

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

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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 observasi (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 lingkungan baru, seperti budaya, system, dan bahasa baru. Implikasi praktis dan teoritis dibahas mendalam dalam artikel ini.

Kata kunci: keragaman kewarganegaraan dewan, kinerja perusahaan, Indonesia.

ABSTRACT

This study describes the diversity of directors' nationality 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). This study used 3,290 observations in 235 companies (from 2004 to 2017). As a result, 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 (central vs. manufacturing vs. trading & service sub-sector). In addition, the diversity of the supervisory board nationality 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 as detailed theoretical and practical implications.

Key words: directors' nationality diversity, company performance, Indonesia.

INTRODUCTION

Globalization significantly impacts the composition of directors' members in listed corporations worldwide (Harjoto et al., 2019), becomes an active rule (Chebri and Bahoussa, 2020), and is a hot issue (Adams and Baker, 2021). Thus, rising global and national concerns about the business's role in society withdraw substantial consciousness from media, boards, and regulators (Ibrahim and Hanefah, 2016; Khan et al., 2019). A pivotal matter in ensuring 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 being uncommon (Fernández-Temprano and Tejerina-Gaite, 2020). It is necessary to analyze how director demographic diversity (e.g., nationality diversity) in the boardroom influences firm performance (Kagzi and Guha, 2018). Samara and Yousef (2023) suggest several benefits for the corporation to attract foreign directors as board constituents. Foreign directors increase the shareholders' wealth 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. 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 competition activities in an organizational form to survive. Competition can 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 boards that perform better. In addition, the attendance of a foreign board of directors in a firm also messages stakeholders' preparedness to improve the effec-

tiveness 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 and Baker, 2021; Fernández-Temprano and 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 proper 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 and Yousef, 2023), firm stability (Elnahass et al., 2023), investment decision (Mirza et al., 2020), corporate philanthropic behaviour (Kang et al., 2019), corporate sustainability performance (Zaid et al., 2020) and corporate social responsibility (Ibrahim and 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), Morocco (Chebri and Bahoussa, 2020), India (Rafinda et al., 2018), Qatar (Mohd Idris and Ousama, 2021), Spain (Fernández-Temprano and Tejerina-Gaite, 2020), Nigeria (Ujunwa et al., 2012), UK (Adams and Baker, 2021), and Indonesia (Adams and Baker, 2021; Komala and Fuad, 2017; Mardiyati and Siregar, 2022; Putri and Danarsari, 2020; Sutrisno and 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 has also been documented. All studies in nationality diversity were measured by percentage and dummy. They 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 and Mohamad, 2019), Tobin's Q (Putri and Danarsari, 2020), and value-added intellectual capital (Komala and 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.

Furthermore, this study aims to describe the diversity of directors' nationality 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). Practically, this study will guide listed companies to have national diversity in the boardroom. The company stakeholders can urge the government agent to accommodate nationality diversity in the revised code of Indonesia's good corporate governance. This study contributes to the literature on corporate governance, especially governance structure. In addition, this paper may also contribute to board capital theory and social categorization theory. The rest of the paper follows theory and hypothesis development, research method, result

and discussion, and conclusion and recommendation.

THEORETICAL 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 and Hanefah, 2016). Several theories describe why the diversity of directors' nationality varies among companies: upper echelon theory, board capital theory, intergroup contact theory, and resources dependent theory. The first is the upper-echelon theory (Kaczmarek and 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 and Nyuur, 2022). It connects the demographic and cognition of the top management team 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 decision effectiveness, and hence, financial performance (Ooi et al., 2017). Oxelheim et al., (2013) add 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 provide the research framework for examining the association of workgroup diversity on team performance.

There are advantages and disadvantages to having a diversity of director nationalities. The benefit of diversity is that the director's nationality diversity could lead 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 predicted by social categorization theory and the similarity/attraction paradigm, diversity could cause low teamwork cohesion that influences group decision-making (Harjoto et al., 2019). In addition, director nationality diversity can hinder the achievement of current board members because 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 and Horner, 2020). The perspective of resource dependency stresses director or management board features, such as exposure and networks with relevant financial institutions, suppliers, and customers (Toumi et al., 2016).

