Jurnal Reviu Akuntansi dan Keuangan, vol 11 no 2, p. 306-320

Website:
ejournal.umm.ac.id/index.php/jrak

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DOI: 10.22219/jrak.v11i2.15915

Citation:
Ramadan, G.R., Prasetyo, O.F., Mujaddid, A., Masyudi, A.R., Mahdi, R.A., Junior, K.L., & Putra, Z.P. (2021). Board Of Directors Gender Diversity And Real Earnings Management: Does Female Board Of Director Matter?. *Jurnal Reviu Akuntansi Dan Keuangan, 11(2), 306-320.*

Article Process
Submitted:
March 7, 2021

Reviewed:
July 21, 2021

Revised:
August 24, 2021

Accepted:
August 31, 2021

Published:
August 31, 2021

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Jalan Raya Tlogomas 246,
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P-ISSN: 2615-2223
E-ISSN: 2088-0685

Article Type: Research Paper

BOARD OF DIRECTORS GENDER DIVERSITY AND REAL EARNINGS MANAGEMENT: DOES FEMALE BOARD OF DIRECTOR MATTER?

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ABSTRACT

The Board of directors' characteristic plays an important role as a monitoring mechanism in corporate governance. Previous research shows that gender could determine the existence of manager opportunistic behavior. The existence of females on the board of directors could reduce agency conflict such as earnings management. This research aimed examine gender diversity in explaining earnings management. The sample of this research is the non-financial company listed in Indonesia Stock Exchange (Idx) during 2014-2018. The research method conduct quantitative approach. We used multiple regression analysis to examine the association between board of director gender diversity on real earnings management. The result shows that gender diversity is negatively associated with earnings management. Gender diversity indicates that the number and percentage of female directors could reduce the level of real earnings management, especially through abnormal discretionary expenses. Secondly, there is no different level of real earnings management between firms with and without gender diversity in their board structures.

KEYWORDS: Board of Director; Gender Diversity; Real Earnings Management.

INTRODUCTION

Financial reports are the main media to obtain information about the company's performance and financial condition. As the main source of financial information, financial statements must meet certain qualities as determined by the standard. This is intended so that financial statements can be relied upon when used as a basis for decision-making by stakeholders (Ronen, 2015).

The important things that must be considered is earning. Investors need to carefully analyze the content in earnings information. Earning are generated from different accounting methods and policies according to the discretion of management (Yuliana & Alim, 2017). Differences in the use of accounting methods and policies will result in different earning.

Financial Accounting Standards (SAK) provide freedom regarding the selection of accounting methods and policies that are in accordance with the entity's business characteristics. The selection of accounting methods and policies should be oriented towards providing quality information.

Management's responsibility in providing quality financial information and the choice of accounting methods and policies can be explained by agency theory (Jensen & Meckling, 1976). Based on the agency theory framework, the selection of accounting methods and policies can represent adverse selections and moral hazards (Panda & Leepsa, 2017). Management motivation to use accounting methods and policies to make earnings look attractive (Dechow, Sloan, & Sweeney, 1995; Roychowdhurry, 2006). This is referred to manager's opportunistic behavior through earnings management.

Earnings management is considered as opportunistic behavior because there is a management motive to achieve personal interests (Jensen & Meckling, 1976; Panda & Leepsa, 2017). Managers' motives for earnings management can vary, such as bonus orientation, avoiding position shifts, increasing the price of their shares, and other motives. This action is contrary to the essence of providing financial reports, namely providing quality financial reports that are oriented to the interests of all stakeholders (Nelwan et al., 2020).

Investors must analyze earnings information comprehensively (Yuliana & Alim, 2017). Earnings management can make earnings information meaningless (Li, 2019). In addition, empirically several studies show that earnings management can mislead investors, and ultimately lower stock prices and firm value (Mubarika & Handayani, 2019).

Based on previous research, the issue of gender diversity on the board of directors is considered to be able to reduce the tendency of managers' opportunistic behavior and improve corporate outcomes (Arun, Almahrog, & Ali Aribi, 2015; Prabowo, 2018; Ramadhani & Adhariani, 2017). This is based on three theoretical arguments that explain the relationship between gender diversity and earnings management. First, women show more ethical behavior in the work environment than men (Arun et al., 2015; Gull, Nekhili, Nagati, & Chtioui, 2018; Harris, Karl, & Lawrence, 2019). Second, female directors tend to be more risk-averse than male directors (Harakeh, El-Gammal, & Matar, 2019). Third, the presence of women on the board of directors can provide a more conservative accounting policy intervention (Arun et al., 2015).

