Print ISSN: 1738-3110 / Online ISSN 2093-7717
JDS website: http://www.jds.or.kr/
http://dx.doi.org/10.15722/jds.19.11.202111.17

Gender Diversity, Institutional Ownership and Earning Management: Case on Distribution Industry in Indonesia

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Received: August 18, 2021. Revised: September 20, 2021. Accepted: November 05, 2021.

Abstract

Purpose: This study aims to examine the effect of gender diversity and institutional ownership on earnings management in distribution industry sub-sector companies listed on the Indonesia Stock Exchange in 2017-2018. **Research design, data and methodology:** This research is case study research, where the population in this study are all distribution sub-sector companies listed on the IDX in 2017-2018. The sample selection technique used was purposive sampling and obtained 74 companies with the 2017-2018 research period. Multiple linear regression analysis was used in this study, using Stata 17. **Results:** The results of this study indicate that: 1) Gender diversity has a negative effect on earnings management. 2) Institutional ownership has a negative effect on earnings management. **Conclusions:** This study contributes to the agency theory where gender diversity and institutional ownership can reduce the agency conflict that the shrinkage of earnings management. These results indicate that companies in which there are female directors will reduce earnings management practices, this is due to the attitude of female directors who tend to avoid risk. The results also show that institutional ownership will also lead to reduced levels of earnings management, because institutional investors will increase its oversight of the company.

Keywords : Gender Diversity, Institusional Ownership, Earning Management, Agency Theory, Distribution Industry

JEL Classification Code: J16, G32, D82

1. Introduction[12]

Globalization of business and financial markets together with increasing competition in them is one of the main factors that can increase the value of information quality. And the existence of earnings management practices can damage investors' confidence in the quality of financial reporting, so that company stakeholders are very concerned about earnings management practices. Choosing accounting methods that provide income reporting that is beneficial to managers and the company but detrimental to external stakeholders is also part of earnings management. The issue of earnings quality is widely discussed in the accounting literature, and it is an important area of concern for

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stakeholders. Earnings quality shows the extent to which earnings can reveal the financial situation of the organization to interested parties. If users of financial data are “misled” by reported levels of income, then the allocation of investors' resources may not be appropriate when based on financial reports provided by management (Gull, Nekhili, Nagati, & Chtioui, 2018). However, ensuring the quality of financial information is a daunting task due to the high cost of monitoring and the differences in interests between shareholders and management.

The income reported by management is not always the real income of the business. In fact, accrual-based accounting gives management the discretion to decide when to report certain earnings. Mostly that company managers exploit policies opportunistically and engage in earnings management practices, for personal gain (Anwar & Buvanendra, 2019). Earnings management is gaining greater attention among policymakers, investors, and academics. This is because the credibility of financial information leads to better performance (Akhigbe, McNulty, & Stevenson, 2013), increase company value (Zimmerman, 2013), and reduce the cost of capital (Karjalainen, 2011). In other words, earnings management hides the true performance of the company from stakeholders (Orazalin & Akhmetzhanov, 2019). The existence of earnings management practices can result in losses for company owners. This is because the practice of earnings management will produce information that is not real. So, if the information becomes the basis for deciding, then the decisions taken can cause losses for the owner of the company. And another impact of earnings management practices is financial distress. This is because one of the earnings management practices is to transfer costs in the current period to the next period. And if the economic situation worsens in the next period, it can cause financial distress in the company.

Scott and O'Brien (2003) define earnings management as actions taken through the choice of accounting policies to obtain certain goals, for example to fulfill their own interests or increase the market value of the company. Mulford and Comiskey (1996) defines earnings management as the active manipulation of accounting results for the purpose of creating the impression of changing business performance. Zimmerman and Jerold (1990) stated that management's motivation to carry out earnings management, among others, is to obtain external contract incentives, management compensation contract incentives, regulatory motivation and the capital market. According Vinten, Sevin, and Schroeder (2005) managers seek to influence reported earnings in the short term to meet profit targets and profit projections by analysis in the company. Several previous studies have shown that gender diversity and institutional ownership influence earnings management (Ajay & Madhumathi, 2015; Fan, Jiang, Zhang, & Zhou, 2019; Jalil & Rahman, 2010; Kouaib & Almulhim, 2019).

