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Female Gender Diversity and Earning Management in Sub-Sahara African Countries

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Abstract: *This study is to investigate the effect of female gender diversity on Earnings management among listed non-financial firms in three selected Sub-Sahara African countries (Nigeria, Kenya and South Africa) were used for the period of ten years spanning 2009 to 2018. The study employed ex-post facto research design. The secondary sources of data were collected from annual reports of the selected non-financial firms quoted in their respective stock exchange and three specific objectives and hypotheses were tested and analyzed using descriptive statistics, Pearson correlation analysis and panel regression analysis. Using some selected Sub-Sahara African countries a sample of 750 observations were used with sample size of 75, the result revealed that the Female gender has the probability value (0.031) and the t-statistic value of 2.97 revealed that having more female members in the board can lead to percentage decrease in the level of earnings management to the tune of -1.0145% which was statistically significant at 5% level of significance. The study rejects the null hypothesis and accepts the alternate hypothesis; therefore, the hypothesis shows thatfemale gender diversity has negative and significant effect on earnings management of quoted non-financial firms in Sub-Sahara Africa. The study recommends among others, that non-financial firms directors and audit committees should be constituted by independent persons with high level of integrity that can match words with action to help curb and mitigates classification shifting, increase the number of audit committee member with accounting or financial knowledge and ensure that audit committee members meet frequently in order to tackle important issues that might affect earnings quality of quoted non-financial firms in Sub-Sahara African countries.*

Keywords: *female gender, diversity, Earnings management, non-financial firms, Sub-Sahara Africa, stock* exchange

1.0 Introduction

Female gender diversity as a proxyto corporate board has gained attraction among researchers and practitioners of corporate finance. Much research has been devoted to corporate board diversity, few studies exist on board diversity especially on its relationship with earnings management across countries. The current study sought to ascertain the extent to which female gender diversity affect earnings management among listed non-financial firms in Sub-Sahara African Countries. Roles of boards of directors have been major pillars of corporate governance over the last two decades (Tricker&Tricker, 2015). A proportion of scholars express their views that different board of directors affect organizational performance resulting in different orientations. Female gender, in the industries are some of the most common attributes of boards of directors (Letting, Aosa&Machuki, 2012). There is evidence of managers engaging in earnings management through accrual manipulation which has been shown in many different contexts, for many different accruals, and in response to many managerial incentives (Fan,et al., 2010). In addition, accrual management involves potential accounting fraud that brings about litigation risk to the firm. A second channel through which earnings could be manipulated is real activities management, such as providing discounts to customers to temporarily increase sales and cutting research and development expense (Gunny, 2005; Roychowdhury, 2006). In the case of real activities management, managers can offer temporary price discounts to increase sales, cut discretionary expenditures such as research and development and advertising, or overproduce to reduce cost of goods sold (Roychowdhury, 2006). However, real activities manipulation sacrifices firms' future economic benefits, even though this approach introduces less litigation risk to the firm. It was as a result of looking for a way to manage earnings, that board of directors as an organ of the firm is instituted to ensure good corporate governance. OECD (2004) noted that the board of directors is a legal requirement in most countries of the world and one of the essential prerequisites of good corporate governance of firms. The board of directors of a firm comprises people of different ethnicity and gender (male and female) charged with the responsibilities of monitoring and controlling management and ensuring credible reporting of earnings in the interest of diverse shareholders and other stakeholders. When the board of directors of a firm is not well constituted, the firm becomes vulnerable to earnings malpractice on the part of those charged with the management of the cooperation or entity (Siam, Laili, &Khairi, 2014).

Earnings management practices do not only give false reflection of the firm's financial performance but bring about less dependable reported accounting numbers which consequently reduces investors' confidence in the financial reports for the purpose of decision making. Nevertheless, accounting earnings are more realistic and of higher quality when managers' opportunistic behaviour is checked and reduced using monitoring systems like the board (Liu, Harris & Omar, 2013).