Governance Board

The Continental European and Anglo-Saxon systems are the two ways to implement a company's board structure (Ilona et al., 2019; Zaitul et al., 2021). Two corporate governance frameworks—a market-based framework for the one-tier Board structure and a group-based framework for the Continental European system—are described differently (Rashid, 2018). Badu and Appiah (2017) refer to the Anglo-Saxon system as an "insider system," while the Continental European system uses 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 and 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 and 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 the Continental European system. This system has two distinct boards: the Board of Directors (management board) and the Board of Commissioners (supervisory board). The Board of Directors oversees the day-to-day activities of the corporation. Moreover, their knowledge of the company is greater than that of the Supervisory Board. Nonetheless, management provides information to the Supervisory Board. 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. The period is 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 is 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 the "Dewan Direksi," or the Board of Directors or Management Board.

Separating ownership and control produces asymmetric information between the

agent and principal and worsens agency issues (Saeed et al., 2017). Strong corporate governance practices are one method of reducing agency costs. Corporate governance procedures reassure shareholders that management will make decisions in their best interests.

The corporate governance research uses internal and external control systems to assess the organization's performance. 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 shape 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 developed and developing nations.

In situations where agency conflict is more likely to arise, internal corporate governance mechanisms such as board structure are increasingly important when the external mechanism is less effective, particularly in emerging markets (Aguilera et al., 2015). Directors are chosen to represent the interests of the shareholders. Accordingly, the Board of Directors' involvement is anticipated as a valuable corporate governance tool to improve the company's performance (Baldacchino et al., 2020). They are establishing new concepts in governance structures or governance boards, such as diversity of directors, resulting in improved 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 monitor the Board of Directors' decisions to ensure that management acts in the firm's and its shareholders' best interests. 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.

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

Nationality Diversity

Scholars still need to agree on defining diversity in directors (Rao and Tilt, 2016). Nonetheless, numerous specialists have applied the idea of diversity in director structure. Rao and Tilt (2016), for instance, contend that the term "diversity" refers to different combinations 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 board member brings to the table.

Diversity traits are frequently divided into task-related and relation-oriented features, according to Wei et al., (2020). Examples of task-related diversity qualities include tenure, education, and functional background (Faems and Subramanian, 2013). Diversity in nationality, gender, and age are relation-oriented characteristics. On the other hand, variety is divided into observable and less apparent characteristics. Three categories of discernible variety include gender, race, and ethnicity. Meanwhile, various industrial experiences, educational backgrounds, and functional and vocational backgrounds must be more evident. Consequently, various factors can assess the diversity of directors, including membership in

organizations, experience, education, gender, nationality, age, and ethnicity (Rao and Tilt, 2016).

Furthermore, diversity is thought to enhance a business's financial performance over the long and short term in several ways (Chebri and Bahoussa, 2020). They go on to say that there are several claims about diversity. First, 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 to nationality diversity signals the 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 foreign director members are more effective and independent in overseeing management than domestic directors. According to Choi et al., (2012), foreign directors are comparatively split from majority share-holders because they are not a portion of the conventional local cronyism of school relationship, kinship, and regionalism with the significant part of owners. Suppose a business increases to enter the international market. Finally, a higher national diversity of directors can obtain and preserve crucial economic resources than directors with a lower national diversity level.

Previous relevant research has been conducted in various countries and corporate governance systems. First, Alshabibi et al., (2022) investigated 1049 companies from

2009 and 2019 that were listed on the Muscat Stock Exchange. They find that the existence of a national diversity board will lead to lower effective tax rates. Based on the regression analysis, the company's financial performance is significantly and positively related to that of a director with international experience. Dauth et al., (2023) investigate companies from European countries. They show that nationality diversity has a positive effect on employer attractiveness. A study in Indonesia by Andrian and Pangestu (2022) also finds that the diversity of the supervisory board's nationality harms corporate social responsibility for 102 financial sector companies during the 2018-2020 period. Hence, Elnahass et al., (2023) believe that nationality diversity creates 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 has 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 and Fuad, 2017; Putri and Danarsari, 2020; Sutrisno and Mohamad, 2019). Therefore, the following hypotheses are developed below:

- H₁ : Directors' nationality diversity is positively related to company performance.
- H_{1a} : The Supervisory Board's nationality diversity is positively related to company performance.
- H_{1b} : Board of Directors nationality diversity positively affects company performance.

RESEARCH METHOD

Companies traded in Indonesia's stock exchange (IDX) are research objects. 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 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: uniting performance and market performance measures. Accounting performance has two proxies: return on assets and return on sales.

Meanwhile, the market performance comprises two variables: Tobin's Q and stock return. The ratio of net income divided by total assets measures 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 and Khamees (2016) to quantify the variable of stock returns.

