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DIRECTOR'S NATIONALITY DIVERSITY AND COMPANY PERFORMANCE: THE EVIDENCE FROM EMERGING MARKET

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ABSTRACT

This study aims to describe the director's nationality diversity from company attributes: company leverage, growth, size, age, and sub-sector. This study also analyses the association between directors' nationality diversity and the performance of Indonesia's listed companies using two measurements: ROA and ROS (accounting performance) and Stock return and Tobin's Q (market performance). Employing the 3,290 company years, this study concludes that the level of director nationality diversity varies based on the company size (large vs small), company age (old vs young), company growth (high vs low), company leverage (high vs low), company sub-sector (main vs manufacturing vs trading & service sub-sector). In addition, the supervisory board nationality diversity is negatively related to the ROA and Tobin's Q and positively associated with stock return. The company breaks the negative effect of supervisory board nationality diversity by reducing the periods foreign directors need to familiarise themselves with newly discovered circumstances, such as culture, systems, and language. The company suggests increasing the supervisory board nationality diversity regarding the stock return. Theoritical and practical implication are discussed in detail. This study's theoretical implications include a partial confirmation of the beneficial effects of nationality diversity on performance (stock return) seen in the board capital theory, the cognitive resource diversity, and the intergroup contact theory/ perspective. However, the similarity/attraction paradigm, and the social categorization theory are supported by the detrimental effects of supervisory board nationality diversity on company performance (ROA and Tobin's Q); diversity may result in low teamwork cohesion, which affects the efficacy of group decision-making.

Key words: Directors' Nationality Diversity; Company Performance; Indonesia.

ABSTRAK

Penelitian ini bertujuan untuk mendeskripsikan keragaman dewan komisaris dan direksi dari atribut perusahaan: leverage perusahaan, pertumbuhan, ukuran, usia, dan sub-sektor. Penelitian ini juga menganalisis hubungan antara keragaman kewarganegaraan dewan komisaris dan direksi dengan kinerja perusahaan publik di Indonesia. Dalam hal ini, sebagian besar studi menggunakan satu proxy untuk kinerja. Penelitian ini menggunakan kinerja akuntansi dan pasar; masing-masing memiliki dua pengukuran: ROA dan ROS (kinerja akuntansi) dan Return saham dan Tobin's Q (kinerja pasar). Dengan menggunakan 3.290 obervasi (235 perusahaan dengan periode 2004 sd. 2017), penelitian ini menyimpulkan bahwa tingkat keragaman kewarganegaraan dewan komisaris dan direksi bervariasi berdasarkan ukuran perusahaan (besar vs kecil), usia perusahaan (tua vs muda), pertumbuhan perusahaan (tinggi vs rendah), leverage perusahaan (tinggi vs rendah), dan sub-sektor perusahaan (subsektor utama vs manufaktur vs perdagangan & jasa). Selain itu, keragaman kewarganegaraan dewan komisaris berhubungan negatif dengan ROA dan Tobin's Q, dan berhubungan positif dengan return saham. Perusahaan bisa menurunkan efek negatif dari keragaman kewarganegaraan dewan komisaris dengan mengurangi waktu yang diperlukan anggota komisaris asing untuk membiasakan diri dengan lingkungangan baru, seperti budaya, system, dan bahasa baru. Implikasi praktis dan teoritis dibahas mendalam dalam artikel ini. Implikasi teoritis atas hasil pengaruh positif keragaman terhadap kinerja (pengembalian saham) dijelaskan oleh board capital theory, intergroup contact theory, dan cognitive resource diversity. Namun, penelitian ini juga memberikan kontribusi pada teori social categorization dan paradigma similarity/attraction, khususnya efek negatif dari keragaman dewan terhadap kinerja (ROA dan Tobin Q); keragaman dapat mengakibatkan kohesi kerja tim yang rendah, yang mempengaruhi efektivitas pengambilan keputusan kelompok.

Kata kunci: Keragaman Kewarganegaraan Dewan; Kinerja Perusahaan, Indonesia.

INTRODUCTION

Globalization significantly impacts the composition of directors' members in listed corporations worldwide (Harjoto et al., 2019), become an active rule (Chebri & Bahoussa, 2020), and hot issue (Adams & Baker, 2021). Thus, rising global and national concerns about the business's role in society withdraw substantial consciousness from media, boards and regulators (Ibrahim & Hanefah, 2016; Khan et al., 2019). A pivotal matter in making certain good governance in any corporation is diversity on the board, which has been presented with enormous consideration for many years (Fidanoski et al., 2014). Directors' national diversity has drawn less awareness than other kinds, partially due to not being quite common (Fernández-Temprano & Tejerina-Gaite, 2020). It is necessary to analyze how director demographic diversity (e.g. nationality diversity) in the boardroom influences firm performance (Kagzi & Guha, 2018). Samara & Yousef (2023) suggest several benefits for the corporation to attract foreign directors as board constituents. Foreign directors increase the wealth of the shareholders and encourage fresh approaches to raise shareholder wealth. Besides, the foreign director also brings experience, expertise, and capability to administer the company better. Finally, they bring the interests of shareholders and managers' wealth. In fact, Kang et al. (2019) add that the existence of foreign directors may differ not only in norms, values, knowledge, and perspectives, but also in experiences and skills.

