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Board Diversity Index on Performance of Indonesian Manufacturing Companies: Moderating Role of Family Ownership

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Abstract

This study investigates the relationship between performance in Indonesian family-owned manufacturing firms and their board diversity and ownership. Previous studies about firm performance in Indonesia only focus on the individual diversity rather than considering the effect of collective diversity aspects (constructed as an index) on its board. Previous studies focus only on the individual elements of board diversity on its BOD, rarely on its BOC. Next, previous studies did not consider the moderating role of its ownership towards the effect of board diversity on firm performance, even though the family-owned firm is one of the most common forms of business in Indonesia. This study employs price-to-book value (PBV) as a proxy for firm performance and Blau Index to construct the board diversity index (BDI). The results show that the board diversity index positively influences firm performance. Family ownership positively affects firm performance, signaling the alignment effect. The results also show a linear relationship between family ownership and firm performance, contrary to several previous studies where family ownership has a non-linear relationship with firm performance. Lastly, the results also show the moderating role of family ownership positively influences the board diversity effect on firm performance.

Keywords : Alignment effect, Blau index, Board diversity index, Entrenchment effect, Price-to-book value

JEL Classification : G30

1. Introduction

Modern corporation corporate governance (CG) practices have gained much interest from researchers. The growing interest was due to the collapse of high-profile companies due to poor corporate governance (Ofoeda, 2017). These scandals emphasize the importance of good corporate governance (GCG) due to its purpose as guidance to achieve company's objectives (Farooq et al. 2022). It improves economic efficiency, growth and enhances investor confidence. It also increases access to external financing by firms, mitigates agency problems, and increases operational performance.

Investors are willing to pay premiums for companies with effective corporate governance (Ofoeda, 2017). This advantage is vital in the high-competitive industry such as manufacturing. The manufacturing sector is vital in supporting industrialization in every country, such as Indonesia. Based on *Indonesian UU No. 4 Tahun 2014*, the Indonesian government prioritized the manufacturing industry as a pillar and driver of the national economy *Kementerian Perindustrian* (2015).

The manufacturing sector has several characteristics. First, it is the most significant contributor to Indonesia's gross domestic product (GDP), reaching 19.86 percent total GDP in 2020 *Kementerian Perindustrian* (2020). Second, it has one of the highest growth rates in Indonesia, in the 2015-2019 period reaching 4.3 percent (*BPS,* 2020). Third, the manufacturing sector is fast-paced, short product's life cycle, the demand increases in line with population growth and customer-driven innovation (Kumar et al. 2022).

To evaluate companies' welfare, it is essential to analyze their performance. Firm performance is the final result of implementing activity to realize company goals (Napitupulu et al. 2020). To achieve company goals, an effective performing board is vital in guiding the strategic decision-making and supervision (Yeh & Trejos, 2015). Currently, there are two board systems, one-tier and two-tier. In a two-tier, two separate boards lead the company, the management and the supervisory board, and carry out their respective roles (Thomsen & Conyon, 2019). As adherents of a two-tier, the role of the board of commissioners (BOC) in Indonesian companies is essential. The BOC is responsible for supervising, advisory the company, conducting audits, nomination, and remuneration**.**

The BOC has received increasing attention in research related to corporate governance. The quality of the BOC is closely related to its diversity. The board's composition began to vary in gender, race, age, professional experience, educational background, and tenure (Ozdemir, 2020). With the increasing proportion of diversity, companies' benefits begin to emerge as research conducted by (Gordini, 2017) found that gender diversity on board has a positive and significant impact on company performance. Then the research conducted Fidanoski et al. (2014) found that the education level of the board had a significant effect to increase firm value. Furthermore, research conducted by Finkelstein & Hambrick (1990) found that board members with long tenure will better understand the company's details, which helps improve company's performance.

Apart from BOC's performance, another study also stated that the ownership structure influences the company's performance. Family ownership is a type of ownership structure where two or more family members own a company (Mallin, 2013). La Porta (1999) revealed that ±30 percent of companies worldwide are family-owned. The following studies explained some of the positive effects of family ownership on company performance: a) Chu (2011) stated that family ownership has a better monitoring system that can reduce agency costs, b) Shyu (2011) argues that because family ownership is long-term and passed down between generations, family-owned corporations have an investment horizon better other investors, making them prioritizing long-term investment plans that will improve the company's performance.

