THE EFFECT OF FEMALE EXECUTIVES ON EARNINGS MANAGEMENT: EVIDENCE FROM INDONESIA

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Abstract
The purpose of this paper is to investigate whether the gender of the firm’s executives (chief executive officers and/or chief financial officers) has a significant impact on the firm's earnings management. Modified Dechow and Dichev model is used to measure discretionary accruals as the proxy of earnings management. This paper uses multiple regressions to test the relationship between female executive and earnings management. The paper represents evidence that there is no significant relationship between female executives (chief executive officers and/or chief financial officers) and discretionary accruals as the proxy of earnings management. Furthermore, the paper’s evidence has implications for investors and firms. Since there is no significant relationship between female executive and earnings management, investors should not be hesitant of making investment in companies with female executive.

Keywords: Gender, Female executives, Earnings management, Discretionary accruals.
JEL Code: M12, M41

I. Introduction
Gender equality and globalization are the issues that make women can also enjoy the world of work. Previously women’s roles are limited to taking care of the household as well as supporting their husband's career, but now the reality has shifted into a figure in which women have more roles as they can pursue a higher career in many fields. According to Albeda (1997) in Irianto (2007), the number of women workers increased where they are also able to penetrate the managerial positions that had been dominated by men. Irianto (2007) explains that the involvement of women in an organization is not only occurs in the countries of the Americas and Europe but also in countries of the Asian continent.

In Indonesia, women’s career has emerged in the presence of female emancipation attempts by RA Kartini – one of Indonesian national heroines. She fought for women emancipation. She believed that men and women should have the equal rights, obtain their freedom,
education and autonomy. Today, women have the right to pursue their aspirations and they demand higher education to support their career, improving mindset, multiplying relationships, and adds insight (Wijayanti, 2014). Pratiwi (2014) through the International Business Report (IBR) by Grant Thornton also stated that currently in Indonesia, 41% of senior management position are held by women, or in other words, women also have equal rights with men in the world of work, including as a leaders of a business entity. The role of women in an organization in Indonesia apparently shows two sides, positive and negative. It is proved that the representation of women as leaders will provide milieu and influence in an organization.

Yet, the previous studies show different results about the influence of women as a top management. Rose (2007) in Peni and Vahamaa (2010) explains that there is no significant relationship between the firm performance and the representation of women as a board. In contrast, Bohren and Storm (2005) quoted by Smith et al. (2006) stated that there is a positive relationship between women as a top management and the firm performance. Further research discussed about how the gender of an enterprise leader affects in managerial arrangement and earnings management. Gulzar and Wuhan (2011) stated that the presence of female directors in the organization will help to reduce the level of earnings management. Meanwhile, based on Peni and Vahamaa research (2010) explains that the chief financial officer (CFO) relates to the tendency of earnings management practices through a more conservative strategy (income-decreasing discretionary accruals).

Previous studies shows mixed results, therefore it is necessary to take a further study to test how female executives’ representation in organizations has an impact to earnings management. The purpose of this study is to investigate whether female executives (chief executive officers and/ or chief financial officers) have a significant impact on the firm’s earnings management. We focused our study in trade, services and investment sector because this sector has the highest percentage of female executive. The results of our empirical analysis indicate that female executives has no significant impact to discretionary accruals as the proxy of earnings management. This finding is consistent with prior research (Rose, 2007 in (Peni and Vahamaa, 2010), which provide evidence that there are no significant influence of female executives on the quality of earnings or accounting information.
II. Literature Review

II.1. Gender stereotypes and female executives in an organization

The word of gender in Indonesia has been adopted become *jender* and the meaning of this word is not differentiated with the meaning of sex (Zubaedah, 2010). Disagree with these opinions, Crawford (2006: 25) explains that gender differs with sex and is defined as the characteristics and socio-cultural traits that are considered appropriate for men and women. Socio-cultural traits are masculinity and femininity (Unger, 1979) in Crawford (2006: 25). Lips (2006: 7) states that the rules for the nature of femininity and masculinity are based on biological or anatomical differences between men and women (sex differences), but it actually goes beyond the differences. Lips (2006) illustrate one important sex difference is women can get pregnant while men do not. The biological differences are used in various cultures to create expectation for a female femininity which include parenting attitude and maintain children.

