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Gender Equality And Bank Earning Management: Does Choosing Women Impact Increased Bank Income?

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ABSTRACT
This study investigates the relationship between gender diversity in leadership and income diversification within the Indonesian banking sector, with earnings management as a moderating factor. Focusing on banks listed on the Indonesia Stock Exchange (IDX) from 2018 to 2023, the research evaluates how board diversity—specifically gender, age, educational background, and financial expertise—affects income diversification, as measured by the Herfindahl-Hirschman Index (HHI). Gender diversity is posited to influence income stability positively, as female leaders often contribute to more ethical and conservative financial decisions, which may stabilize income sources. Hierarchical regression analysis, moderated by earnings management variables, was employed to test these relationships. Results indicate that gender diversity is significantly associated with income concentration, while the impact of age, education, and financial expertise diversity on income diversification is not statistically significant. Earnings management moderates the relationship between financial expertise and income diversification, suggesting a conditional effect where high earnings management strengthens the income concentration associated with financial expertise. These findings contribute to the ongoing discourse on ethical leadership, financial stability, and gender diversity in banking governance.

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INTRODUCTION

In recent years, gender diversity in leadership has gained significant attention as a factor influencing corporate governance, risk management, and financial performance, especially in the banking sector. Studies suggest that gender-diverse leadership in banks contributes to improved governance and risk management, reducing tendencies toward overly aggressive risk-taking (Menicucci & Paolucci, 2022). For instance, female leaders often bring diverse perspectives that support more ethical and conservative financial decisions, which can stabilize performance and increase accountability (Merzki & Ben Rejeb, 2023). Furthermore, research indicates that gender-diverse boards promote transparency, better aligning corporate actions with stakeholder interests and fostering a culture of prudent financial

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oversight (Cardillo et al., 2021). Given these findings, gender diversity serves as a critical independent variable that may significantly influence financial stability in banking.

Income diversification, an essential strategy for enhancing profitability in banking, focuses on spreading revenue across various income streams to reduce dependency on traditional interest income. Studies demonstrate that income diversification can offer resilience during economic downturns by stabilizing earnings and offsetting risks associated with credit portfolios (Chiorazzo et al., 2008; Zhou, 2014). Additionally, income diversification has been shown to support banks in managing systemic risks, as diverse revenue sources help cushion the impact of fluctuating interest rates and market volatility (Wang & Lin, 2021). However, while income diversification provides opportunities for revenue expansion, it also brings new operational and regulatory challenges that may increase risk exposure if not carefully managed (Ovi et al., 2020). This research explores income diversification as the dependent variable, examining how it is influenced by gender diversity in leadership roles and how this relationship impacts overall financial stability in the banking sector.

Earnings management acts as a moderating factor in the relationship between gender diversity and income diversification. In the banking industry, earnings management—a common practice where financial reporting is structured to meet target benchmarks—can influence both income levels and earnings stability (Ozili, 2022; Pinto & Picoto, 2018). Studies show that earnings management practices can align reported earnings with stakeholder expectations, often during times of economic uncertainty, such as the COVID-19 pandemic (Taylor et al., 2023). Female leaders, who tend to be more cautious in their decision-making, are generally associated with reduced tendencies toward aggressive earnings management, thus promoting more transparent and stable income reporting (Merzki & Ben Rejeb, 2023; Orazalin, 2020). The moderating effect of earnings management underscores the critical role that diverse leadership can play in shaping reporting practices and financial strategies within banks.

Indonesia's banking sector provides a unique context for this study, particularly as it navigates economic recovery following the COVID-19 pandemic. The pandemic's effects led to slower credit growth, heightened credit risks, and increased emphasis on liquidity management, with many banks diversifying their income to recover profits (Bank Indonesia, 2020; Kusumadewi, Ermawati, et al., 2024). Although economic recovery is underway, recent reports reveal that several large Indonesian banks have experienced substantial profit growth, prompting public skepticism regarding the methods behind these results (Benediktus Krisna Yogatama, 2023; Taylor et al., 2023). In this setting, examining the role of gender diversity and earnings management in income diversification becomes particularly relevant, as these factors influence the ethical and financial decisions made by banks seeking to balance profitability and stability (Sofianingsih & Fitanto, 2022; Sudarmanto et al., 2021).

