Gender Stereotypes in Indonesian Public Companies’ Performance

Sri Mangesti Rahayu
Faculty of Administration Science, Universitas Brawijaya, Indonesia

Wita Ramadhanti
Faculty of Economics and Business, Jenderal Soedirman University, Indonesia

Dyah Sulistyowati Rahayu
Faculty of Technology, Pancasila University, Indonesia

Hiroshi Osada
Faculty of Economics, Teikyo University, Japan

Adi Indrayanto
Faculty of Economics and Business, Jenderal Soedirman University, Indonesia

Abstract: Gender equality is one important item from the United Nation’s Sustainable Development Goals (SDGs). It makes a gender gap in companies’ top management becomes valuable to be studied because people still have a stereotype that leadership is a masculine job. This research will test the effect of performance, payment, bankruptcy risk, and earnings management. Data is taken from Indonesian public companies in 2016 using means different statistical test. The result shows that 30.9% or minority corporation have a female director. Hence, while women were given the opportunity to lead, the companies will have better performance and compensation than their male only board of director counterparts. It is proof that gender stereotypes happen in Indonesian Public Companies Leadership.

Keywords: Gender, Female, Director, Performance, Pay, Bankruptcy Risk, Earnings Management.


United Nations in 2015 had launched Sustainable Development Goals (SDGs). SDGs is an agenda in which the main objective is to achieve 17 things that critically important for humanities and earth living ecosystems in 2030 (Bebbington and Unerman, 2017). Gender equality is SDGs item number 5. Even though having incentives from The UN, this equality still difficult to achieve. A study by Makinde, et al. (2017), given proof that in Nigeria, The Gender Equality Acts still fails to legalize in the SDGs era.

The dominance of male also happens in corporate worlds. There had been many mechanisms to make the company accountable such as good corporate governance, but still, women leader is a minority. Spencer, et al. (2018), state that in America where commonly perceived as the most efficient
security market in the world, many females become a member of company’s board of director but only 6% women attain a position as Chief Executive Officer (CEO) in Fortune 500 company. This is due to gender stereotype where a male is perceived as the competence ones to take care of companies (Palmer and Bosch, 2017). Cho, et al. study in South Korea stated that bias gender comes from cultural stereotype where women have a limitation in achievement as Directors, but it can be minimized by working opportunity in Multinational Corporation.

Gender is not only about the female and male difference, but it’s also about the level masculinity versus femininity. Masculine is identical with assertive and competitive, on the other hand, feminine is equal with modest and caring (Hofstede, 2011). Gender stereotype happens if there have to be masculine men and feminine women, and cannot be otherwise. This two polar opposite factor is important to create countries cultural dimensions. Ahmed, et al. (2019), specifically researched the relation between the level of leaders’ masculinity and femininity with companies’ performance.

Gender Socialization Theory stated that company with female directors having differences characteristics with male only leader Harris, et al. (2019). This can happen since each leader grows up with their gender consciousness and stereotyping that made up their leadership style in the future. Contrary to this theory, the research by Brinkhuis and Scholtens (2017), shows that there is no market reaction on gender CEO announcement for public companies. It means that the market started to see CEO individual by their competency and experience beyond their gender. This contrary result from previous research become the foundation of this research to develop testing methods whether Companies with a board of director female Board has a different characteristic with corporate male only leaders.

While gender socialization in the corporate world meets with agency theory, there will proof how gender can shape organization characteristics. Duong and Evans (2016), examined gender difference with firm characteristics using performance, compensation, earnings management, and risky behaviour. The results show that women choose less risky compensation scheme, less engaged in earnings management, and use lower debt than their male Directors counterparts. Namwoong, et al.(2017), therefore stated that gender pay gap due to a condition that the higher proportion of male executives the better firm performance. Hence, Harris, et al. (2019), stated that women executive behaviour do not differ from men in managing earning to maximize their incentives. Based on those theoretical and previous research, this research attempt to test the companies’ characteristics difference on performance, payment, risk, and earnings management between the company with and without female executives.