International competition makes the business world grow faster. There are many activities of competition in an organizational form to survive. Competition is believed to increase company outcomes, such as performance, within the same industry (EmadEldeen et al., 2021). This condition would influence companies that employ a board of directors and supervisory board who perform better. In addition, in attendance of a foreign board of directors in a firm also messages stakeholders' preparedness to improve the effectiveness of watch (Asad et al., 2023) and encourage more successful worldwide connections (Mirza et al., 2020). Thus, it invites non-local potential investors to purchase a large portion of the company stock. Previous papers have documented the importance of directors' nationality diversity for company outcomes. Non-local directors are associated with the company performance (Adams & Baker, 2021; Fernández-Temprano & Tejerina-Gaite, 2020; García-Meca et al., 2015), company value (Metwally, 2021), corporate social performance (Harjoto et al., 2019), quality of CSR disclosure (Khan et al., 2019), human right reporting (Branco et al., 2021), tax avoidance (Alshabibi et al., 2022), firm profitability (Hamid, 2018), R&D spending (Asad et al., 2023), strategic change (Samara & Yousef, 2023), firm stability (Elnahass et al., 2023), investment decision (Mirza et al., 2020), corporate philanthropic behavior (Kang et al., 2019), corporate sustainability performance (Zaid et al., 2020) and corporate social responsibility (Ibrahim & Hanefah, 2016).

The influence of director nationality diversity and company performance has been done in several countries, such as the UK (EmadEldeen et al., 2021; Metwally, 2021), Australia (Shatnawi et al., 2022), Marocco (Chebri & Bahoussa, 2020), India (Rafinda et al., 2018), Qatar (Mohd Idris & A. A., 2021), Spain (Fernández-Temprano & Tejerina-Gaite, 2020), Nigeria (Ujunwa et al., 2012), UK (Adams & Baker, 2021), and Indonesia (Adams & Baker, 2021; Komala & Fuad, 2017; Mardiyati & Siregar, 2022; Putri & Danarsari, 2020; Sutrisno & Mohamad, 2019). Regarding the board governance system used, most prior research was documented in the countries adopting the Anglo-Saxon corporate governance system. There is a limited study on directors' nationality diversity and performance using the continental European corporate system.

The continental European corporate governance system uses French Civil law and two-tier board systems (Hamdi et al., 2021). Even though an Indonesian company uses the continental European corporate system, it has a unique model in which the board of commissioners or supervisory board appoints the management board or board of directors, and the supervisory board is selected and dismissed by shareholders (Ilona et al., 2019).

A previous study using an Indonesian company also has been documented. All studies used nationality diversity measured by percentage and dummy. In addition, the studies analyzed the nationality diversity of the oversight board and ignored the management board or directors. Furthermore, previous studies in Indonesia applied one proxy for performance measurement: ROA (Sutrisno & Mohamad, 2019), Tobin's Q (Putri & Danarsari, 2020), and value-added intellectual capital (Komala & Fuad, 2017). Therefore, no previous evidence exists on the board of directors or management board nationality diversity using the unique corporate governance system, such as in Indonesia. The uniqueness of Indonesia's corporate governance system is that the directors (supervisory and management board) are appointed and dispersed by the shareholders, differing from the original continental European corporate governance system. The shareholders elect the supervisory board, and the supervisory board selects the management board.

Furthermore, this study aims to describe the director's nationality diversity from company characteristics, such as company size, age, growth, leverage, and sub-sector. This study also analyses the relationship between directors' nationality diversity and company performance. In this case, most of the studies used one proxy for performance. This study used accounting and market performance; each has two measurements: ROA and ROS (accounting performance) and Tobin's Q and stock return (market performance). This study uses several performance measurements to represent the inherent limits of a single profitability measure fully. Hence, the indicator of the director's effectiveness is the performance of company, which also suggests the effectiveness of the directors in supervising managerial decision-making. Therefore, a company's performance may be a good indicator of the effectiveness of its corporate governance framework. The return on assets (ROA) indicates how well management uses the company's assets, which are ultimately owned by the shareholders. ROS is a measure of a company's competitive advantage and resource or competitive flexibility. Tobin's Q ratio demonstrates the management team's capacity to generate revenue from an asset base. Stock returns show how well a business is run in accordance with the interests of its shareholders. Practically, this study will provide guidelines for listed companies to have national diversity in the boardroom. The company stakeholders can urge the government agent to accommodate nationality diversity in the future revised code of Indonesia's good corporate governance. This paper is predicted to contribute to the corporate governance literature, especially governance structure. In addition, this paper may also contribute to board capital theory and social categorization theory. The rest of the paper is organized as follows: (2) theory and hypothesis development, (3) research method, (4) result and discussion, and (5) conclusion and recommendation.

THEORITICAL REVIEW

Company Performance

The diverse nationality of directors has been supported by several governance guidelines to reflect the nationality diversity of their employees, customers, and stakeholders (Ibrahim & Hanefah, 2016). Several theories describe why the director's

nationality diversity varies among companies: upper echelon theory, board capital theory, intergroup contact theory, and resources dependent theory. The first theory is the upper echelon theory (Kaczmarek & Nyuur, 2022). This theory considers organizational outcomes, such as performance, as reflections of the cognitive and value base of strong fellows in the company (Kaczmarek & B. Nyuur, 2022). It connects the demographic and cognition of the team of top management to the strategic consequences and performance of the company.

The second is the board capital theory (Ooi et al., 2017) . This theory notes that social (e.g., resource-based) relationships/business networks, innovative business insights, and the human-specific skills-sets gained from diverse institutional domain infrastructure that the nationality diversity of the supervisory and board of directors can directly affect the company's strategic decisions effectiveness, and hence, financial performance (Ooi et al., 2017). Oxelheim et al. (2013) adds that the social capital and human characteristics related to the foreign delegation on boards assist companies in advancing the effectiveness of strategic inventiveness in international markets and intensify their entrance to broad human, financial, and other (e.g., technology) resources. From a workgroup diversity perspective, Harjoto et al. (2019) suggest that intergroup contact theory, cognitive resource diversity, similarity/attraction, and social categorization can supply the research framework for examining the association of workgroup diversity and team performance.

