

Board Characteristics as Corporate Governance Mechanisms: Implications for Financial Performance in Manufacturing Companies

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ABSTRACT: The objective of this research is to determine how gender diversity, board tenure, education level, and independence affect the bottom lines of Indonesian manufacturing enterprises. The correlation between board traits and financial success of companies is investigated in this quantitative research that makes use of secondary data. This may be because women in manufacturing are underrepresented in strategic roles or because of organizational culture, but the study found no correlation between gender diversity on boards of directors and financial success. On the other side, board members' seniority and familiarity with the inner workings of the business are positively and significantly correlated with their length of service, suggesting that these factors lead to better financial results. Furthermore, it is beneficial and crucial when board members have a high level of education. This helps with strategic monitoring and decision-making. An intriguing finding, meanwhile, was that the percentage of independent board members significantly impacted financial performance in a negative way. Because of their lack of familiarity with the manufacturing industry's complicated business environment and their lack of active involvement, independent board members are less successful in corporate governance, highlighting a gap between their nominal independence status and their functional efficacy. In addition to the number of board members, these results highlight the significance of their quality, expertise, and engagement in carrying out their oversight and decision-making duties. The findings of this study may help businesses and government agencies optimize their governance systems to ensure long-term financial success.

KEYWORDS: gender diversity, tenure board, educational background, independent board, financial performance, corporate governance

JEL Classification: G30, M14, L25

INTRODUCTION

One measure of a company's leadership and strategic decision-making abilities is how well it does financially. Because of its responsibility for setting long-term goals, monitoring executive performance, and guaranteeing the company's survival, the board of directors plays a vital role in this setting. Nevertheless, in reality, a lack of effective board oversight and strategic decision-making is a common source of internal issues for many organizations, particularly those in the industrial sector. Research has shown that inadequate governance, whether via direct effects or indirect effects on financial performance caused by deviant management practices (Mahrani & Soewarno, 2018; Davidson et al., 2005; Boachie & Mensah, 2022; Situmorang & Simanjuntak, 2019).

When seen through the lens of manufacturing companies—a key engine of national economic growth—this problem takes on more and more importance. Efficiency in operations and the attainment of competitive corporate goals depend on the performance of the board of directors in this industry. Having said that, many Indonesian industrial businesses' boards of directors still have less-than-ideal structural features. Low gender diversity, irrelevant educational backgrounds, and an absence of independent board members are some of the traits that have been shown to impact board effectiveness in previous studies (Adams & Ferreira, 2009; Gull et al., 2018).

There is a belief that having board members of both sexes enhances decision-making by introducing different perspectives and life experiences. There will be fewer ideas for fixing the company's strategic issues if the board is made up of just men. Financial performance for organizations is correlated with higher levels of ethical conduct, professional judgment, and monitoring skills, all of which are enhanced when boards include a higher representation of women. (Terjesen et al., 2009; Damak, 2018;

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Capezio & Mavisakalyan, 2016). Yet, depending on the cultural setting and market structure of every nation, research data on the effect of gender diversity continue to provide varied results.

An further factor in determining the board's strategic capability is the educational background of its members, which is closely related to gender diversity. We expect directors to have a better grasp of market trends and company risks if they have degrees in the appropriate industries. A competitive edge in assessment, policymaking, and strategic planning may be yours with the correct kind of education. The risk of making poor strategic assessments and decisions increases, Furthermore, in the event that the board of directors is not intellectually competent enough (Gull et al., 2018).

Another crucial aspect is the directors' autonomy. Independent directors play a crucial role in ensuring that conflicts of interest do not impede the company's success by mediating between shareholders and management. (Davidson et al., 2005; Nelwan et al., 2019) Independent board members are thought to enhance financial reporting quality, openness, and accountability. The success of independent directors, however, hinges on how well they were found and what drives their appointment—whether it's just a formality or a genuine testament to their skills and honesty.