**HYPOTHESIS DEVELOPMENT**

Gender Socialization Theory is explained that human carry their childhood education in their adult lives, where women directors are perceived as a more ethical human than men (Harris, et al., 2019). Albanesy, et al. (2015), explain that gender stereotype is when men are paid better than women because they perceived will have led a company into better performance, whereas if there is a bad performance in a company, it will be blamed to female directors.

Agency theory stated that in order agent to fulfill principal interest by making a good companies performance, there are agency cost namely executive compensation (Jensen and Meckling, 1976). Hence according to the bonus plan hypothesis, executives will try to do earnings management to attain the optimum payment (Watts and Zimmerman, 1986). This utility maximizer act by the agent can be minimized using a debt covenant contract by debt holder (Watts and Zimmerman, 1986), even though the higher the debt, the more risky companies financial conditions. When gender socialization theory meets with agency theory in the corporate setting, the gender stereotype will be women is more ethical. Therefore they will be less risky by using less debt and fewer earnings management. The corporate motto is the higher risk, the higher returns, therefore making a less risky choice means less performance for female directors and can create gender pay gap with their male counterparts.
Albanesy, et al. (2015), stated that there is a relation between the gender of top executives and companies’ performance. Rahayu and Ramadhanti (2017), stated that companies with female directors are having better performance than without one. According to that, the first hypothesis of this research is:

H1: Companies with female directors’ proportion have difference performance with companies with male only directors

Baéz, et al. (2018), research stated that there is a difference in payment between female and male executives. Amando, et al. (2018) stated that women in top management are paid lower than man. The second hypothesis in this study is:

H2: There are different executive payment between Companies with and without women in top management

Elango (2018), study shows that women are tended to become CEO in a services company that considered less risky than men in manufacturing companies. Skala and Well (2018), research were giving evidence that women directors in Poland banking companies are taking less risk than the men. Furthermore, Ahmed, et al. (2019), study show that the banking leader company that more masculine is like to increase risk and more aggressive than a feminine leader. Based on previous research the third hypothesis of this research is:

H3: There is a difference in bankruptcy risk in Corporate with and without female executives

Women are perceived to be less risky. Therefore they will be less motivated to do earnings management for their maximizing utility behaviour. Gull, et al. (2018), stated that women directors engaged less in earnings management. Based on that, the fourth hypothesis in this study is:

H4: Corporate with women directors have difference earnings management than man only counterparts.

METHOD

This research is using public companies listed in Indonesian stock exchange. Using purposive sampling, the companies chosen are having complete financial and annual reports during 2010–2016. There is four variable in this research. First, the performance measured by Return on Assets (ROA). ROA is calculated as companies’ net income per total assets in the year 2016 (Vu, et al., 2019). Second, executives’ payment that calculates from Natural Logarithm of Total Cash Compensation to all boards of directors (modified from Ramadhanti and Indrayanto, 2016) using 2016 data. Third, bankruptcy risk, using Z Altman formula (Altman, 1968) using 2016 data:

\[
Z = 0.012 \frac{\text{Working Capital}}{\text{Total Asset}} + 0.014 \frac{\text{Retained Earnings}}{\text{Total Asset}} + 0.033 \frac{\text{Earnings before Interest and Taxes}}{\text{Total Asset}} + 0.006 \frac{\text{Market Value Equity}}{\text{Book Value Debt}} + 0.999 \frac{\text{Sales}}{\text{Total Asset}}
\]

Fourth, earnings management using discretionary accruals measurement. This model is derived from Jones (1991) and modified by Dechow, et al. (1995), the step is:

1) OLS regression using 2011-2015 earnings management estimation data as t (t-1 started from 2010-2014):

\[
\frac{\text{TA}_t}{\text{A}_{t-1}} = \alpha_t \left(1 / \text{A}_{t-1}\right) + \beta_{1t} \left[\Delta\text{Revenue}_t - \Delta\text{Receivable}_t / \text{A}_{t-1}\right] + \beta_{2t} \left(\text{FA}_t / \text{A}_{t-1}\right) + \epsilon_t
\]

2) Calculate earnings management in 2016 using regression coefficient from estimation 1 with the formula:

\[
\text{DA}_{t} = (\text{TA}_t / \text{A}_{t-1}) - \left[\alpha_t \left(1 / \text{A}_{t-1}\right) + \beta_{1t} \left[\Delta\text{Revenue}_t - \Delta\text{Receivable}_t / \text{A}_{t-1}\right] + \beta_{2t} \left(\text{FA}_t / \text{A}_{t-1}\right)\right]
\]
Companies are divided into two groups: companies with female directors (Female group) and male only directors (Male Group). All four variables are then testing statistically using means differences to see whether gender gap between the two groups.