The boards' role is to protect the shareholder's interest in an increasingly competitive environment while maintaining managerial professionalism and accountability in pursuit of good corporation performance. The responsibility of the board is quite intimidating as it attempts to discharge diverse and challenging accountability. it is important to identify the board diversity and attributes that make one board more functional from another. There is an attribute of the effectiveness of boards of directors that needed to be restructured. Managers always aim to secure all the funds needed to keep the business running so that no external party can interfere, and at the same time managers aim to gain whatever kind of benefit they can from the business (Kim & Yoon,2009). Since the accounting earnings are of great importance to the stakeholders given the fact that it's the end product of the accounting process and based on the many problems and acts by the managers to try practicing earnings management, stakeholders doubt the credibility and reliability of the financial reports (Orjinta& Okoye, 2018). In spite of all the instruments implemented in the last decade which intent to enhance the level of transparency, dependability and confidence in the content of the financial aspect, the ability of corporation to manipulate financial reports through the earnings management practice still occurred predominantly since these management practices are legal and within the flexibility allowed by the accounting standards which differ greatly from illegal practices and that are categorized as cases of cheat (Yildirim, 2016). However, this practice leads to inaccurate information about the non-financial firms. This study sets to explore the relationship which exists between female gender diversity, on the earnings management.

1.1 Objectives of the Study

The main objective of this study is to ascertain the extent to which female gender diversity affect earnings management among quoted non-financial firms in Sub-Sahara African countries.

1.2 Research Questions

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The following research question was addressed:

To what extent does female gender diversity affect earnings management of listed non-financial firms in Sub-Sahara African countries?

1.3 Hypotheses

The following null hypotheses were formulated from the research questions above.

H_{o1} There is no significant effect between female gender diversity and earnings management of listed non-financial firms in Sub-Sahara African countries.

2.0 Theoretical Review

2.1 Earnings Management

Earnings management has been defined and described in different ways. The definition of earnings management differs depending on how someone considers the practice of managing earnings, for those who accept the practice of earnings management indicating it is good for the firm; they define earnings management as the means used by managers to improve the financial position of the firm (Healy & Helen, 1999 as cited by Hosam, Eko, Roekhudin&Wuryan; 2019). Earnings management activity of firms is chiefly an effort for executive directors to hide their private control benefits. Insiders can use their discretion in financial reporting to overstate earnings and conceal unfavorable earnings realizations (losses) that would have prompted outsider interference. For those who see earnings management into a negative way considers the practice as manipulation of earnings by management in order to gain out of it or to show that the company is performing while it is not at the expense of the shareholder's wealth as well as the investors (Ronen &Yaari, 2008:Bergstresser&Phillippon, 2006). According to Wu (2016), earnings management occurs when managers use judgment in financial reporting and in the way financial transactions are structured to damage financial reports and to mislead some stakeholders concerning the underlying economic performance of the company and to influence contractual results upon which reported accounting numbers depend. Mishra and Malhotra (2016) argued that earnings management occurs when company managers take advantage of the flexibility provided by accounting rules and standards to match the reported earnings of a company with a preferred or desired level. Earnings management distorts the quality and

credibility of financial reporting and can hamper effective decision making by investors and other stakeholders of a company. Earnings management is the method which intentionally influences the process of financial reporting to obtain some private gain. Earnings management is the discretionary manipulation of earnings levels by managers. Although earnings management is permitted by law but it is deceptive. Sudden collapse and demise of most profile firms in the past were linked to poorly constituted board and deceptive earnings management practices (Goncharov, 2005; Liu, Harris & Omar, 2013). Similarly, insiders can use accounting choices to understate earnings in years of good performance to create reserves for periods of poor future performance, effectively making reported earnings less variable than true firm performance. Managers can choose from among the available accounting options to align their earnings levels with their intentions (Stolowy& Breton 2004; Tucker &Zarowin 2006). Earnings management has been defined and described in different ways. Healy and Wahlen (1999) defined "earnings management as manners in which management or corporate decision makers use to relate their judgment in financial statement either to mislead the shareholders about the firm's performance or to influence contractual outcomes that depend on reported accounting numbers.

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Chen, Luo, Tang and Tong (2014) viewed earnings management as choices made by corporate decision makers using accounting methods offered by laws and regulations to influence a firm's reported earnings