Previous research has shown quite strong empirical evidence regarding the association between gender diversity and earnings management. Kouaib & Almulhim (2019) and Kyaw, Olugbode, & Petracci (2015) found that gender diversity in the board of directors shows a negative impact on accrual and real earnings management. Kouaib & Almulhim (2019) stated that based on gender socialization theory female directors have higher ethical standards than male directors. This difference in orientation to ethical standards is considered to be able to reduce a manager's opportunistic behavior. Meanwhile, Kyaw et al., (2015) mention that gender diversity in the board of directors can only mitigate earnings management when gender equality is high. The proportion of female directors is also an important attribute in reducing earnings management. This is because gender diversity in small numbers cannot run effectively (Fan, Jiang, Zhang, & Zhou, 2019).

Further study also reviews the presence of women on the board of directors. The presence and proportion of female directors empirically show a negative association with earnings management (Arun et al., 2015; Chen & Gavious, 2016; Gull et al., 2018; Hala, 2019; Harakeh et al., 2019; Harris et al., 2019; Zalata, Tauringana, & Tingbani, 2018). Some of these studies confirm that the presence of women on the board of directors can play a supervisory mechanism. Based on that, female directors prioritize policies that are oriented towards ethics and risk aversion. In addition, female directors tend to be more careful in making decisions and can be seen as lower earnings management practices and leads to more conservative practices.

Some of the empirical evidence above shows that the governance mechanism through the pillars of the board of directors can be organized by presenting gender diversity. But, an association between gender diversity and earnings management still requires further investigation (Gull et al., 2018). This is due to the need to examine the attributes of effective gender diversity to play a good corporate governance mechanism, especially in the context of Indonesia. Hala (2019) study shows that the issue of the presence of women on the board of directors in Indonesia has received little attention. In addition, based on Ditta & Setiawan (2019) research on the topic of corporate governance in Indonesia is still dominated by empirical testing on supervisory boards such as the board of commissioners and the audit committee. This creates a research gap with the topic of corporate governance based on the Indonesian context that applies a two-tier corporate governance system.

The purpose of this study is to examine several attributes of gender diversity on the board of directors with earnings management. The gender diversity attributes tested include the existence of females on the board of directors, the number of female directors (number of female directors), and the proportion of female directors (percentage of female directors). This study examines real earnings management based on the Roychowdhurry (2006) model. This study focuses more on real earnings management than accrual earnings management. This is due to some opinions stating that real earnings management has a more direct impact on cash flow in the short term and firm value in the long term (Roychowdhurry, 2006). In addition, based on Jones (2018), discretionary accruals are considered irrelevant when used as a proxy for earnings management measurements.

The difference between this research and some previous research can be seen from several things. First, the model tested is different from previous research, namely gender diversity with real earnings management. Second, the difference in the diversity attributes of the board of directors in terms of number, which in previous studies used the presence and proportion dimensions. Third, this study examines differences in the level of real earnings management in companies with and without gender diversity.

The contribution of this research include several aspects. First, this research fills the gap that left in previous research namely related in indonesian context, research on this topics tend to be less, particularly about the small number of research that examine the model of board of director gender diversity on real earnings management. Indonesian context relatively unique because of the adoption of two-tier corporate governance system, where the previous empirical research on this topics focused on supervisory board represented by board of commissioner and audit committee (Ditta & Setiawan, 2019; Mangkusuryo & Jati, 2017; Mubarika & Handayani, 2019)

Whereas the executive board organ plays significant role regarding the direction and policy of the company that precisely get a little attention in previous studies (Hala, 2019). Second, the contribution of this research is in terms of models that more than just accrual earnings management Arun et al., (2015), Chen & Gavious (2016), Gull et al., (2018), Hala (2019), Harakeh et al., (2019), Harris et al., (2019), and Zalata, et.al., (2018), but examine the other dimension of those topics namely real earnings management.

The issue of gender diversity that can provide a difference in corporate governance mechanisms has begun to receive attention from scholars (Arun et al., 2015; Gull et al., 2018; Hala, 2019; Ramadhani & Adhariani, 2017). Ethical dilemma in financial reporting makes the presence of women on the board of directors relevant to improve the supervisory (Kouaib & Almulhim, 2019). The presence of women in top-level management is considered to have several advantages over men (Chen & Gavious, 2016; Duong & Evans, 2016; Harris et al., 2019; Kyaw et al., 2015).

