

## **Gender and Tenure on Earnings Management**

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### **Abstract**

This study highlights research that indicates that male-female disparities may have an effect on decisions taken. Men become risk-takers or take risks, some researchers suggest, while women are associated with natural risks and do not want to take risks that improve the efficiency of the business. Agency challenges are growing as the CEO reaches retirement. In his final year of tenure, in order to get higher pay in the last year or after leaving work, the CEO used his personal details to boost company results (retirement). The findings of the study's regression analysis support one hypothesis that the representation of female CEOs has a negative effect on earnings management. These findings demonstrate that the representation of female CEOs increases the consistency of earnings data presented in the financial statements of the organization. The study's regression analysis supports the second hypothesis that states that the tenure of the CEO has a negative impact on income management. This shows that long-term CEOs are less aggressive in disclosing earnings than CEOs who have long-term profits in short tenure.

*Keywords: Gender, Tenure, Earning Management.*

### **1. Introduction**

This study discusses the results of empirical research that discusses the representation of female CEOs in directors and the tenure of the CEO (CEO tenure) of earnings management in companies listed on the Indonesia Stock Exchange (BEI) for the fiscal year announced on 31 December 2014 to 2016. Company leaders in Indonesia are called directors and CEOs in Indonesia is a term for directors or directors (Fahlevi et al., 2020). This research is motivated by the fact that currently gender diversity has become an issue that arises in the specialized business world in developing countries (Juhandi et al., 2020). Relationships with women in the top positions and strategic decision-making positions were revealed in the 2014 index gap which reported gender in Indonesia ranked 108 out of 142 and in the 2015 index gap Indonesia rose 114th out of 145, while in the 2016 index gap Indonesia placed 107th out of 144 (Ben Bouheni et al., 2016).

From the published rankings, companies in Indonesia still do not trust women to shoulder the responsibility of having fluctuating rankings. In addition, this research is also supported by a survey of 5,500 companies in 36 countries published in the Annual Report on Women in Business by Grant Thornton, which states that women in executive positions in companies in Indonesia were 46% in 2017 which increased from 36% in 2016 (Bhagat et al., 2012).

This study proves research that proves that differences between men and women can have an impact on decisions made. Several researcher state that men become risk takers or take risks, whereas women are associated with natural risks and do not want to take risks that increase company performance. Therefore, gender factors need to be included as one of the variables in this study because previous research shows that use is referred to factors such as independence, experience, CEO duality and board size. The Fourth Factor that motivates research This study is that most of the results of different studies on leadership between women and women are expected of the research submitted in this study.

Based on the above conditions, researchers see the difference to include the variable representation of women in the board of directors. This is related to the consideration of women in the board of directors causing conflict (Zuhri et al., 2020). This problem arises because of cultural differences and social attitudes towards work between men and women. Women in managing organizations are questioned or questioned because they affect women who question emotions, are thorough, and talkative. In addition, there are also some parties who think women are not interested in being involved in decision making (Fahlevi et al., 2019). Furthermore, women are also considered weak in competitive promotion or choose not to be involved in the imbalance between pressure and work life related to work location. In addition, women's special expertise in business also offers greater opportunities for higher career paths (Juhandi et al., 2020).

In addition to being motivated by bonuses, the motivation of new CEOs to manage earnings is to retain the positions they receive by convincing the market of their abilities in managerial matters. Fahlevi et al. (2020) argue that CEOs tend to have the drive to manage earnings by increasing income (income-increasing) at the beginning of their tenure compared to the future. This is due to the market perception that experienced CEOs are more capable or superior than new CEOs, so the actions and motivation of CEOs when holding positions can affect the quality of the financial statements that they produce.

## **2. Methodology**

The first sample criteria are public companies listed on the Indonesia Stock Exchange from 2014 to 2016. This criterion is based on updating research data. The second criterion, company financial statement information is complete and available to the public. The third criterion is data not from the financial sector.

Sample size is the actual number of subjects chosen as a sample that presents population characteristics. According to Sekaran and Bougie (2016), the number of samples used in research is basically influenced by the following factors: 1. Research objectives; 2. The desired level of precision (confidence interval); 3. Variability in the population itself; 4. Time and cost constraints and 5. Size of the population itself. In this study, these factors are considered in determining the number of samples selected. The number of samples in this study were 387 companies that included 3 years of data, so that the overall number of observations was 1,161 company years. The number of samples is in accordance with the rule of tumb in determining the sample size proposed by Roscoe and Byars, (1971).

The data used in this study in the form of company data that includes total company accruals, representation of women to the company's CEO, CEO tenure, total assets of the company and the ratio of debt to total assets. The data was obtained from several sources, namely (1) Indonesian Capital Market Directory (ICMD); (2) IDX website, and (3) website of each company.

Hypothesis testing is done to prove whether the predictions made by researchers are proven or not. The mechanism to test each hypothesis is done by using regression analysis and testing the sign and significance of the GENit coefficient and the TENit coefficient to test whether there is a positive

influence of the concentration of ownership and representation of women in the structure of directors on earnings management in the following regression models:

$$EM_{it} = \alpha + \beta_1 GEN_{it} + \beta_2 TEN_{it} + \beta_3 SIZE_{it} + \beta_4 LEV_{it} + \epsilon_{it} \quad (2)$$

Information:

- $EM_{it}$  = earnings management which is measured by the company's discretion accrual  $i$  in year  $t$ ,
- $GEN_{it}$  = Gender is measured using the dummy method, which is worth 1 if the CEO of a female company is 0 and vice versa.
- $TEN_{it}$  = CEO tenure is measured by the dummy method which is worth 1 if the CEO has served more than 5 years and is worth 0 if less than 5 years.
- $SIZE_{it}$  = company size is measured using the company's asset log, and is a control variable
- $LEV_{it}$  = leverage or the ratio between the amount of liabilities and the amount of company assets, and is a control variable, and
- $\epsilon_{it}$  = error term.