There are advantages and disadvantages of having director nationality diversity. The benefit of diversity is that the director's nationality diversity could induce to increased creative difficulty-solving and solutions, corresponding to the cognitive resource diversity perspective and intergroup contact theory (Harjoto et al., 2019). However, diversity also has a disadvantage; as forecasted by similarity/attraction paradigm, and social categorization theory, diversity could cause low teamwork unity that influences group decision-making (Harjoto et al., 2019). In addition, director nationality diversity can hinder the achievement of current board members caused of the periods needed by foreign directors to make themselves familiar with the newly discovered circumstances, such as culture, systems, and language (Rubino et al., 2021). The resource-dependent theory is the last theory that can explain why a company has a director with nationality diversity (Valenti & Horner, 2020). The perspective of resource dependency stresses director or management board features, like exposure and networks with pertinent commercial body, suppliers, and customers (Toumi et al., 2016).

Governance Board

The Continental European system and Anglo-Saxon system are the two ways used to implement a company's board structure (Ilona et al., 2019; Zaitul et al., 2021). There are two kinds of governance frameworks for corporate—two-tier and the one-tier Board structure (Rashid, 2018). For the Anglo-Saxon system, Badu & Appiah (2017) refer to it as a "insider system," while for the Continental European system, they use different terminology.

A one-tier Board system is the Outsider system. There is only one Board of Directors for this system. They oversee and run the business. Insider and outsider (independent) directors make up its two categories of directors. Executive and non-executive Boards are another term for insider and outsider boards (Fernández-Temprano & Tejerina-Gaite, 2020). A senior executive who works full-time for the company is an executive board member. They are accountable for the daily operations of the business. The business operations are under the direct supervision of the executive director, including marketing, corporate strategy, and finance. Non-executive directors (NEDs) are independent directors, according to Fernández-Temprano & Tejerina-Gaite (2020). They keep an eye on the choices that insider directors make. The shareholders appoint and remove all board members, including executive and non-executive directors.

Another method is the two-tier Board system, sometimes known as the Continental European system. There are two distinct boards in this system: the Board of Directors (management board) and the Board of Commissioners (supervisory board). The day-to-day activities of the corporation are overseen by the Board of Directors. Moreover, their knowledge of the company is greater than that of the Supervisory Board. Nonetheless, information is provided to the Supervisory Board by management. The Supervisory Board makes most of the decisions on control and monitoring, whereas the Board of Directors is responsible for decision management.

For three and a half centuries, the Netherlands occupied Indonesia. This spanned the period from the start of the seventeenth century until the mid-1900s. As a result, it influenced the systems in Indonesia, which had incorporated elements of the systems in the Netherlands, especially the business system. Unlike other systems, the Continental European system in terms of corporate governance, particularly regarding board structures. A two-tier Board structure oversees and governs Indonesian businesses. The Supervisory Board, commonly known as the Board of Commissioners or "Dewan Komisaris," is the first level of government. The second board is known as the "Dewan Direksi," or Board of Directors, or Management Board.

Asymmetric information is produced between the agent and the principal as a result of the separation of ownership and control. In addition, it makes agency issues worse (Saeed et al., 2017). Having strong corporate governance practices is one method to reduce agency costs. Corporate governance procedures provide some reassurance to shareholders that management will make decisions that are in their best interests.

The corporate governance research uses both internal and external control systems to assess the performance of the organization. The internal corporate governance mechanism might come from the management board or Board of Directors; it could take the form of financial structure, proxy struggle, large/block holder, ownership, and compensation of management; or investor activism and dividend policy. The external mechanism may take the shape of a labor market for managers, product market competition, or takeover (legal and regulatory). Research on

corporate governance practices and their positive impact on business success has been published in both developed and developing nations.

In situations where agency conflict is more likely to arise, When the external mechanism is less successful, internal corporate governance mechanisms like board structure become more crucial, especially in emerging markets (Aguilera et al., 2015). To represent the interests of the shareholders, directors are chosen. Accordingly, the Board of Directors' involvement is anticipated as a useful corporate governance tool to improve the performance of the company (Baldacchino et al., 2020). The establishment of new concepts in governance structure or governance board, like directors' diversity, is a result of weaknesses in current corporate governance practices.

With an emphasis on putting sound corporate governance into practice, the Supervisory Board plays a significant role in the organization. The Supervisory Board's primary responsibility is to keep an eye on the Board of Directors' decisions to ensure that management is acting in the best interests of the firm and its shareholders. In contrast, the board of directors manages the company's operations in a way that maximizes shareholder value and ensures the company's long-term success. The Supervisory Board is assisted in carrying out its duties by several committees, including the audit, corporate governance, risk policy, nomination and compensation, and risk policy committees.

It is forbidden for the Supervisory Board to get involved in any procedure for making operational decisions. The management board or board of directors is the second board. The oversight Board elects and removes the management Board or Board of Directors under the Continental European system; however, Indonesia has changed that structure so that voting rights of shareholders choose and remove the Board of Directors.

Nationality diversity

Scholars still disagree on how to define diversity in directors (Rao & Tilt, 2016). Nonetheless, the idea of diversity in director structure has been applied by numerous specialists. Rao & Tilt (2016), for instance, contend that the phrase "diversity" refers to different composite of directors in terms of their backgrounds, skills, and personal qualities that they value when it comes to decision-making and director processes. Directors' diversity is defined by some authors, such as Torchia et al. (2015), as the diversity that each member of the Board brings to the table.