Men and women show different abilities because they go through different social processes (Chen & Gavious, 2016; Gull et al., 2018). Gull et al., (2018) dan Hala (2019) stated that women have a tendency to be socially oriented and focus on helping others compared to men who tend to be oriented towards personal gain and increasing the hierarchy in social status (social climbing). Many studies say that women are more likely to exhibit ethical behavior in the work environment, so its lower tendency to act immorally (Arun et al., 2015; Chen & Gavious, 2016; Duong & Evans, 2016; Gull et al., 2018; Hala, 2019; Harakeh et al., 2019; Harris et al., 2019; Kouaib & Almulhim, 2019; Kyaw et al., 2015). Also, women in the agency theory framework are considered more risk-averse than men (Arun et al., 2015; Hala, 2019). Female directors are more sensitive to several risks such as reputational losses and lawsuits (Gull et al., 2018)

The association between the board of directors' gender diversity and real earnings management can be defined based on agency theory (Jaswadi, 2013; Panda & Leepsa, 2017). The composition of the board of directors that has gender diversity can reduce agency conflicts (Hala, 2019). The social characteristics of female directors can play a supervisory function, especially in contexts where the company is dominated by male directors (Duong & Evans, 2016). The presence of female directors can provide a different perspective in determining the direction of company policy (Chen & Gavious, 2016). Male directors dominate with aggressive policy characteristics, the presence of female directors can reduce by giving a more conservative policy (Fan et al., 2019; Harakeh et al., 2019; Lonkani, 2019). The nature of women who tend to prioritize prudence is not tolerant in seeing indications of opportunistic behavior such as earnings management. Female directors tend to report actions that lead to irregularities (Gull et al., 2018). The existence of female directors can reduce real earnings management because this action is risky and contrary to the interests of investors.

Several studies have found robust empirical evidence regarding gender diversity in explaining real earnings management. The structure of the board of directors that has gender diversity shows a negative influence on earnings management (Kouaib & Almulhim, 2019; Kyaw et al., 2015). Other attributes in gender diversity such as the proportion of female directors also found that it decreased earnings management indications (Arun et al., 2015; Chen & Gavious, 2016; Gull et al., 2018; Hala, 2019; Harakeh et al., 2019; Harris et al., 2019; Zalata et al., 2018). Based on the description above, the researcher proposes the following hypothesis:

H1a: *Gender diversity has a negative effect on real earnings management.*

H1b: *There are differences in the level of real earnings management in companies with gender diversity in their board of directors*

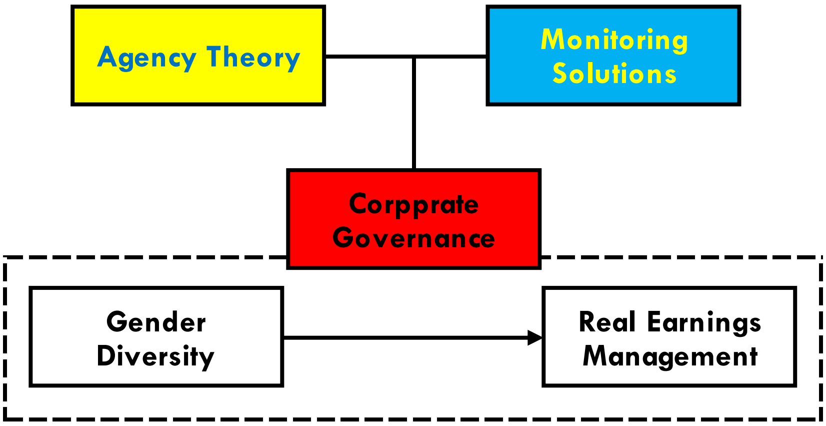

Figure 1. Research Model

METHOD

This study examines gender diversity within the board of directors in explaining the opportunistic behavior of managers through real earnings management. This study uses a quantitative approach. Empirical testing is conducted to analyze the attributes of gender diversity that can reduce the indications of a manager's opportunistic behavior. This related to agency theory premises and empiral result from several previous studies that the presence women on board could be the effective attributes to improve corporate governance mechanism.