However, previous studies also revealed there is a possibility of a non-linear relationship due to higher ownership proportion. Kowalewski et al. (2010) stated that the ROA & ROE in Poland's publicly listed companies' performance proxied by ROA would peak at 40% of the company's total outstanding share and decrease gradually. The same result was conveyed by Srivastava & Bathia (2020) when examining the impact of family ownership on the performance of Indian publicly listed companies in the range of 30 percent ownership proportion, company performance proxied by ROA will reach its peak and will decrease gradually with the increasing proportion of ownership.

To mitigate the risk of the negative influences from family ownership, the BOC's role as an advisor and supervisor of strategic decision-making is crucial to develop the company's performance (Thomsen & Conyon, 2019). In Indonesia, where more than 50% of publicly listed company is family firms, board diversity significantly increases a firm's performance. However, the research regarding the board diversity index (BDI) and firm performance in the family firm with family ownership acting as the moderating role is relatively new and considered a research gap. Previous studies by Ozdemir (2020) studied board diversity and firm performance with the moderating role of institutional ownership in the United States of America. Aggarwal et al. (2019) studied board diversity and firm performance with the moderating role of group affiliation in India. Compared to previous studies, family ownership relationships with firm performance possess unique characteristics compared to the relationship between institutional ownership and business affiliation to the firm performance due to its non-linear relationship, which is explained by Kowalewski et al. (2010) and Srivastava et al. (2020). Other research gaps are that most of the researcher focuses more on the board of directors' characteristics rather than the BOC. Kilic et al. (2016) examined the effect of gender diversity on the performance of a Turkish firm, and Luckerath-Rovers (2013) examined the effect of gender diversity on the performance of a Dutch firm. Other research gaps are that researchers are more focused on examining the characteristics of the board from one point of view rather than forming an index consisting of multiple indices. Previous studies such as Fidanoski et al. (2014) only examined the gender diversity relationship with firm performance or (Xu et al., 2022) only examined the age diversity relationship with firm performance. This index has advantages such as its ability to capture monitoring intensity that can influence a company's performance and its ability to capture the effectiveness of the board's performance (Harjoto, 2015). Lastly, previous related studies such as Ozdemir, (2020) and Aggarwal et al. (2019) conducted respective research in one-tier board systems countries such as the United States and India, the results may differ in countries that adhere to two-tier board systems, such as Indonesia.

2. Hypotheses Development

Board Diversity and Firm Performance

Board diversity is a combination of various attributes, characteristics, and experiences held by board members that influence board processes and decision making (Mubarka & Kammerlander, 2022). Previous studies on the relationship between board diversity and firm performance have yielded positive results:

Gender Diversity and Firm Performance

Gordini (2017) examined the relationship between board gender diversity and firm performance in Spain. They discovered a significant and positive effect of gender diversity on firm performance. Mahadeo et al. (2012) examined the relationship between board composition and firm performance in Mauritius. They stated that the effect of gender diversity in the short run is positive on firm performance. Nguyen et al. (2015) investigated the effect of board gender diversity on firm performance in Vietnam using 120 publicly listed companies from 2008-2011, they discovered a positive impact of board gender diversity on firm performance.

Gender diversity in Indonesia is an interesting topic due to its unique culture in Indonesia, such as the patriarchal culture that assumes that males are more competent to fill vital positions in companies (Yuliana & Kholilah, 2019). Pasaribu et al. (2019) mentioned that the low participation is due to a lack of practice, proficiency, connection, and gender bias.

Age Diversity and Firm Performance

Board members' age reflects their skills, knowledge, experiences, motivations, norms, and effectiveness in decision-making. Older members have better supervisory experience and professional reputation (Xu et al., 2018). However, older directors are less flexible and less responsive because they tend to be risk verse (Musteen et al., 2006). A young board member is more creative, more adaptable in their way of thinking and behavior, more of a risk taker, and it is more critical to assess the existing system in a company (Talavera et al., 2018). The combination of young and senior individuals on the board of commissioners is crucial for monitoring effectivity.

Racial Diversity and Firm Performance

Shukeri et al. (2012) examined the impact of the BOD's characteristics on firm performance in Malaysian publicly listed companies. The study reported that ethnic diversity positively impacts firm performance. Carter et al. (2003) investigated the impact of diversity on the firm value in Fortune 1000 firms. The results are that ethnic diversity positively affects firm performance.

Educational Background Diversity and Firm Performance

Isabel et al. (2017) showed that educational background diversity positively affects accounting quality. Purkayastha et al. (2021) argued that the board's educational background and professional expertise are crucial to improve firm performance. Education diversity enables the board to supervise multiple operation unit (Hitt & Tyler, 1991).