According to Vecchio (2002), feminine or masculine labeling can be done by looking at a series of separate and distinct behavior. This view indicates that an individual will be judged on a variety of dimensions, and related labeling will also separate its social nature and depend on the particular dimension. Similar to this, Young and Hurlic (2007) also explains that gender will have an impact on the way we think about all aspects of life. It is proved that it is possible a man has feminine social nature or a woman has masculine social nature. Young and Hurlic (2007) explains that there are certain behaviors that have linked the concept of masculinity with a man and the concept of femininity with a woman. According to Fletcher (2004), there are many studies that describe specific properties that lead to the concept of masculine and feminism. For example, Acker (1990); Calas and Smircich (1993); Collinson and Hearn (1996) in Fletcher (2004) explains that the nature of such an individualist, controlling, assertiveness, the ability to defend and to dominate is the part of men nature and can be referred to as masculine. On the other hand, Fletcher (2004) explains that the nature of such empathy, collective, vulnerability, and the ability to work together is the part of women and can be referred to as feminine.

A long time ago, discrimination does not only occur in one's race and ethnicity, but also gender-based discrimination. This led to the low number of women who play an important role, including high-level leadership positions (Yukl, 2010: 448). However, after the advent of anti-discrimination legislation in the United States, it explains that both men and women are equally qualified to be a leader in business organizations, so the gender stereotypes have slowly changed (Yukl, 2010: 448).
Here are some of the results of research that seeks to link a person's gender and leadership style. Druskat (1994); Eagly et al. (1992); Eagly and Johson (1990) in Altintas and Altintas (2008) explains that the social nature of masculine usually apply the transactional leadership style to his followers. Besides, Eagly et al. (1994) in Altintas and Altintas (2008) states that the social nature of the feminine typically applies transformational leadership style which shows a participatory, collaborative, and emphasizes the importance of individualized consideration.

II.2. Earnings management

In general, earnings management actions can be done because of the concept of agency theory that led to the asymmetry of information. The concept of agency theory arose from the emergence of differences of interest between the owners of capital (principal) with management as the manager (agent). Owners of capital will delegate the other party that is an agent for work (Jensen and Meckling, 1976) in Fayesi et al. (2012). According to Fleisher (1991) in Fayesi et al. (2012), in an agency relationship, the owners of capital who are different from the agent, will attempt to minimize agency costs such as defining, recognizing and monitoring, as well as keeping the behavior of the agent while the agent typically will work to maximize their own rewards and reduce the control of the owners of capital.

Earnings management is the choice of a top manager for his/her accounting policy actions or an act that would affect the earnings to achieve the purpose of reporting earnings (Scott, 2009: 403). Meanwhile, according to Davidson, Stickney, and Well (1987) in Beneish (2001), the act of managing earnings is the process to take deliberate steps within the limits of generally accepted accounting principles leading to desired level of reported earnings. It is concluded that earnings management is an action that manager take in purpose to achieve some specific reported earnings.

Earnings management can be done by business entities through some patterns, such as taking a bath, income minimization, income maximization, and income smoothing (Scott, 2009: 405). Factors that distinguish these four patterns are conditions that trigger earnings management practices and how the managers manage the earnings of the business entity. Scott (2009) also explains the motivation of a manager to manage earnings. That motivation includes bonus purposes, the fulfillment of the contract with the creditor's debt, implicit contract or relational contract, to meet the investor's earnings expectations and maintain reputation, and initial public offerings (IPO) process.