Diversity traits are frequently divided into task-related and relation-oriented features, according to (Wei et al., 2020). Task-related diversity attributes encompass attributes such as tenure, education, and functional background (Faems & Subramanian, 2013). Diversity in nationality, gender, and age are relation-oriented characteristics. On the other hand, variety is divided into observable and less obvious characteristics. Three categories of discernible variety include gender, race, and ethnicity. In the meanwhile, a variety of industrial experience, educational backgrounds, and functional and vocational backgrounds are instances of less evident. Consequently, a variety of factors can be used to assess the diversity of directors, including membership in organizations, experience, education, gender, nationality, age, and ethnicity (Rao & Tilt, 2016).

Furthermore, diversity is thought to enhance a business's financial performance over the long and short term in a number of ways (Chebri & Bahoussa, 2020). They go on to say that there are several claims about diversity. To start, diversity fosters creativity and innovation. Second, diversity fosters better problem-solving techniques. Third, corporate leadership becomes more effective when it is diverse. Lastly, variety fosters more productive global ties. As a result, these ideas could improve business performance.

Directors' nationality diversity in a company refers to the diverse nationalities of the oversight board and management board or board of directors. Dauth et al. (2023) state that attending of nationality diversity give a signal that company's appeal as a potential employer to stakeholders. This argumentation is also aligned with the statement of other experts (Caligiuri et al., 2004), who contend that director members with diverse nationalities can potentially hold different preferences, attitudes, and cultural values. Therefore, they will supply comprehensive culture capital, skill sets, and informational resources. Alshabibi et al. (2022) bear in mind that members of foreign director are extra effective and independent in overseeing executive than domestic directors. Foreign directors are considered comparatively split from majority shareholders because they are not a portion of the conventional local cronyism of school relationship, kinship, and regionalism with the major part of owners. Suppose a business increases to go international market Choi et al. (2012). Finally, a higher nationality diversity of directors can obtain and preserve crucial economic resources in contrast to directors with a lower nationality diversity level.

Previous relevant research has been done in various countries and corporate governance systems. First, Alshabibi et al. (2022) investigated 1049 companies from 2009 and 2019 that listed on the Muscat Stock Exchange. They find the existence of nationality diversity board will lead to lower effective tax rates. Based on the regression analysis, the company's financial performance is significantly positively related to a director with international experience. Dauth et al. (2023) investigate companies from European countries. They show nationality diversity has a positive effect on employer attractiveness. Study in Indonesian of Adrian & Pangestu (2022) also find oversight board's diversity in nationality has a negative influence on Corporate Social Responsibility for 102 financial sector companies during 2018-2020 period. Hence, Elnahass et al. (2023) believe that nationality diversity create bank stability.

Asad et al. (2023) examined the association board diversity as measured by gender, age, nationality, education, financial expertise, tenure, and board experience on R&D spending for UK non-financial companies, 2005-2018. They conclude that board diversity give a positive impact on R&D spending. Fernández-Temprano and Tejerina-Gaite (2020) examine nationality diversity and company performance and figure that executive director nationality diversity positively affects Spanish non-financial firms' performance. Finally, Adams and Baker (2021) conclude that boardroom nationality influences the corporate outcomes of UK firms. Previous research using Indonesia's company (supervisory board) and non-Blau index as nationality diversity measurements concludes that diversity positively affects company performance (Komala & Fuad, 2017; Putri & Danarsari, 2020; Sutrisno & Mohamad, 2019).

This study employed the board capital theory, the intergroup contact theory, and the cognitive resource diversity perspective for the positive effect of national diversity on performance. In addition, the negative impact of board nationality diversity on performance utilized the social categorization theory and the similarity/attraction paradigm; diversity could cause low teamwork cohesion that

influences the process of group decision-making effectiveness. Therefore, the following hypotheses are developed below:

- H1: Directors' nationality diversity is positively related to company performance.
- H1a: Supervisory Board's nationality diversity is positively related to company performance.
- H1b: Board of Directors nationality diversity positively affects company performance.

RESEARCH METHOD

Companies traded in Indonesia's stock exchange (IDX) is research object. To maintain the balanced panel data, the number of listed companies in 2004 was 420. We use the non-probability sampling technique to select the sample. Secondary data is employed, and the data was gathered through the financial report, annual report, and other related reports from the IDX website, company website and other electronic sources. There are three types of variables: dependent, independent, and control variables. The dependent variable consists of four variables from accounting performance and market performance measures. Accounting performance has two proxies: ROA (return on assets) and ROS (return on sales). Meanwhile, the market performance composes two variables: Tobin's Q and stock return. The net profit per total assets is a measurement of ROA (Asad et al., 2023); meanwhile, the proportion of net income to total sales is a measurement of ROS. The ratio of the market value of equity plus total liabilities to total assets is a measurement for Tobin's Q, which follows the previous research. Finally, this paper refers to Azzoz & Khamees (2016) to quantify the variable of stock returns.

