1.1. Research Background

In any kind of activities people will always have two or more of choices. The impact of individual characteristics on decision making has been widely studied especially in psychology, finance and management. Those from finance mostly study the effect of individual characteristics and beliefs on financial decision in the framework of behavioral finance which is a new perspective in the modern finance literature. Behavioral finance focuses on the individual attributes, psychological or otherwise, that shape common financial and investment practices (Ritter, 2003). Some behavioral finance studies rely on experimental design or survey to investigate such issues.

In this proposed research, I empirically investigate the effect of diversity in the board on executive’s decision making. Taking a different perspective, I study the effect of individual characteristic, more specifically demographic factors, on decision making at the corporate level by examining the impact of board diversity in gender on corporate strategy. Those from strategic management have proposed the upper echelons theory in which strategies and ultimately performance of firms are driven by characteristics, beliefs and values of their top management team (Hambrick and Mason, 1984; Hambrick, 2007).

At the individual level, Charnes and Gneezy (2004), in an experimental study, show that males consistently invest at a higher rate in each period in both the natural and frame treatments. Similarly, Al-Ajmi (2008), using survey method of 1500 respondents, find that men have higher propensity towards risk tolerance than women. Moreover, that paper also provides the evidence that respondents with better level of education are more likely to seek risk than less educated ones.

The study about gender diversity and risk-taking decision on corporate’s level has been portrayed by Huang and Kisgen (2012). They use a difference-in-differences method
and collected data of board's member transitions; they identified the difference behavior between female executives and male executives. They reveal that male executives are more likely to make acquisitions and female executives do otherwise. The same results are also found that male executives are more willing to issue debt than female executives, which is consistent with female directors are less confident and less likely to overestimate potential gains from mergers.

Furthermore, I also investigate the impact of gender board diversity on firm performance. Board of directors (top team management) who hold the strategic position should take a right decision. For every decision they made, it will directly impact on corporate performance. Right decision will drive firm to the top performance and wrong decision will impact otherwise.

The study on the link between gender diversity and firm performance has been documented in several papers. Even though the evidence on the relation between gender diversity on boards and firm performance is more difficult to interpret (Adams and Ferreira, 2009), but some evidences have been revealed in some researches. Ahern and Dittmar (2012) find that imposing a mandated of 40% female directors on boards in listed Norwegian firms result in a significant drop in stock price at the announcement of the law and a large decline in firm value over the following years. Similar evidence comes from Darmadi (2011) who capture the effect of diversity on the board members using gender, nationality and age of the Indonesia listed companies financial performance and it is found that there is a significant and negative association between gender diversity and performance.

Although it has been generally known that women are less risk taking, inconclusive findings are found in the literature with regard to the impact of gender on investment decision and corporate strategy. Huang and Kisgen (2008) find that firms with female executives grow more slowly and are less likely to make acquisitions. But they receive appreciation from investors that female executives undertake greater scrutiny in making acquisitions. They also find that acquisitions made by female executives experience higher announcement returns compared to those made by male executives.
Chen et al. (2015) reveal that the less overconfident attitudes of female directors are therefore likely to be associated with a reluctance to undertake high risk, unpredictable innovative activities relative to male directors. Moreover, they find that gender-diverse boards achieve greater innovation success as measured by patent and citation counts.

This study should provide an insight on the implications of hiring female directors on the firm especially with regard to corporate risk taking and performance. Arguably, the more proportion of women on board should affect the aggressiveness of corporate financial risk-taking decision. Subsequently, it would cause lead to affect performance. Going deeper, I also examine the mitigating effect of education background of board members on the link between women on board, firm leverage and firm performance. The negative effect of women on board could be decreased if board members are highly educated.

1.2. Research Questions

According to the background, the research questions are as follows:

a. Are firms with the more proportion of women in the board less risk taking?

b. Does education background mitigate the negative effect of women' presence on the board on risk taking?

c. Do firms with the more proportion of women in the board less have lower performance?

d. Does education background mitigate the negative effect of women’ presence on the board on performance?

1.3. Research Objectives

a. To investigate the effect of women on board on firm risk taking strategy

b. To investigate the effect of women on board on firm performance

c. To examine the mitigating effect of educational background of board members on the relation between women presence on board and risk taking decision
d. To examine the mitigating effect of educational background of board members on the relation between women presence on board and firm performance.

1.4. Research Contribution

a. This research will contribute to the existing literature on the link between gender diversity with risk taking decision and firm performance, more specifically by introducing the moderating effect of educational background.

b. This research will provide a noteworthy policy implication especially on how firms should organize their board’s structure in order to obtain optimal return on their financial decision by considering gender diversity.