Tenure as Board Members and Firm Performance

Tejerina-Gaite & Fernandez-Temprano (2021) stated that board member's understanding of the firm increases from time to time, enabling them to conduct their duty efficiently. Howton (2006) stated that longer tenures among board members are positively related to firm survival.

Professional Experience Diversity and Firm Performance

Tejerina-Gaite & Fernandez-Temprano, (2020) stated that board members with extensive professional experience had developed a tacit knowledge which constitutes an intangible asset and potentially leads to competitive advantage. Carpenter et al. (2001) stated that promoting skilled and expert directors increases the range of perspectives and interpretations and minimizes biases in the board's strategic decision-making process. Thus, we propose.
H_1 Board diversity index positively influences company performance

Family Ownership and Firm Performance

Family ownership is a type of ownership structure in that two or more family members are involved (Mallin, 2013). Family ownership itself can be categorized into three groups: low (≤ 20 percent), medium (20.1 percent-50 percent), and high (>50 percent) Utama, (2012). La Porta et al. (1999) found that ±30 percent of firms worldwide are family firms.

Family ownership has upsides, such as providing better information and better knowledge of their business because of the involvement in the business since the beginning (Charbel et al., 2013). Family ownership provides a better monitoring system, lowering agency costs (Bouzgarrou & Navatte, 2013). The long-term nature of family ownership encourages owners to have a longer investment horizon than other investors, which can increase firm performance. Family control may eliminate agency problems with minority shareholders or another stakeholder party (Shyu, 2011).

However, family ownership also has a downside due to their power and incentive to seek personal benefits at the expense of firm performance. Kowalewski et al. (2010) reported that their positive influence on firm performance gradually disappears above a certain level of ownership. They also discovered that the relationship between family ownership and firm performance is depicted as an inverted U-shaped curve. DeAngelo (2000) stated that when family members become majority shareholders, they may force or push the managers to execute policies according to their interest, but not necessarily for the sake of the firm. According to agency theory, Anderson & Reeb (2003) reported that family-owned firms have lower agency costs. However, very high levels of ownership concentration may cause an entrenchment effect, which harms the firm's performance. Shyu (2011) reported that when families have more than 30 percent control of the firms, the potential for entrenchment and poor performance becomes greater. Therefore, it is hypothesized:
H_2 The relationship between family ownerships and firm performance is characterized by an inverted U shape, where higher concentrated ownership reduces the firm performance

Moderating Role of Family Ownership Toward the Effect Board Diversity Index

Family members often serve on a board of members to conduct monitoring in family-owned companies. The phenomena align with stewardship theory, where a company's performance increases when family members act as members of top management or board members (Chu, 2011). To ensure the company's welfare, owners must mitigate agency problems by aligning their interests with minority owners and stakeholder interests to achieve business goals (Corbetta & Salvato, 2004)

The collaboration between effective monitoring by the BOC and support from owners is strongly needed to create alignment. To create effective monitoring performance, the BOC must consist of an individual with sound industry knowledge, reputable education, and professional background with the advocation for going concern, thus increasing the firm performance (Daily et al., 2003). Due to their dominant position and direct involvement in the company, owners tend to promote board members from individuals with social ties with them, such as relatives, personal friends, or consultants of the firm. The reason is to ensure their loyalty to the family's interest and commitment to their task as a BOC (Johannisson & Huse, 2000). Another reason is that board members with close social ties with other board members can create an environment for a better understanding of points of view, ideas, and opinions, thus minimizing potential miscommunication and conflicts inside the board (Zattoni et al., 2015). In the alignment effect, owners are reluctant to conduct non-company-value-maximizing behaviors that jeopardize their wealth.

