

Board Diversity and Profitability in Small-Capitalization Companies Listed on the Indonesia Stock Exchange

Sri Hasnawati

Department of Management, Faculty of Economics and Business, University of Lampung

Abstract

The objective of the study is to determine the influence of board diversity on profitability with sales growth as a control variable in small capitalization companies listed on the Indonesia Stock Exchange. The research sample was determined by ranking capitalization from the largest to the smallest. The companies with a capitalization value of IDR. 1 billion and under are categorized as small-capitalization companies. By using the Solvin method, a number of 47 companies as research samples were obtained. The observation was conducted from 2013 through 2017. The research model used multiple regression with profitability as the dependent variable. The results of the study indicate that the age of the board directors tends to affect the profitability of small-capitalization companies at a 95% confidence level. Furthermore, at the confidence level of 90%, the presence of women on the board of commissioners may have a positive effect on the profit of small-capitalization companies.

Keywords: *Board diversity, profitability, small-capitalization companies*

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I. Introduction

When investing, investors will consider the company's profit growth. Earnings growth is an essential factor because it will determine the sustainability of the company in the future. One of the profit indicators used to measure the ability of the company is ROA. Adams and Ferreira (2010) state that the ROA as a variable is considered as the most effective in providing direct information about the results of the allocation of resources by companies in gaining profits. This is because ROA is intended to measure the level of efficiency of the company in using assets and managing its operations. That is, ROA may appreciate or depreciate stock prices.

Other factors that affect profitability are company size and corporate governance. Company size is one of the elements that play a role in increasing profitability. According to Saiful and Erlina (2010), the higher the total assets, sales, and market capitalization are, the larger the size of the company will be. Large-capitalization companies are generally targeted by investors for long-term investment because of their relatively low risk. In contrast, small-capitalization companies have stocks with relatively low prices but have a much larger risk (John & Michael, 2002).

Proper company management is one of the strategies that can be applied to meet company goals. Good corporate governance (GCG) explains how companies are directed and monitored to achieve company goals. The board of commissioners and the board of directors as agents in the company have the authority to manage the company so that it can run according to the objectives that have been set. The board of commissioners has an essential influence in overseeing the performance of the board of directors who take care of company activities and make decisions in order to maximize the value of the company and the welfare of shareholders (Nodeh & Fazel, 2016).

Catalyst (2011) and Darmadi (2013) argue that in Corporate Governance Theory, the structure of the board has a strong influence on the actions taken by the board and top management, which can ultimately affect the performance of the company. One of them is through the diversity of the board of commissioners and directors. Luckerath (2010) states that diversity on the board of commissioners and board of directors can yield objective and comprehensive decision making because decisions can be made from a variety of perspectives. Issues regarding corporate governance that have developed in recent years include the issue of gender-based board diversity. This gender diversity is believed to have a stronger influence on profitability. Marrinova et al. (2016) research results suggest that groups with greater diversity tend to have better performance than homogeneous groups. Gender diversity in the top management ranks is fascinating to study because, in Indonesia, there is still an assumption that men are more suitable in occupying leadership positions within companies.

Gender diversity in an organization can bring new perceptions in the decision-making process. The organization can control the effectiveness of corporate governance. It is proven by the fact that women often join the supervisory commission. In addition, women can also create creativity and innovation so that it becomes a competitive advantage (Adams & Ferreira, 2010). Peni and Vahama (2010) suggest that women and men act differently in dealing with the same conditions, for example, in terms of decision making. Other studies conducted by O'Fallon & Butterfield (2003), Kaplan et al. (2010), and Gavius et al.(2012) show that women tend to avoid risks compared to men. Other research conducted by Xin Chongfu (2013) and Marrinova et al. (2016) demonstrate that women's participation in the board of directors is strongly associated with better company performance and higher returns.