In general, the existing literature has documented financial reporting that is of higher quality when firms have stronger corporate governance mechanisms or when there is a greater demand for high-quality financial reporting (Ball et al., 2000; Klein, 2002; Xie et al., 2003;
Ebrahim, 2007; Ball and Shivakumar, 2008) in Peni and Vahamaa (2010). This indicates that the firm’s executive plays important role in corporate governance because they have the right and access to influence the entity’s financial reporting practices, i.e. through earnings management practices.

Jianakoplos and Bernasek (1998) in Darmadi (2013) explain that women will tend to be more risk-averse than men in financial decision making. In addition, Loo (2003) states that women can be said to be more ethical than men. Women also mentioned by Heminway (2007) in Peni and Vahamaa (2010) tend to be more trustworthy than men. It is also important that women have a more conservative attitude than men (Peni and Vahamaa, 2010). Excess nature and attitude of the woman gave evidence that to maintain their position as the executive then she will tend to manage corporate earnings. Female executives will use conservative strategy when they doing earnings management thus providing maximum benefit both the period and subsequent periods.

II.3. Hypothesis

Following the existing accounting literature, this study tends to investigate the effect of the gender of the firm’s executive on earnings management. This study suggests that the gender of chief executive officers and/or chief financial officers may affect their managerial behavior. Hence, we state the hypothesis as follows:

H1. Female executives as chief executive officers and/or chief financial officers affect earnings management.

III. Research Methodology

III.1. Variables and Variable Measurement

Cross-sectional regression models are used in this study to explain the extent to which earnings management is affected by the gender of the firm’s executives, along with the control variables.

Discretionary accruals (DA)

First, we use discretionary accruals as a dependent variable in this study. Following Peni and Vahamaa (2010), we will use Modified Dechow and Dichev model which developed by McNichols (2002) to estimate the discretionary accruals. By estimating the discretionary accruals, we can see the extent of firm’s earnings management.

McNichols (2002) provide evidence that the Modified Dechow and Dichev model is more powerful than Dechow and Dichev model, which can reduce the measurement error in discretionary accruals. The model is estimated as follows:

\[ ACC_{j,t} = \alpha + \beta_1CF_{j,t-1} + \beta_2CF_{j,t} + \beta_3CF_{j,t+1} + \beta_4\Delta REV_{j,t} + \beta_5PPE_{j,t} + \epsilon_{j,t} \]  

where:

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\[ ACC_{j,t} = \text{Total current accruals for firm } j \text{ in year } t, \text{ which is calculated as } [ACC = \triangle \text{current assets} - \triangle \text{current liabilities} - \triangle \text{cash} + \triangle \text{debt in current liabilities}], \]
\[ \triangle \text{ is the change in a given accounting figure from year } t-1 \text{ to year } t. \]
\[ CF_{j,t} = \text{Operating cash flows for firm } j \text{ in year } t. \]
\[ \triangle \text{REV}_{j,t} = \text{Change is revenue for firm } j \text{ from year } t-1 \text{ to } t. \]
\[ PPE_{j,t} = \text{Gross value of property, plant, and equipment for firm } j \text{ in the end of year } t. \]

All the variables used in accruals model are scaled by the average total assets for firm \( j \) between year \( t-1 \) to year \( t \). The residual from the regression is the discretionary accruals as the extent of earnings management.

**Female Executives (FEXEC)**

Following Peni and Vahamaa (2010), we employ female executives as the independent variable in this study. We use the gender of the firm’s executives to test the representation of women on the boards. This variable is equals 1 if the firm has a female chief executive officers and/ or chief financial officers.