2.2 Female Gender Diversity

Boards are traditionally composed of only male members. The presence of women on the board leads to female gender diversity. It is generally accepted that female board members are more independent because they are not part of the ''old boys'' network (Carter et al., 2010). According to Ryan and Haslam (2005), women are more likely to be placed in positions of leadership in circumstances of the downturn. The implication is that the presence of women on the board could be perceived by shareholders that significant change is on the way, and making them more confident in the company's success, which results in the increase in share price. Diversity, in general, is considered to improve organizational value and performance as it provides new insights and perspectives and provides for representation of different stakeholders for equity and fairness. Females are known for their motivation and achievement, moral values, social stereotype and the relation between task performance and self-confidence in addressing issues that could positively enhance firm's performance. Schubert, (2006) indicated that a great deal of economic psychology literature claimed that females are more conservative and risk averse than men who are risk takers. Sanda, Mikailu, and Garba, (2010) established that the board of directors of the Nigerian quoted companies are predominantly male, with women accounting for 4.9%, 1.8% and 1.8% of all directorships, MacLeodHeminway, (2007) argued that women are more trustworthy than men, and are thereby less likely to manipulate corporate financial and other disclosures. Adams and Ferreira, (2009) and Srinidhi, Gul and Tsu (2011) observed that female representation on the board is associated with reduced levels of earnings management. There are different theories, such as resource dependence, human capital theory, social capital, busyness, signaling, behavioral, steward, positive accounting theory and agency theories, which can be used to study Corporate Governance. Steward, Agency and positive accounting theories are the three major theories showing the nexus between board diversities and earnings management. The idea of separating the managers from the owners that result into agency cost increase is explained in the agency theory that was developed by Jensen and Meckling (1976). The second theory (stewardship) was developed by Donaldson and Davis (1991). Stewardship theory explains that the attainment of success by the organization results to motivation and satisfaction of the stewards who are the directors of the company. Therefore, this study was based on this last two theories, agency and positive accounting theory (PAT) that was brought to been by Watts and Zimmerman (1978). This last theory helps in explaining the choice for using a given accounting principles. Some of these theories will be briefly discussed but this research is anchored on two main theories that best suit this research. The two theories used are agency theory and positive accounting theory.

2.3 Positive Accounting Theory

Positive accounting theory (PAT) was brought to being by Watts and Zimmermann (1986).This theory helps in explaining the reason for using a particular accounting principle. Preference of one method over the other is as well is also highlighted in this theory (Hamayun Kabir, 2010). The reason for making specific decisions by the managers is explicated in the Positive Accounting Theory. In its evaluation process, the theory applies different relations between groups of people such as the managers against the owners, managers against the investors and the organization against the society. Individuals in the group of stakeholders have different behaviours that enable them to fulfill their needs. In that regards therefore, managers may apply different accounting methods that may enable them optimize their own benefits. PAT operates under three different theories in explaining the choice of the accounting methods by the managers Watts and Zimmermann (1986). The three hypotheses include; bonus plan, debit covenant and the political cost hypothesis. Several studies have empirically approved the predictions made by these hypotheses. There might enable the managers to take the future profits now so that they can increase the current profits. Increase in the reported earnings is predicted by the hypothesis especially when the executives get bonuses rewards. According to PAT, self-interest controls the behaviour of a particular manager. It is indicated in the self-interest that the managers value their own interests other than the company's interest. Debt covenant refers to an agreement between a party that gives out the debt and the borrower of the debt. Example of this could be a loan from the bank or credit that favours the organization (Watts & Zimmermann, 1986).The positive accounting theory underpins the current study on the relationship between board diversity and earning management in that directors who are responsible for day-to-day operation of companies may apply an accounting policies and assumptions that enables them to optimize their benefits leading to manipulation of books of accounts to reflect a given level of earnings. The directors may approve of an accounting method that ensures their remuneration is maximized at the expense of stockholders of the company.

2.4 Agency theory

The Agency theory is one of the main theories developed by Jensen and Meckling (1976). At this point, it is very important to explain this theory in order to understand the context in which this study examines it. According to Jensen and Meckling (1976) agency theory is the relationship between shareholders and board of directors in a contract. This means that the first party (the shareholders) has an agreement with the second party (board of directors) whereby the second party manages the company's resources (both financial and human resources) and looks after the first party's interests. Hence, the agency theory differentiates between ownership and control whereby the shareholders own the company and the board of directors is responsible for managing the firm and, the shareholders' assets.

Agency cost is the part of managers' incentives to control costs. Agency theory provides empirical evidence that the managing earnings is given preference in management of numbers so that they can benefit from the contracting process. The presence of information asymmetry between the investors and directors have been archived by numerous studies that is a fundamental condition for earnings management (Yu, 2008).This resulted due less information received by the shareholders hence the internal management may use its position to manage and manipulate the earnings reported (Amihud& Lev, 2001).