Following Ahmed and 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 only one nationality is 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 analyze different directors' national diversity based on com-

pany 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 as measured by ROA, ROS, Stock returns, and Tobin's Q

snbl= supervisory board nationality diversity

dnbl= board of director nationality diversity

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 primary industry (6.84%), the manufacturing sector (37.61%), and the trading service sector (55.56%). Director nationality diversity over the years (2004-2017) is demonstrated in Figure 1. The nationality diversity of the supervisory board or oversight board (table) and board of directors or management board (debt) 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 directors' nationality index was 0.085 in 2004 and rose to 0.116 in 2017. Based on the above data, there are positive trends in the diversity of director nationality in Indonesian companies. 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 and Baker, 2021). Based on the findings (Adams and Baker, 2021), the diversity of director nationality in Indonesian companies is lower than in UK companies.

Khan et al., (2019), using the Blau index for director nationality diversity measurement, found that the level of nationality diversity in Pakistan is higher (0.20) than in Indonesian companies. However, the diversity of director nationality in Indonesia (0.11) is almost the same as that of Jordan's company (Ibrahim and 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). A low-trust society tends to distrust another foreign person. This low-trust society might have been developed during the colony of the Netherlands – this social value influences how the company is managed. Therefore, foreign and family ownership percentage is low, reducing the director nationality diversity level.

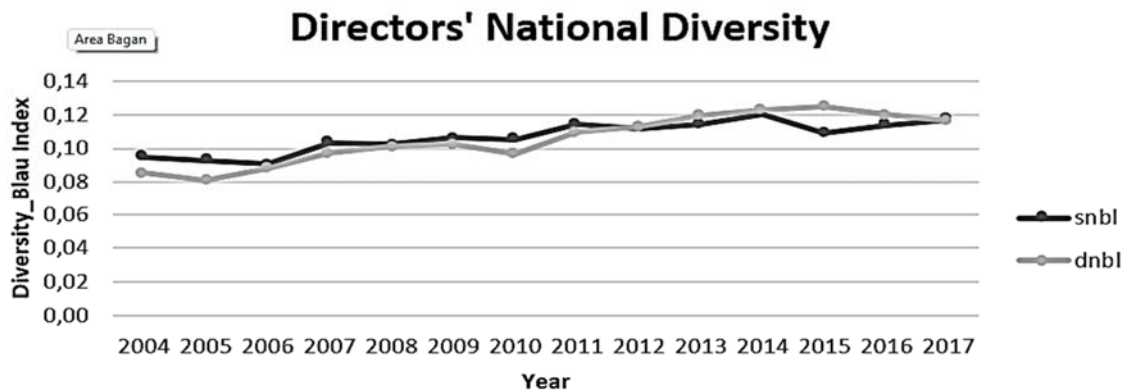


Figure 1
Directors' National Diversity: 2004 to 2017

Source: Secondary data (Processed), 2023

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%.

Source: Secondary data (Processed), 2023

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 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 \leq Rp 193.800 M) and large (assets $>$ Rp 193.800 M). Moreover, company age is also categorized into two, with 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 ($\leq 35\%$) and high leverage ($> 35\%$).

Based on the table 1, 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 in small companies (0.05), and the difference is significant ($\alpha=1\%$). 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 concluded that there is a significant difference in nationality diversity between old and young companies. However, the diversity of nationality of the board of directors of the old company (0.11) and young company (0.09) is not significantly different. The third company characteristic is company growth. Both the supervisory board and the board of directors have nationality diversity levels of 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). The diversity of director nationality in the three sectors is in Table 2. Nationality diversity for the supervisory board is higher in the manufacturing sector (0.14) compared to the leading industry (0.09) and the trading and service sector (0.09). The k-independent sample t-test of Kruskal-Wallis's test shows a significant difference in supervisory board nationality diversity among these three samples. In addition, the board of directors' nationality diversity is also higher in the manufacturing sector (0.14) compared to other industries: 0.12 for the primary sector and 0.08 for the trading and services sector.

Table 2
Directors' National Diversity and Company Sector

National Diversity	Main Sector Means	Manufacture Sector Mean Rank	Trading And Service Sector Means	Mean Rank	Means	Mean Rank	Kruskal-Wallis H
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%.

Source: Secondary data (Processed), 2023

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 on normality, multicollinearity, and heteroskedasticity.