**Control variables**

Consistent with Peni and Vahamaa (2010), we include several control variables in our model, namely leverage (LEV); loss (LOSS); market to book ratio (M/B Ratio); revenue growth (REVGROWTH); and size (SIZE). LEV shows financial leverage for firm \( j \) in year \( t \), while LOSS is a dummy variable that equals 1 if the firm has negative net income in year \( t \). These two variables have been used as proxies for the financial condition of the firm. M/B ratio and REVGROWTH are proxies for growth. According to Meek et al. (2007), high-growth firms are typically less transparent and may have greater opportunities for opportunistic earnings management. Data regarding M/B Ratio were collected from the **Fact Book Indonesia Stock Exchange**. REVGROWTH shows the revenue growth rate for the firm \( j \) from year \( t-1 \) to year \( t \). The last control variables is SIZE, which shows the business scale for the firms. SIZE also important to this study since larger firms may have stronger governance structure and they need high quality financial reporting.
This study uses cross-sectional panel regression as the main statistical technique to test the hypothesis. The main regression model is defined in the following equation:

\[
DA_{j,t} = \alpha + \beta_1 FEMALE_{j,t} + \beta_2 LEV_{j,t} + \beta_3 LOSS_{j,t} + \beta_4 MB_{j,t} + \beta_5 REVGROWTH_{j,t} + \beta_6 SIZE_{j,t} + \epsilon_{j,t}
\]

Where:

- \(DA\) = Discretionary Accruals
- \(FEMALE\) = Female Executives, 1 = female CEO and/or CFO and 0 = non female CEO and/or CFO
- \(LEV\) = Leverage Ratio
- \(LOSS\) = Negative Net Income, dummy variable that equals one if the net income in year \(t\) is negative and zero otherwise
- \(MB\) = Market to Book Ratio
- \(REVGROWTH\) = Revenue Growth
- \(SIZE\) = Size of the firm
- \(\alpha\) = constant
- \(\beta\) = regression coefficient
- \(\epsilon\) = error

### III.2. Sample data

The population of this study consisted of 286 firms-year, which are the total number of firms-year in trade, services, and investment sector listed on the Indonesia Stock Exchange for the period 2009-2011. According to Lilyah (2014), female executives will be more suited to lead the service industry. Further, after doing preliminary research on the firms that were listed on Indonesia Stock Exchange period 2010, the result shows that the proportion of female executives (chief executive officers and/or chief financial officers) are greatest in the trade, services, and investment sector industry.

Table 1 provides details about the sample selection. Firms with insufficient data are excluded for the sample. After deleting 113 firms-year data, the final sample during 2009-2011 amounted to the 173 firm-year observations. To collect the data for this study, we used...
published annual reports and financial statements that are available on Indonesia Stock Exchange website (www.idx.co.id).

### Table 1
**Sample Selection**

<table>
<thead>
<tr>
<th>Descriptions</th>
<th>Total Firm Years</th>
</tr>
</thead>
<tbody>
<tr>
<td>Listed trade, services, and investment companies at IDX since 2009-2011</td>
<td>286</td>
</tr>
<tr>
<td>Firm’s annual report do not available on the internet</td>
<td>(20)</td>
</tr>
<tr>
<td>The firms do not report about the boards on the annual report</td>
<td>(80)</td>
</tr>
<tr>
<td>Financial statements period is not ended on December 31</td>
<td>(2)</td>
</tr>
<tr>
<td>The reporting currency used in the financial statements is not Rupiah</td>
<td>(4)</td>
</tr>
<tr>
<td>Firms with incomplete data</td>
<td>(7)</td>
</tr>
<tr>
<td>Final sample for statistical analysis</td>
<td>173</td>
</tr>
</tbody>
</table>

### IV. Results and Discussions

#### IV.1. Descriptive Statistics

Table 2 provides descriptive statistics for all variables used in hypothesis testing, except the dummy variables (FEMALE and LOSS). The mean of DA as a proxy of earnings management is 0.000. On the other hand, LEV; M/B Ratio; REVGROWTH; and SIZE have an average of 0.563; 1.667; 0.348; and 27.356 respectively.