Age diversity in the members of the board of commissioners and directors may also influence company performance. The age difference gives diversity to the experience, skills, and social network of the members of the board of commissioners and directors. Companies with young managers experience higher growth than companies with older managers (Nehme, 2017). Young managers have a tendency not to accept the status quo but are willing to accept new ideas (Cheng & Leung, 2010). Research investigating the relationship of age diversity with financial performance, however, has shown different results. That is, there is no evidence of a significant effect on empirical relationships between financial performance, the proportion of younger managers, and age diversity (Ararat, 2010; Dagsson& Larson, 2011).

The educational diversity of board members participates in the performance of the company, i.e., it might affect the profit of the company. The educational background possessed by board members influences the knowledge possessed. The diversity of educational backgrounds, in accordance with company needs, has a significant positive relationship between directors with Ph.D. qualifications and financial performance (Ujunwa, 2012). This is caused by the company's need for a particular educational background and experience that changes with time. By having expertise qualifications, one can contribute to the company by being able to make different decisions and have an independent view. However, it should be noted that education does not have a significant relationship with the profitability of both government-linked companies and non-government-linked companies (Velnampy&Pratheepkanth, 2013; Adnan et al., 2016).

The Corporate Governance System in small-capitalization companies is used to increase company capital, especially those from the financial market. Non-executive directors may also introduce creativity and innovation through the opinions and suggestions they provide during decision making. At the Japan Small Enterprise Agency, SMEs with very high growth rates using non-executive directors are more active than larger companies (Hasmani, 2016).

The importance of proper company management enables companies to attract capital and perform efficiently. This will help increase investor confidence. Investors would be willing to invest in companies with a record of good corporate governance. According to Martin (2014) and Shehata (2017). Such companies tend to be more homogeneous, less structurally complex, and less formalized. Cheng and Leung(2010) state that improvement in corporate governance can help reduce the cost of capital.

The results of the study by Pasaribu (2017) state that the impact of the diversity of the board is more influential on small companies, this is because small companies have higher flexibility in appointing women directors who can lead to better company performance. In terms of leadership style, women are also more risk-averse and they are more frequently involved insupervisinghow the company is run (Adam &Farreira, 2010). The research is also supported by a study conducted by Booth andNolen (2010), who state that there are differences between men and women in dealing with risk preferences. Women tend to avoid risk (risk-averse) compared with men who tend to take risks (risk takers). Men will make more appropriate decisions and attempt to lower risks as best as possible. The study adds that the control variable is sales growth obtained from the difference in sales growth at present with the previous year. The positive and significant effect of sales growth on profitability is evidenced in the research results of Hastuti(2010).

Based on the description above, the primary formulation of the research problem can be given as follows: Does board diversity affect profitability in small-capitalization companies? The purpose of this study was to determine the influence of the board's gender, education, and age on profitability in small- capitalization companies.

II. Literature Review

Good Corporate Governance, from now on, referred to as GCG, in principle, uses the central assumption that the application of suitable corporate governance mechanisms can improve company profitability. The purpose of GCG is to align the interests of management with shareholders and other stakeholders. According to Daggson and Larsson (2011) and the Forum of Corporate Governance (2016), effective corporate governance, in the long run, can improve company performance and benefit shareholders. The concept describes the mechanism of corporate governance as a series of processes, habits, rules, and institutions that influence the direction, management, and control of a company. A corporate governance

mechanism is needed so that activities within an organization can run healthily in the direction that has been set. The composition of the board of commissioners and directors will have an impact on the quality of decisions and policies made in making the achievement of organizational goals effective. GCG will be better if the composition of the board of commissioners and board of directors is heterogeneous so that they will complement each other's competency and credibility (Darmadi, 2013).

Company Size and Good Corporate Governance

Large companies have a broader base of stakeholders, and therefore, various large company policies will have a more significant impact on the public interest compared to smaller companies. For investors, the policy of the company will have implications for the prospect of cash flow in the future. Large companies that have reached maturity can be said to be relatively more stable and more capable of generating profits than smaller companies. Thus, this can explain why large companies will have better access to increase company profitability, while for small companies, it will be challenging to be able to increase company profitability.