In general, several studies have shown a correlation between the qualities of a board and its financial success. But there is still some inconsistency in the outcomes; some research have shown favorable and substantial impacts, while others have not (Alqatamin, 2018). This discrepancy calls attention to the need for more contextual studies, especially in the setting of Indonesian corporations with their distinct ownership patterns and company cultures.

So, the purpose of this research is to find out how gender diversity, educational attainment, and board independence affect the bottom lines of Indonesia Stock Exchange-listed manufacturing businesses. Companies may use this research as a practical reference to build more appropriate board structures to support sustainable performance, and it will also theoretically contribute to the growth of corporate governance literature.

LITERATURE REVIEW

Agency Theory

In agency theory, principals (the owners of a business) and agents (those in charge of day-to-day operations) have a contractual relationship in which the principals expect the agents to look out for their best interests while the agents carry out the management of the business. (Jensen & Meckling, 1976). However, differences in objectives and information asymmetry can lead to agency conflicts, which have the potential to disrupt operational efficiency and company performance.

To minimise these conflicts, effective corporate governance mechanisms are needed, one of which is through the active role of the board of directors. Board characteristics such as gender diversity, educational background, and tenure are believed to influence the effectiveness of oversight and strategic decision-making. These three characteristics are considered capable of strengthening control functions over management and ultimately driving improvements in corporate financial performance (Panda & Leepsa, 2017).

Financial Performance

It is possible to gauge a company's resource management and value creation capabilities by looking at its financial performance. Financial statements and performance may be quantified using a variety of ratios, such as the liquidity ratio, profitability ratio, and activity ratio (Mahrani & Soewarno, 2018).

Good company governance may affect financial success, according to agency theory. The financial success of a firm may be enhanced by ensuring that the board is comprised of qualified individuals with the right mix of experience, education, and gender diversity (Panda & Leepsa, 2017; Damak, 2018).

Gender Diversity and Financial Performance

A board of directors that is evenly divided between men and women is an important part of sound corporate governance. Having a diverse board may enhance the board's capacity to monitor management, according to agency theory. The reason for this is because female board members tend to be more cautious, have a more collaborative approach to leadership, and be more concerned with ethical issues (Zalata et al., 2018). Gender diversity, according to proponents, increases accountability, enriches strategic conversations, and diversifies perspectives on decision-making.

An indication of the gender split within the company's decision-making structure is the gender diversity of the board of directors. Corporate ethics, oversight, and diversity of opinion in boardroom decisions are all positively correlated with gender parity (Zalata et al., 2018).

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Better financial reporting and risk management might result from the increased likelihood of responsible and cautious behavior shown by female directors (Capezio and Mavisakalyan, 2016). Gender diversity may improve financial performance via increased investor confidence and more efficient operations (Usman et al., 2022).

Empirical study shows that operational efficiency and financial performance are strongly correlated with the presence of female directors. According to Pucheta-Martínez et al. (2016), this is particularly the case in emerging markets due to the continued absence of representation. As a result, gender diversity effectively satisfies the demands of sustainability and equality while also contributing to the creation of tangible value for businesses. Looking at the theoretical framework and empirical data provided, we propose the following hypothesis:

The first assertion is: Gender diversity on boards of directors has a favorable and substantial effect on a company's bottom line.

Board Tenure and Financial Performance

Board tenure is the average number of years that a director has been on a company's board. With enough time on the job, you may learn the ins and outs of the company's inner workings and get valuable expertise that can help you make decisions.

Board members who serve for lengthy periods of time run the danger of losing their independence and impartiality, particularly if they have an unhealthy relationship with management (Ombaba & Kosgey, 2018). Consequently, the efficiency of supervision and the company's financial success are impacted by the ideal tenure, which is all about striking a balance between freedom and expertise.

