SSRG International Journal of Economics and Management Studies
ISSN: 2393 – 9125 / https://doi.org/10.14445/23939125/IJEMS-V9I1P105

Volume 9 Issue 1, 30-34, January 2022

Original Article

Gender Diversity and Earnings Management

Erna Setiany[1], Seleman Hardi Yahawi[2]

[1]*Faculty of Economics and Business, Universitas Mercu Buana Jakarta*
[2]*Faculty of Economics and Business, Universitas Muhammadiyah Tangerang*

Received Date: 15 December 2021
Revised Date: 16 January 2022
Accepted Date: 27 January 2022

Abstract *- This study aims to study the effect of gender diversity on top management to earnings management on earnings management. This sample was 118 manufacturing companies listed on the Indonesia Stock Exchange for the year 2018-2019. Multiple regression analysis was used to analyze the data. The results showed that gender diversity in top management significantly affected earnings management by lowering discretionary accrual. Meanwhile, the gender of the president director does not affect earnings management. Thus, by increasing the number of women in senior management, we may diminish Earnings management practices and increase the quality of earnings.*

Keywords — *Earnings management, Discretionary accrual, Gender diversity, Top management, Board diversity.*

I. INTRODUCTION

Earnings management is critical publicly available information that investors may use to evaluate a business. If the earnings indicated in the financial statements do not reflect the actual state of affairs, it will confuse those who utilize them. Earnings management is acceptable by accounting rules, provided that it does not deviate from them. Businesses establish boards of directors, audit committees, and other governance frameworks to enhance Good Corporate Governance (GCG). These structures are used to guard against data modification and fraud. The percentage of commissioners on the board can effectively reduce excessive Earnings management on financial figures.

Gender has a distinct connotation in business regarding decision-making and risk-taking (Gavious et al., 2012). Earnings management, which is attractive to investors, is one of the components of financial statements. Women exhibit a higher level of moral judgment and behaviour than men and greater worry. In recent years, one of the most important issues in corporate governance has been the presence of women in top management. Due to the persistent notion that men are more deserving of leadership jobs in the business, studying into the presence of women in top management becomes fascinating. However, a study by Ulfa and Afrianti (2021) found that on the matter of facing challenges, there are no differences based on gender. The ability to face challenges is influenced by other factors such as individual personality, environmental conditions, social support and others, so gender differences do not fully influence it.

Indonesian women in senior management roles were placed 95th in the 2013 Global Gender Gap Report and increased to 97th in 2014. Indonesia will be ranked 85th out of 153 countries in 2020, accounting for 7%. Indonesia has gender inequities, one of which is in the labour market, according to Gender-Based Human Development 2013, a book co-authored by the Ministry of Women Empowerment and Child Protection and the Central Statistics Agency. According to a 2013 World Bank article titled IFC promotes women in the Company's treks lessons in Indonesia, half of the workforce in Indonesia is female, but only 6% (6%) of women serve on the board of directors. This figure is still significantly lower than that of European countries (17%) and the United States (19%).

Since ancient times, and even now, the concept of gender has been a source of contention between the public, academics, and government (Smith 1987 in Lloyd et al. 2009: p.8). Gender is an innate characteristic of both men and women that is socially and culturally formed. It is reasonable to suppose that these gender disparities also influence how men and women respond to the same challenge (Fakih, 2008). According to (Peni & Vahamaa, 2010), men and women behave differently under similar circumstances, such as leadership style, communication style, conservatism, risk avoidance, and decision making (Ho et al., 2014). According to research conducted by (Sihite 2012), women are more ethical than men. One could argue that gender disparities in senior management impact decision-making and the direction of business policy. The study's findings (Novilia & Nugroho, 2016) demonstrate that female finance directors can reduce Earnings managerial behaviour. Additionally, (Sugiharto & Rudiawarni, 2017) said that female managing directors and financial directors shun earnings management if the level of management at Earnings drops, the quality of earnings increases.

The previous research by Thiruvadi and Huang (2011) found that Gender diversity enhances the governance function of the external audit commissioner. The presence of women on the audit committee reduces earnings management. Wei and Xie (2015) Male CFOs are more involved in earnings management than female CFOs. Female CFOs have lower discretionary accruals than male CFOs. Therefore this study aims to prove empirically: Does the proportion of gender diversity of top management affect the quality of profit?