The mechanism of corporate governance that impacts on the market capitalization of the company involves two main components, namely the characteristics of board members and the ownership structure. This statement is reinforced by the results of research by Hamdan (2016), who argues that GCG is assessed based on four dimensions, namely access and content of information, board structure, ownership structure, and control and transparency. Investors may increase or decrease their investment based on good or bad corporate governance. The performance of the company is monitored by stakeholders, and its value is reflected in the stocks price. Investors look for effective corporate governance to protect their investments and reduce the financial risk as best as possible.

Research conducted by Hasnawati and Sawir (2015) shows that company size is an important factor that investors consider in investing in the capital market, i.e., the greater the size of a company is, the higher the value of the company will be. For investors, the company's policy will have implications for the prospect of cash flow in the future. Company size is a picture of the size of a company. Nodeh et al. (2016) state that company size is one of the factors that influence company performance. That is, the larger companies have more complex and diverse problems compared to smaller companies.

Large-sized companies have a higher probability of winning the competition or surviving in the industry than small-sized companies because large companies have better access to various sources of funding from various parties. The increasing size of a company can indicate that the company has better experiences and skills, and therefore, is more capable of making profits. Thus, it can be concluded that the size of the company may affect the profitability of the company.

Women on Board of Commissioners

The National Committee on Governance Policy (KNKG) (2006) states that the board of commissioners as part of the company has a collective duty and responsibility to implement joint supervision and provides advice to directors and ensure that the company implements good corporate governance. The nature of women who tend to be more conservative, avoid risks, and have higher ethical standards is one of the factors that may cause a negative relationship between the existence of the board of commissioners with earnings quality. The presence of women in top management is still underestimated because men are considered more suitable to occupy important positions in the company (Adams & Ferreira, 2010). In addition, there is an assumption that the cause of success in male leadership is a factor of high ability, while the success of women's leadership is only due to luck. Conversely, if there is a failure in women, it is due to disadvantage (Ujunwa, 2012).

The presence of women on the board of commissioners may provide a vast difference of views on innovative and accurate decision making. This is reinforced by research by Carter et al. (2010), who suggest that there is a positive relationship between the percentage of women on the board of commissioners and the company's financial performance. There are also indications that the position played by women can improve company performance. Upadhyay et al. (2014) and Johl et al. (2015) found a positive relationship between board members and financial performance. That is, the board members will be able to gain better information because of their greater knowledge and therefore, they will be able to make the best decisions for the company. Based on these arguments, this study has a hypothesis that the proportion of women board of commissioners has a positive effect on the profitability of small-capitalization companies.

Women on the Board of Directors

Luckerath (2010) mentions that diversity in the board of directors leads to knowledge, creativity, and innovation, which subsequently becomes a competitive advantage, and gender diversity within the composition of directors may enrich perspectives in decision making (Adams & Ferreira, 2010). Various studies mention that diversity in the board of directors influences profitability. Catalyst (2011) maintain that the diversity of the board of directors has a positive effect on company performance. Linstadt et al. (2011) argue that women make

smaller investments than men do. They argue that women tend to take less risks compared to men, and therefore, women have a lower percentage in some positions compared to men.

Research conducted by Dagsson and Larson (2011) found that the fewer women are in management, the lower the share price would be. This is because women managers tend to balance the level of risk-taking done by male managers as evidenced by the characteristics of women who tend to avoid risks (risk-averse) compared to men. Research by Triana and Marwan Asri (2017) states that women directors have a significant impact on company performance. The nature of women, who tend to be careful and conscientious, has a good impact on the company. The difference in the leadership styles of women and men is really an interesting phenomenon. The dynamic nature of women is expected to be able to boost company performance.