However, family involvement on the BOC can be interpreted negatively, especially in a higher level of concentrated ownership (in an entrenchment situation). Family-owned firms typically lack a talent pool compared to non-family firms. Hence, owners usually choose to retain the same board member for an extended period, thus reducing diversity inside the board (Mubarka & Kammerlander, 2022). Diversity and regeneration are essential to maintain the Board's monitoring effectiveness and cope with the dynamic business environment. However, in family firms, owners hesitate to acquire new talent and characteristics from outside because such heterogeneity threatens owners' control over strategic decision-making (Cruz et al., 2011). The BOC's monitoring and advisory role can prevent excessive expropriation by the owners, flawed decision-making processes, and stale strategic planning (Shleifer & Vishny, 2007). In an entrenchment situation, owners tend to undermine the BOC's supervision function since the majority shareholder will be motivated to supervise the company independently, thus reducing the need for a BOC (Sacristán-Navarro et al., 2015). In the entrenchment effect, the owner will micromanage the decision-making process to ensure that strategic decisions follow the owner's interest (Van Essen et al. 2020). This action will lead to agency conflicts between majority and minority owners, harming the company's profitability. In addition, in the context of the BOC, owners will tend to commit nepotism by promoting individuals who have close social relations with them (Saito, 2008). This condition aligns with social identity theory, where individuals are generally more motivated to build good relationships with individuals with similar demographic characteristics (Tajfel, 1978). Several studies also have identified negative results of diversity, such as conflict, dissatisfaction, dissolution, and division (Miller & del Carmen Triana, 2009; Post & Byron, 2015; Tasheva & Hillman, 2015). Therefore, it is hypothesized:

H_{3a} Under scenario of the alignment effect, the higher concentrated ownership will increase the influence of board diversity index (BDI) to the firm performance

H_{3b} Under scenario of the entrenchment effect, the hi higher concentrated ownership will reduce the influence of board diversity index (BDI) to the firm performance

3. Methods, Data, and Analysis

Data

The sample of this research is publicly traded Indonesian family-owned manufacturing companies listed in Indonesian Stock Exchange (IDX) during 2015-2019 using purposive sampling. The board-related data is collected using the Thomson Reuters data stream and annual reports. The commissioner data includes the commissioner's name, age, gender, race, gender, current title, educational background, tenure, and professional experience. The proportion of family ownership data comes from the Refinitiv Eikon data stream and annual reports. The firm performance variable, PBV, is constructed using company financials data and share prices collected from the Refinitiv Eikon data stream and annual report. The aim is to create panel data set with 315 total data from 65 manufacturing companies.

Dependent Variable

The study uses PBV to measure firm performance. PBV shows the firm's value per share over its book value of equity. The book value equity is the value of a company's investing approach (Sukamulja, 2021). A company with a high PBV ratio suggests that its stock price is trading at a premium value, thus indicating that the company has made the right decisions regarding its investing approach. However, a company with a low PBV indicates it took ineffective approaches when managing its asset (Sukamulja, 2021). The advantage of PBV is its capability to measure a company's actual performance without the interference of earning management and its capability to be a signal of agency problems (Liu et al., 2021).

Independent Variable

Previous studies usually proxied board diversity using one demographic attribute of board members. The most popular topics are gender or race (Hafsi & Turgut, 2013). However, this model cannot examine the boards' cohesiveness and divergence of ideas that might emerge by combining multiple demographic and cognitive diversity. In line with Ozdemir, (2020), this research composes board diversity as an index of multiple diversity characteristics to capture board member's divergent ideas and viewpoints Westphal et al. (2000). The boards benefit from increasing assumptions and conceptions for monitoring duty, decision-making, and advisory (Konrad et al., 2008). The Board Diversity Index (BD-Index) comprises five diversity categories: gender, age, race, educational background, experience, and tenure. Table 1 describes the category and groups for each diverse aspect.

The BDI uses Blau's heterogeneity index, employing a formula $1 - \sum P_i^2$ where P represents the proportion of individual board members in each category, and i is the number of categories. The advantage of the Blau Index is its high accuracy due to its quadratic equation and its ability to describe dichotomy groups, which other methods, such as Shannon Index unable to describe (Konrad et al., 2006). Individual diversity factors have a value between 0 (perfect homogeneity) and 1 (perfect heterogeneity). As the number of groups represented in a diversity dimension increases, the index score approaches 1. Because the maximum diversity score of individual indices usually is less than one and varies significantly, individual indices are standardized to produce the same value. The value is from zero to one by dividing the value by the maximum theoretical value of each index according to the number of groups (k) each year using a formula $\frac{k-1}{k}$ (Harjoto et al., 2015). After standardization, the value of individual diversity index scores is summed to create the composite BDI that has a value from 0 to 7, where the increase in value represents the increase in diversity (Ozdemir, 2020).

Moderator Variable

In line with prior research, this research defines the family-owned firm as a company where the founder or a member of their family is the largest shareholder of the firm, either individually or as a group with at least 5% of the firm's equity (FAMOWN) (Ferramosca & Ghio, 2018). FAMOWN is calculated using the fraction of the total company's shares owned by the family to the total shares outstanding (Srivastava & Bhatia, 2020).