Tierney (1999) states that gender is a cultural concept used to distinguish roles, behaviors, mentalities, and emotional characteristics between men and women who develop in society. The existing literature supports the established notion that gender diversity is a surrogate monitoring mechanism that can limit management's opportunistic behavior (Umer, Abbas, Hussain, & Naveed, 2020). Theoretically, gender socialization theory states that women are conservative risk takers and are more likely to adhere to ethical standards. Therefore, gender diversity plays an important role in limiting opportunistic approaches to management (Kouaib & Almulhim, 2019). On the other hand, agency theory also suggests that the presence of women in a company's organizational structure results in better financial reporting standards (Fan et al., 2019). With the attitude of women who are careful and avoid risk will limit the implementation of earnings management in the company, if one of the leaders of the company is a woman.

Earnings management practices can also be influenced by the presence of institutional ownership in a company. Institutional ownership is generally large and sophisticated investors who play a monitoring role in improving the quality of reporting (Ramalingegowda, Utke, & Yu, 2020). Balsam, Bartov, and Marquardt (2002), found that institutional investors, i.e., sophisticated investors, are better able to detect earnings management than non-institutional investors because they have more access to timely and relevant information. With a party supervising management, this makes management more careful in making decisions, especially in earnings management. So, with the institutional ownership limiting earnings management within the company. Distribution industry has characteristics that are different from the general manufacturing or service industry. Because the added value of the distribution industry acts as a cost to other industries, as the distribution industry develops, the distribution stage becomes shorter, and the distribution margin decreases. In addition, since the distribution industry performs a mediating function between the supply and demand of goods, the function of creating demand by supply is significantly lower than that of other industries (Baek, 2017). This study builds on previous research, but there is a significant difference, namely that previous research has rarely focused on distribution industries. In addition, this research was conducted in Indonesia, which is one of the developing countries and has a wide cultural diversity, the results of which will also enrich existing research. The uniqueness of the distribution industry and the existence of earnings management practices within the company makes it important to see how gender diversity and institutional ownership influence earnings management.

2. Literature Review and Hypothesis

2.1. Agency Theory

Agency relationship is defined as a relationship in which one or more persons (principal) engage another person (agent) to perform some service on their behalf which involves delegating some decision-making authority to the agent (Jensen & Meckling, 1976; Ross, 1973). The foundation of agency theory is the assumption that the interests of the principle and the agent are different. According to agency theory, principals can limit differences in their interests by setting appropriate incentives for agents, and by incurring monitoring costs designed to limit opportunistic actions by agents. Further, it may pay the agent to spend resources (bondage fees) to guarantee that he will not take certain actions that would be detrimental to the principal, or to ensure that the principal will be appropriately compensated if he does take such action. That is, the agent may incur ex-ante bond fees to win the right to manage the principal's resources. Despite these tools, it is recognized that some discrepancies between the actions of the agent and the interests of the principal may remain. To the extent that this difference reduces the welfare of the actors, it can be viewed as a residual loss. Agency theory in principle seeks to influence agents to save these costs. There are three assumptions that (1) all actors are only selfish, (2) all actors are very rational, and (3) agents are more risk averse than principals. Standard agency theory suggests paying CEOs with stock options will align their behavior with the company's interests and result in better company performance, but some empirical results suggest it leads to greater losses than large gains (Bosse & Phillips, 2016).

The agency problem arises because of a conflict of interest between shareholders and managers, because there is no maximum utility between them. As agents, managers are morally responsible for optimizing the profits of the owners (principals), but on the other hand managers (agens) also have an interest in maximizing their welfare. So, there is a high possibility that the agent does not always act in the best interest of the principal (Jensen & Meckling, 1976). Managers as company managers know more about internal information and company prospects in the future than owners (shareholders). Therefore, as a manager, the manager is obliged to give a signal about the condition of the company to the owner. The signal given can be done through the disclosure of accounting information such as financial statements. However, the information submitted is sometimes received not in accordance with the actual company conditions. This condition is known as information asymmetry. Information asymmetry occurs because managers are superior in controlling information than other parties (owners or shareholders). The asymmetry between management (agent) and owner (principal) provides an opportunity for managers to act opportunistically, namely, to obtain personal gain. In terms of financial reporting, managers can perform earnings management to provide unreal information to owners (shareholders) regarding the company's economic performance.