II. LITERATURE REVIEW

A. Theory of Social Roles

According to Social Role Theory, a unique skill set for men and women emerges from a variety of traditional male and female roles. Hierarchical disparities are at the foundation of behavioural variations between men and women (Eagly et al., 2000). According to (Rhoodie 1989), women have a lack of power, social prestige, and resources. From a historical perspective, men are viewed as breadwinners, while women are viewed as housewives. Another labour-related point of contention, according to Social Role Theory, is that the skills of each gender result in jobs being dominated by one gender. This is because many vocations require certain skills that only one sex possesses. According to social role theory, women perform paid employment, earn less than males, and hold few business leadership positions.

B. Earnings management

As defined by (Wulansari 2013), earnings management is the quality of earnings information made available to the public that demonstrates how earnings can influence decision-making and can be utilized by investors to evaluate the organization. Earnings management is defined as earnings that accurately represents a business's financial performance (Irawati, 2012). According to (Wulansari 2013), earnings must be of sufficient quality to be useful as part of financial statements. Earnings that can be used to forecast the future continuity of sustainable earnings are determined by accrual and cash components and can be used to forecast the Company's genuine financial performance (Wulansari, 2013).

Earnings management can be measured in a variety of ways (Sloan, 1996), including by comparing cash flows resulting from operational operations to accrual earnings. The greater the operating net cash flow component, the higher the earnings quality. Schipper & Vincent (2003) stated that earnings management is examined by four dimensions: time series aspects of earnings, qualitative qualities as defined in (FASB 1978), the link between earnings, cash, accrual, and implementation decisions. Nasution and Jonnergrd (2017) conducted research on earnings management using version measurements (Dechow & Dichev, 2002). Dechow and Dichev studied the earnings management of accrual and cash flow earnings. Dechow and Dichev discovered that accrual is the strongest proxy for gauging earnings management in their investigation. Additionally, they discovered a significant correlation between accrual quality and earnings persistence, showing the extent to which earnings management was truly used. (Kothari et al., 2005) tested Earnings management and market efficiency by projecting earnings into absolute discretionary accruals (ADA). In his research (Kothari et al., 2005), he updated the Jones model, which was also employed by (Dechow & Dichev, 2002).

Dechow & Dichev (2002) conducted an empirical study on modified versions of the Jones Model. These improvements are intended to eliminate the potential of the Jones Model miscalculating discretionary accrual when management discretion is applied to revenue. Nondiscretionary accruals are estimated in modified models during the period of events (i.e., during periods where Earnings management is hypothesized). The adjustment to the original Jones Model was to compensate the change in income for the change in receivables throughout the occurrence period. The original Jones model implicitly assumes that discretion is not exercised in relation to revenues during the estimated or event periods. The Modified Jones Model implicitly assumes that all changes in credit sales during the period of occurrence are due to earnings management, on the grounds that it is easier to manage revenue by exercising discretion over credit sales than it is to manage revenue by exercising discretion over cash sales (Dechow & Dichev, 2002).

Earnings Management is described as the manager's selection of accounting policies or actions affecting earnings in order to meet specified reported earnings targets (Scott, 2015). Earnings management may reduce the quality of earnings information, yet earnings management is justified under accounting principles if it does not violate accounting standards.

C. Gender Diversity

Women's participation in top management is regarded to have occurred as a result of relatively intense competition with men; thus, women have faced challenges to a hierarchy historically dominated by men. This success benefits the individual psychologically, improves peer interaction, and establishes a respected position in the corporate world. Increased creativity and innovation appear to emerge when there is sufficient gender diversity in the world.

According to the top management team (Cox, 1991), Ernst and Young (2009) discovered that diverse council groups performed better than homogeneous council groups, despite their members having stronger talents. (Ye Zhang, 2010) discovered that the percentage of women on boards of directors in the majority of Asian countries (7%) was half that in Europe, Australia, and North America (15 percent).

According to Vinnicombe et al. (2008), only around 5-20% of board members worldwide are women. As a result of the survey's findings, several scholars have turned their attention to female commissioners. Research According to Syamsyudin et al. (2017), gender diversity among commissioners and directors has a good and significant effect on the Company's worth. Additionally, the research conducted by (Thiruvadi & Huang, 2011) confirms the preceding research by indicating that gender diversity benefits tatakelola commissioners' performance.