Bhagat and Black (2002) explain that in an agency theory context the managers-shareholders relationship is a major challenge since it is linked with Agency problems such as conflict of interest and information asymmetry. Consequently, agency theory problems arise from the separation between the firm's shareholders and its managers. The board of directors, which sits between the shareholders and the managers is responsible for solving problems and working on behalf of the shareholders to protect their interests and wealth (Hermalin & Weisbach, 2001) and (Rowley et al. 2017). According to Habbash (2010), agency theory is the most popular and has received greater attention from academics and practitioners. Thus, Based on the view of the idea that in a modern corporation there is a separation of ownership (principal) and management (agent), and this leads to costs associated with resolving the conflict between the owners and the agents (Jensen &Meckling, 1976). The fundamental premises of agency theory is that the manager's act out of self-interest and are self-centered, thereby giving less attention to shareholder interests, for example, the managers may be more interested in consuming perquisites like luxurious offices, company cars, and other benefits since the cost is borne by the owners. The managers who possess superior knowledge and expertise about the firm are in a position to pursue self-interests rather than shareholders (owners) interests (Fama, 1980; Fama & Jensen, 1983 as cited by Hosam, Eko, Roekhudin&Wuryan; 2019). This pursuit of self-interests increases the costs to the firm which may include the costs of structuring the contracts, costs of monitoring and controlling the behaviour of the agents, and loss incurred due to sub-optimal decisions being taken by the agents.

Furthermore, boards of directors have a responsibility to adopt the corporate practices effectively in the firm as they are ultimately responsible for the effective organizational functioning and also better financial performance. In the performance of these responsibilities it can be seen that while some boards are active, others are passive (Wheelen& Hunger, 2013) as cited by Hosam et al (2019). As highlighted it is possible that these behaviours may be due to corporate boards' diversity that are backed by the firm's ownership, legal, regulatory, and social contexts. For example in highly concentrated ownership among family managed firms, the majority of board members are often from a given family. Indeed, although board diversity can be observed from a number of dimensions, in this study we employed to consider foreign board members, female gender diversity, age diversity, board independence, board size, and CEO Duality. Accordingly, If both parties to the relationship are utility maximizes, there is a good reason to believe that the agent will not always act in the best interests of the principal. The principal can limit divergences from his interest by establishing appropriate incentives for the agent and by incurring monitoring costs designed to limit their regular activities of the agent. Based on Jensen and Meckling (1976) Managers are mostly motivated by their own personal interests and benefits, and therefore work to maximize their own personal benefit rather than considering shareholders' interests and maximizing shareholders wealth.

To solve this problem or to align the conflicting interests of managers and owners the company incurs controlling costs including incentives given for managers and there must be better monitoring and controlling mechanisms which helps to ensure that managers pursue the interests of shareholders rather than only their own interests. Coleman (2007) represented the following key issues towards addressing opportunistic behavior from managers within the agency theory. Agency theory expects the board of directors to include a large percentage of non-executive directors for effective control. The theory argues that this reduces conflict of interest between managers and shareholders and ensures a board's independence in monitoring and passing fair and unbiased judgment on management. According to agency theory, a larger board has greater monitoring capacities. Thus, board size is regarded as an effective governance tool in monitoring management's performance. Large boards are more likely to have a greater representation of experienced independent directors and could be perceived by shareholders that significant change is on the way, and making them more confident in the company's success, suggests that the board of directors fulfills a crucial role in monitoring and controlling managers as well as in solving agency problems.

Agency theory is one of the main theories used to explain the positive impact of board gender diversity on earnings management. From the agency theory viewpoint, gender diversity is one of the most important governed mechanisms for companies. In order to understand more specifically about how earnings management is defined, earnings management is the practice of manipulating firm's earnings in order to ensure that financial statement looks better than their original status. Since the shareholders are a mix of men and women, the board of directors should consist, also, of a mix of men and women to provide board diversity and solve the agency theory problem. Agency theory is very relevant for the current study on relationship between board diversity and earnings management in that boards of directors act as the agents of the shareholders in the management of the affairs of the company. Agency problem may occur if the directors pursue their self-interest like manipulation of books of accounts especially if the firm is doing poorly to give a picture of good performance especially if their rewards is based on firms performance.

3.0 Method of data Analysis

The information relating to the features of corporate board diversity (female gender diversity) is used as independent variable and earnings management was used as dependent variable. Descriptive statistics, Pearson correlation matrix and Panel data multiple regressions (fixed and random effect regression) were used to analyze the causal relationship between female gender diversity and earnings management. Having seen the literature review above it is now clear that there is a knowledge gap which is to study the effect of female gender diversity on earnings management.