The population and sample in this study are non-financial companies listed on the Indonesia Stock Exchange (IDX). The selection of samples used the purposive sampling technique based on several criteria. These criteria are companies that during the research period 2015-2018 were not delisted, published complete financial statements, used the rupiah currency in order to avoid bias caused by multiple currency, and made a profit. Sample identification resulted in 127 companies.

The variables tested are the gender diversity of the board of directors and real earnings management. This study also examines two control variables, namely the size of the board of directors and the size of the company. Gender diversity is measured by three attributes, namely the presence, size/number, and proportion of female directors on the board of directors (Arun et al., 2015; Chen & Gavious, 2016; Gull et al., 2018;

Hala, 2019; Harakeh et al., 2019; Harris et al., 2019; Zalata et al., 2018). For real earnings management variables, we used Roychowdhurry (2006) model. Roychowdhurry (2006) real earnings management model estimates abnormal levels of three activities, namely sales, production, and discretionary costs. Indications of real earnings management through the three activities can be seen from the residual values in each of the estimated models. The measurement of the control variable consists of the natural logarithm of total assets for the size of the company and the number of the board of directors for the size of the board of directors.

Analysis of the data used to test the research model using several statistical procedures. First, testing the predictor model of gender diversity with real earnings management using multiple regression analysis. Second, the coefficient of determination test is used to see the magnitude of the determination of gender diversity in explaining real earnings management. Third, the researcher also examines differences in the level of real earnings management in sample companies that have gender diversity characteristics in their board of directors with sample companies that do not apply this. The researcher used a different test to analyze the hypothesis about the difference in the level of real earnings management in the two sample groups. We used SPSS (Statistical Package for Social Science) software to conduct those statistical test.

Independent Variable

Board of director gender diversity is the composition of women and men in board of director member (Fanani & Alfiyanti, 2020). Based on previous studies, the measurement of board of director gender diversity can represented by the several dimension namely the presence, the number of, and the proportion of women on board of director (Arun et al., 2015; Gull et al., 2018; Hala, 2019; Ramadhani & Adhariani, 2017). This research used these three dimensions of board of director gender diversity. Formula for measuring gender diversity in the board of directors:

a. Size of female board of directors

$\sum$ Female board of directors

b. The presence of a female board of directors

We use a dummy score, where a score of 1 is for companies indicating the presence of female directors. Score 0 for companies without female directors

c. Proportion of female board of directors

$$\text{Proportion of female board of directors} = \frac{\text{Number of female directors}}{\text{Number of board directors}}$$

Dependent Variable

According to Yuliana & Alim (2017) and Roychowdhurry (2006) earnings management through real activities can be in the form of increasing sales, increasing production, and reducing discretionary costs. When these practices are carried out extensively to exceed normal business practices of certain industries, there are indications that management is conducting REM (Real Earnings Management). REM practices have the potential to erode the company's value. This is because encouraging REM practices in the current period will reduce future cash flows (Roychowdhurry, 2006). REM measurements in this study use a model developed by Roychowdhurry (2006) and used by several previous studies such as Dewi & Herusetya (2016); Subekti (2012); and Yuliana & Alim (2017). The model for calculating MLR is as follows:

Normal Sales

$$NSt / At\text{-}1 = \alpha0 + \alpha1\ (1 / At\text{-}1) + \beta1\ (St / At\text{-}1) + \beta2\ (\Delta St / At\text{-}1) + \varepsilon t$$

NSt = Cash flow from operating activities period t

At-1 = Asset year t-1

St = Sales year t

ΔSt = Difference Sales from year t to year t-1

Normal Production

$NPt / At\text{-}1 = \alpha0 + \alpha1 (1 / At\text{-}1) + \beta1 (St / At\text{-}1) + \beta2 (\Delta St / At\text{-}1) + \beta3 (\Delta St\text{-}1 / At\text{-}1) + \varepsilon t$

NPt = Cost of goods sold + ΔInventory year t

At-1 = Asset year t-1

St = Sales year t

ΔSt-1 = Difference Sales from year t-1 to year t-2

Normal Discretionary Expense

$NDEt / At\text{-}1 = \alpha0 + \alpha1 (1 / At\text{-}1) + \beta1 (St\text{-}1 / At\text{-}1) + \varepsilon t$