<table>
<thead>
<tr>
<th>Variables</th>
<th>N</th>
<th>Minimum</th>
<th>Maximum</th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>DA</td>
<td>173</td>
<td>-1.425</td>
<td>0.677</td>
<td>0.000</td>
<td>0.188</td>
</tr>
<tr>
<td>LEV</td>
<td>173</td>
<td>0.014</td>
<td>2.998</td>
<td>0.563</td>
<td>0.430</td>
</tr>
<tr>
<td>M/B Ratio</td>
<td>173</td>
<td>-13.580</td>
<td>11.41</td>
<td>1.667</td>
<td>2.592</td>
</tr>
<tr>
<td>REVGROWTH</td>
<td>173</td>
<td>-0.974</td>
<td>8.046</td>
<td>0.348</td>
<td>1.123</td>
</tr>
<tr>
<td>SIZE</td>
<td>173</td>
<td>21.927</td>
<td>31.469</td>
<td>27.356</td>
<td>1.833</td>
</tr>
</tbody>
</table>

As seen on table 3, 38.73% from our final sample have female executives on their boards. This suggests that listed companies in Indonesia were dominated by male executives. Table 4 shows that only 8.67% of the sample firms have negative net income or LOSS in year $t$. 

**Surabaya - Indonesia, June 3-4th, 2015**
Table 3
Descriptive Statistics for FEMALE (Dummy Variable)

<table>
<thead>
<tr>
<th>Variable</th>
<th>0 (Non Female)</th>
<th>1 (Female)</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>FEMALE</td>
<td>106</td>
<td>67</td>
<td>173</td>
</tr>
</tbody>
</table>

Table 4
Descriptive Statistics for LOSS (Dummy Variable)

<table>
<thead>
<tr>
<th>Variable</th>
<th>0 (Profit)</th>
<th>1 (Loss)</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>LOSS</td>
<td>158</td>
<td>15</td>
<td>173</td>
</tr>
</tbody>
</table>

IV.2. Pearson Correlation Matrix

Table 5 shows the correlation among the dependent and independent variables.

Table 5
Pearson Correlations

<table>
<thead>
<tr>
<th></th>
<th>DA</th>
<th>FEMALE</th>
<th>LEV</th>
<th>LOSS</th>
<th>MB</th>
<th>REV</th>
<th>GROWTH</th>
<th>SIZE</th>
</tr>
</thead>
<tbody>
<tr>
<td>DA</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>P. Correlation</td>
<td>1</td>
<td>-.090</td>
<td>-.292*</td>
<td>-.036</td>
<td>.177*</td>
<td>.053</td>
<td>.118</td>
<td></td>
</tr>
<tr>
<td>Sig.</td>
<td>.238</td>
<td>.000</td>
<td>.637</td>
<td>.020</td>
<td>.490</td>
<td>.122</td>
<td></td>
<td></td>
</tr>
<tr>
<td>FEMALE</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>P. Correlation</td>
<td>-.090</td>
<td>1</td>
<td>.089</td>
<td>.008</td>
<td>-.056</td>
<td>.084</td>
<td>-.007</td>
<td></td>
</tr>
<tr>
<td>Sig.</td>
<td>.238</td>
<td>.242</td>
<td>.916</td>
<td>.461</td>
<td>.272</td>
<td>.924</td>
<td></td>
<td></td>
</tr>
<tr>
<td>LEV</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>P. Correlation</td>
<td>-.292*</td>
<td>.089</td>
<td>1</td>
<td>.406*</td>
<td>-.564*</td>
<td>.032</td>
<td>-.244*</td>
<td></td>
</tr>
<tr>
<td>Sig.</td>
<td>.000</td>
<td>.242</td>
<td>.000</td>
<td>.000</td>
<td>.680</td>
<td>.001</td>
<td></td>
<td></td>
</tr>
<tr>
<td>LOSS</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>P. Correlation</td>
<td>-.036</td>
<td>.008</td>
<td>.406*</td>
<td>1</td>
<td>-.312*</td>
<td>.014</td>
<td>-.105</td>
<td></td>
</tr>
<tr>
<td>Sig.</td>
<td>.637</td>
<td>.916</td>
<td>.000</td>
<td>.000</td>
<td>.858</td>
<td>.170</td>
<td></td>
<td></td>
</tr>
<tr>
<td>MB</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>P. Correlation</td>
<td>.177*</td>
<td>-.056</td>
<td>-.564*</td>
<td>-.312*</td>
<td>1</td>
<td>.059</td>
<td>.226*</td>
<td></td>
</tr>
<tr>
<td>Sig.</td>
<td>.020</td>
<td>.461</td>
<td>.000</td>
<td>.000</td>
<td>.439</td>
<td>.003</td>
<td></td>
<td></td>
</tr>
<tr>
<td>REVGROWTH</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>P. Correlation</td>
<td>.053</td>
<td>.084</td>
<td>.032</td>
<td>.014</td>
<td>.059</td>
<td>1</td>
<td>.160*</td>
<td></td>
</tr>
<tr>
<td>Sig.</td>
<td>.490</td>
<td>.272</td>
<td>.680</td>
<td>.858</td>
<td>.439</td>
<td>.036</td>
<td></td>
<td></td>
</tr>
<tr>
<td>SIZE</td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>P. Correlation</td>
<td>.118</td>
<td>-.007</td>
<td>-.244*</td>
<td>-.105</td>
<td>.226*</td>
<td>.160*</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>Sig.</td>
<td>.122</td>
<td>.924</td>
<td>.001</td>
<td>.170</td>
<td>.003</td>
<td>.036</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Notes: P. Correlation is pearson correlation coefficient and * indicate significance at 5% level.