4. Analysis and Results

Table 1 Frequencies Statistics

		ENMGT	FGDV
N	Valid	10	10
	Missing	0	0

The table above describes the possible missing value analysis of the frequency data descriptions for the earnings management and the female gender diversity. The result shows that the overall data used from Sub-Sahara African countries are viable enough to statistically express the earnings management and the female gender diversity in the system. However, none of the data collect is biased or needs to be removed or recheck for this experiment. This portrays that the data is good and can portrays the parameters of this experiment. Furthermore, User defined missing values are treated as missing. Statistics for each analysis is based on the cases with no missing or out-of-range data for any variable in the analysis. This study is in macro level with country specifics.

Table 2 Frequency Table for Earnings Management

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1043.69	1	10.0	10.0	10.0
	1089.70	1	10.0	10.0	20.0

	1140.17	1	10.0	10.0	30.0
	1172.83	1	10.0	10.0	40.0
	1292.67	1	10.0	10.0	50.0
	1394.40	1	10.0	10.0	60.0
	1604.46	1	10.0	10.0	70.0
	1781.22	1	10.0	10.0	80.0
	1844.29	1	10.0	10.0	90.0
	2047.32	1	10.0	10.0	100.0
	Total	10	100.0	100.0	

The frequency table summarized the frequency occurrence, its percentages and the cumulativeness of the earnings management that is the dependent variable in the statistical data.

Table 3 Frequency Table for Female Gender Diversity

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	124.00	1	10.0	10.0	10.0
	127.00	1	10.0	10.0	20.0
	134.00	1	10.0	10.0	30.0
	137.00	1	10.0	10.0	40.0
	138.00	1	10.0	10.0	50.0
	140.00	1	10.0	10.0	60.0
	141.00	1	10.0	10.0	70.0
	142.00	1	10.0	10.0	80.0
	147.00	1	10.0	10.0	90.0
	149.00	1	10.0	10.0	100.0
	Total	10	100.0	100.0	

The frequency table summarized the frequency occurrence, its percentages and the cumulativeness of the female gender diversity that is the dependent variable on the earnings management in the statistical data analyzed.

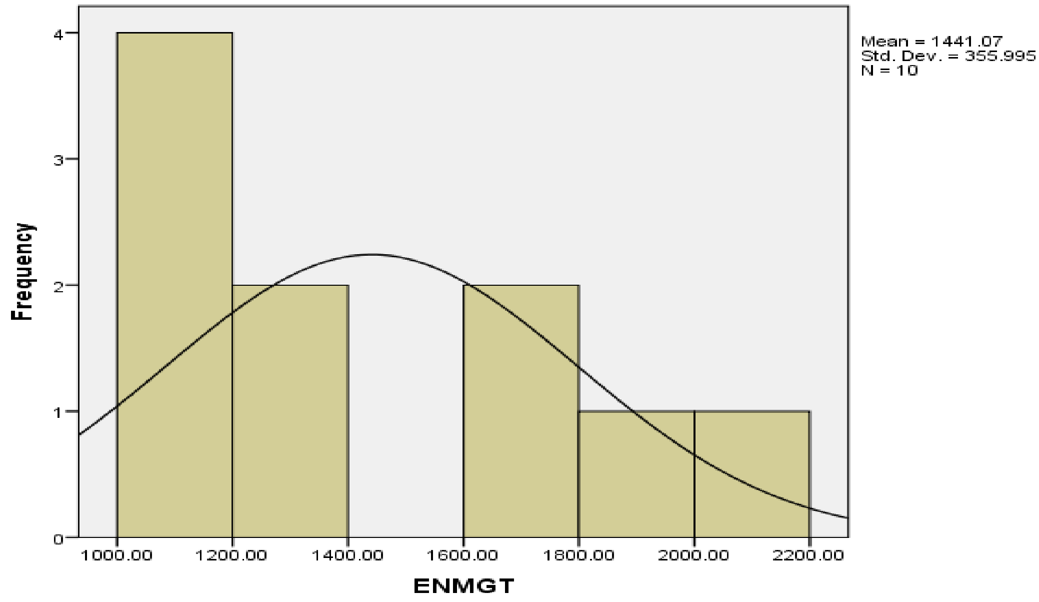

Fig. 1 Histogram with Curve for Earnings Management

Figure 1 shows the histogram plot of earnings management in Sub Sahara Africa. The curve shows the point or area of the mean and the standard deviation of the earnings management variable. From the curve, it shows that the mean is around 1,400 to 1,500, while the calculated mean is 1,441.07.