### RESULTS

A sample is 517 public companies in Indonesia.

Descriptive statistics in Table 1 shows that companies that have women executives are 160 companies or 30.9%. If a company was having female in its board of directors, on average, it only represents 8% of total board number. This result shows that even though many women labour entering an industry, still only a few which will attain top management positions. Hence this is proof that there is still gender inequality in Indonesian Public Companies Governance. Executives still a male dominated job.

<table>
<thead>
<tr>
<th>Variable</th>
<th>Group</th>
<th>Mean</th>
<th>Deviation Standard</th>
<th>Kolmogorov-Smirnov Uji Normality Test</th>
<th>Sig</th>
</tr>
</thead>
<tbody>
<tr>
<td>Performance</td>
<td>Female</td>
<td>0.129</td>
<td>0.196</td>
<td>0.224</td>
<td>0.000</td>
</tr>
<tr>
<td></td>
<td>Male</td>
<td>0.094</td>
<td>0.151</td>
<td>0.181</td>
<td>0.000</td>
</tr>
<tr>
<td>Payment</td>
<td>Female</td>
<td>11.509</td>
<td>11.721</td>
<td>0.343</td>
<td>0.000</td>
</tr>
<tr>
<td></td>
<td>Male</td>
<td>8.362</td>
<td>10.957</td>
<td>0.408</td>
<td>0.000</td>
</tr>
<tr>
<td>Bankruptcy Risk</td>
<td>Female</td>
<td>27.910</td>
<td>129.392</td>
<td>0.402</td>
<td>0.000</td>
</tr>
<tr>
<td></td>
<td>Male</td>
<td>34.607</td>
<td>144.689</td>
<td>0.045</td>
<td>0.000</td>
</tr>
<tr>
<td>Earnings Management</td>
<td>Female</td>
<td>14.294</td>
<td>148.269</td>
<td>0.480</td>
<td>0.000</td>
</tr>
<tr>
<td></td>
<td>Male</td>
<td>6.855</td>
<td>63.043</td>
<td>0.480</td>
<td>0.000</td>
</tr>
</tbody>
</table>

\*Normal distribution if KS significance > 0.05

Sources: Data Analysis

Companies that were having female directors proportions having higher average performance, payment and earnings management. Male executives companies’ having higher average bankruptcy risk. All variable have Kolmogorov-Smirnov significance 0.000 less than 0.05 (0.000 < 0.05). It means that variable distribution is not normal. Some sample female group consists of 160 companies while male group 357 companies. Since each group having a number of the sample more than 30, according to central limit theory further test can be conducted using parametric statistics.
Table 2  Means Differences Statistical Test Results

<table>
<thead>
<tr>
<th>Variable</th>
<th>F test</th>
<th>Sig.</th>
<th>T test</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Performance</td>
<td>0.635</td>
<td>0.426*</td>
<td>2.179</td>
<td>0.030**</td>
</tr>
<tr>
<td>Payment</td>
<td>22.034</td>
<td>0.000</td>
<td>2.487</td>
<td>0.004**</td>
</tr>
<tr>
<td>Bankruptcy Risk</td>
<td>0.165</td>
<td>0.685*</td>
<td>-0.502</td>
<td>0.616</td>
</tr>
<tr>
<td>Earnings Management</td>
<td>2.106</td>
<td>0.147*</td>
<td>0.801</td>
<td>0.424</td>
</tr>
</tbody>
</table>

*Equal variants assumed if F test significance > 0.05
**There are differences between two groups if t test significance < 0.05

Sources: Data Analysis

Table 2 shows the means difference test result. The performance test results show that F test value 0.635 with significance 0.426 more than 0.05, it means that t test can be continued with equal variants between groups assumption. T test value is 2.179 with significance 0.030 lesser than 0.05. It means that hypothesis 1 that stated companies with female directors are having different performance than without one is accepted. Average ROA of female group 0.129 higher than a male group with average 0.094.