2.2. Earning Management

Scott and O'Brien (2003) define earnings management as actions taken through the choice of accounting policies to obtain certain goals, for example to fulfill their own interests or increase the market value of the company. Mulford and Comiskey (1996) defines earnings management as the active manipulation of accounting results for the purpose of creating the impression of changing business performance. Earnings management occurs when a manager uses judgment in financial reporting and in structuring transactions to modify financial statements to provide unrealistic information to stakeholders about the company's underlying economic performance, or to influence contractual outcomes that depend on reported accounting numbers (Healy & Wahlen, 1999). According Vinten et al. (2005) company management seeks to influence reported earnings in the short term to meet profit targets and profit projections by analysis in the company. They use earnings management as a tool to convey positive signals to investors about future performance through recent earnings (Subramanyam, 1996).

There are various motivations that drive earnings management. Positive accounting theory proposes three hypotheses of earnings management motivation, namely: (1) the bonus plan hypothesis, (2) the debt covenant hypothesis, and (3) the political cost hypothesis (Watts & Zimmerman, 1986). Contract motivation arises because the agreement between the manager and the owner of the company is based on managerial compensation and debt covenants. The higher a firm's debt/equity ratio, which is equivalent to the closer (i.e., tighter) the firm is to debt covenant constraints and the greater the probability of breach of contract, the more likely managers are to use accounting methods that increase income (Riahi-Belkaoui, 2000). Bonus motivation is the encouragement of company managers in reporting the profits they get to get bonuses which are calculated based on these profits. Managers of companies with bonus plans are more likely to use accounting methods that increase reported income in the current period. The reason is that such an action might increase the percentage of the bonus value if there is no adjustment for the chosen method (Riahi-Belkaoui, 2000). Healy (1985) using a management bonus program approach, namely that managers will receive bonuses positively when profits are between the lower limit (bogey) and the upper limit (cap). When the profit is below the bogey the manager does not get a bonus, and when the profit is above the cap the manager only gets a fixed bonus. The motivation for political regulation is the motivation of management in dealing with various government regulations. Companies that are proven to have violated antitrust and antitrust regulations; their managers manipulate earnings by lowering reported profits (Cahan, 1992). The company also carries out earnings management to reduce profits with the aim of influencing court decisions against companies that experience damage awards (Hall & Stammerjohan, 1997). In addition, income taxation is also a motivation in earnings management. The selection of accounting methods in reporting earnings will give different results to the profit used as the basis for calculating taxes. Several previous studies have shown that gender diversity and institutional ownership influence earnings management (Ajay & Madhumathi, 2015; Fan et al., 2019; Jalil & Rahman, 2010; Kouaib & Almulhim, 2019).

2.3. Gender Diversity

Tierney (1999) states that gender is a cultural concept that is used to distinguish roles, behaviors, mentalities, and emotional characteristics between men and women who develop in society. The existence of gender differences in the board of directors will make a difference in deciding. This is due to differences in leadership styles and behavior between men and women. Several studies on gender explain that a person's gender differences will affect that person's behavior. As explained by Hyde and Kling (2001) women and men have different expectations at work, women view work as personal development and personal satisfaction, while men view work as an achievement in the hierarchy and a means of obtaining compensation. Barber and Odean (2001) shows that women are more likely to avoid risk than men. Based on these studies, men and women have different ways of making decisions. Women are more careful in making decisions while men prioritize performance in making decisions. Women and men have different abilities due to different socialization processes, differences between men and women relate to monetary and financial matters, and found that women emphasize helping others, whereas men focus on making money and moving up in the organizational hierarchy. Most importantly, women are more ethical in their professional lives and less likely than men to act in immoral ways for financial gain (Gull et al., 2018).