### 3. Result and Discussion

**Table 1. Regression Analysis**

Variable	Coefficient	t-Statistic	Sig
Intercept	-0.471 ***	-25.384	0.000
GEN	-0.263 ***	-17.612	0.000
TEN	-0.048 ***	-7.337	0.000
SIZE	0.151 ***	37.085	0.000
LEV	0.033 ***	5.415	0.000
Adjusted R-squared	0.587		
F-statistic	413.847 ***		

The F test (Fisher text) is used to test the regression coefficient simultaneously from the independent variable X (representation of female CEO and CEO tenure) on the dependent variable Y (earnings management of the company). In hypothesis 1, the researcher suspects that the representation of female CEOs in the structure of directors negatively impacts earnings management. Hypothesis 1 tested the significance of the  $\beta_1$  coefficient with a significance level of 5%. If  $\beta_1$  is statistically significantly smaller than 0.05, then there is empirical evidence supporting hypothesis 1. The regression results to test hypothesis 1 are presented in Table 4.5. shows that the coefficient  $\beta_1$  has a negative value (-0.263) and is significant at the level of 1% or with a significance of  $p < 0.05$ . The predetermined criteria in the research method state that if  $\beta_1$  is statistically significantly less than 0.05 and sign  $\beta_1$  negative then there is empirical evidence that accepts hypothesis 1. Because the results of the study show the number  $\beta_1 = -0.263$  and significant at the  $\alpha = 0.05$  level, then there is empirical evidence to accept hypothesis 1. This means that the representation of women in the board of directors has a negative effect on earnings management (EM). Thus hypothesis 1 which states that the representation of women in directors has a negative effect on earnings management is supported by empirical data.

In hypothesis 2, the researcher suspects that the tenure of the CEO tenure has a negative effect on earnings management. Hypothesis 2 tested the significance of the  $\beta_2$  coefficient with a significance level of 5%. If  $\beta_2$  is statistically significantly smaller than 0.05, then there is empirical evidence supporting hypothesis 2.

The regression results to test hypothesis 2 are presented in Table 4.5. shows that the coefficient  $\beta_2$  has a negative value (-0.048) and is significant at the level of 1% or with a significance of  $p < 0.05$ . The predetermined criteria in the research method state that if  $\beta_2$  is statistically significantly smaller than 0.05 and the sign  $\beta_2$  is negative then there is empirical evidence that accepts hypothesis 2. Because the results of the study show the number  $\beta_2 = -0.048$  and significant at the  $\alpha = 0.05$  level, then there is empirical evidence to accept hypothesis 2. This implies that the tenure of the CEO (CEO tenure) has a negative effect on earnings management (EM). Thus hypothesis 2 which states that CEO tenure has a negative effect on earnings management is supported by empirical data. This study uses two control variables, namely Lev and Size.

The results of the regression analysis show that Size and LEV are positive, respectively 0.151 and 0.033, respectively and are significant at level 1. These results imply that company size (Size) and leverage have a positive effect on earnings management. The bigger the company, the greater the tendency to do earnings management. Likewise, the higher the ratio of corporate debt to assets, the greater the earnings management by the company. This result is very rational, because the larger the company the greater the taxes paid by the company. On the other hand, the higher the leverage the greater the tendency to profit management. This is quite rational because the higher the leverage means the closer the company is to a breach of debt contract, therefore the manager will choose an accounting method that can reduce the possibility of the company experiencing a breach of contract.

The t test was used to test the regression coefficient partially from the independent variable X (representation of female CEO and CEO tenure) on the dependent variable Y (earnings management of the company). Regression coefficient is a number that shows the amount of influence of each independent variable on the dependent variable. The magnitude of the effect of each of these variables can be explained as follows.

1. The female CEO representation variable has a regression coefficient of -0.263, a calculated value of -17.612 and a significance value of 0.000, which means that the female CEO representation has an inverse relationship with earnings management. So it can be concluded that the representation of female CEO suppresses earnings management by -0.263 with a significant effect.
2. The CEO tenure variable has a regression coefficient of -0.048, a calculated value of -7.337 and a significance value of 0.000, which means that the length of time the CEO has worked has an inverse relationship with earnings management. So it can be concluded CEO tenure representatives reduce the occurrence of earnings management by -0.048 with a significant influence.
3. The company size control variable (Size) has a regression coefficient of 0.151, a calculated value of 37.085 and a significance value of 0.000, which means that the size of the company will cause an increase in the ratio of earnings management to 0.151 assuming that other variables are considered constant.
4. The leverage control variable (Lev) has a regression coefficient of 0.033, a calculated value of 5.415 and a significance value of 0.000, which means that the size of the company's debt ratio will cause an increase in the ratio of earnings management to 0.033 assuming that other variables are considered constant.

Overall, the results of the analysis above are summarized and presented in Table 1. Summary in Table 1. It shows that based on observational data used in this study, the representation of women in the structure of directors and CEO tenure negatively affects earnings management.

#### **4. Conclusion**

The results of the regression analysis of the study support the one hypothesis that the representation of female CEOs negatively influences earnings management. These results indicate that the representation of female CEOs strengthens the quality of earnings information presented in the company's financial statements, by suppressing the occurrence of earnings management which makes earnings information blurred. The longer CEO tenure has a negative effect on earnings management. The results of the regression analysis of the study support the second hypothesis which states the CEO tenure has a negative effect on earnings management. This shows that CEOs with long tenure are less aggressive in reporting earnings than CEOs who have a short tenure (Fahlevi et al., 2020).

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