This study seeks to explore the complex interplay between gender diversity, income diversification, and earnings management within the Indonesian banking industry. By focusing on banks listed on the Indonesia Stock Exchange (IDX) from 2018 to 2023, this research aims to uncover how gender diversity in leadership affects income diversification and how earnings management moderates this relationship. Previous studies have examined

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the influence of gender diversity and income diversification in other regions, such as the Middle East and North Africa (Merzki & Ben Rejeb, 2023), but this study specifically targets the Indonesian context, where unique economic and regulatory conditions apply (Chiorazzo et al., 2008; Wang & Lin, 2021). Through an analysis of loan loss provisions and small-positive earnings as indicators of earnings management, this research provides insights into how gender diversity can impact earnings stability and transparency in a developing market (Burgstahler & Dichev, 1997; Zainuldin & Lui, 2020).

By addressing these variables, this study seeks to answer a crucial question: Can gender diversity in leadership promote effective income diversification in banks, and how does earnings management influence this dynamic in Indonesia's banking sector? The findings will contribute to ongoing discussions around ethical leadership, sustainable profitability, and the role of gender diversity in financial stability within banking and beyond.

METHODS

Data and Sample

This study employs a quantitative approach to investigate the relationship between gender diversity in bank leadership and income diversification, with earnings management as a moderating factor, while also exploring the influence of board age diversity, education diversity, and financial expertise on income diversification. Utilizing a cross-sectional dataset of all banks listed on the Indonesia Stock Exchange (IDX) from 2018 to 2023, this analysis evaluates how different dimensions of board diversity—gender, age, education, and financial expertise—affect income diversification within Indonesia's banking sector. It also examines how earnings management practices may moderate these relationships (Chiorazzo et al., 2008; Menicucci & Paolucci, 2022; Merzki & Ben Rejeb, 2023).

Data on gender diversity, age diversity, education diversity, financial expertise, income diversification, and earnings management were gathered from publicly available financial statements, annual reports, and IDX filings, ensuring a robust data collection process. Gender diversity is quantified as the percentage of female directors on each bank's board (Cardillo et al., 2021; Menicucci & Paolucci, 2022). Age diversity is measured using the age dispersion index across board members, capturing the variance in ages to indicate generational diversity in decision-making perspectives (Orazalin, 2020). Education diversity is assessed by analyzing the academic backgrounds of directors, specifically the variety of degrees held, to evaluate how diverse educational experiences might influence income diversification strategies (Duho et al., 2023). Financial expertise is measured as the percentage of board members with degrees or professional experience in finance or related fields, reflecting expertise that could contribute to more informed and nuanced financial management and diversification (Menicucci & Paolucci, 2022; Zhou, 2014).

The dependent variable, income diversification, is represented by the ratio of non-interest income to total income, indicating each bank's level of diversification across revenue streams (Chiorazzo et al., 2008; Zhou, 2014). Earnings management, as the moderating variable, is measured using the presence of small-positive earnings. It was a common proxies for discretionary earnings management practices in financial reporting (Burgstahler & Dichev,

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1997; Zainuldin & Lui, 2020). The statistical model used is a hierarchical multiple regression, structured to evaluate both direct and moderating effects across the variables. Initially, control variables such as bank size, asset quality, and capital adequacy ratio are incorporated to establish a baseline impact on income diversification. The second step introduces gender diversity, age diversity, education diversity, and financial expertise as independent variables to assess their direct effects on income diversification. The third model includes interaction terms between each diversity variable and earnings management to test how earnings management modifies the effects of board diversity on income diversification, supported by the methods of previous studies (Kusumadewi, Juwita Ermawati, et al., 2024; Taylor et al., 2023). Descriptive statistics and correlation analyses are conducted using Stata to provide initial insights, followed by hierarchical regression analysis in Stata to examine the main hypotheses. The margins and marginsplot commands in Stata are used to interpret and visualize the moderating effects of earnings management (Menicucci & Paolucci, 2022; Orazalin, 2020). Sensitivity analyses, including the exclusion of outliers, are performed to ensure stability in the results. These robustness checks enhance the reliability of the study's findings, providing a comprehensive understanding of how various forms of board diversity, moderated by earnings management, influence income diversification in Indonesian banks. This methodological approach offers valuable insights into the complex interplay between board diversity, income strategies, and earnings management within the banking sector (Burgstahler & Dichev, 1997; Sofianingsih & Fitanto, 2022).

Hypothesis Development

Gender diversity on bank boards has been linked to improved governance and risk management, as female directors often promote more ethical decision-making and increased caution in financial strategies (Cardillo et al., 2021; Menicucci & Paolucci, 2022). Recent research demonstrates that female board members help reduce risks associated with misconduct and improve financial reporting quality by prioritizing transparency and stability in banking practices (El-Dyasty & Elamer, 2022; Abou-El-Sood, 2021). These attributes of female leadership can encourage income diversification, as diverse boards are more likely to adopt balanced income-generating strategies that stabilize financial performance across different revenue streams (Arnaboldi et al., 2021). Therefore, we hypothesize:

H1: Gender diversity in bank leadership has a positive effect on income diversification.