NDEt = Discretionary Expense (R&D expense+ promotion expense

+ biaya sales, general & administration) year t

At-1 = Asset year t-1

St-1 = Sales year t-1

Control Variable

The formula of the control variable is stated as follows:

a. Size of board of directors

∑ Board of directors

b. Size of company

Ln (Natural logarithm) total asset

We use multiple regression analysis to test the gender diversity of the board of directors on real earnings management. We also analyze the gender diversity for each type of real activity manipulation. The coefficient of determination is used to analyze how strong the variable of gender diversity is on real earnings management. The research mathematical formula model is as follows:

Model I

$REM = \alpha + \beta1BODSIZE + \beta2EFEM + \beta3NFEM + \beta4PFEM + \beta5FIRMSIZE + \varepsilon$

Model II

$ABN\text{-}CFO = \alpha + \beta1BODSIZE + \beta2EFEM + \beta3NFEM + \beta4PFEM + \beta5FIRMSIZE + \varepsilon$

Model III

ABN-PROD = α + β1BODSIZE + β2EFEM + β3NFEM + β4PFEM + β5FIRMSIZE + ε

Model IV

ABN-EXP = α + β1BODSIZE + β2EFEM + β3NFEM + β4PFEM + β5FIRMSIZE + ε

RESULTS AND DISCUSSION

The descriptive statistic results show in table 1 below. The descriptive statistic results show in table 1 below. The number of firm-year observation result gained 508 (127 firm x 4 year) number of observed data. When the statistical test procedures conducted based on panel data concept, there are 252 (63 firm x 4 year) firm-year observed data identified as outlier data. Outlier data means the observed data that have extreme distribution compared by the average of the other observed data. Those outlier data that presence in the model affected the normality test of the model that didn't meet the criteria of normality test. To avoid those bias affected by these outlier data, we deleted those outlier data from the observation. As a result, the number of observed data decrease in to 256 observed data related in frm-year observation. This number of observed data is used to the next level of analysis.

The average value of the real earnings management (REM/Real Earning Management) is 0.29. This indicates the existence of earning manipulation through real activities in an upward manner (increasing earning). Furthermore, the average value of each form of real earnings management is 0.04 for abnormal sales activity (ABN-CFO), 0.19 for abnormal production activity (ABN-PROD), and 0.05 for abnormal at the discretionary expense (ABN-DISEXP). On the variable size of the board of directors, the average value obtained is 5.12 which shows that the average sample company has at least 5 members on the board of directors.

The number of female directors in the sample companies is only 0.42, this shows the low level of gender diversity in non-financial companies in Indonesia. This means that each sample company only has one female director in its board of directors formation. The proportion of female directors in the sample companies only reached 0.13 or 13%. Based on these results, the dominance of male directors in determining policies and making decisions. Furthermore, the company size variable obtained an average value of 29.23.

Variable	N	Min.	Max.	Mean	Std. Deviation
REM	256	-0,28	0,99	0,29	0,28
ABN-CFO	256	-0,19	0,29	0,04	0,06
ABN-PROD	256	-0,47	0,81	0,19	0,24
ABN-DISEXP	256	-0,13	0,34	0,05	0,06
BOD-Size	256	2,00	15,00	5,12	2,04
EFEM-BOD	256	0,00	1,00	0,42	0,49
NFEM-BOD	256	0,00	6,00	0,66	0,99
PFEM-BOD	256	0,00	0,67	0,13	0,18
FIRM-SIZE	256	24,90	32,39	29,23	1,50

Table 1. Descriptive Statistic

Table 2 present the coefficient, t-stat, and p-value of multiple regression. The model test the association between gender diversity on total real earnings management. The results show that there is no association between gender diversity from the dimensions of number, presence, and percentage on total real earnings management. This result is based on the p-value of the three variables which is higher than the significance level. Meanwhile, the two control variables, namely the size of the board of directors and the size of the company, show a p-value that is lower than the significance level. The number of female directors indicates a negative sign of influence.

Table 2. Model 1 Test

Variable	Beta	t-Stats.	p Value	Note
Constant	1,28	3,85	0,00	-
BOD-Size	0,05	3,89	0,00***	Ha Accepted
EFEM-BOD	-0,09	-1,39	0,17	Ha Rejected
NFEM-BOD	0,01	0,17	0,87	Ha Rejected
PFEM-BOD	0,09	0,30	0,77	Ha Rejected
FIRM-SIZE	-0,04	-3,51	0,00***	Ha Accepted

Source: statistical test

Indicate significance at level < 0,01***; 0,05** & 0,1*

The presence and proportion of female directors indicate a positive sign of influence. The size of the board of directors and the size of the company are stated to have a significant association with real earnings management and the sign is positive. Meanwhile, firm size shows a negative sign towards real earnings management.