An important measure of the efficiency of supervision and strategic decision-making under the agency theory framework is the tenure of directors or board members. Directors with more years on the board tend to know the ins and outs of the business, its culture, and its connections with stakeholders better than their younger counterparts. This makes it easier for them to have an impact on the direction of the company's strategy and the enhancement of financial results.

Nevertheless, problems like a loss of autonomy, a gullibility toward management, and aversion to change might result from a too lengthy tenure, which in turn can diminish the efficacy of supervision (Vafeas, 2003). Consequently, the effect of tenure on financial performance is context sensitive and lacks evidence. Given this background, we propose the following hypothesis:

The tenure of a company's board of directors has a favorable and substantial effect on the bottom line (H2).

Educational Background of the Board and Financial Performance

The ability of board members to analyze and develop company plans is correlated with their level of education. In general, financial frameworks, rules, and risk management are better understood by boards with more education.

The decision-making process is enhanced by a board composition that includes members from varied educational backgrounds, leading to more deliberate and long-term thinking. Due to the board's capacity to develop adaptable and responsive solutions to changes in the company environment, financial performance is generally better when board members have a solid educational background (Gull et al., 2018).

One kind of human capital that may enhance the quality of oversight and strategic decision-making is the educational background of board members, according to agency theory. Directors with higher or industry-relevant educational backgrounds tend to have better cognitive capabilities, in-depth technical understanding, and the ability to read market dynamics and business risks (Panda & Leepsa, 2017).

Previous research shows that boards with strong educational backgrounds tend to be more adaptive to external environmental changes and capable of formulating efficient financial strategies, thereby improving company financial performance (Gull et al., 2018). In addition, diversity in educational backgrounds can enrich perspectives in decision-making, enhance the effectiveness of discussions, and prevent the dominance of certain groups that could potentially lead to conflicts of interest.

Thus, good and relevant education among directors is an important factor contributing to increased efficiency and profitability of companies. Based on these arguments, the hypothesis proposed is:

H3: The educational background of directors has a positive and significant effect on company financial performance.

Independent Board and Financial Performance

Appointed by the board of commissioners, the Independent Board assists in monitoring the performance of management. The formation of the Independent Board was done with the intention of streamlining the implementation of good corporate governance principles. Directors who do not have any vested interest in the company's management or controlling shareholders are more likely to be objective when making decisions and assessments (Fama & Jensen, 1983).

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Independent directors may promote responsibility and transparency in corporate management and decrease opportunistic behavior by management that harms minority shareholders, according to agency theory (Jensen & Meckling, 1976). Because of stronger oversight and more cautious decision-making, businesses with a larger number of independent directors often do better financially, according to empirical study (Chen et al., 2020). The rationale behind this is that companies with independent boards tend to have better financial results because better oversight and stronger internal controls translate into better financial outcomes. In light of the above, the following theory is put forth:

Hypothesis 4: A company's financial performance is positively and significantly impacted by board independence.

METHODS

In order to determine how gender diversity, board tenure, educational background, and independent boards affect financial performance, this research employs a quantitative technique with an explanatory design. From 2017 through 2022, information was culled from audited financial statements and annual reports of Indonesia Stock Exchange-listed state-owned industrial enterprises. With 27 firms divided by 6 years, a total of 162 observations make up the study population. During the research period, data completeness was taken into account while selecting the sample via purposive sampling. A causal link between the independent factors and Financial Performance, the dependent variable, was tested by data analysis utilizing inferential statistics.

RESULTS AND DISCUSSION

Descriptive Statistics

Table 1. Descriptive Statistics.