The test results for payment shows that F test value 22.034 with significance 0.000 lesser than 0.05, it means that t test can be continued with the assumption of unequal variances between groups. T test value is 2.487 with significance 0.004 lesser than 0.05. It means that that company with women directors are performing differently than male only executives and hypothesis 2 accepted. Average Natural Logarithm of female group 11.509 higher than a male group with average 8.362.

F test for bankruptcy risk has value 0.165 with significance 0.685 more than 0.05. It means that t test can be continued using equal assumption variants between groups. T test value is -0.502 with significance 0.616 more than 0.05. It means that hypothesis 3 that stated companies with female directors are having different bankruptcy risk than male only executives’ counterparts is rejected.

F test for earnings management has value 2.106 with a significance of 0.147 more than 0.05. It means that t test can be continued using equal variants assumption between groups. T test value is 0.801 with significance 0.424 more than 0.05. It means that companies with female executives are not having different earning management pattern than a male only board of directors companies, thus rejection for hypothesis 4.

DISCUSSION

Companies with female executives are having better performance than male only executives. It means that this research is consistent with Rahayu and Ramadhanti (2017). Corporates with woman executives have different compensations than without one this is consistent with Baéz, et al. (2018). Thus different from gender stereotypes and Amando, et al. (2018), companies with female directors paid their executives more than companies with male only directors. The Indonesian Public companies typically using pay based performance. Therefore the higher companies’ performance will lead to the higher executives compensation payment.

This research shows that there is gender equality in Indonesian Public Companies top management, this could be seen from a number that 70% or majority companies have male only board of directors. If there is a woman as a director of the company, it only a minority from the total number of boards of directors. The reason can be explained by two things. First, according to gender socialization theory CEO is traditionally perceived as man job make many women think twice before started to apply as a member of the board of directors as in Cho, et al. (2019).

Second, there will be gender stereotype that man will bring better performance to the company than women. Therefore if female given the oppor-
tunity to lead, they can have a better performance company and consequently higher compensation.

Agency theory and Positive Accounting Theory, with its bonus plan hypothesis, is still one of the most useful theories in setting the contracts between principal and agent for Public companies. It will have better used if there is knowledge about gender socialization theory and its stereotypes. Maintaining gender diversities is one important part for a company to notice the other stakeholders’ needs, not only from men perspectives but also for women. It is also important to step to accept gender equality as world commitment in SDG.

CONCLUSIONS AND RECOMMENDATIONS

Conclusion

There are 4 conclusions in this research. First, companies with female directors’ performance are higher than male only top management. Second, corporates that have women in their board of directors pays more executives’ compensation without ones. Third, bankruptcy risk does not differ between companies with or without top female executives. Fourth, there is no evidence of differences in earnings management behaviour between female and male top management. This results in additional evidence on gender socialization theory on corporate leadership.

Recommendation

There is two important recommendation from this research results. First, this study using 2016 as main observation period due to its specialty as the first year of SDGs implementation. Further research needs to observe a longer period to see the progress of SDGs on gender equality. Second, this research is using secondary data analysis. This can be developed further as survey research to the female executives to have better insight into the behavioural side of gender and the leadership style that affect companies characteristics.

REFERENCES


Cho, Yonjoo, Jiwon Park, Soo Jeoung Han, and Yedam Ho. 2019. A Woman CEO? You’d better think twice!: Exploring the career challenges of women CEOs at multinational corporations in South Korea, career development International. https://doi.org/10.1108/CDI-03-2018-0078


Duong, Lien and John Evans. 2016. Gender Differences in Compensation and Earnings Management: Evidence from Australian CFO. Pacific Basin Finance
Gender Stereotypes in Indonesian Public Companies’ Performance