Control Variable

The study uses firm size and age as control variables (Ozdemir, 2020). Firm size (FSIZE) is the natural logarithm of the book value of total assets. It acts as the control for systematic differences in performance due to the size of assets differences (Vafaei et al., 2015), FSIZE represents the company's size, which can positively influence the company's profit generation policy. In the manufacturing industry, the more the value of the assets a company has, the greater the ability of a company to pursue an economy of scale where it can reduce production costs and improve the quality of business processes to increase its profitability (Hatane, 2018). Firm age (FAGE) is the natural logarithm of the years since the first incorporation year for accounting for the firm's operating experience (Setia Atmaja, 2009). FAGE can positively impact the firm performance because mature and established firms have a better understanding of their strength and weakness, thus enabling them to make better strategic decisions, reduce costs and improve product quality (Hatane, 2018)

Models

The impact of board diversity on manufacturing firm performance and the moderating impact of the non-linear relationship of family ownership to board diversity impact and firm performance is examined using two-way fixed effect regression analysis. The model uses fixed effect regression based on the Hausman test. According to the Hausman test, the fixed effect is more suitable for regressing the data panel than random effects (prob chi-square = 0.002 < 0.05). The following equations are used to estimate the main and moderating effect:

$$PERFORM_{it} = \alpha + \beta_1 BD\ INDEX_{i,t} + \beta_2 FAMOWN_{i,t} + \beta_3 FAMOWN_{i,t}^2 + \beta_4 FSIZE_{i,t} + \beta_5 FAGE_{i,t} + \varepsilon$$

(Equation 1)

$$PERFORM_{it} = \alpha + \beta_1 BD\ INDEX_{i,t} + \beta_2 FAMOWN_{i,t} + \beta_3 FAMOWN_{i,t}^2 + \beta_4 BD - Index * FAMOWN_{i,t} + \beta_5 BD - Index * FAMOWN_{i,t}^2 + \beta_6 FSIZE_{i,t} + \beta_7 FAGE_{i,t} + \varepsilon$$

(Equation 2)

Table 1. Diversity Category

No	**Diversity Category**	**Group**
1	Gender	Male
		Female
2	Age	>73 years old (generation traditionalist)
		55-73 years old (generation *baby boomer*)
		39-54ears old (generation X)
		25-38 years old (generation Y)
3	Ethnicity	Chinese
		Non-Chinese
4	Educational Background	Law
		Engineering
		Economy & Accounting
		Management & Business
		Others (Medical Doctor, Scientist etc)
5	Experience	No experience as commissioner
		Serving as commissioner in 1 other company
		Serving as commissioner in 2 other companies
		Serving as commissioner in 3 other companies
		Serving as commissioner in 4 other companies
		Serving as commissioner in more than 4 other companies
6	Tenure	1 period (0-3 year)
		2 period (3-6 year)
		3 period (6-9 year)
		4 period (9-12 year)
		5 period (12-15 year)
		>5 period (>15 year)

4. Results

Descriptive Statistic

Table 1 reports the selection of samples from the Thomson Reuters data stream. The total data population is 63 publicly listed family-owned manufacturing on IDX, with a total sample is 315 data. The descriptive statistic in Table 2 shows that the mean value of PBV is 1.34, which implies that the investors prepare to pay almost 1.5 times for one unit of equity because investors expect the firms to be profitable and capable of producing more profit in the future. The average value of BDI is 3.11. The results indicate that almost 50 percent of the board members have diverse demographic and cognitive characteristics. According to Deloitte research, the average board diversity percentage in Fortune 500 companies is 30 percent, so the average value of BDI in Indonesian manufacturing firms is higher than the average value, and the board membership is well diversified (Harjoto et al., 2015; Ozdemir, 2020). Meanwhile, the mean value of FAMOWN represents family ownership, is 63 percent; this means that majority family ownership in Indonesian manufacturing firms is considered as high ownership owning more than 50 percent of total firms' outstanding shares (Utama, 2012).