Following Ahmed & Ali (2017) and Dauth et al. (2023), Nationality diversity is measured by the Blau index using this formula: $1 - \sum_{i=1}^{n} P_i^2$. With P_i being the percentage of board members in every group (domestic and foreign directors), n equals the total Board members. The index starts at 0 when there is only one nationality represented on both boards and goes up to 0.50 when there are equal numbers of domestic and foreign directors. This study also uses the four control variables: company size, age, growth and leverage. There are two types of data analysis: univariate and multivariate data methods. The univariate analysis describes the director's national diversity according to company characteristics, sector and performance. Thus, we use the Mann-Whitney U and Kruskal-Wallis tests to analyse different directors' national diversity based on company characteristics, company sector, and company performance. In addition, a multivariate analysis is conducted to see the influence of director nationality diversity on company performance. The multivariate regression model is shown below.

$$cp_{it} = \alpha + \beta_1 snbl_{it} + \beta_2 dnbl_{it} + \beta_3 cs_{it} + \beta_4 ca_{it} + \beta_5 cg_{it} + \beta_6 cl_{it} + e_{it}$$

where,

cp	=	company performance (ROA, ROS, Tobin's Q, Stock returns)
snbl	=	nationality diversity of supervisory or oversight board
dnbl	=	nationality diversity of board of director
cs	=	size of the company
ca	=	age of the company
cg	=	growth of the company
cl	=	leverage of the company
α	=	constant
β	=	coefficient regression
e	=	error

ANALYSIS AND DISCUSSION

Directors' national diversity over the years

The final sample of this study consists of three sectors (235 companies) for 14 years with 3,290 firm-years observation:

the main industry (6.84%), the manufacturing sector (37.61%), and the trading & service sector (55.56%). Director nationality diversity over the year (2004-2017) is demonstrated in Figure 1. As shown in Figure 1, the nationality diversity of the supervisory board or oversight board (snbl) and board of directors or management board (dnbl) have a growing number of indexes. Supervisory board nationality diversity in 2004 was 0.095 and 0.117 in 2017. The average percentage increased for 14 years is 0.2% per year. In addition, the board of director nationality index was 0.085 in 2004 and rose to 0.116 in 2017. Based on the above data, we can conclude that there are positive trends of director nationality diversity in an Indonesian company. The percentage of foreign board members in the UK is as follows: 0.25 (% foreign), 0.08 (% North American), 0.11(% continental European), and 0.26 (foreign CEO-dummy variable) (Adams & Baker, 2021). Based on the findings (Adams & Baker, 2021), the director nationality diversity in Indonesian companies is lower than in UK companies.

Khan et al. (2019), using the Blau index for director nationality diversity measurement, the level of nationality diversity in Pakistan is higher (0.20) than in Indonesian companies. However, the director nationality diversity in Indonesia (0.11) is almost the same as in Jordan's company (Ibrahim & Hanefah, 2016). The low level of director nationality diversity in Indonesia compared to developed countries, such as the UK, might be caused by low trust in Indonesia's society, low foreign ownership and high family ownership (Ilona, 2015). Low-trust society tends to untrust another foreign person. This low-trust society might have been developed during the colony of the Netherlands—this social value influence how the company is managed. Therefore, foreign and family ownership percentage is low, reducing the director nationality diversity level.

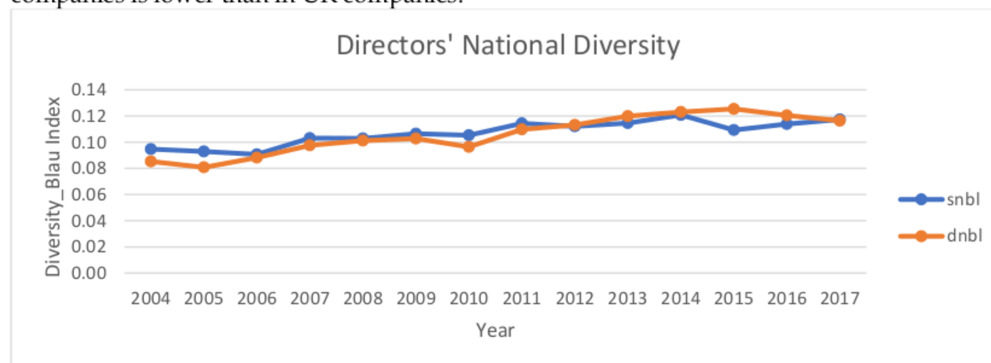


Figure 1
Directors' National Diversity: 2004 to 2017

Directors' national diversity and company characteristics

The following analysis is the nationality diversity of directors based on company characteristics: company leverage, company growth, company age, and company size. Thus, these company characteristics are grouped into two categories: large company vs small company

for company size, old company vs young company for company age, high growth company vs low growth company for company growth, and high leverage company vs low leverage company. In addition, a company with assets greater than One hundred ninety-three thousand eight hundred million is considered a large company (Martin et al., 2008). This paper groups the sample into small (assets ≤ Rp 193.800 M) and large (assets > Rp 193.800 M). Moreover, company age is also categorized into two with cut off ten years: old company (>10 years) and young company (≤10 years) (Kuhn, 2013). In line with the previous paper, this paper categorizes the growth under a low and aloft level according to the median value (13%). Following the previous research, this paper classified companies under two groups: low leverage (≤ 35%) and high leverage (> 35%).

Table 1.
Directors' national diversity and company characteristics

National Diversity	Means	rank	Means	Mean rank	M-W test (Asymp Sig)
Panel A Company size	Large company		Small company		
Snbl	0.12	1697.06	0.05	1420.89	688444 (0.00) ***
Dnbl	0.12	1699.82	0.05	1409.00	681071 (0.00) ***
Panel B Company Age	Old company		Young Company		
Snbl	0.11	1650.66	0.06	1452.64	132083 (0.01) ***
Dnbl	0.11	1647.41	0.09	1563.06	142462 (0.27)
Panel C Company Growth	High growth company		Low growth company		
Snbl	0.10	1636.87	0.11	1647.83	1028881 (0.71)
Dnbl	0.10	1635.69	0.11	1648.23	1027087 (0.67)
Panel D Company Leverage	High leverage company		Low leverage company		
Snbl	0.10	1622.35	0.12	1697.91	1083205 (0.01) ***
Dnbl	0.11	1651.42	0.10	1630.00	1120588 (0.44)

Notes: snbl (Supervisory Board nationality diversity using Blau index), dnbl (Board of Director nationality diversity using Blau index), M-W (Mann-Whitney), and *** indicate that significant at 1%.

