influence exerted by corporate governance, especially regarding the characteristics of the board of directors, such as the size of the board of directors and gender on the company's financial performance whether it has a significant effect on the year of calculation taken. To focus on the subject matter above, in this study the main object is a manufacturing company that has been listed on the Indonesia Stock Exchange.

The purpose of the researchers in conducting this research was to obtain empirical evidence regarding the influence of board size and gender of the board of directors and company size on company performance. The company's performance is measured through the company's financial performance which is the object of research. From these problems, the main purpose of this study is to identify the influence exerted by corporate governance, especially regarding the characteristics of the board of directors, such as the size of the board of directors and gender on the company's financial performance whether it has a significant effect on the year of calculation taken.

1.4 Research Questions

The purpose of research question is to examine what the effect between board size and board gender on financial performance are. The research question as follows:

a. What is the effect of board size on financial performance manufacturing companies listed in Indonesia Stock Exchange (IDX)?

b. What is the effect of board gender on financial performance manufacturing companies listed in Indonesia Stock Exchange (IDX)?

1.5 Research Objectives

The purpose of the research objectives is to examine the relationship between board size and board gender on financial performance. The research objectives are as follows:

a. To examine the effect of board size on financial performance manufacture company listed in Indonesia Stock Exchange (IDX).

b. To examine the effect of board gender on financial performance manufacture company listed in Indonesia Stock Exchange (IDX).

1.6 Significant of the Study

1.6.1 Theoritically Significant

The study of the effect of characteristic board of director on financial performance is significant to obtain direct evidence of how gender and board size, as well as company size, affect company performance. The company's financial performance which is the object of research is used to measure the performance of this company.

For the advancement of the academic world, this research is expected to be useful and become additional literature for other parties who are conducting research on the influence of company management on company performance. In addition, this research is expected to enrich knowledge about the role of company management and its impact on company performance.

For society, this research can enrich the body of knowledge about the role of Corporate Governance and its influence on company performance which has been done a lot before. The findings in this research should be able to provide additional and additional information to stakeholders so that they can be taken into consideration when setting regulations/policies.

It also provides additional information and insights about the impact of board size and gender diversity on financial performance for practitioners of financial performance and for companies to improve the quality of decision making. To be able to innovate new by bringing new perspectives, backgrounds and skills to corporate boards that affect the company's financial performance.

1.7 Limitation of the Study

The limitation of this research is the difficulty of finding data along with a list of listed manufacturing companies. This study aims to find the company's annual report from 2019-2021. However, not all companies are listed from 2019 on the Indonesia Stock Exchange (IDX). Hence, limiting data collection for this study.

Therefore, only companies listed from 2019 and disclosing annual reports from 2019 to 2021 were selected

1.8 Definition of the Key Terms

1.8.1 Corporate Governance

To ensure that the business goes according to the wishes of the stakeholders, there is a mechanism known as corporate governance. The company has a defined structure, objectives, and supervision. According to the OECD (2004), good corporate governance produces a balanced system and structure in corporate control.

1.8.2 Financial Performance

The decline in financial performance shows how effective and efficient an organization is in achieving its goals. It shows how well the organization manages its assets and resources (Fahmi, 2015). To measure this financial performance, various indicators are used. Return on Assets (ROA) ratio is one of the terms most often used to indicate how well a company's management manages its assets to generate profits (Tandelilin, 2010). Companies with high ROA may give investors large returns (Zulkarnain & Kusuma, 2019). ROA is the ratio of net income to total assets.

1.8.3 Board of Director

The Board of Directors has full authority and is fully responsible for managing and representing the company. Law Number 40 of 2007 The short term and long-term policies of the company are determined by the Board of Directors. They also oversee the daily operations of the company under the supervision of the Board of Commissioners and in accordance with the articles of association and the general meeting of shareholders.

The proportions and composition of the board of directors must be made in such a way that the decision-making process can be carried out quickly, precisely, effectively, and independently so that tasks can be carried out effectively (KNKG, 2006). One of the responsibilities of the board of directors is to manage organizational resources to achieve organizational goals, which is based on the principles of transparency, accountability, independence, accountability, equality, and excellence.

1.8.4 Characteristic of Board of Director

In relation to the composition of the board, the various characteristics, skills, and traits possessed by each member of the board during the decision-making process are related. How board members are spread out in a company is known as the characteristics of the board. available. There are two ways to measure board characteristics in an organizational structure: demographic and cognitive.

Demographic diversity that includes gender and size diversity. The company's performance in making innovative decisions is influenced by the diversity of boards in the board structure (Kartikaningdyah & Putri, 2017).

1.8.5 Board Size

The board of directors is directly elected by the shareholders and is responsible for overseeing and controlling the company's operations. Financial Services Authority Regulation number 33/POJK.04/2014 stipulates that a company must have a minimum of two boards of directors. Many boards of directors will maximize the supervision carried out and provide high expertise and ties, which can have a positive impact on the company's financial performance.

1.8.6 Gender of Board Director

Investment decisions made by companies are influenced by the proportion of women on the Board of Directors. Women are very careful, thorough, and tend to avoid risks (Kusumastuti 2007). Women are shown not to be too hasty when making decisions. The woman on the board of directors points out that the company provides equal opportunity to everyone, not discriminates, and studies the market and consumers. In the end, this can increase the company's reputation and value because women usually pay more attention to decision-making depth (Nathania, 2014)

1.9 Summary

The Board of Directors has full authority and is fully responsible for managing and representing the company. In relation to the composition of the board, the various characteristics, skills, and traits possessed by each member of the board during the decision-making process are related. How board members are spread out in a company is known as the characteristics of the board available.

This chapter concluded the basis research project, the background of study, problem statement of the study, research question, research objective, significant of study, scope of study, limitation of study, and definition of key terms.