Table 2. Sample Selection

Data	Number
Listed Companies in BEI	778
Manufacturing Sector Listed in BEI from 2015 to 2019	178
Non-Family-Owned Firms	109
Family-Owned Firms	69
Firms With Incomplete Annual Report from 2015 to 2019	6
Number of Family-Owned Manufacturing Companies	63
Observation Years	5
Total	315

The FSIZE represents the firm's asset value, having an average of 28.58; this result indicates a wide variation in firms' log total assets in manufacturing firms. Firm size is vital as a proxy to examine firms' capability to achieve economies of scale, efficiency, and market power (Hung et al., 2021). The FAGE, represents the company's age average of 38.90. FAGE is vital as a proxy to examine firms' future and current growth, productivity, efficiency, and stability. According to Coad et al. (2013) mature firms tend to have high profitability and productivity, but low expected growth rate, and younger firms tend to have high expected growth rate, low profitability, and productivity.

Table 3. Descriptive Statistic

	N	Minimum	Maximum	Mean	Std.Deviation
PBV	315	0.050	6.860	1.310	1.360
BDI	315	0.570	5.370	3.110	1.020
FAMOWN	315	0.170	0.970	0.630	0.190
FIRMAGE	315	7.000	68.000	38.860	9.550
FIRMSIZE	315	25.620	32.470	28.770	1.640

Panel Data Model Estimation Method

The initial procedure to examine panel multiple regression is choosing the best panel effect model using the Chow and Hausman tests. We conduct the test twice since there are two regression models. The detailed findings for each test are available in Table 3 and Table 4.

In table 3, using the Chow test, the result is that the fixed-effect model is favorable since the value of prob-chi square 0.000 < 0.05. Low p-value counts against the null hypothesis that the pooled OLS model is adequate in favor of the fixed effects alternative (Hatane et al., 2022).

In table 4, using the Hausman test, the result of the test is that the fixed effect model is favorable since the value of prob-chi square 0.000 < 0.05. Low p-value counts against the null hypothesis that the pooled OLS model is adequate in favor of the fixed effects alternative (Hatane et al., 2022). Since the Chow and Hausman tests favored the fixed effect model, the decision is to use a fixed model.

Table 4. Chow Test

Method	Equation	Prob Chi-Square	Decision	Model
Chow Test	Equation 1	0.000	Reject H_0	Fixed Effect
Chow Test	Equation 2	0.000	Reject H_0	Fixed Effect

Table 5. Hausman Test

Method	Equation	Prob Chi-Square	Decision	Model
Hausman Test	Equation 1	0.0106	Reject H_0	Fixed Effect
Hausman Test	Equation 2	0.0106	Reject H_0	Fixed Effect

Table 6. Reggretion Result the Influence of BDI and FAMOWN to Firm Performance Without Interaction Equation 1

Variable	Fixed Effect Model			Random Effect Model		
	Coefficient	T-Statistic	Sig 1-Tailed	Coefficient	T-Statistic	Sig 1-Tailed
Board Diversity Index (Bd-Index)	0.061*	0.520	0.058*	0.022*	0.230	0.057*
Family Ownership (Famown)	1.219*	0.570	0.089*	3.074*	1.590	0.056*
Family Ownership Non-Linear (Famown^2)	-0.114	0.060	0.477	-1.814	-1.070	0.142
Moderation (Bd-Index * Famown)	-	-	-	-	-	-
Moderation 2 (Bd-Index * Famown^2)	-	-	-	-	-	-
Firm Age	1.251*	1.500	0.068*	0.627*	1.630	0.052
Firm Size	0.243***	1.070	0.008***	0.184**	2.160	0.016
Cons	-2.157**	-0.370	0.038**	-2.795**	-1.070	0.011
R-Square			0.045			0.070
Prob (F-Statistic)			0.054			0.014
F-Stat			0.0000			0.0000

Table 7. Reggretion Result the Influence of BDI and FAMOWN to Firm Performance with Interaction on Equation 2

Variable	Fixed Effect Model			Random Effect Model		
	Coefficient	T-Statistic	Sig 1-Tailed	Coefficient	T-Statistic	Sig 1-Tailed
Board Diversity Index (Bd-Index)	1.007*	1.400	0.081*	0.817*	1.190	0.059*
Family Ownership (Famown)	11.529**	1.660	0.049**	12.756**	1.950	0.0226
Family Ownership Non-Linear (Famown^2)	-8.741	-1.570	0.156	-10.365	-1.980	0.120
Moderation 1 (BD-Index * Famown)	3.581*	1.570	0.059*	3.285*	1.510	0.065*
Moderation 2 (BD-Index * Famown^2)	-3.065	-1.700	0.199	-2.882	1.700	0.221
Firm Age	1.161*	1.390	0.084*	0.615	1.610	0.054*
Firm Size	0.187***	0.820	0.000***	0.172**	2.040	0.021**
Cons	-3.575***	-0.590	0.006***	-4.926*	-1.550	0.061*
R-Square			0.045			0.081
Prob (F-Statistic)			0.052			0.012
F-Stat			0.000			0.000

5. Discussion

Board Diversity Index and Firm Performance Relationship

The regression results in table 6 and table 7 indicate that the BDI significantly influences the firm's performance. The result is consistent with Ozdemir, (2020) and Harjoto, (2015) which suggest that the increase in diversity on the BOC significantly enhances the firm profitability. Several theories can explain the positive effect of board diversity, such as agency, human capital, resource dependence, and signaling theories.