Catalyst (2005) showed that women made up less than 2% of the 1000 Chief Executive Officers (CEOs) observed. According to Catalyst (2005), female CEOs routinely cite gender stereotypes as a roadblock to advancement. This preconception also applies to concerns of work-family balance, which might obstruct women's advancement (Hochschild, 1997). For instance, women are scrutinized for their ability to combine work and family obligations or their willingness to work longer hours.

Weekends are lengthy, as is travel. According to metadata.co.id, on June 28, 2019, the proportion of women on boards of directors in various western European countries ranges between 30% and 40%. When compared to other locations, particularly Southeast Asia, this figure is pitiful. Meneropong Indonesia, there is still much work to be done in terms of increasing gender diversity in the workplace. Indonesia lost to Thailand in the ASEAN region alone. White Elephant Country became the most diversified, with 20.4 percent of women holding board positions in publicly traded enterprises. Vietnam is second (15.4 percent), followed by Indonesia (14.9 percent).

Krishnan et al. (2008), Arun et al. (2015), and Kyaw et al. (2015) discovered a negative correlation between the participation of women on boards of directors and earnings management. The research established that the Company's earnings quality rose in lockstep with the increasing ratio of women on its board of commissioners and directors. Assuming that earnings maximization is immoral, the study indicated that women are more likely to avoid unethical behaviour while making decisions. This is because, in comparison to men, women are more cautious and conservative in their decision-making. This caution also contributes to women being less risk-averse than men. This is why the presence of women in high management positions has the potential to reduce the amount of earnings management. If earnings management practice is reduced, earnings quality is increased.

Smith (2014) remarked that it makes comparisons between nations that regulate gender diversity via legislation and countries that do not regulate gender diversity via legislation. Smith's study included a breakdown of the percentage of women on the boards of directors of the top publicly traded corporations in each country. Only Norway met the aim, according to the results. In Norway, the proportion of women in top management exceeds 40%, whereas the remainder of the country has a female workforce of less than 30%. Overmans (2017) did a study in which he distinguished between two types of countries: those that mandate gender diversity and those that freely implement it. As a result, there is a disconnect between the gender diversity of senior management and the quality of earnings. Women's impact in senior management is greater with enterprises based in nations that require gender diversity.

Ha: The gender diversity of top management has an effect on earnings management.

III. RESEARCH METHODS

This study is a hypothesis-testing study to test whether there is a relationship between gender diversity and earnings management. This study uses secondary data that is data obtained from other parties. The data used in this study is data obtained from the Indonesia Stock Exchange website (http://www.idx.co.id).

The sampling technique used in this study is the purposive sampling method. The populations used in the study were financial statements and annual reports.

Manufacturing companies listed on the Indonesia Stock Exchange for the period 2018 and 2019. The number of samples is 118 manufacturing companies, equal to 236 firm years. The regression models of this study are:

$$E\varphi=\beta_0+\beta_1 Board+\beta_2 Size+\beta_3 Aud+\beta_4 CA+\beta_5 SG+\beta_6 Lev+\beta_7 IO+e$$

Where:

Eφ : Earnings quality, measured by discretionary accrual

Board:Board diversity is measured by the proportion of females in commissioner and director

Size: Company size measured by Ln of total asset

Aud: Auditor measured by dummy Big4 dan non Big4

CA: Company age measured by long-established Company

SG: Sales growth measured by sales year t - sales year t-1

Lev: Leverage measured by total liability/total equity

IO: Investment opportunity measured by earnings per share/closing price per share

IV. RESULTS AND DISCUSSIONS

The data of this study shows that from 118 manufacturing companies, women serve as chairman of the board of commissioners in 19 companies or equivalent to 16% of the entire sample. Meanwhile, nine companies have women serving as president directors or the equivalent of only 8%. The adjusted R-square amounted to 0.073. This means that 7.3% of earnings management variables can be significantly explained by the board of commissioners' gender variables, board of directors gender, board gender diversity, auditors, age, sales growth, leverages, size, and investment. While (100% - 7.3%) = 92.7% earnings management can be explained by other variables. The value of F calculates 3,066 with a probability of 0.002.

Table 1. Results

Variables	Predict	B	Std Error	p-value
(Constant)		-.478	.178	.008
Board	-	-.311	.149	.001 ***
Auditor	-	-.029	.011	.061 **
CompAge	+	.001	.000	.612
Sales Growth	+	.001	.000	.343
Leverage	-	-.007	.003	.007 ***
CompSize	+	.004	.004	.378
IOS	+	.002	.001	.004 ***

The top management gender diversity variable has a negative effect and has a p-value of 0.001 < 0.05, which means that the gender diversity of top management has an influence on earnings management. So, in this case, the results of the hypothesis are supported.