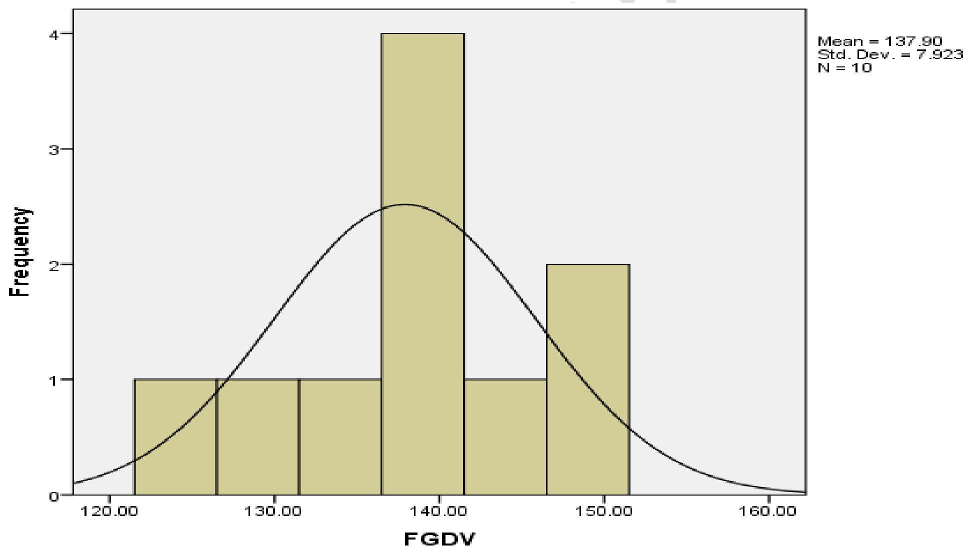

Fig. 2 Histogram with Curve for Female Gender Diversity

Figure 2 shows the histogram plot of female gender diversity in Sub Sahara Africa. The curve shows the point or area of the mean and the standard deviation of the female gender diversity variable. From the curve, it shows that the mean is around 135 to 140, while the calculated mean is 137.90.

Table 4 One-Sample T-Test

	Test Value = 0

	t	df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
ENMGT	12.801	9	.000	1441.07500	1186.4118	1695.7382
FGDV	55.043	9	.000	137.90000	132.2326	143.5674

Table 4 shows the one sample T-test analysis of the variables independently. The independent analysis of the variables shows that the variables are all significant with significant value of 0.000. This shows that the user-defined values are significant to express the earnings management and the female gender diversity in the system. However, this does not mean that the independent variable is significant to the dependent variable.

Table 5 Pearson Correlations

		ENMGT	FGDV
ENMGT	Pearson Correlation	1	-.041
	Sig. (2-tailed)		.910
	N	10	10
FGDV	Pearson Correlation	-.041	1
	Sig. (2-tailed)	.910	
	N	10	10

Table 5 shows the Pearson correlations of the earnings management that is the dependent variable and the female gender diversity that is the independent variable in the system. However, the correlations mean that the female gender diversity variable is not significant to the earnings management variable with insignificant value of 0.910.This non-significant value shows that there is no significant relationship between the female gender diversity variable on earnings management variable.

Table 6 Nonparametric Correlations

			ENMGT	FGDV
Kendall's taub	ENMGT	Correlation Coefficient	1.000	.111
		Sig. (2-tailed)	.	.655
		N	10	10
	FGDV	Correlation Coefficient	.111	1.000
		Sig. (2-tailed)	.655	.
		N	10	10
Spearman's rho	ENMGT	Correlation Coefficient	1.000	.115
		Sig. (2-tailed)	.	.751
		N	10	10
	FGDV	Correlation Coefficient	.115	1.000
		Sig. (2-tailed)	.751	.
		N	10	10

Table 6 shows the nonparametric correlations of Kendall's and Spearman's correlations of the variables with the earnings management that is the dependent variable and the female gender diversity that is the independent variable in the system. However, the Kendall's correlation shows that the female gender diversity variable is not significant to the earnings management variable with insignificant value of 0.655. Furthermore, the Spearman's correlation shows that the female gender diversity variable is not significant to the earnings management variable with insignificant value of 0.751. The non-significant values using non parametric test tools show that there is no significant relationship between the female gender diversity variable on earnings management variable.