Variables	Obs	Mean	Std. Dev.	Min	Max	p1	p99	Skew.	Kurt.
FP	162	.021	.068	-.187	.258	-.187	.242	.245	5.893
GD	162	.111	.151	0	.5	0	.5	1.014	2.799
BT	162	.646	.091	.314	.75	.334	.75	-1.727	5.715
EB	162	.614	.017	.56	.655	.56	.655	-.919	5.449
IB	162	.353	.159	0	.67	0	.67	-.896	3.516

(Source: Analyzed data, 2025)

The dependent variable (FP) in this research has a mean of 0.021 and a standard deviation of 0.068, as shown by the descriptive statistics of the variables. Overall, the company's performance is rather poor, and there is a lot of volatility in the samples. The two extremes of FP's range, -0.187 and 0.258, indicate positive and negative deviations, respectively. With a skewedness of 0.245 and a kurtosis of 5.893, the FP variable exhibits a slightly right-skewed distribution with a prominent peak (leptokurtic).

With a mean of 0.111 and a standard deviation of 0.151 for the independent variable GD, we can see that the sample's gender diversity percentage is small and varies. With very little variation, the board has quite high averages of 0.646 for BT (which is associated with board tenure) and 0.614 for EB (which is associated with educational background). In contrast, there is a wide range in the level of board independence; for IB, the average is 0.353 and the standard deviation is 0.159.

Correlation Between Variables

Table 4. Pearson Correlation Test.

Variable	(1)	(2)	(3)	(4)	(5)	(6)	(7)
(1) FP	1.000						
(2) GD	-0.171 (0.030)	1.000					
(3) BT	0.257 (0.001)	-0.052 (0.507)	1.000				
(4) EB	0.525 (0.000)	-0.098 (0.214)	0.041 (0.608)	1.000			
(5) IB	-0.529 (0.000)	0.216 (0.006)	-0.097 (0.221)	-0.294 (0.000)	1.000		

(Source: Analyzed data, 2025)

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The results of the correlation analysis show that there are many independent variables that have a strong relationship to the dependent variable FP. Board tenure and educational background seem to have a beneficial impact on a company's success, as shown by the substantial positive link between FP and BT ($r = 0.257, p < 0.01$) and a comparable correlation between FP and EB ($r = 0.525, p < 0.01$). In this sample, gender diversity on the board does not seem to improve financial success, since there is an adverse association between gender diversity (GD) and financial performance (FP) ($r = -0.171, p < 0.05$).

Y is strongly inversely related to the independent board (IB) variable ($r = -0.529, p < 0.01$) in addition. This study calls for more research into the particular firm and industry variables involved, but it does imply that a more autonomous board might result in lower corporate performance.

As evidenced by the correlations among independent variables, which reveal a positive association between GD and IB ($r = 0.216, p < 0.01$) and a negative association between IB and EB ($r = -0.294, p < 0.01$), there are intricate interactions among board characteristics that could influence the results of company performance.

Hypothesis Results

Table 6. Hypothesis Test Result

	Coef.	Std. Err.	t	P Values	Decision
GD -> FP	-.01704	.026739	-0.64	0.525	Not Supported
BT -> FP	.1502631	.0435445	3.45	0.001	Supported
EB -> FP	1.572506	.2388871	6.58	0,000	Supported
IB -> FP	-.1638773	.0264986	-6.18	0,000	Supported
_cons	-.9816093	.1521087	-6.45	0,000	Supported

Source: Data processed (2025)

DISCUSSION

Gender Diversity and Financial Performance

Gender diversity (GD) and financial performance do not seem to be significantly related (coefficient = -0.017 ; $p = 0.525$). In theory and in practice, a more gender- and ethnically-balanced board of directors is believed to improve corporate monitoring and decision-making. Gender diversity has several advantages, including more inclusive decision-making and less opportunities for opportunistic conduct.

Agency theory suggests that more women in executive roles may be good for a company's bottom line because they encourage transparency and honesty. More female representation on boards is associated with greater adherence to regulations and a focus on ethical corporate practices, according to previous research (Srinidhi et al., 2011; Thiruvadi & Huang, 2011).