The board of directors serves as the front line of defense to protect shareholder interests and plays an important role in reducing agency conflicts (Weisbach, 1988). According to agency theory, the effective oversight role of the board mainly depends on the independence and persistence of the board of directors. In addition, female directors are usually risk averse and tolerance levels for opportunistic activities are lower than male directors (Levi, Li, & Zhang, 2014). Considering that female directors are more effective in protecting the interests of shareholders. Therefore, in general on the part of women their presence limits earnings management in the company (Gul, Fung, & Jaggi, 2009). Research conducted by Kouaib and Almulhim (2019) shows that gender diversity has a negative effect on earnings management. Research conducted by Fan et al. (2019) shows that the presence of women on the board of the company can reduce earnings management practices.

2.4. Institutional Ownership

Institutional ownership as ownership of company shares owned by institutions or institutions such as insurance companies, banks, insurance companies and other institutional ownership. Jensen and Meckling (1976) states that institutional ownership has an important role in minimizing agency conflicts that occur between shareholders and managers. Cornett, Marcus, and Tehranian (2008) concluded that corporate control measures by institutional investors can encourage managers to focus more attention on performance which will reduce opportunistic or selfish behavior. This applies when a potential conflict of interest arises from a type I agency problem, an agency problem that arises between the manager and the shareholders or owners. And in the type II agency problem, there is a conflict of interest between the controlling shareholder or majority shareholder and minority shareholder. With concentrated ownership of the company, which creates a type II agency problem, the controlling shareholder will try to expropriate which emphasizes the achievement of personal welfare, but it will harm minority shareholders. Institutional ownership has the opportunity, resources, and capabilities to monitor, discipline, and influence corporate managers. The presence of institutional investors with large shareholdings, having the opportunity to benefit from economies of scale in information gathering, can have a direct influence on the agency costs resulting from the separation of ownership and control (Lemma, Negash, Mlilo, & Lulseged, 2018). Companies with a pyramidal ownership structure, controlling shareholders have control rights beyond their cash flows, controlling the company without having to have majority ownership in the company. Even control or takeover can be carried out without having direct share ownership in the controlled company. Research conducted by Ajay and Madhumathi (2015) shows that institutional ownership has a negative effect on earnings management. Research conducted by Jalil and Rahman (2010) shows that institutional ownership has a negative effect on earnings management.

2.5. The Effect of Gender Diversity on Earnings Management

Gender diversity in this study is seen from the presence of female directors in a company. The board of directors serves as the front line of defense to protect shareholder interests and plays an important role in reducing agency conflicts (Weisbach, 1988). Women tend to avoid risk than men (Barber & Odean, 2001), so female directors will consider the risk when deciding, especially in terms of implementing earnings management because earnings management has many risks. One of the risks caused by the practice of earnings management is the quality of the information produced is not good. So, when the company is led by a female director, it will decrease the level of earnings management in the company. Research conducted by Fan et al. (2019) shows that gender diversity has a negative effect on earnings management. Research conducted by Kouaib and Almulhim (2019) shows that gender diversity has a negative effect on earnings management. Based on the explanation above, the hypothesis of this research is:

H1: Gender diversity has a negative effect on earnings management

2.6. The Effect of Institutional Ownership on Earnings Management

The existence of institutional ownership causes a decrease in the level of earnings management. This is because institutional investors are given the responsibility to manage the capital of company owners and institutional investors are supervised by company owners. This makes institutional investors cautious in choosing investment companies and increases oversight of company performance. On the other hand, institutional investors have considerable resources in conducting supervision. And indirectly the agent is supervised by two parties, thus making the agent not free to practice earnings management. Research conducted by Jalil and Rahman (2010) show that institutional ownership has a negative effect on earnings management. Research conducted by Ajay and Madhumathi (2015) shows that institutional ownership has a negative effect on earnings management.