Agency theory explains the importance of aligning the interest between majority & minority owners and other stakeholders (Fama & Jensen, 1983; Benedickson et al. 2016). BOC acts as a mediator, supervisor, and advisor of the company's strategy even though the board does not intervene directly in a managerial decision (Kusumastati et al., 2022). In the ideal situation, board diversity is likely to increase board independence since there is no personal connection between each member and the owners. This condition enables the board to question a controversial strategic decision, reduce expropriation by the majority shareholder, and protect minority shareholders' interests (Song et al., 2020).

Next, the human capital theory explains that accumulated human capital, such as skill, knowledge, experience, and other demographic or cognitive attributes, enhances decision-making with unique expertise and perspective from each differentiated board member (Carter et al., 2010). The increase in human capital could provide a larger pool of talent with multiple viewpoints, improving creativity and board discussions, problem-solving, and a better understanding of the firm's marketplace (Helfat et al., 2006).

In line with human capital theory, resource dependence theory explains that board diversity enables a firm to secure external resources, mainly talented human resources, that are vital to reduce risks, improving operational outcomes, and making better decisions (Hillman & Dalziel, 2003). The impact of a board of diversity is profound on a firm's business activity in a highly competitive industry such as manufacturing (Pfeffer, 1972).

Signaling theory explains that board diversity enables firms to send signals to the stockholders to gain a reputation in the industry, especially about inclusivity and equal opportunity inside the company. The increase in interest and trust from investors could cause them to invest in the company that, ultimately increase the market value of the firm (Miller & del Carmen Triana, 2009).

Family Ownership and Firm Performance Relationship

Next, the regression results in table 6 and table 7 imply that family ownership has a linear and positive influence on the firm performance since the non-linear relationship is proven insignificant. In emerging markets such as Indonesia, more concentrated ownership benefits the firm through various firms of relational business practices and partners (Carney et al., 2011). Shyu, (2011) explained that majority shareholders have substantial economic motives and motivation to reduce agency conflicts, supervise the company's strategic decisions and maximize firm value. Since family ownership tends to be long-term, family members tend to have a longer investment horizon than non-family investors and prioritize long-term investment plans (Stein, 1988). Casson, (1999) stated that family firms manage the firm not only as their current wealth but as an asset for their descendants as an inheritance. The firm's survival is the key to this perception, thus suggesting that family owners prefer long-term corporate value maximization that is beneficial in the future. In highly concentrated ownership, owners tend to mitigate the agency conflict that can jeopardize their wealth.

Moderating Role of Family Ownership Towards Board Diversity Index to Firm Performance Relationship

Next, since the relationship between family ownership and firm performance is linear and positively influences the firm performance, the moderating effect of family ownership to board diversity effect on firm performance also has a linear and positive result. The positive result signals an alignment effect between the owners' interest and the company's goals (Srivastava & Bhatia, 2020). In the context of the alignment effect, family members support the performance of boards by promoting persons on the board who have industry knowledge, who have distinctive skillset and experience, can provide unbiased advice, and advocate for growing concerns, thus enhancing the performance of the firm (Daily et al., 2003). Family owners also prefer to promote an individual who has close social connections with owners, such as personal friends, consultant of the firms, or relative, to ensure their loyalty and mitigates conflict. Due to close social connections between board members and owners, each party could understand the other viewpoints, ideas, and opinions, thus, reducing miscommunication issues (Zattoni et al., 2015). Family-owned firms are motivated to develop long-term and loyal relationships with their BOC due to undiversified and concentrated ownership among the family member (Weber et al., 2003). This relationship strongly incentivizes board members to perform as efficiently and effectively as possible to monitor the company and maintain its performance.