Of the six control variables above, only two variables influence earnings management. The two variables, leverage, show a negative effect with a p-value of 0.007 < 0.05 and investment opportunity show a positive effect with a p-value of 0.004 < 0.005. While the other four variables, namely auditor, age, sales growth, and size, have a sig > 0.05, it can be said that the four variables do not influence earnings management.

The findings of this study corroborate those of (Syamsudin et al., 2017), who assert that gender diversity on the top management has a significant impact on the Company's worth. This study supports Kreder (2016) study, which concludes that female directors' presence is strongly associated with a decrease in discretionary income (earnings management). In Indonesia, this result supports the previous study by Sugiharto and Rudiawarni (2017) that found female executives show a negative effect on earnings management, which means they can reduce earnings management actions. However, these results contradict Fitriana and Sugiri (2018), which found no empirical evidence that female directors positively affect earnings quality. However, their research proves that the interaction between female president directors and commissioners can improve earnings quality.

In general, this study corroborates previous research such as Thiruvadi and Huang (2011) that found gender diversity enhances the governance function and reduces earnings management. This study also supports the argument of Wei and Xie (2015) that Female CFOs have lower discretionary accruals than male CFOs, and Soares (2016) in Europe, who have introduced gender diversity, have the potential to minimize Earnings management practices.

V. CONCLUSION AND SUGGESTIONS

The finding of this study is that the gender diversity of senior management has a strong positive effect on earnings management. Increased earnings quality (lower earnings management) is a part of the nature of women, who are more susceptible to business ethics and risk aversion, conservative, and women are also believed to have better motivation, moral values, and achievement. Additionally, gender diversity in top management fosters more proactive conversation. Thus, by increasing the number of women in senior management, we may diminish Earnings management practices and increase the quality of earnings. Companies should be more objective in selecting workers for such roles, as women and men hold the same gender positions. Investors might also evaluate the composition of the board of directors and board of members when making judgments, based on this research and past research. Particularly for long-term investors. Thus, investors can forecast the Company's financial performance.

ACKNOWLEDGMENT

The researcher thanks Universitas Mercu Buana for their financial and administrative support, as well as Universitas Muhammadiyah Tangerang for their administrative support for this joint research.

REFERENCES

[1] Dechow, P.M. and Dichev, L.D., The quality of accruals and earnings: the role of accrual estimation errors, The Accounting Review, 77(1) (2002) 35-59.

[2] Dechow, P., Ge, W. and Schrand, C., Understanding earnings management: a review of the proxies, their determinants and their consequences, Journal of Accounting and Economics, 50(2/3) (2002) 344-401.

[3] Eagly, A. H., Wood, W., & Diekman, A., Social role theory of sex differences and similarities: A current appraisal. In T. Eckes & H. M. Trautner (Eds.), The developmental social psychology of gender. Mahwah, NJ: Lawrence Erlbaum, (2000) 123-174.

[4] Fakih, M., 2006, Gender Analysis and Social Transformation, Yogyakarta: INSISTPress., (2006)

[5] Financial Accounting Standards Board (FASB)., Statement of Financial Accounting Concepts Objectives of Financial Reporting by Business Enterprises. Stamford. Connecticut., 1 (1978).

[6] Fitriana and Sugiri. 2018. Female commissioner and earning quality: A Moderating Role of president director's ability. The Indonesian Journal of accounting research., 21(2) 195-226.

[7] Flynn et al. l.,. Gender equality in the accounting Profession: one size fits all. Emerald Published Limited. Gender in management: an international journal., 30(6) (2015) 479-499.

[8] Fransisca and Hery. Analysis of the proportion of independent board of commissioners and female Chief Financial Officers on real earnings management in manufacturing companies listed on the IDX in 2010-2011. Atmajaya University. Journal of Accounting 2(April) 229-250.

[9] Garba and Mbula,. Gender diversity and innovative enterprise capability The mediating effect of women’s years of education in Nigeria. Emerald Published Limited. International journal of gender and entrepreneurship ., 10(4) 290-309.

[10] Gardiner, M. and Tiggermann, M, Gender Differences in Leadership Style, Job Stress and Mental Health in Male- and Female-Dominated Industries. Journal of Occupational and Organizational Psychology, 72 (1999) 301-315.

