CHAPTER I

INTRODUCTION

1.1 Background of The Research

Financial statements are meant to present the financial information of the entity in question as clearly and concisely as possible for both the entity and readers. A financial statements summarizes information about the financial performance and profitability of a company. The financial statements can also measure of the success or failure of its current management and business strategies in the future. Therefore, company should make financial reports that reflect the real condition of the company's performance because it will be one of the considerations for the decision makers.

In preparing the financial statements, the accrual basis was chosen because it is more rational and fair in reflecting the company's financial condition, but on the other hand using accrual basis can give more flexibility to the management in selecting the method of accounting as long as it does not deviate the Standar Akuntansi Keuangan (SAK). Strategy used by the management in choosing the accounting methods of a company is to deliberately manipulate the company's earnings so that the figures matched a pre-determined target is known as Earnings Management.

Earnings management is the choice by a manager of accounting policies so as to achieve some specific objective (Scott, 2003). Earnings management could be measured by using discretionary accrual proxy. Discretionary accrual is an accounting policy which gives freedom to management to decide the number of acrual transaction flexible. In another word, discretionary accrual method gives an opportunity to a manager to fix a profit as he wish (Friedlan 1994) in Sulisyanto and Wibisosno (2003:133).

Act of earnings management has raised several popular scandals of accounting report namely Enron, Merck, World Com and other companies in the United States of America. Some of cases that took place in Indonesia, such as the one experienced by PT. Lippo Tbk. and PT. Kimia Farma Tbk, also involves the financial repoting; these cases is detected from existence of manipulation (Gideon,2005). Case of Kimia Farma took place in 2001. In this case, company marked up earning from Rp 99.94 billion to Rp 132 billion. On the other hand, Lippo Bank commited a double-booking incident in 2002. Within that year, Bapepam found three version of financial statement. First, financial statement was for public and it was published through advertisement on November 28th, 2002. Second, it was for Jakarta Stock Exchange (Bursa Efek Jakarta) and it was published on December 27th, 2002. Third, it was for public accountant was Prasetio, Sarwoko, & Sandjaja with Ruchjat Kosasih as auditor; statement was reported to Lippo Bank management on January 6th, 2003. From all of versions, statement that had been really audited and had delivered "common-sense opinon without any exeception" is the one reported on January 6th, 2003. (Luggiatno, 2008).

Many factors affect the earnings management, one of the factor is Gender. Gender diversity in executive level position is one of the emerging issues in recent years. Gender diversity is believed to have strong influence on the profitability and financial reporting. Some researchers focused on gender, usually assume that female have more ethics in behave compared to male (Beltramini et al., 1984; Ferrell and Skinner, 1988). Hilda (2004) trying to describe the underlying personality differences of male and female. Male in general are more individualistic, aggressive, less anxious, more assertive, with higher confidence and more control of the job. While, female tend to be more considerate to others, obedient, passive, more concerned with feeling, and have larger responsibility to take care of the family than the male. Seger (2010), an economist, adding the role of female in executive level is very important. They can be stabilised and could make a better working climate. Male will feel more comfortable with a female partner as a director.

The percentage of female directors in Australia, Canada, Japan, and Europe is estimated to be 8.7%, 10.6%, 0.4%, and 8.0%, respectively (Equal Opportunity for Women in the Workplace Agency-EOWA, 2006; and European Professional Women's Network-EPWN,2004 as cited in Adams and Ferreira, 2009). Furthermore, the majority of firms with female directors in the samples in EOWA (2006) and EPWN(2004) have only one female director, a fact that is often regarded as evidence of tokenism (Branson, 2006:Bourez, 2005, and Corporate Women Directors

International-CWDI, 2007). This situation is likely to change because boards around the world are under increasing pressure to choose female directors. In the UK, the Higgs (2003) report, commisioned by the British Department of Trade and Industry, argues that diversity could enhance board effectiveness and specifically recommends that firms draw more actively from professional groups in which woman are better represented (Tyson, 2003 as cited in Adams and Ferreira, 2009).