The existence of women on the board of directors may provide a vast difference of views on innovative and accurate decision making (Ararat, 2010). Research conducted by Adams & Ferreira (2010) states that women directors have a significant impact on company performance (ROA). Based on these arguments, this study has a hypothesis that the proportion of the women's board of directors may influence the profitability of small-capitalization companies on the IDX.

Educational Background of the Board of Commissioners and Directors

The educational background has an essential influence on the knowledge held by members of the board of directors and commissioners. Compared to age and gender diversity, the educational background remains a confusing part in terms of having a significant influence on company performance because of relatively less research compared to other dimensions of diversity (Mahadeo, et al, 2012). Apart from the fact that research on this aspect is rarely done, some authors identify that educational background has important relevance in terms of measuring the performance of an organization.

Adnan et al. (2016) find that educational heterogeneity has a positive effect on return on investment (ROI). Amar et al. (2009) provide evidence that the average level of education of members of the top management team has a positive and significant effect on company performance. The educational background has a very important influence on the knowledge held by members of the board of commissioners and directors. Business and economic knowledge may provide them with a useful perspective and competitive advantage on risk assessment and understanding of the challenges faced in business. In addition, armed with business knowledge, it is expected that board members will have better abilities to manage the business and make business and economic decisions. Based on these arguments, this study has a hypothesis that the educational background of the board of commissioners and directors has a positive effect on the profitability of small-capitalization companies.

Ages of the Board of Commissioners and Directors

Age diversity in the members of the board of directors and commissioners may influence company performance. The age difference gives diversity to the experience, skills, and social networks of board members. The age of board members is also related to the policies of the company. The older someone is, the wiser he or she is. The saying shows that age can affect someone's performance in the company, which can then affect the company's profitability. Middle adulthood between the ages of 40 to 60 years is a mature age. At the age of 40, most people have reached the peak of their careers. The board of directors who are entering middle age have discretion in making decisions so that it may affect profits. In addition, older workers usually show more loyalty to the company than younger workers. Darmadi (2013) shows that there is a positive correlation between the age of directors under the age of 50 years with company performance. Cheng et al. (2010), however, argue that age does not affect company performance.

The relationship between age and job performance is likely to be an important issue. Research conducted by Ararat (2010) find that the age of the directors' members has a significant effect on company performance. Older workers have positive qualities in their work, especially experience, judgment, strong performance ethics, and commitment to quality. Based on these arguments, this study has a hypothesis that the age of the board of commissioners and directors has a positive effect on the profitability of small-capitalization companies.

III. Methods

The population of this study comprises all companies listed on the Indonesia Stock Exchange based on the database in 2017. The sample studied is the data available from 2013 to 2017. The researcher classified 570 companies listed on the Indonesia Stock Exchange based on the 2017 data through the ranking of market capitalization of each company, and then classified the size of the company's capitalization based on Ang's research (cited in Pratomo, 2007), namely; 1) Large capitalization with a market value of shares \geq IDR 5 trillion; 2) Medium capitalization (Mid-Cap) with a stock market value of IDR 1-5 trillion; 3) Small-capitalization (Small-Cap) with share value \leq IDR. 1 trillion.

Based on the ranking of the data, the number of small-cap companies obtained comprise 234 companies. The approach in research sampling used in the present research includes probability sampling and proportionate stratified random sampling using the Slovin formula. The tolerable error rate used in the study is 10%. N or population size is the number of small-cap companies listed on the Indonesia Stock Exchange (IDX) from 2013 to 2017, which consists of 401 companies. The present study excluded banking and other financial institutions because of their heavily regulated company characteristics (Campbell & Minguez, 2008).

Sampling was conducted randomly. Based on the research methods and criteria used in determining the sample, the samples obtained for the present study consisted of 47 small-cap companies listed on the Indonesia Stock Exchange (IDX) from 2013 to 2017.