Furthermore, the impact of family ownership on board diversity increases if the family members fill the top management or act as board members. According to stewardship theory, their direct involvement in the company's top management or board contributes to a better understanding of its board. It enables the owner to directly monitor boardroom activities (Bettinelli, 2011). According to Claessens et al. (2002) where the more concentrated ownership of a company in the hands of the family, the owner will be more motivated to increase company value because if the owner allocates company assets and cash for personal gain, there will be the potential that the company will experience difficulties in making long-term investments to improve the company's performance so that it will reduce the company's stock price and reduce the value of the owner's wealth.

Next, the regression results imply that firm age positively and significantly affects firm performance. As the firms get older, the firms become more stable, productive, and profitable (Coad et al., 2013). As the firms grow older, they experience many changes and transformations: from vitality to stability, from flexibility and rigidity, and from learning capacity to the exploitation of routines (Rossi, 2016).

Next, the regression results imply that the firm size positively and significantly impacts firm performance. As firms grow more prominent, firms have diverse capabilities and abilities to exploit economies of scale and scope through formalizing procedures. By implementing operations more effectively, these characteristics allow larger firms to generate superior performance and market power relative to smaller firms (Singla, 2011).

Research Implications

Managerial Implications

This study has managerial implications, such as the BDI positively and significantly affects the firm performance, implying that to provide effective and efficient monitoring, the BOC must consist of individuals with diverse knowledge, experience, age, and gender. A bigger talent pool with different viewpoints, ideas, and opinions leads to increased creativity during board discussions, an improved knowledge of a firm's marketplace, and industry knowledge that ultimately leads to advocation for growing concern, thus enhancing the performance of the firms. Especially in a highly competitive industry, the diverse board has the motivation to question the company's questionable policies and raise concerns about controversial decisions. Additionally, the increasing awareness about diversity and implementation of diversity policy across the organizational hierarchy improve a firm reputation.

Board diversity is crucial, especially in a company with a high concentration of ownership, such as family-owned firms with a risk of expropriation by controlling shareholders. However, stewardship theory explains that majority shareholders have the motivation to improve firm performance and avoid agency problems due to the connection between their wealth and firms' welfare. If the owners want to improve a firm's performance, alignment with minority shareholders is strongly needed. In alignment conditions, controlling shareholders will support the board's monitoring performance by promoting highly skilled, high-quality, and good reputation individuals as board members. Moreover, owners tend to promote individuals with close social and professional ties, thus ensuring loyalty and reducing miscommunication

6. Conclusions, Limitations, and Suggestions

Conclusions

This research analyzes the influence of the board diversity index and family ownership's impact on a company's performance. In this case, family ownership acts as a moderating variable; therefore, this research also looks at how the board diversity index and family ownership affect firm performance. The sample consists of 63 family-owned manufacturing firms listed in IDX from 2015 to 2019, totaling 315 total data. The primary sources of the data are Refinitiv-Eikon Database and the company's annual reports. This research uses fixed effects data panel regression to evaluate the relationships of the BDI, family ownership, and the moderating variable of family ownership on the effect of board diversity and firm performance proxied with PBV. The findings of this research conclude that: board diversity is positively significant towards firm performance, signaling that the board consists of high-quality, high-skilled, and quality diverse individuals; family ownership is positively significant towards firm performance and has a linear relationship instead of an inverted U curve non-linear relationship to the firm performance, signaling that the increase in concentrated ownerships helps the company to perform more efficiently, effectively and mitigates harmful agency problem, and moderating variable of family firms towards board diversity is positively significant towards firm performance and has a linear relationship to the firm performance rather than non-linear relationship, signaling alignment effect inside the family firms where the interest of majority shareholders align with the company's goal and the BOC monitoring duty is supported by the owners because company's welfare is closely related to owners' wealth.

Limitations and Suggestions

This research has several limitations, such as: 1) PBV as a firm performance proxy may have measurement errors due to the stock price not reflecting the company stocks' intrinsic value. Future studies should improve this measurement by limiting the samples to only those firms whose stocks are frequently traded. 2) Since the period of our study (2015-2019) only covers the period before the COVID-19 pandemic, which may have an impact on the results of our study, we suggest that future studies replicate this study considering the effects COVID-19 on the firm performance. 3) Our samples include only Indonesian companies, and the characteristic of firms in general and especially in family firms about diversity and initiatives may differ across different countries. We urge future research to continue our study in other countries with distinct cultural settings, norms, and legal environments 4) Our sample only uses the Blau Index model to measure diversity. We urge future research to use an alternative model such as Simpson Index, to give sectors external validity

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