Gender diversity in boards has significant effects on board inputs. Female appear to behave differently than men. Specifically, female are less likely to have attendance problems than male. Furthermore, the greater fraction of women on the board is, the better is the attendance behavior of male directors. Holding other director characteristics constant, female directors are also more likely to sit on monitoring-related committes than male directors. In particular, female are more likely to be assigned to audit, nominating, and corporate governance committes, although they are less likely to sit on compensation committes than male . Female also appear to have a significant impact on board governance. Direct evidence that more diverse board are more likely to hold Chief Executive Officer (CEO) accountable for poor stock price performance; CEO turnover is more sensitive to stock return performance in firms with relatively more female on boards, beside that directors on gender-diverse boards receive relatively more equity-based compensation.

Ernst & Young (2010) suggests that group with greater diversity tends to have a better performance than a homogeneous group, even though the people in group more have a high capability. Khrisnan and parsons (2008) suggests that the presence of gender diversity in top management will improve the quality of reporting. Gender diversity can also distinguish the behavior of earnings management. McKinsey and Company (2007) States that it takes a minimum of three females from the ten directors to produce improved performance significantly. If the composition of female under the three, it is not seen a significant difference to the performance of the company. On the other hand, Shawver et al. (2006) indicated that female accountants have smaller tendency to do earnings management.

Imbalances between male and female in the level of CEO in all around the world still existed (Catalyst, September 2010). Moreover, it could be predicted that the number of man and woman in top level of company executives in the list of 500 companies as launched by Fortune magazine, will perceive balance proportion in next 2046. In Indonesia, the number of female CEO is 4,2 % for female who work in board of company directors position.

Moreover, the data received from Stock Watch indicates that the number of female executives is limited. From 398 companies CEO listed in Indonesia Stock Exchange, the number of female CEO is only about 19 persons or 4, 77 % as well as the quantity of female director. From 1289 directors of the companies which have known widely by society, the portion of woman’s chance is only 12,02 % or 155female. Moreover, the percentage of female CEO of public companies listed in SWA 100 in 2008 is only about 2% (Rahayu, 2009).

1.2 Research Question

Earnings management occurs when managers use judgement in financial reporting and In structuring transactions to alter financial reports to either mislead some stakeholders about the underlying economic performance of the company or to influence contractual outcomes that depend on reported accounting numbers (Healy and Wahlen, 1999). Earnings management could give description about manager’s behavior in order to report their business activities in certain period of time, which there is possibility of particular motivation which push managers to manage or set financial data reported.

One of factors that affects earnings management is gender. Shawyer at al. (2006) stated that female president directors less probable to do earnings management. Emilia and Sami (2010) found there is no affect between gender and earnings management. Based on the above description, the problem in this study is to examine whether the affect of gender on earnings management in Indonesian listed manufacturing companies from year 2000-2010.

1.3 Objective of the Research

This study aims to give empirical evidence about the affect of gender on earnings management in Indonesian listed manufacturing companies from year 2000-2010

1.4 Research Contribution

1. For Academics

   This research is a device for the implementing of theories that have been gotten in college. Also further expectation, this research can acknowledge researcher more.

2. For Readers

   This research is expected to give suggestions and more insights about the affect of gender on earnings management in listed manufacturing companies in Indonesia.

1.5 Systematic of Writing

This research prepared into following systematic:

CHAPTER I : INTRODUCTION

Chapter 1 is the introduction part of this research which is consists of research background, research question, research objective, research contribution, and also the systematic of writing.

CHAPTER II : THEORITICAL BACKGROUND AND HYPOTHESIS DEVELOPMENT

This chapter includes the theoretical background for this study which is contains about the explanation about CEO definition, explanation about gender, earnings management, motivations and patterns of earnings management. Furthermore, the result of previous research and hypothesis development are also provided in this section.

CHAPTER III : RESEARCH METHODOLOGY

Chapter III consists of the scope of sample selection, data collection technique, variables description which includes independent variable, dependent variable, and control variables, empirical model, and also data analysis method that used in this study.

CHAPTER IV : DATA ANALYSIS

Chapter IV contains the result and analysis from several tests includes descriptive statistics, normality test, multicollinearity test, heteroscedasity test, autocorrelation test, hypothesis test, t-test, F-test, determination coefficient test, and hypothesis test. Those test aims to provide reliable evidence regarding the finding of this research.

CHAPTER V : CONCLUSION AND SUGGESTION

Chapter V consists of the conclusion from the finding of this study, research limitation, and the suggestion for further research.