Table 7: Chi-Square Goodness-of-Fit Test for Observed Counts in Variable: FGDV

Category	Observed	Test Proportion	Expected	Contribution to Chi-Sq
1	124	0.1	137.9	1.40109
2	127	0.1	137.9	0.86157
3	134	0.1	137.9	0.11030
4	138	0.1	137.9	0.00007
5	147	0.1	137.9	0.60051
6	142	0.1	137.9	0.12190
7	149	0.1	137.9	0.89347
8	140	0.1	137.9	0.03198
9	137	0.1	137.9	0.00587
10	141	0.1	137.9	0.06969

N	DF	Chi-Sq	P-Value
1379	9	4.09645	0.905

Table 7 shows the chi-square goodness of fit test for the observed, the expected counts in the variables and their contributions to chi-square. The result shows that the analysis of the variables is not significant to each other. This result validates that of Pearson, Kendall's and Spearman's correlations.

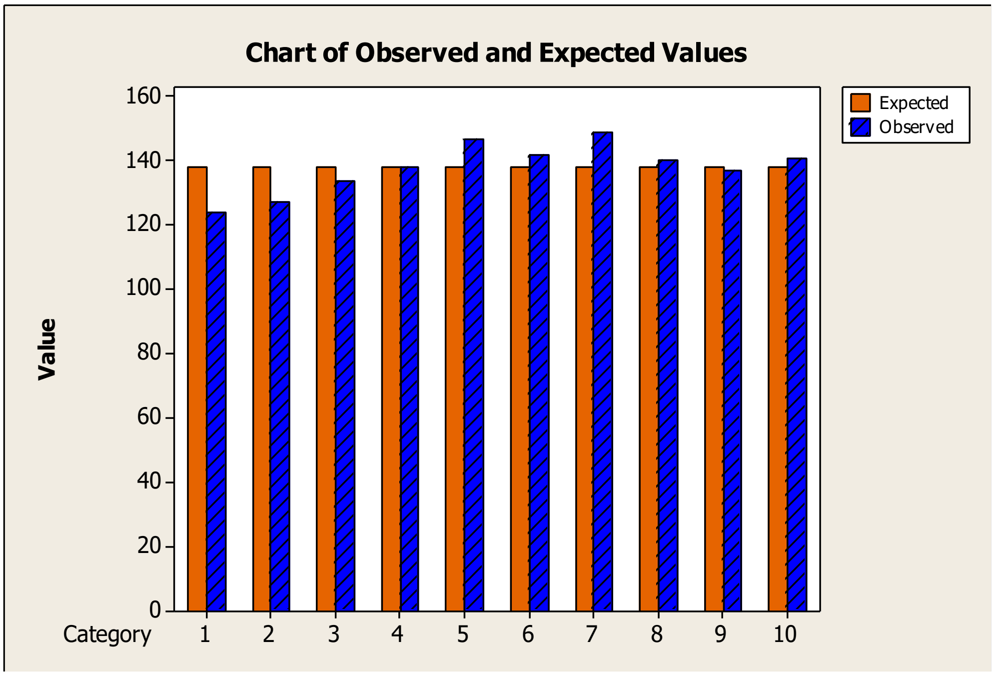

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Fig. 3 Chart of Observed and Expected Values

Figure 3 shows the categories of the expected and the observed values in the experimented data system