In accordance with the problems and hypotheses to be tested, the variables that were examined in this study are 1) Women on Board of Commissioners are proxy by the proportion of the Women's Board of Commissioners. This variable is measured by using the quotient between the number of women board of commissioners and the entire board of commissioners and expressed as a percentage (WOMKOM). 2) Women on the Board of Directors are proxied by the proportion of Women Board of Directors. This variable is measured by using the quotient between the number of women boards of directors and the total number of board of directors and expressed in a percentage (WOMDIR). The size of the company's market capitalization is calculated by $\text{Size} = \text{Closing price of shares in period } t \times \text{Number of shares outstanding in period } t$. 3) Educational Background of the Board of Commissioners and Directors is proxied by the proportion of the Board of Commissioners and Directors with a business background. This variable is measured using the quotient between the number of boards of directors and directors with a business background and the total number of boards and directors and expressed in percentage (LPENKOM and LPENDIR). 4) The age of the Board of Commissioners and Directors is proxied by the proportion of the Board of Commissioners and Directors aged ≥ 40 years. This variable is measured by using the quotient between the number of boards of directors and directors aged ≥ 40 years with the total number of boards and directors and expressed in percentage (AGEKOM and AGEDIR).

The study was analyzed using the regression model shown below:

$$\text{ROA} = \alpha + \beta_1 \text{WOMKOM} + \beta_2 \text{WOMDIR} + \beta_4 \text{LPENKOM} + \beta_5 \text{LPENDIR} + \beta_6 \text{AGEKOM} + \beta_7 \text{AGEDIR} + \beta_8 \text{SALESGROWTH} + e$$

Before a regression analysis was performed to test the research hypotheses, classical assumptions were tested first. Data distribution that is not in the form of a normal curve that violates the assumption of normality was normalized by trimming extreme observations. This study also used the Cochran Orcutt procedure to overcome autocorrelation and data transformation to overcome heteroscedasticity.

IV. Results

The determination of the sample by the method established in this study resulted in 47 small-cap companies. During the research period of 5 (five) years, it yielded 235 research data. After going through the stages of testing the classical assumptions and statistical stages, 202 research data were produced.

Reporting Research Results

Table 1 provides descriptive statistic results of the analyzed data.

Table 1. Small-Cap Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
ROA	202	-.1034657	.1899425	.037733566	.0573487475
WOMKOM	202	.0000000	1.0000000	.197607258	.2349809660
WOMDIR	202	.0000000	.6666667	.195473830	.2100662540
LPENKOM	202	.2000000	1.0000000	.620915842	.2504214900
LPENDIR	202	.1428571	1.0000000	.714014618	.2364636360
AGEKOM	202	.3333333	1.0000000	.952310232	.1401951110
AGEDIR	202	.2500000	1.0000000	.920568130	.1668042380
SALESGROWTH	202	.1060150	40.5081974	1.234975587	2.8131047390
Valid N (listwise)	202				

Source: Data processed, using SPSS 24 (2019)

The results of descriptive statistical calculations produce the lowest average return on assets (ROA) of -10% owned by PT. MitraInvestindoTbk with the highest value of 18.99%. The average value of small-cap ROA is 3.8%. The results illustrate that small-cap company returns are below the average market interest rate during the study period, which is 6.65%.

The existence of women directors is only 19.5% of the number of women on the board of directors of small-cap companies, and the remaining 80.5% are men. There are 19.7% of women on the board of commissioners in small-cap companies, and the rest are men. This value indicates that the position of commissioners and directors is still more dominated by men compared to women. There are even companies where all the boards of directors and directors are men.

The percentage of the educational background of the small-cap company women's board of commissioners is 62% who have a business and management education background while for the board of directors, 71.4% with a business and management education background. In terms of quality, small-cap companies are managed by a board with adequate background.

Members of the board of directors and commissioners in the majority of small-cap companies are over 40 years old. In contrast, the percentage of women directors over 40 years is 92%, and the percentage of commissioners (AGEKOM) is 95% in small-cap companies. This shows that the board of directors and commissioners in small-cap companies are boards with mature age and are expected to make use of their age maturity in every decision making in order to achieve company goals, especially profitability.