Maybe because there aren't enough women in leadership roles in the investigated industry or because of cultural norms inside the company, but this research found no evidence that gender diversity improved financial performance. In Indonesia, particularly in the manufacturing sector, which is still male-dominated, women's participation in boards remains limited despite an increasing trend in involvement. In general, gender diversity is still considered an important strategy for improving reputation, responsiveness to social issues, and innovation potential, although its effects on financial performance vary across contexts and sectors (Reguera-Alvarado et al., 2017).

Tenure Board and Financial Performance

Coefficient = 0.150 ; $p = 0.001$ indicates that the Tenure Board variable has a positive and statistically significant effect on the organization's financial performance. These findings provide support to the hypothesis that longer board terms are associated with better financial success for the organization. An individual's ability to supervise and make decisions is enhanced by their length of service, which is a reflection of their awareness of the company's strategy and internal dynamics as well as their accumulation of experience.

The board of directors mediates between management and shareholder interests under the agency theory paradigm. Directors with more experience on the board are better able to assess the possibilities and threats facing the firm and build rapport with key constituents such as shareholders, government agencies, and regulators. This gives them the freedom to make their own decisions, stand firm against immediate demands, and ensure that the company's long-term strategy remains unchanged.

Previous studies also support these findings. Vafeas (2003) states that longer terms enable board members to better

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understand company operations, improve oversight functions, and reduce transition costs resulting from frequent board turnover. Rutherford & Buchholtz (2007) also emphasise that longer terms send a signal of stability to the market and contribute to the quality of the company's strategic decisions.

However, overly long terms also carry risks. Boards that have been in place for too long may become too entrenched in old ways of thinking, less responsive to external environmental changes, and lose the fresh perspective needed for innovation. Therefore, balancing continuity and renewal in board structure is crucial.

In the context of Indonesia's manufacturing industry, which faces raw material price volatility, global pressures, and technological and supply chain disruptions, the existence of a board with adequate tenure has proven to be important. Experienced directors can guide companies through periods of crisis and maintain strategic continuity.

In practical terms, these findings imply that companies should consider retention policies for board members with a track record of high performance and integrity, without neglecting the need for diversity and renewal. Meanwhile, from a public policy perspective, it is important to establish a governance framework that promotes board professionalism without hindering organisational dynamics. Thus, optimal board tenure is a key element in the effectiveness of corporate governance and plays a strategic role in enhancing sustainable financial performance.

Educational Background and financial performance

The study shows that the Educational Board variable significantly affects the financial performance of the organization in a favorable way (coefficient = 1.572; $p = 0.000$). This research implies that board members' contributions to enhancing business financial performance are positively correlated with their educational degree. Extensive formal education, with a focus on economics, finance, management, or industrial engineering, provides essential knowledge and skills in strategic decision-making and monitoring company performance.

Within the agency theory framework, higher education among board members enhances their capabilities in performing supervisory and control functions, which ultimately bridges the interests of managers and shareholders. Directors with higher academic qualifications are believed to be better able to understand business complexities, formulate adaptive strategies, and assess risks and opportunities objectively. This supports their role as an effective governance mechanism, particularly in minimising information asymmetry and enhancing management accountability.

Level of board education positively correlates with leadership effectiveness and business financial success, according to this research, which confirms the results of a prior study by Bhagat & Bolton (2013). Having board members with advanced degrees allows for a wider range of perspectives and ideas when addressing organizational problems.

It should be emphasized that academic credentials are not the only determinants of educational quality. but also by the relevance of the field of study and the ability to apply theoretical knowledge in a practical business context. Theoretical education without contextual understanding can reduce the effectiveness of board contributions. Therefore, the synergy between academic knowledge and professional experience remains a key consideration in the appointment of board members.

In the context of Indonesia's manufacturing industry, which faces global dynamics such as technological changes, market uncertainty, and demands for operational efficiency, the presence of a board with a higher education background is becoming increasingly relevant. They tend to be more responsive to changes in the business environment, capable of managing risks systematically, and leading strategic initiatives that have an impact on profitability.