Based on the company size, supervisory board nationality diversity is higher in large companies (0.12) than in small companies (0.05). The Mann-Whitney U test indicates that the difference is significant at 1%. In addition, the board of directors (or management board) nationality diversity is also higher in large companies (0.12) than the small company (0.05), and the difference is significant (α=1%). The second company characteristic is company age. Regarding supervisory board nationality diversity, old companies tend to have higher diversity (0.11) than young companies (0.06). The Asymp sig value of the Mann-Whitney U test is below 5% (Zaitul et al., 2022) and it can be culminated that there is a significant difference in nationality diversity between old and young companies. However, the board of directors' nationality diversity of the old company (0.11) and young company (0.09) is not significantly different. The third company characteristic is company growth. Both supervisory board and board of director nationality diversity levels are 0.10 and 0.11 for high and low-growth companies. The final company attribute is company leverage. Low leverage companies have higher nationality diversity for the supervisory board (0.12). Thus, high leverage companies have higher nationality diversity for the board of directors (0.11).

Table 2
Directors' national diversity and company sector

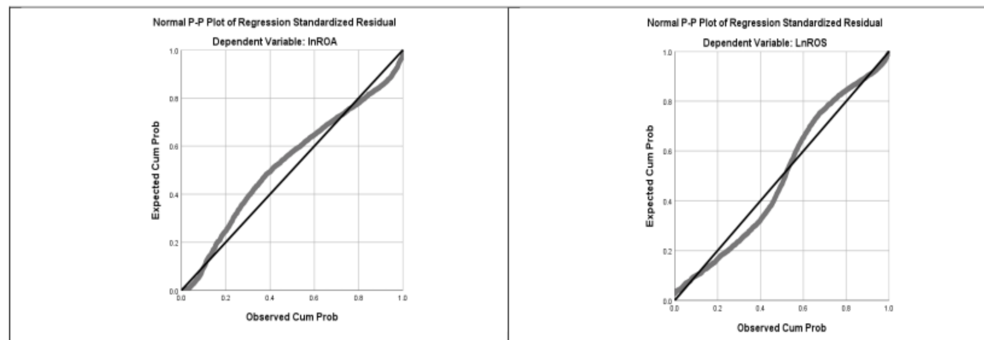
National Diversity	main sector		manufacture sector		trading & service sector		Kruskal-Wallis H
	Means	Mean rank	Means	Mean rank	Means	Mean rank	
snbl	0.09	1600.73	0.14	1773.61	0.09	1563.97	61 (0.00) ***
dnbl	0.12	1713.35	0.14	1809.16	0.08	1526.31	110 (0.00) ***

Notes: snbl (Supervisory Board nationality diversity using Blau index), dnbl (Board of Director nationality diversity using Blau index), and *** indicate that significance at 1%.

The director nationality diversity in the three sectors is demonstrated in Table 2. Nationality diversity for the supervisory board is higher in the manufacturing sector (0.14) compared to the main industry (0.09) and the trading & service sector (0.09). The k-independent sample t-test of Kruskal-Wallis's test is used. The result shows a significant difference in supervisory board nationality diversity among these three samples. In addition, nationality diversity of the board of directors' is also higher in the manufacturing sector (0.14) compared to other industries: 0.12 for the main sector and 0.08 for the trading & services sector.

Nationality Diversity and company performance

The last purpose of this paper is to investigate the relationship between director nationality diversity and company performance. The multiple regression procedure is employed. The classical assumption test must be conducted: normality, multicollinearity and heteroskedasticity.



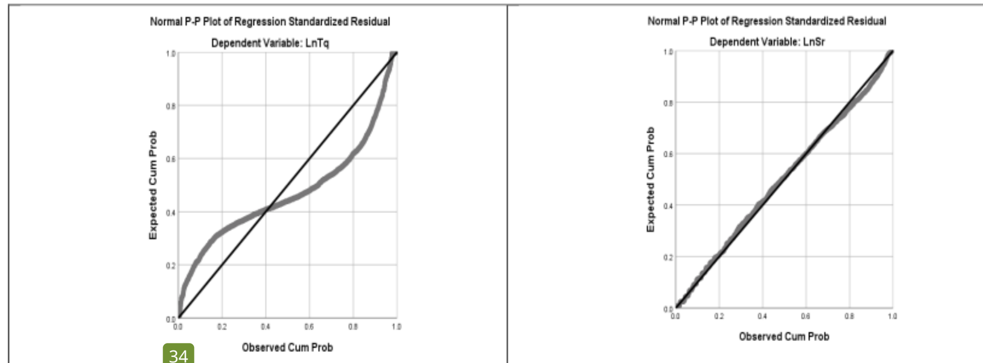


Figure 2. Normal P-P Plot of regression standardized residual

The following analysis is a multivariate regression analysis to see the influence of oversight board and board directors' nationality diversity on company outcome. The normality test uses the multivariate normality test. in this case, normal P-P Plot of regression standardized residual is employed for all models. The result show that All models have plots follow the diagonal line after dependent variables are transformed into ln (see Figure 2). Thus, multivariate normality can be said to be normal. Therefore, all models are free from normality problems. The multicollinearity problem is detected using the tolerance value and VIF.