The following is a multivariate regression analysis to see the influence of oversight board and board directors' nationality diver-

sity on company outcomes. The normality test uses the multivariate normality test. In this case, a normal P-P Plot of regression standardized residual is for all models. The result shows that all models have plots that follow the diagonal line after dependent variables are transformed into ln (see Figure 2). Thus, multivariate normality is everyday. Therefore, all models are free from normality problems. The multicollinearity problem is detected using the tolerance value and VIF.

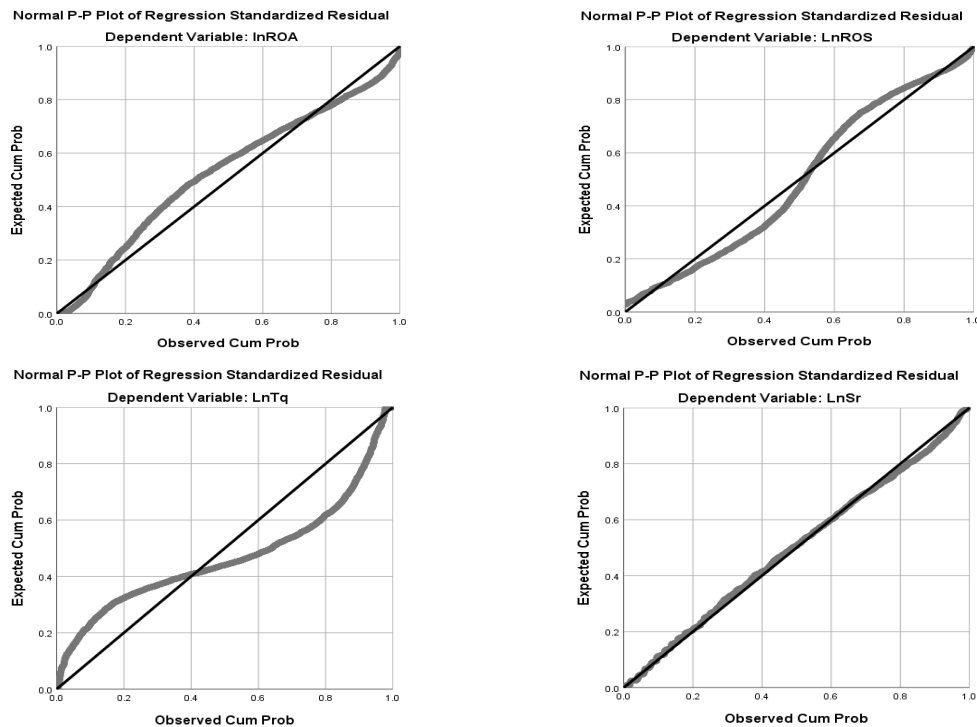


Figure 2
Standard P-P Plot of Regression Standardized Residual

Source: Secondary data (Processed), 2023

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

Source: Secondary data (Processed), 2023

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%.

Source: Secondary data (Processed), 2023

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%.

Source: Secondary data (Processed), 2023

The result shows no such multicollinearity problem due to all values of VIF being less than ten and the Tolerance value being more significant than 0.1 (see table 3). Hence, the heteroskedasticity was detected

using a white test, and the finding indicates that the white test ($p\text{-value} > 0.05$) for all models indicates that all models are accessible 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 accounting and market performance results are in Tables 4 and 5.

The goodness of fit model using the F statistic shows that all models fit due to their F significance below 0.05. The R square's predictive power indicates that all models have strong predictive power, except for model Tobin's Q. This study has four models. The first model is the ROA model. The result shows that supervisory board nationality diversity hurts the accounting performance using ROA ($\beta = -0.53$, $\alpha = 5\%$) and market performance using Tobin's Q ($\beta = -0.43$, $\alpha = 1\%$). The second finding is that supervisory board nationality diversity is positively associated with market performance using stock return ($\beta = 0.81$, $\alpha = 5\%$).

Discussion

Performance of Accounting Aspect Return on Assets (ROA)

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

The negative impact of the supervisory board nationality diversity has been predicted by social categorization theory and the similarity/attraction paradigm; nationality diversity could lead to less teamwork

cohesion that affects the group decision-making process (Harjoto et al., 2019) and finally decrease the company performance. In addition, supervisory board nationality diversity can hinder the achievement of current board members because of the periods needed by foreign directors to familiarize themselves with the newly discovered circumstances, such as culture, systems, and language (Mersland and Øystein Strøm, 2009), and it reduces the company performance. In addition, local directors are more likely cheaper and easier to attract, and they have more time and energy to attend board meetings (Alshabibi et al., 2022).