In practical terms, these findings imply the importance of implementing a meritocracy- and competency-based board nomination process, rather than simply considering connections or affiliations. Companies are advised to consider educational background as one of the main criteria in selecting board members. On the other hand, regulators such as the OJK can promote improvements in governance quality by providing guidelines or incentives for companies that prioritise professionalism, including academic background, as the foundation for board appointments. As a result, boards with high educational qualifications play a crucial role in driving sustainable financial performance and serve as a strategic indicator of effective corporate governance.

Independent Board and financial performance

According to the data, the Independent Board variable significantly and negatively impacts the financial performance of the organization (coefficient = -0.163; $p = 0.000$). According to these results, there is a correlation between the number of independent commissioners in a company's governance structure and the likelihood that its financial performance would suffer. This runs counter to the common belief that having an independent board would improve monitoring duties and boost corporate value.

Within the framework of agency theory, independent boards of commissioners are expected to reduce conflicts of interest between management and shareholders through objective and impartial oversight. However, the functional effectiveness of

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independent boards is not always consistent with their structural independence. This phenomenon is known as formal independence, functional ineffectiveness, where independent boards of commissioners are only present to comply with regulations but do not have deep involvement in strategic decision-making processes. As a result, their role in driving financial performance becomes weak and may even hinder the pace of innovation and adaptation to market dynamics.

Zhou et al. (2018) and Alqatamin (2018) found no evidence that a company's financial performance improves only because its board of directors is independent. Substantive competence, familiarity with the company's core operations, and level of engagement in the governance process are more important factors in determining the board's performance. Regarding this matter, monitoring by independent boards is often passive or administrative in nature, without any real contribution to proactively directing company strategy.

In the context of the manufacturing industry in Indonesia, the challenges are even more complex. Companies in this sector face high pressures such as fluctuations in raw material prices, dependence on global supply chains, and demands for efficiency and speed in decision-making. In such conditions, the presence of an independent board that lacks industry background or adequate technical understanding can slow down strategic responses and lead to excessive risk aversion. As a result, financial performance is negatively impacted.

Regulations in Indonesia require that at least 30% of board members must be independent. Although the majority of manufacturing companies have complied with this requirement structurally, the substance of the independent board's contribution remains a challenge. This minimum threshold often results in a weak position for the independent board in influencing policy direction, rendering them merely a formal governance complement without real influence over the performance of the executive board.

Theoretically, these results suggest that independent boards are not a magic bullet for company success; rather, board effectiveness is based on the level of dedication, skill, and capacity of the people serving on them. In practice, this means that regulators and businesses alike should prioritise thorough board performance reviews, high-quality selection and orientation procedures, ongoing professional development, and satisfying quantitative criteria for the number of independent board members.

Thus, an Independent Board that lacks substantive capabilities and active participation risks becoming an obstacle to company performance. Revisions to board selection and development mechanisms, including an emphasis on industry background and strategic capacity, are important to ensure that the existence of an independent board truly adds value to strengthening governance and achieving sustainable financial performance.

CONCLUSION

Various board features impact firm financial success in various ways, as this research demonstrates. In the first place, however, there is little evidence that gender diversity has a substantial impact. In theory, gender diversity has the potential to improve oversight and decision-making. One possible explanation for this ineffectiveness is because women hold disproportionately few positions of power in the manufacturing industry. As a second point, financial performance is greatly improved by board tenure. Better strategic decisions are supported by expertise and a long-term knowledge of business dynamics, as this discovery proves. Finally, the third factor that significantly impacts the outcome is the educational background of the board. Analyzing risks, developing strategies, and supervising managers all benefit from an appropriate educational background.

However, there is a negative correlation between the percentage of independent board members and financial success. This suggests that they don't contribute much to corporate governance beyond a nominal presence devoid of meaningful engagement. In the end, the quality of the board members, their level of engagement, and how well their skills align with the company's business problems are more important than the board's formal structure when it comes to boosting financial success.

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