Table 3. Multicollinearity test

variable	Model ROA		Model ROS		Model Tobin's Q		Model Stock Return	
	Tol	VIF	Tol	VIF	Tol	VIF	Tol	VIF
snbl	0.70	1.43	0.69	1.45	0.71	1.41	0.67	1.49
dnbl	0.71	1.40	0.71	1.41	0.72	1.39	0.68	1.48
cs	0.99	1.01	0.99	1.01	0.99	1.01	0.99	1.01
cs	0.96	1.04	0.96	1.04	0.96	1.04	0.96	1.04
cg	1.00	1.00	1.00	1.00	1.00	1.00	0.99	1.00
cl	1.00	1.00	0.99	1.01	1.00	1.00	0.99	1.00

The result shows no such multicollinearity problem due to all values of VIF being less than 10 and Tolerance value is greater than 0.1 (see Table 3). Hence, the heteroskedasticity was detected using a white test, and the finding indicate that the whites test (p-value>0.05) for all models are indicated that all model is free from the heteroscedasticity problem. In estimating the models, the Breusch-Pagan LM test fails to accept the pooled ordinary least squares (OLS) model in favor of a fixed-effects or random-effects estimator (Shatnawi et al., 2022). The Hausman and Robust Hausman tests consistently reject the null hypothesis of random individual effects (Kabwe et al., 2021). Therefore, fixed effects are involved in all estimations. The multivariate results for accounting and market performance are demonstrated in Table 4 and 5.

Table 4
Regression on Directors' nationality diversity and company accounting performance

Variable	Performance of accounting aspect			
	Model ROA		Model ROS	
	Coef.	T stat	coef.	T stat
constant	1.23	6.07	14.00	49.66
snbl	-0.53	-0.08**	-0.06	-0.17
dnbl	0.37	1.54	-0.32	-0.98
cs	0.00	0.28	0.00	0.22
ca	0.00	0.28	-0.00	-53.38***
cg	0.00	1.83*	0.00	1.87*
cl	-0.00	-2.13**	0.00	1.52
F sig	0.00		0.00	
R square	0.43		0.65	
White test	0.28		0.06	

Notes: *, **, and *** indicate significant at 10%, 5%, and 1%.

The goodness of fit model using the F statistic shows that all models fit due to their F significance below 0.05. the predictive power using the R square indicates that all models have strong predictive power, except for model Tobin's Q. There are four mathematical models in this study. The first research model is the ROA model. The result indicates that nationality diversity of supervisory board has a negative effect on the accounting performance using ROA (β=-0.53, α=5%) and market performance using Tobin's Q (β=-0.43, α=1%). The second finding is that supervisory board nationality diversity is positively associated with market performance using stock return (β=0.81, α=5%).

Table 5
Regression on Directors' nationality diversity and company market performance

Variable	Performance of market aspect			
	Model Tobin's Q		Model Stock Return	
	coef.	T stat	coef.	T stat
constant	1.47	12.37	-1.38	-4.74
snbl	-0.43	-2.64***	0.81	2.06**
dnbl	0.10	0.66	-0.54	-1.45
cs	-0.00	-0.99	-0.00	-1.07
ca	-0.00	-13.04***	0.00	1.13
cg	0.00	0.87	0.00	0.54
cl	0.00	5.24***	-0.00	-0.73
F sig	0.00		0.00	
R square	0.39		0.18	
White test	0.99		0.99	

Notes: *, **, and *** indicate significant at 10%, 5%, and 1%.

DISCUSSION

a. Performance of accounting aspect

- Return on Assets (ROA)

The 1a hypothesis is supervisory board's nationality diversity is positively related to company performance. However, the result shows a negative impact between supervisory boards and performance of accounting aspect as measured by ROA). This empirical finding is consistent with prior study of (Alshabibi et al., 2022) who find existence nationality diversity board will lead to lower effective tax rates.

The negative impact of the supervisory board nationality diversity has been predicted by the similarity/attraction paradigm, and social categorization theory; nationality diversity could head to less teamwork unity that influences the group decision-making procedure (Harjoto et al., 2019) and finally decrease the firm

performance. In addition, supervisory board nationality diversity can hinder the achievement of current board members caused of the periods needed by foreign directors to make familiar themselves with the newly discovered circumstances, such as culture, systems, and language (Mersland & Øystein Strøm, 2009), and it reduces the company performance. In addition, local directors are more likely cheaper and easier to attract and they are more time and energy to attend board meeting (Alshabibi, 2022).

The 1b hypothesis states that the board of directors' nationality diversity positively affects company performance. Vice versa, the result shows that there is no significant impact between the board of directors' nationality and Return on Assets. This result is consistent with the prior finding of Dauth (2023).

- **Return on Sales (ROS)**

Hypothesis 1a expresses that supervisory or oversight board's nationality diversity is positively related to company performance. The finding of this study indicates that the Supervisory Board's nationality diversity has no significant impact on Return on Sales as second measure of performance of accounting aspect.

The 1b hypothesis states that the nationality diversity of management board or board of directors positively affects the performance of company. Contrary to expectations, the current paper finds that the board of directors' nationality diversity has no impact on accounting performance. This result is consistent with prior study of Chebri & Bahoussa (2020). They investigate nationality diversity and financial performance for all Moroccan bank on 2014-2018. They find that the nationality diversity of directors has insignificant relationship with financial performance.

b. Performance of market aspect

- **Tobin's Q**

The 1a hypothesis is supervisory board's nationality diversity is positively related to company performance. The current paper finds that there is a negative association between supervisory board's nationality diversity and performance of market aspect. This finding follows the prior result of Andrian & Pangestu (2022) and Elnahass et al. (2023). Study in Indonesian of Andrian & Pangestu (2022) also find nationality diversity of supervisory or oversight board has a negative effect on Corporate Social Responsibility for 102 financial sector companies during 2018-2020 period. Using a unique of bank companies that using dual banking system from 14 countries, Elnahass et al. (2023) find nationality diversity is lowering financial performance. However, Asad et al. (2023) find the positive association between directors' nationality diversity and company propensity to R&D spending on non-financial companies that listed on London Stock Exchange.