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

Return on Sales (ROS)

Hypothesis 1a states that the supervisory board's nationality diversity is positively related to company performance. This study's findings indicate that the Supervisory Board's nationality diversity has no significant impact on Return on Sales, the second measure of performance in the accounting aspect.

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

Performance of Market Aspect Tobin's Q

The 1a hypothesis is that the supervisory board's nationality diversity positively af-

fects company performance. The current paper finds a negative association between the supervisory board's nationality diversity and the performance of the market aspect. This finding follows the prior results of Andrian and Pangestu (2022) and Elnahass et al., (2023). A study in Indonesia by Andrian and Pangestu (2022) also finds that the diversity of the supervisory board's nationality harms corporate social responsibility for 102 financial sector companies during the 2018-2020 period. Using unique bank companies that use dual banking systems from 14 countries, Elnahass et al., (2023) find that nationality diversity lowers financial performance. However, Asad et al., (2023) find a positive association between directors' nationality diversity and company propensity to R&D spending on non-financial companies listed on the 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 and cohesion, influencing decision-making (Harjoto et al., 2019) and monitoring effectiveness. Therefore, it increases the agency's costs and decreases company performance. The other reason is that the foreign supervisory board needs to familiarize themselves with the monitored company's economics, governance, rules, and management practices.

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

Stock Returns

Hypothesis 1a states that the supervisory board's nationality diversity is positively related to company performance. The second result of the market performance as-

pect indicates that the higher the supervisory board's nationality diversity, the better the stock return. Thus, this result supports the hypothesis. It indicates that the supervisory board's nationality diversity creates a vital resource in increasing and shaping control and monitoring action (Asad et al., 2023). Furthermore, foreign directors bring and implement unique skills in monitoring and controlling the board of directors, positively affecting the company's market performance.

The result of this study is in line with the prior work of EmadEldeen et al., (2021), which examined 3961 non-financial companies listed on the London Stock Exchange for the 2000-2016 period. This finding is consistent with previous findings (Adams and Baker, 2021; Asad et al., 2023; Komala and Fuad, 2017; Putri and Danarsari, 2020; Sutrisno and Mohamad, 2019). The positive effect of the supervisory board's nationality diversity on performance is due to having international business experience, and they, therefore, deliver a better understanding of the contribution of these units to overall company performance. In addition, supervisory board nationality diversity is likely to possess diverse cultural values, attitudes, and preferences, thus increasing the effectiveness of monitoring and improving performance. In addition, the diversity of supervisory board nationality is believed to be relatively independent of majority owners since they are not part of the traditional domestic cronyism of regionalism, school relationships, and kinship with majority shareholders. This condition increases monitoring effectiveness, and the agency cost can be reduced.

This study is partially aligned with the board capital theory (García-Sánchez et al., 2016), which contends that the social (e.g., resource-based) relationships/business networks, innovative business insights, and the human-specific skills set 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 monitoring by the supervisory board and reduce the agency cost. In conclusion, the supervisory board's nationality diversity has a better strategy for monitoring and controlling board directors than the supervisory board's homogeneous nationality.

The 1b hypothesis states that the board of directors' nationality diversity positively affects company performance. The result of the performance of the market aspect as measured by Tobin's Q is that the board of directors' nationality diversity is similar and has no significant impact on the performance of the market aspect as measured by stock return.

Control Variables

This paper has four control variables: the size of the company, the age of the company, the growth of the company, and the leverage of the company. The size of the company has an insignificant effect on company performance. Further, the company's age is negatively associated with ROS, and Tobin's Q. Growth of the company has a positive and significant impact on the accounting performance. At the same time, it is not to be found in the performance of the market aspect. The leverage of a company is found to hurt the performance of the accounting aspect and has a positive impact on the performance of the market aspect.

CONCLUSION AND SUGGESTIONS

Experts and previous studies have documented the importance of diversity in director nationality. 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 needs to be more studies investigating the director's nationality diversity and its relation to the company's characteristics and performance using the unique continental European corporate governance system with multiple performance measurements. With the 3,290 observations, 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 (primary vs. Manufacturing vs. trading & service sub-sector). In addition, the diversity of the supervisory board nationality 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 diversity of the supervisory board nationality to improve the stock return. The theoretical implication of this study is that it partially confirms the board capital theory, the intergroup contact theory, and the cognitive resource diversity perspective regarding 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) confirms 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 analyze the effect of director nationality diversity on performance. Second, this study uses financial performance, and future investigators can use another com-

pany 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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