Table 3 shows gender diversity result on real activity manipulation through sales. The three dimensions of gender diversity variable do not show a significant effect on real activity manipulation through sales. However, the variable number and presence of female directors shows a negative association. Meanwhile, the proportion of female directors shows a positive sign of influence. The size of the board of directors shows a significant positive effect on the manipulation of sales activity, with a p-value level that is smaller than the significance level. Firm size has a negative effect on real earnings management from sales activities.

Table 3. Model 2 Test

Variable	Beta	t-Stats.	p Value	Note
Constant	0,18	2,38	0,02	-
BOD-Size	0,01	1,92	0,06*	Ha Accepted
EFEM-BOD	-0,01	-0,56	0,58	Ha Rejected
NFEM-BOD	-0,01	-0,50	0,62	Ha Rejected
PFEM-BOD	0,02	0,35	0,73	Ha Rejected
FIRM-SIZE	-0,01	-2,02	0,04**	Ha Accepted

Source: statistical test

Indicate significance at level < 0,01***; 0,05** & 0,1*

Table 4 presents gender diversity result on real earnings management through production activities. Based on table 4, the p-value of the gender diversity variable is above the significance level. The three dimensions of the gender diversity variable have no significant effect on real earnings management through production activities. The sign of influence shown is negative for the presence and proportion of female directors. Meanwhile, the number of female board of directors shows a positive sign. The variable size of the board of directors has a significant positive association with real earnings management through production activities. Firm size has a significant negative effect on real earnings management with production activities.

Table 4.
Model 3 Test

Variable	Beta	t-Stats.	p Value	Note
Constant	0,63	2,21	0,03	-
BOD-Size	0,03	3,11	0,00***	Ha Accepted
EFEM-BOD	-0,08	-1,32	0,19	Ha Rejected
NFEM-BOD	0,04	0,95	0,35	Ha Rejected
PFEM-BOD	-0,10	-0,37	0,71	Ha Rejected
FIRM-SIZE	-0,02	-1,98	0,05*	Ha Accepted

Source: statistical test

Indicate significance at level < 0,01***; 0,05** & 0,1*

The further results show (table 5), gender diversity with manipulation of discretionary cost activities obtained different results. The existence and number of the board of directors have a significant effect on earnings management in discretionary expense activities. The presence of female directors in the board of directors shows a negative effect on real earnings management with discretionary cost allocation activities. The dimension of the proportion of female directors has a significant positive effect on real earnings management on discretionary cost activities. The size of the board of directors has a significant positive effect on earnings management on discretionary expense activities. Firm size has a negative effect on earnings management with discretionary cost activities.

Table 5.
Model 4 Test

Variable	Beta	t-Stats.	p Value	Note
Constant	0,46	6,45	0,00	-
BOD-Size	0,01	3,52	0,00***	Ha Accepted
EFEM-BOD	-0,01	-0,57	0,57	Ha Rejected
NFEM-BOD	-0,03	-2,48	0,01**	Ha Accepted
PFEM-BOD	0,17	2,50	0,01**	Ha Accepted
FIRM-SIZE	-0,02	-6,13	0,00***	Ha Accepted

Source: statistical test

Indicate significance at level < 0,01***; 0,05** & 0,1*

We used the coefficient of determination to test how strong the relationship between variables was. The coefficient of determination show adjusted r square values of 0.12, 0.03, 0.10, and 0.15. This shows that dependent variables can explain by the independent variables is 12%, 3%, 10%, and 15%. There are many other variables that become factors or determinants of real earnings management.

Description	R Square	%
GenDiv - REM	0,12	12
GenDiv – ABNCFO	0,03	3
GenDiv – ABNPROD	0,10	10
GenDiv – ABNDISEXP	0,15	15

Source: statistical test

This study also examines differences in the level of real earnings management in companies that apply diversity mechanisms on their board of directors with companies that do not have gender diversity attributes. The results show that the p-value is higher than the level of significance. The result indicates that there is no difference in the level of earnings management in companies that apply a gender diversity mechanism with companies that do not.