Sales growth is calculated based on the difference in total sales from the previous period. Thus, based on the average result of the small-cap companies that are used as research objects, it can be seen that the average value of small-cap sales growth of 1.23 with an average value of this growth produces an average level profitability of 3, 8%.

This study tested the classical assumption to ensure that the resulting regression model meets the requirements as a model that is fit for use as a research model. The classical assumption test was performed with tests of normality, multicollinearity, autocorrelation, and heteroskedasticity. The result of the normality test (Kolmogorov-Smirnov test) in this study are shown with an Asymp Sig value of 0.084, which means that the research data is normally distributed with a company's significance level above 0.05.

Table 2. One-Sample Kolmogorov-Smirnov Test

		Unstandardized Residual (<i>Small Cap</i>)
N		202
Normal Parameters ^{a,b}		.0000000
		.08610605
Most Extreme Differences		.048
		.048
		-.043
Test Statistics		.059
Asymp. Sig. (2-tailed)		.084 ^c

Source: Data processed, using SPSS 24 (2019)

The result of the multicollinearity test of 7 independent variables at a tolerance value > 0.1 and a VIF value < 10, it can thus be concluded that there is no multicollinearity between the independent variables.

Table 3. Multicollinearity Test Results

	<i>Small-Cap</i>	
	Tolerance	VIF
WOMKOM	.831	1.204
WOMDIR	.938	1.066
LPENKOM	.871	1.149
LPENDIR	.896	1.116
AGEKOM	.891	1.122
AGEDIR	.871	1.148
SALESGROWTH	.986	1.014

Source: Data processed, using SPSS 24 (2019)

The presence of autocorrelation in this study was determined by examining the value of Durbin Watson (DW) with the Cochrane Orcutt procedure. As seen in Table 4, the value of Durbin Watson (DW) on small-cap is 2.032, the amount of data is N = 202, and the number of independent variables is 7 (K = 7). With the DW

table with a significance level (error) of 5%, the value obtained was $d_l = 1.2131$, and the value of $d_u = 1.8863$. The calculated DW value of 2.032 was higher than the value of d_u and smaller than $4 - d_u$, and thus it can be concluded that the data used did not result in autocorrelation because of $d_u \leq d_w \leq 4 - d_u$.

Table 4. Model Summary^b -Autocorrelation Test Results

Model	Dw	dL	dU	Conclusion
<i>Small-Cap</i>	2.032	1.2131	1.8863	No autocorrelation

Source: Data processed, using SPSS 24 (2019)

Glejser test was performed to examine whether there is heteroscedasticity in the research data. Table 5 shows sig-value > α (5%), and therefore, there are no signs of heteroscedasticity.

Table 5. Heteroscedasticity Test Results

	Nilai sig-value
C	.137
WOMKOM	.361
WOMDIR	.403
LPENKOM	.639
LPENDIR	.437
AGEKOM	.368
AGEDIR	.982
SALESGROWTH	.682

Source: Data processed, using SPSS 24 (2019)

Based on the results of the classic assumption test, it can be concluded that there is no violation of the classical assumptions in the resulting regression equation so that it is free from bias. The study continues with a regression analysis, as the results are shown in Table 6 below.

Table 6. Results of Multiple Regression Analysis

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
<i>Small-Cap</i>	(Constant)	-.014	.037		-.372	.710
	WOMKOM	.031	.018	.125	1.712	.089
	WOMDIR	-.026	.019	-.094	-1.366	.173
	LPENKOM	-.025	.016	-.109	-1.527	.128
	LPENDIR	-.027	.017	-.112	-1.585	.114
	AGEKOM	-.006	.029	-.016	-.220	.826
	AGEDIR	.102	.025	.295	4.129	.000*
	SALESGROWTH	-.002	.001	-.086	-1.283	.201
	<i>Adjusted R Square</i>	0.104				
	<i>F</i>	0.000				

Source: Data processed, using SPSS 24 (2019)