The negative effect of supervisory board nationality diversity on performance is predicted by social categorization theory and the similarity/attraction paradigm; diversity could cause deficient teamwork cohesion that influences the group decision-making process (Harjoto et al., 2019) and monitoring effectiveness. Therefore, it increases the agency's costs and decreases company performance. The other reasons that are foreign of supervisory board is unfamiliar with economic, governance, rule, and management practices in the company that they are monitored.

The 1b hypothesis states that the board of directors' nationality diversity positively affects company performance. The Board of directors' nationality diversity continues to be insignificantly impacted on market performance. These findings are in line with the performance of accounting aspect of this paper.

- **Stock returns**

Hypothesis 1a expresses that supervisory or oversight board's nationality diversity is positively related to company performance. The second results of performance of market aspect indicates that the higher the supervisory board nationality diversity will creates the better of stock return. Thus, this result support the hyphotesis. It indicates that supervisory board's nationality diversity create a vital resource in increasing and shaping control and monitor action (Asad et al., 2023). Futher, foreign directors bring and implement a unique skill in monitoring and controlling of board of directors that give a positive market performance of company.

The result of this study is in line with prior work of EmadEldeen et al. (2021) which examine 3961 non-financial companies listed on London Stock Exchange for 2000-2016 period. This finding is also consistent with previous findings (Adams & Baker, 2021; Asad et al., 2023; Komala & Fuad, 2017; Putri & Da[illegible]sari, 2020; Sutrisno & Mohamad, 2019). The positive effect of the supervisory board nationality diversity on performance is due to having international business experience, and they, therefore, provide a better knowledge of how these units affect the performance of the entire firm. In addition, supervisory board nationality diversity is probably characterized by a range of cultural beliefs, attitudes, and inclinations and, thus, increase the effectiveness of monitoring and improving performance. In addition, supervisory board nationality diversity is as they are not a part of the conventional domestic cronyism of regionalism, school relationship, and kinship with majority shareholders, they are thought to be relatively independent of majority owners. This condition increases monitoring effectiveness, and finally, the agency cost can be reduced.

This study is partially aligned with the board capital theory (Sánchez et al., 2016) which contends that the social (e.g., resource-based) relationships/business networks, innovative business insights, and the human-specific skills-sets gained from diverse institutional domain infrastructure that the nationality diversity of the supervisory and board of directors can directly affect the company's strategic decisions effectiveness, and hence, financial performance. In addition, this finding partially confirms that director nationality diversity could lead to increased creative difficulty-solving and solutions, corresponding to cognitive resource diversity perspective and intergroup contact theory (Harjoto et al., 2019) and increase the effectiveness of watching by the supervisory or oversight board and lessen the agency cost. It can be concluded that supervisory board's nationality diversity has better strategy for monitor and control board directors than supervisory board's homogeneous nationality.

The 1b hypothesis states that the board of directors' nationality diversity positively affects company performance. In line with the result of performance of market aspect as proxied by Tobin's Q, board of directors' nationality diversity is also to be found not significant impact on performance of market aspect as measured by stock return.

c. Control Variables

This paper has four control variables that are size of the company, age of the company, growth of the company, leverage of the company. Size of the company has insignificant effect on company performance. Further, age of company has a negative association on ROS and Tobin's Q. Growth of the company has a positive and significant impact on performance of accounting aspect. While it is not to be found on performance of market aspect. The leverage of a company is found to have a negative impact on the performance of the accounting aspect and a positive impact on performance of market aspect.

CONCLUSION AND RECOMMENDATION

Experts and previous studies have documented the importance of director nationality diversity. Director nationality diversity can increase the company performance, company value, corporate social responsibility performance, quality of corporate social responsibility disclosure, human rights reporting, and corporate social responsibility. However, there is a lack of studies investigating the director's nationality diversity and its relation to the company characteristic and performance using the unique continental European corporate governance system with multiple performance measurements. Using the 3,290 company years, this study concludes that the level of director nationality diversity varies based on the company size (large vs small), company age (old vs young), company growth (high vs low), company leverage (high vs low), company sub-sector (main vs manufacturing vs trading & service sub-sector). In addition, the supervisory board nationality diversity is negatively related to the ROA and Tobin's Q and positively associated with stock return. The company breaks the negative effect of supervisory board nationality diversity by reducing the periods foreign directors need to familiarise themselves with newly discovered circumstances, such as culture, systems, and language.

The company is suggested to increase the supervisory board nationality diversity to improve the stock return. The theoretical implication of this study is that this study partially confirms the board capital theory, the intergroup contact theory and the cognitive resource diversity perspective for the positive effect of nationality diversity on performance (stock return). However, the negative impact of supervisory board nationality diversity on performance (ROA and Tobin's Q) confirm the social categorization theory and the similarity/attraction paradigm; diversity could cause low teamwork cohesion that influences the process of group decision-making effectiveness. This study has several limitations and provides a research avenue for future investigators. First, this study analyses all listed companies on the Indonesia stock exchange. Future research can break the sample into several sub-sectors and analyses the effect of director nationality diversity on performance. Second, this study uses financial performance, and future investigators can use another company outcome, such as e-waste disclosure. This study analyses the direct relationship between director nationality diversity and performance. Next, research can investigate the effect of the director's nationality diversity and performance by combining with moderating or mediating variables.

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artikel5

ORIGINALITY REPORT

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