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As seen on Table 5, the correlations among DA as a dependent variable and FEMALE as an independent variable is not significant. Similarly, LOSS; REVGROWTH; and SIZE as the control variables have no significant correlations with DA. There is a negative correlation coefficient between DA and LEV, but on the other hand DA and M/B Ratio are strongly positive correlated.

In addition, we also assess the correlations among the independent variables. There is a positive correlation coefficient between LEV and LOSS; MB and SIZE; REVGROWTH and SIZE. We also find a significant negative correlation between LEV and MB; LEV and SIZE; LOSS and MB.

IV.3. Regression Results

There are several classical test assumptions, including normality test; heteroscedasticity test; autocorrelation test; and multicollinearity test used in the present study to obtain the efficient and accurate regression results. That shows that the model is better when it is free from violations of classical assumptions.

All data have already tested and passed the classical test assumption except for normality test. But the the regression model can be used for further testing because of the failure of the normality test is basically only a small effect on error rejection hypothesis (Mendenhall and Sincich, 2012: 409). In addition, normality is not critical issues if the data has a large number of samples or N > 100 (Gujarati, 2003).

This study suggests that the gender of the firm’s executives (chief executive officers and/ or chief financial officers) affect earnings management practices. As can be noted from Table 6, the F-test for regression model is significant at the 5% level. The adjusted $R^2$ of this model is only 7% and indicate that 93% of DA as a dependent variable can be explained by other factors outside the model.

<table>
<thead>
<tr>
<th></th>
<th>B</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>T-test</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>CONSTANT</td>
<td>-0.017</td>
<td>0.941</td>
</tr>
<tr>
<td>FEMALE</td>
<td>-0.024</td>
<td>0.395</td>
</tr>
<tr>
<td>LEV</td>
<td>-0.135</td>
<td>0.001*</td>
</tr>
<tr>
<td>LOSS</td>
<td>0.068</td>
<td>0.213</td>
</tr>
<tr>
<td>M/B Ratio</td>
<td>0.001</td>
<td>0.864</td>
</tr>
<tr>
<td>REVGROWTH</td>
<td>0.010</td>
<td>0.402</td>
</tr>
<tr>
<td>SIZE</td>
<td>0.008</td>
<td>0.684</td>
</tr>
<tr>
<td><strong>Adjusted $R^2$</strong></td>
<td></td>
<td>0.070</td>
</tr>
<tr>
<td><strong>F-test</strong></td>
<td></td>
<td>0.006</td>
</tr>
</tbody>
</table>

Table 6
Regression Results

Surabaya - Indonesia, June 3-4th, 2015
The p-value of t-test shows that H1 is rejected for the hypothesis testing. It means that there is no significant effect from the gender of the firm’s executives (chief executive officers and/or chief financial officers) on earnings management practices. While, leverage as a control variable has a negative significant effect to discretionary accruals as a proxy from earnings management.