H2: Institutional ownership has a negative effect on earnings management

3. Research Methods

The population in this study are all distribution sub-sector companies listed on the IDX in 2017-2018. The sample was taken using a purposive sampling method, with the following criteria: 1) Companies listed on the Indonesia Stock Exchange in 2017-2018, 2) The company that publishes the annual report. To test the suitability of the data, the classical assumption test was carried out, because the regression model obtained from the least square's method is usually a regression model that produces the best unbiased linear estimator. In this study, three classical assumptions were tested, namely multicollinearity, heteroscedasticity, and normality. The normality test is carried out to test whether in the regression model, the confounding variables or residuals are normally distributed or not. In this study using a significance level of 5%, then the distribution of research data is normal if it has a probability value (sig) >0.05.

Multicollinearity test aims to test the regression model found a correlation between independent variables (independent) or not. A good regression model should not have a correlation between the independent variables. If the independent variables are correlated with each other, then these variables are not orthogonal. Orthogonal variables are independent variables whose correlation value between independent variables is equal to zero. Multicollinearity can be seen with the Variance Inflation Factor (VIF), if the VIF value is <10 and the tolerance value is > 0.10 then there are no symptoms of multicollinearity.

Heteroscedasticity test aims to test whether in the regression there is an inequality of variance from the residual of one observation to another observation. If the residual variance from one observation to another observation remains, it is called homoscedasticity and if it is different, it is called heteroscedasticity. A good regression model is one with homoscedasticity or no heteroscedasticity. This study detects the presence or absence of heteroscedasticity using the Glejser test. This Glejser test proposes to regress the absolute value of the residual on the independent variable. If the independent variable has a significance <0.05, then there is an indication of heteroscedasticity. If the independent variable has a significance >0.05, then there is no heteroscedasticity.

Hypothesis testing is done by using multiple linear regression, multiple regression models involve more than one independent variable, multiple regression tests are conducted to determine the effect and ability of the variables in explaining the independent variables with values below 0.05, it can be said that the relationship between the two variables has an effect. The R^2 (Coefficient of Determination) test is used to measure how much variation the independent variable uses in the model that can explain the dependent variation. The value of the coefficient of determination is between zero and one. A small R^2 value means a very limited variation of the dependent variable. And a value close to one means that the independent variables can provide all the information needed to predict the dependent variable. To measure each variable, use the measurements below:

$$\text{Gender Diversity} = \frac{\text{Number of Female Directors}}{\text{Total Directors}}$$

$$\text{Institutional Ownership} = \frac{\text{Number of Shareholdings by Institutional}}{\text{Number of Shares Outstanding}}$$

This study uses the discretionary accrual method by Kothari, Leone, and Wasley (2005) to measure earnings management. The calculation of the number of discretionary accruals is carried out in several stages as follows:

$$\frac{TA_{it}}{A_{it-1}} = \alpha\left(\frac{1}{A_{it-1}}\right) + \alpha_2\left(\frac{\Delta REV_{it} - \Delta REC_{it}}{A_{it-1}}\right) + \alpha_3\left(\frac{PPE_{it}}{A_{it-1}}\right) + \alpha_4\left(\frac{ROA_{it}}{A_{it-1}}\right) + E$$

Where:
DA_{it} : Discretionary accruals of company i in period t
TA_{it} : Total accruals of company i in period t
A_{it-1} : Total assets of company i in period t
ΔREV_{it} : Change in revenue of company i in period t
ΔREC_{it} : Change in net account receivables of company i in period t
PPE_{it} : Fixed assets of company i in period t
ROA_{it} : Return on asset of company i in period t
E : Error term

4. Result and Discussion

4.1. Descriptive Statistics

Descriptive statistics in the study describe the variables tested and the characteristics of the data used. The following is a table of descriptive statistical test results:

Table 1: Descriptive Statistics

Variable	Mean	Std. Dev.	Min	Max
Institutional Ownership	.773	.128	.475	.975
Gender Diversity	.176	.185	0	.67
Earning Management	-145.617	410.959	-915.6205	967.055

Based on the table of descriptive statistical test results above, it shows the dependent variable, namely earnings management obtaining an average value of -145.617. The company carries out earnings management with a maximum value of 967.055, and a minimum value of -915.6025 using a sample of 74 companies in 2017-2018.