[11] Gavious, I., Segev, E., & Yosef, R., Female directors and earnings management in high-technology firms. Pacific Accounting Review., (2012).

[12] Ghozali, Imam, Structural Equation Modeling, Alternative Methods with Partial Least Square (PLS). Edition 4. Semarang: Diponegoro University Issuing Agency., (2014)

[13] Jones, K.L., Krishnan, G.V. and Melendrez, K.D., Do models of discretionary accruals detect actual cases of fraudulent and restated earnings? Empirical analysis, Contemporary AccountingResearch, 25(2) 499-531.

[14] Kothari, S.P., Leone, A.J. and Wasley, C.E., Performance matched discretionary accrual measures, Journal of Accounting and Economics, 39(1) 163-197.

[15] Kohlberg, Lawrence., Essay on Moral Development, The Philosophy of Moral Development. Harper & Row Publisher, San Fransisco, (1997)

[16] Kreder Robert., Board diversity and Earning Quality.Erasmus University roterdam., (2016)

[17] Nasution and Jonnegard. 2017. Do Auditor and CFO gender matter to earning quality? Evidence from Sweden. Emerald Publishing Limited. Gender in management: an international journal , 32(5) 330-351.

[18] Novilia and Nugroho., Influence of top female management on profit management. Dynamics of financial accounting and banking, 5 (2016) 27-45.

[19] Peni, E. and Vahamaa S., Female Executive and Earnings Management. Managerial Finance, 36(7) (2010) 629-645.

[20] Rhoodie, E., Discrimination against women. A global survey economic educational social and political status women., (1989).

[21] Respati, A. D. and Kristanti, P., Influence of Incentive Methods On Kinerja Manager Moderated by Gender Factors, Prosiding, research results seminar at Yogyakarta State University., (2008).

[22] Scott, W. R. 2012. Financial Accounting Theory 6th edition. Toronto: Pearson Education Canada., (2012).

[23] Sekaran and Bougie., Research methods for business. Salemba Four.(2018).

[24] Smith, N., Gender quotas on board of directors. Aarhus University, Denmark, and IZA, Germany.,(2014).

[25] Sugiharto and Rudiawarni. The influence of female executives on the quality of financial statements in the manufacturing sector listed in the IDX for the period (2012-2014). TEAK.

[26] Syamsudin, Setiany, E. Sajidah., Gender diversity and firm value: a study on boards of public manufacturing firms in Indonesia. Problem and Perspective in Management. Ukraine., (2017).

[27] Teg and Utami, W., Influence of Gender Diversity and Board of Directors Remuneration on the Company's performance on the Indonesia Stock Exchange. National Symposium on Accounting, (2013)

[28] Thiruvadi, S. and Huang ., Audit committee gender differences and earning management. Gender in management: An international journal , 26(7) (2011) 483-498.

[29] Ujiyantho, M.A. and Pramuka, B.A., Mechanism of Corporate Governance, Profit Management, and Financial Performance. SNA X, IAI.(2007)

[30] Ulfa, S., & Aprianti, M., The effect of self-efficiency on burnout and their differences by gender. Psychosophia: Journal of Psychology, Religion, and Humanity, 3(1) (2021) 24-35.

[31] Watts, R., L. and Zimmerman, J. L,. Towards a Positive Theory of the Determination of Accounting Standards. The Accounting Review, 53(1) (1978) 113-134.

[32] Watts, R. L. and Zimmerman, J. L. 1986. Positive Accounting Theory. Englewood Cliffs: Prentice-Hall, Inc., (1986).

[33] Worthy, F. S., Manipulating Profits: How It's Done? Dalam Readings and Notes on Financial Accounting: Issues and Controversies oleh Stephen A. Zeff dan Bala G. Dharan, Edisi ke empat. Toronto: McGraw-Hill, Inc., (1994).

[34] Wulansari, Yeni., Effect of Investment Opportunity Set, Liquidity, and Leverage on Earnings management on MANUFACTURING Companies Listed on IDX. Journal of Accounting. 1(2) (2013)

[35] Ye, Zhang, and Rezaee., Does top executive gender diversity affect earning quality? A large analysis of Chinese listed firms. Elsevier published. Advance in accounting, incorporating advances in International accounting , 26 (2010) 47-54.

[36] Zalata et al. l., Female CEO and Core earning quality: new evidence on the ethics versus Risk aversion puzzle. Journal of business ethics., (2017).