IV.4. Discussions

Table 6 reports the results for the regression where the discretionary accruals as the proxy of earnings management are determined with the Modified Dechow and Dichev Model by McNichols (2002). These results indicate that there is no significant effect between the FEMALE as main independent variable on DA. Similarly, the control variables: LOSS; MB; REVGROWTH; and SIZE have no significant effect on the dependent variable. While, LEV as a control variable has a negative significant effect on the dependent variable.

This result is consistent with Rose’s research (2007) in Peni and Vahamaa (2010) that there is no significant relationship between the representation of female executives with the firm performance. However, this result is not consistent with Khan and Vieito (2013). Khan and Vieito (2013) state that firms with female chief executive officers (CEO) are associated with an increase in performance compared to the firms managed by male CEO. In addition, this result does not support Gulzar and Wuhan (2011) findings which states that the presence of women in executive positions will help to reduce the earnings management occurs, also Peni and Vahamaa findings (2010) which state that female executives have a significant effect on discretionary accruals.

The result of this study is inconsistent with the previous study by Peni and Vahamaa (2010). The insignificant result in this study can be caused by the proportion of female executives in Indonesia public company is still relatively small, i.e. 11.2% in 2009, although this proportion was larger than some countries in Europe (Darmadi, 2013).

This study tries to see further than Rose research (2007) in Peni and Vahamaa (2010) that investigate the relationship between existence of female executives and firm performance. Further, in this study firm performance is represented by the quality of financial reporting. When there is no significant relationship between female executives and firm performance, it means that female executives do not use the accounting policies to achieve some specific financial reporting purposes. So, female executives do not affect the quality of earnings.

As seen on table 6, leverage has negative significant impact to earnings management practices. This result supports Peni and Vahamaa (2010) finding. In addition, this fact is also consistent with agency theory concept. It means when firm’s leverage is high, the control
from the external parties (bondholders) is also increased, so it can reduce the possibility of earnings management practices.

While, this result was not consistent with DeAngelo et al. (1994) in Peni and Vahamaa (2010); Healy and Palepu (1990); Press and Weintrop (1990) in Rusmin (2010); DeFond and Jiambalvo (1994); Sweeney (1994) in Chen et al. (2005) that leverage has positive significant effect on earnings management. As we know that leverage variable indicate the proportion of firm’s external funding owned by a business entity. In contrast to the agency theory concept, positive accounting theory, namely debt covenant hypothesis (Watts and Zimmerman, 1990) in Scott (2009: 287) states that financial risk faced by companies will increase as the leverage increase. Thus, the firms will try to use accounting policies that will increase their earnings in current period (Scott, 2009: 288).

V. Conclusions, Limitations, and Implications of the Study
This study investigates whether female executives has a significant impact to discretionary accruals as the proxy of earnings management. The empirical analysis shows that female executives have an insignificant effect on earnings management. So, this result indicates that the gender of the firm’s executives (chief executive officers and/ or chief financial officers) will not affect the quality of reported earnings. In addition, financial condition of the firm, namely leverage has negative significant effect on earnings management practices.

This study is subject to the following limitations. Gender should have a broader meaning than sex ratio, i.e. feminist and masculine. Further, the study should explore the characteristics of firm’s executive such as leadership style, age and marital status. Lastly, this study only examines the short sample period. Therefore, future research may take longer periods of sample to capture a more comprehensive result about the effect of female executives on earnings management.

This study has some implications for investors and firms. Investors should not be hesitant of making investment to entity which the executives are female. Moreover, firms should give more opportunities for female in executive positions since the presence of female has insignificant effect to discretionary accruals as the proxy of earnings management.

References


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