The independent variables in this study are gender diversity and institutional ownership. Based on the table above, it shows that the average value of gender diversity and institutional ownership is 0.17 and 0.77.

4.2. Classic Assumption Test

The results of the normality test in this study are as follows:

Table 2: Normality Test

Variable	Observation	Prob>z
res	148	0.0789

Based on the results of the normality test above, the prob>z value is 0.0789. The prob>z value is above 0.05, this indicates that the data in this study is normal. The results of the Multicollinearity test in this study are as follows:

Table 3: Multicollinearity Test

Variable	VIF	1/VIF
Institutional Ownership	1.04	0.965657
Gender Diversity	1.04	0.965657
Mean VIF	1.04	

Based on the results of the multicollinearity test above, the value of Variance Inflation Factor (VIF) for both variables are below 10.00, with a value of 1.04. Based on these tests, it can be concluded that there is no multicollinearity between independent variables in the regression model. The results of the Heteroscedasticity test in this study are as follows:

Table 4: Heteroscedasticity Test

chi2(1)	0.05
Prob > chi2	0.8210

Based on the results of the heteroscedasticity test, the prob>chi2 value is 0.8210. This shows that the regression model in this study does not occur heteroscedasticity, because the value is greater than 0.05.

4.3. Hypothesis Testing

The results of the multiple regression test in this study are as follows:

Table 5: Multiple Regression Test

Variable	Coefficient	T	P>t
Gender Diversity	-415.7488	-2.30	0.023
Institutional Ownership	-518.2005	-1.99	0.049
constant	328.2277	1.63	1.05
R-square		0.0599	

Based on the results of multiple linear regression, it can be arranged equations of factors that affect earnings management, namely Y = 328.2277 - 415.7488X1 - 518.2005 X2. The X1 coefficient value is - 415.7488 which means that gender diversity increases by 1 unit, then earnings management will decrease by - 415.7488 with the assumption that X2 remains. The value of the X2 coefficient is -518.2005 which means that institutional ownership increases by 1 unit, then earnings management will decrease by -518.2005 with the assumption that X1 remains.

Based on the results of the regression test in the table above, it shows that gender diversity has a negative effect on earnings management. This can be seen from the p>t value of 0.023 and the coefficient value of -415.7488. This means that the more female directors there will be less earnings management practices. The results of this study are supported by research conducted by Kouaib and Almulhim (2019), which explains that gender diversity has a negative effect on earnings management. The presence of female directors will reduce earnings management practices.

Based on the results of the regression test in the table above also shows that institutional ownership has a negative effect on earnings management. This can be seen from the p>t value of 0.049 and the coefficient value of -518.2005. This means that the higher the value of institutional ownership, the practice of earnings management will decrease. The results of this study are supported by previous research conducted by Ajay and Madhumathi (2015), which explains that institutional ownership has a negative effect on earnings management.

From the table above, it can be concluded that the effect of the variable gender diversity and institutional ownership has no significant effect. This can be seen from the R-squared value of 5.99%, where the two variables only affect 5.99% of earnings management. And the remaining 94.01% is influenced by other variables.

5. Conclusion and Implication

Gender diversity has a negative effect on earnings management because female directors in distribution industry sub-sector companies tend to be careful and avoid risk in making decisions. Shibley and Kling (2001) explained that women and men have different expectations at work, women view work as personal development and personal satisfaction, while men view work as an achievement in the hierarchy and a means of obtaining compensation. Barber and Odean (2001) shows that women are more likely to avoid risk than men. Based on these studies, men and women have different ways of making decisions. Men are more concerned with good results at work, thus making them do everything possible to make their performance look good, including practicing earnings management. While women are more concerned with their reputation, this makes them tend to avoid risk and be careful in making decisions, including in earnings management practices. So that the presence of women in the board of directors can minimize earnings management practices. In practice earnings management has a considerable risk. The risk is in the form of errors in decision making, because the information presented is not real. So, this can be detrimental to investors. And another risk from the practice of earnings management is that the company may experience financial distress. This is because one of the earnings management practices shifts costs in the current period to the next period to increase profits. And as a result of the transfer of costs, the cost in the next period is that the company is required to improve its operational performance, to cover the costs transferred. Meanwhile, the management cannot predict the economic condition in the next period. If the economic situation worsens, it will cause financial distress for the company. From the risks that exist in the practice of earnings management, female directors tend not to practice earnings management in the company.