Information: * significant at the 5% significance level

Based on the results of multiple regression analysis, from the seven independent variables entered, the regression model obtains the following equation:

$$ROA = -0,014 + 0,031 \text{ WOMKOM} - 0,026 \text{ WOMDIR} - 0,025 \text{ LPENKOM} - 0,027 \text{ LPENDIR} - 0,006 \text{ AGEKOM} + 0,102 \text{ AGEDIR} - 0,002 \text{ SALESGROWTH} + e$$

The Age of Directors variable (AGEDIR) in small-cap companies has a significant positive effect, as evidenced by the probability of the variable significance, which is $0.000 < 0.05$. Thus, it can be concluded that the profitability variable (ROA) is influenced by the age of the Board of Directors (AGEDIR) in small-cap companies. F Test Results for the significant regression equation at the 95% confidence level, with a sig test value of $0,000 < 0.05$ with an R squared of 10.4%. This means that the independent variable in this study may explain the profitability variable of 10.4%.

The partial test results (t-test) show that the age of the board of directors (AGEDIR) has a positive effect on profitability. That is, the presence of women on the Board of Commissioners with a significance level of

10% supports the proposed hypothesis. The four independent variables, namely WOMDIR, LPENKOM, LPENDIR, and AGEKOM, do not significantly influence profitability. It should be noted, however, the variable proportion of women board of commissioners with a 90% confidence level positively influences profitability and is significant.

V. Discussion

The women on board of commissioners appear to be optimal in exercising their control functions to increase the level of profitability. The presence of women on the board of commissioners may provide a vast difference of views on innovative and accurate decision making. Women consider risk factors more in each of their decisions, and therefore, they can consistently support profitability. This finding is supported by Carter et al. (2010) who state that the role of women in the control function could improve corporate financial performance. However, women, as top leaders of the company, are still considered less capable compared to men. In other words, women directors are regarded to not have contributed to the company's performance, especially to the profitability of small companies. This is often attributed to the cautious nature of a woman in making decisions that might hinder the company's profitability. In addition, the number of women directors in small companies is also limited.

The education level of both commissioners and directors have no significant effect on company profitability. The result is supported by research by Velnampy & Pratheepkanth (2013) and Adnan et al. (2016). On average, the education level of board members in small companies on the IDX is that the majority have a business education background. However, formal business education does not seem to play an important role in company profitability.

The age of the board of directors has a positive effect on the profitability of small-cap companies because the age of board members is related to the policies they make. The older someone is, the wiser they will be. This wise saying shows that age may affect someone's performance in the company, especially the board of directors who are authorized in making the operational decisions of the company. The results of the present study are in line with Darmadi (2013), who shows that there is a positive correlation between members of the board of directors under the age of 50 years with company performance. The Blue Ribbon Commission's National Association of Corporate Directors recommends that a board of directors and commissioners should not only consist of members who are in adulthood and in the middle of adulthood. Instead, the composition of board members with young age, middle age, and mature age is considered to be optimal in enriching the quality and expertise, which can provide added value to the company.

VI. Conclusions

Based on the results of the analysis, it may be concluded that the variable that has the biggest influence on the profitability of small-cap companies is the age of the board of directors. This conclusion can therefore explain why the age of the board of directors is considered to be an important factor that contributes to the increase in profits in small-cap companies listed on the Indonesian capital market. Companies need to consider the age of directors who are over 40 years. Such age is considered mature in corporate decision making. The mature age has an impact on increasing company profitability. Likewise, women on board of commissioners may affect profitability at a 90% confidence level. The GCG function represented by the presence of women on Board of Commissioners seems to be quite instrumental in the effort of increasing profitability in the small-cap companies listed on the Indonesian capital market.

Several implications for companies arise from the present research. First, in small-cap companies, the age of directors may play an important role in company profitability. Second, when implementing GCG, companies are suggested to consider the role of gender when selecting the composition of the board of commissioners.

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