The result shows that hypothesis 1a is accepted. Our findings indicate that gender diversity in the board of directors explains real earnings management. The dimension of gender diversity shows an association in the number and proportion of female directors. The number of female directors has a negative association with real earnings management through discretionary costs. This result has confirmed the result from previous studies that found the presence and proportion of female directors empirically show a negative association with earnings management (Arun et al., 2015; Chen & Gavious, 2016; Gull et al., 2018; Hala, 2019; Harakeh et al., 2019; Harris et al., 2019; Zalata, Tauringana, & Tingbani, 2018).

Table 7.
Test Result

Grup	N	Mean	Std. Deviation	p Value	Note
Firm with Female Directors	108	0,28	0,27	0,75	Ha Rejected
Firm without Female Directors	148	0,29	0,29	0,75	Ha Rejected

Source: statistical test

Indicate significance at level < 0,01***; 0,05** & 0,1*

Meanwhile, the proportion of female directors shows a positive association with real earnings management with an abnormal effect on discretionary costs. The negative association of the number of female board of directors indicates that the higher the number of female directors, the lower the real earnings management. On the other hand, a higher proportion of female directors will increase the tendency of earnings management to engage in discretionary expense activities. Based on these results the first hypothesis is accepted. This contradiction probably caused by the different proxies to measure earnings management. This can be related with motivation to conduct the real earnings management more complex than accrual earnings management.

Another result shows that hypothesis 1b is rejected. Empirically, there is no difference in the level of real earnings management in companies that have gender diversity in the board of directors with companies that do not have these attributes. These results indicate that companies that apply governance mechanisms by presenting gender diversity attributes do not show differences in monitoring mechanisms (Ramadhani & Adhariani, 2017). The presence of female directors can only reduce the tendency of opportunistic behavior in the form of real earnings management. However, the attribute of gender diversity still does not contribute when the board of directors is dominated by men (Duong & Evans, 2016).

The negative sign number of female directors on real earnings management confirms monitoring in agency theory (Jaswadi, 2013; Panda & Leepsa, 2017). The mechanism for good corporate governance can be done by providing a space for women to participate in the board of directors (Hala, 2019). Female directors have different characteristics compared to men (Chen & Gavious, 2016; Gull et al., 2018). The direction and policies of the company are different with the presence of women on the board of directors (Chen & Gavious, 2016).

Prudence can be achieved if there are more female directors. The role of female directors in collective decision-making can provide more stakeholder-oriented considerations. Women have an instinct to help others than men who tend to be oriented towards maximizing personal gain. In addition, women have a lower tendency to do things that lead to an increase in social status (social climbing) (Gull et al., 2018; Hala, 2019).

Increasing the number of female directors can reduce policies that tend to be opportunistic in a business dominated by male directors. This condition also leads management to be more conservative, ethical, and intolerant of various forms of indications of opportunistic behavior, such as real earnings management (Arun et al., 2015; Chen & Gavious, 2016; Duong & Evans, 2016; Gull et al., 2018; Hala, 2019; Harakeh et al., 2019; Harris et al., 2019; Kouaib & Almulhim, 2019; Kyaw et al., 2015).

These results empirically confirm monitoring solutions agency theory (Jaswadi, 2013; Panda & Leepsa, 2017). Gender diversity is an attribute that can be applied to governance mechanisms (Kouaib & Almulhim, 2019; Kyaw et al., 2015). The presence of female directors on the board of directors can reduce agency conflicts in the form of opportunistic behavior, in this case, real earnings management. The results of this study are consistent with previous research which concluded that the presence of women on the board of directors has negative implications for real earnings management (Arun et al., 2015; Chen & Gavious, 2016; Gull et al., 2018; Hala, 2019; Harakeh et al., 2019; Harris et al., 2019; Zalata et al., 2018).

CONCLUSION

We examine the dimensions of gender diversity which included the presence, number, and proportion of female directors on the board of directors. The results found that empirically gender diversity represented by the number of female directors can give a negative association to real earnings management. This result indicates that female directors can reduce conflict in the form of opportunistic behavior through real earnings management.

This research also has some limitations. First, the limitations in terms of the gender diversity variables studied have not covered all of its attributes/dimensions. Second, this study has not used other proxies of real earnings management. Third, the issue of gender diversity is examined only from the characteristics of the board of directors. Future research can examine gender diversity on the board of commissioners and audit committee.

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