Furthermore Gull et al. (2018) explained that women are more vulnerable to reputational damage and the dangers of litigation, therefore tend to exhibit more decisive behavior compared to men in order to improve the quality of income. Therefore, in general on the part of women their presence, reduces the practice of earnings management in the company (Gul et al., 2009). With reduced earnings management practices, the quality of the information presented will increase. And with good quality information, it will increase stakeholder trust in management. The decline in earnings management practices within the company can reduce agency conflict. This is due to the cautious attitude of the female agent or director. So that the information submitted to the principal or parties is real information. And make it easier for investors to make decisions by using this information as the basis for making decisions.

Institutional ownership has a negative effect on earning management due to the attitude of institutional investors who are careful in investing. From this cautious attitude, institutional investors in distribution industry sub-sector companies will increase supervision of the company's management. So that makes the management is not free to practice earnings management. Management is not free to carry out opportunistic behavior, it can reduce earnings management practices in the company. There is a cautious attitude, because the institutional investors are supervised by the company owners. And institutional investors have the responsibility to manage the capital of the owner of the company. And another thing that makes institutional investors very careful is because institutional investors entrust their capital to the management to be managed for profit. So that, making institutional investors increase their supervision of the management. Increased supervision by institutional investors aims to monitor management performance in managing institutional investors' capital. And the impact of increased supervision, can make the management convey real information about the company's performance and reduce earnings management practices.

The decline in earnings management practices in the company is caused by increased supervision by investors. And indirectly the management is supervised by two parties. The first party is the investor who entrusts capital to the company and the second party is the institutional investor. With the supervision carried out by both parties, the management is not free to practice earnings management. On the other hand, institutional investors have considerable resources in supervising the management. So that the management is not free to carry out opportunistic behavior in earnings management practices.

Jensen and Meckling (1976) states that institutional ownership has an important role in minimizing agency conflicts that occur between shareholders and managers. In the agency conflict itself, it can motivate the management to apply opportunistic behavior in earnings management practices. Agency theory shows that monitoring by institutional ownership can be an important governance in the company (efficient monitoring). Institutional investors can play an active role in monitoring management, which is difficult for smaller investors (Almazan, Hartzell, & Starks, 2005). In addition, institutional investors have the opportunity, resources, and ability to monitor management. Therefore, efficient monitoring indicates that institutional ownership is associated with better monitoring of management activities, reducing managers' ability to manipulate earnings opportunistically. So that indirectly the existence of institutional ownership can reduce the practice of earnings management in the company. And this can benefit institutional investors in deciding, because the quality of the information presented will increase.

6. Limitation and Future Research Directions

This study specifically provides additional empirical evidence related to gender diversity and institutional ownership on earning management and agency theory construction. These results indicate that companies in which there are female directors will reduce earnings management practices, this is due to the attitude of female directors who tend to avoid risk. The results also show that institutional ownership will also lead to reduced levels of earnings management, because institutional investors will increase its oversight of the company. However, there are still weaknesses in terms of the object of research that only companies in the distribution industry sector are the object of research. It is possible that there will be different results if carried out in other countries or in other industrial sectors. In addition, this study only examines earnings management in terms of accrual earnings management, namely using discretionary accruals while real earnings management has not been tested in this study. This study also does not have a control variable to see the robustness of the regression results. Of course, there are still opportunities for different results if carried out in other sub-sectors, so that the results of the research can generalize in practice and theory. The next researcher can explore more in other sectors, or by adding other variables that can also affect earnings management practices such as board characteristics, corporate governance, dividend policy, and audit quality. In addition, the next researcher can also add real earning management to be tested and add control variables in the next research.

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