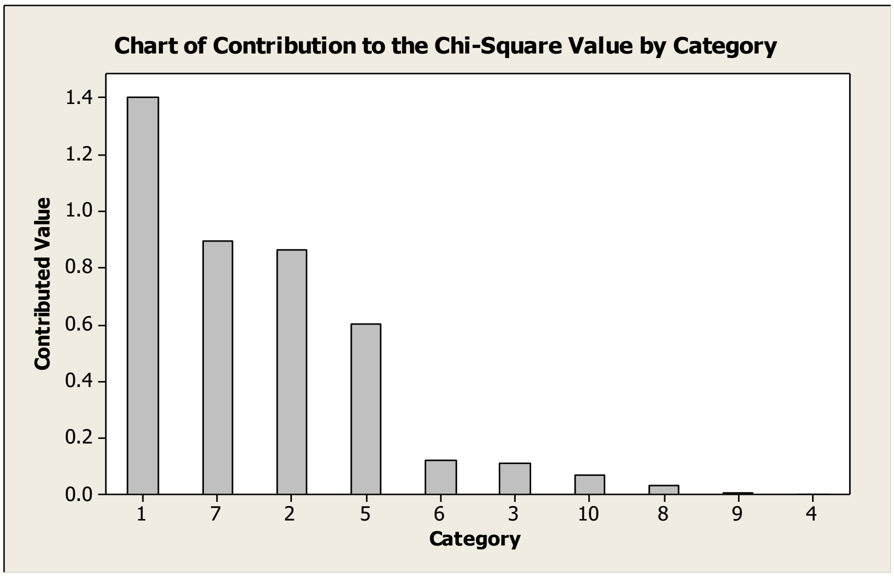

Fig. 4 Chart of Contribution to the Chi-Square Value by Category

Figure 4 shows the rate of contributing values by categories to the chi-square testing tool in the chart. It shows that category one has the highest contributing value, followed by category seven and two

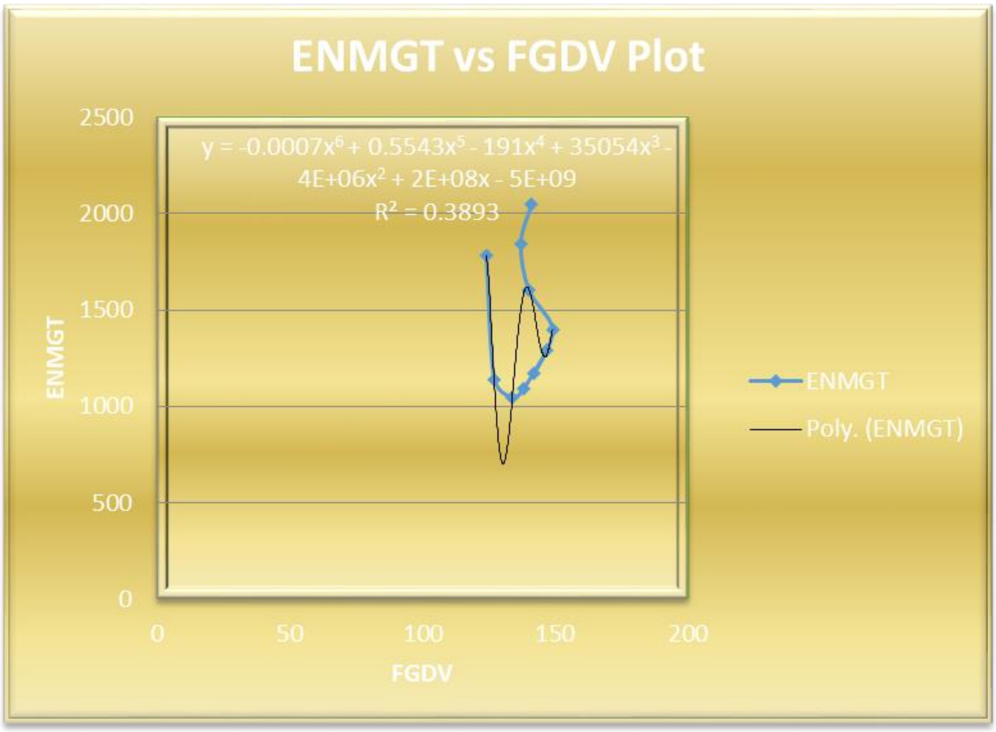

Fig. 5 Polynomial Regression modeling of the Variables

Figure 5 shows the polynomial regression modeling of the earnings management that is the dependent variable and the female gender diversity that is the independent variable in the system. The model shows a polynomial of the six orders with coefficient of the determination of the dependent and the independent variables to be 0.389.

5.0 Conclusion

In conclusion, the study having investigates the effect of female gender diversity on earnings management in Sub Sahara Africa, a case of Nigeria, Kenya and South Africa with 75 firms in the selected countries were investigated. The study reveals the level of influence of female gender diversity on earnings management. The descriptive analysis of the variables was revealed. The polynomial regression model was used to show the coefficient of the independent variable to the dependent variable with the R-Square of 0.389.This shows that there is no strong relationship of the independent variable to the dependent variable. Finally, the female gender diversity has no significant relationship with the earnings management with a significant level of 0.905 using the chi-square method and a non significant level of 0.910 using the Pearson correlation method.

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