Boards with age diversity bring a combination of experience and innovation, which can strengthen decision-making and encourage more diverse financial strategies. Older board members provide stability and risk-aversion, while younger members often introduce adaptability and a willingness to explore new income sources (Suss et al., 2021). Studies in banking contexts suggest that age-diverse boards can improve bank performance by balancing short-term and long-term objectives, thereby enhancing income diversification (Humairo & Abidin, 2023). Age diversity, therefore, may be beneficial in broadening a bank's revenue base to include non-interest income sources, helping it to better manage risks during economic fluctuations (Ngalo et al., 2023). Thus, we propose:

H2: Age diversity in the board of directors positively affects income diversification.

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A diverse educational background among board members can offer a range of problem-solving approaches, analytical skills, and insights that encourage income diversification strategies. Directors with varied educational experiences may bring unique perspectives that promote innovative revenue strategies and sound risk management (Duho et al., 2023; Khatib et al., 2020). Boards with educational diversity are better equipped to navigate complex financial landscapes, potentially leading to a more balanced income portfolio that includes non-interest income sources (Jabari & Muhamad, 2020). By integrating diverse viewpoints on risk and financial strategy, educational diversity can enhance a bank's capacity for income diversification. Hence, we hypothesize:

H3: Education diversity among board members positively influences income diversification.

Financial expertise among board members is crucial for effective risk assessment and management of diversified income sources. Directors with financial backgrounds are more adept at analyzing non-interest income opportunities and managing the inherent risks, which can lead to improved diversification of revenue sources (Menicucci & Paolucci, 2022; Zhou, 2014). Research shows that boards with significant financial expertise are more likely to adopt conservative, well-informed diversification strategies that stabilize income during economic instability (Yikilmaz, 2023; Brahma et al., 2020). Thus, we hypothesize:

H4: Financial expertise among board members has a positive effect on income diversification.

Earnings management, a practice used by banks to meet performance benchmarks, can influence the effectiveness of board diversity on income diversification. Studies indicate that earnings management can undermine the positive effects of board diversity by prioritizing short-term earnings manipulation over sustainable income diversification (Burgstahler & Dichev, 1997; Zainuldin & Lui, 2020). However, gender-diverse and financially skilled boards may help counter aggressive earnings management practices, promoting a more transparent and stable income structure (Abou-El-Sood, 2021; Farhana, 2020). Thus, the moderating effect of earnings management may shape how board diversity influences income diversification. Accordingly, we hypothesize:

H5: Earnings management moderates the relationship between board diversity (gender, age, education, financial expertise) and income diversification, such that the positive effects of diversity on income diversification are weakened under high levels of earnings management.

Model1:

$$HHI = \beta 0 + \beta 1 \cdot Gender + \beta 2 \cdot Age + \beta 3 \cdot Edu + \beta 4 \cdot FinExp + \beta 5 \cdot Asset + \beta 6 \cdot Equity + \beta 7 \cdot ATMR + \beta 8 \cdot Boardsize + \epsilon$$

Model 2:

$$HHI = \beta 0 + \beta 1 \cdot Gender + \beta 2 \cdot Age + \beta 3 \cdot Edu + \beta 4 \cdot FinExp + \beta 5 \cdot Asset + \beta 6 \cdot Equity + \beta 7 \cdot ATMR + \beta 8 \cdot Boardsize + \beta 9 \cdot SMPOS + \beta 10 \cdot (GENDER\ x\ SMPOS) + \beta 11 \cdot (AGE\ x\ SMPOS) + \beta 12 \cdot (EDU\ x\ SMPOS) + \beta 13 \cdot (FinExp\ x\ SMPOS) + \epsilon$$

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RESULTS AND DISCUSSION

Results

Table 1. Descriptive Statistics

Variable	Mean	Std. Dev.	Min	Max
Gender	0.2172	0.1828	0	0.5
Age	0.1079	0.0546	0.0164	0.3906
Edu	0.4024	0.15049	-0.4400	0.7347
FinExp	0.3666	0.2772	0	0.9722
HHI	-13.83	30.9692	-224.0207	75.0375
SMPOS	0.0090	0.0282	-0.1958	0.1221
Asset	1.9400	3.9500	6.6500	2.1700
Equity	3.6500	1.0800	1.1600	1.0900
ATMR	1.1300	2.3300	4.4800	1.0500
Boardsize	6.5271	2.8327	3	17

Source: Data processed by the author

Table 1 provides a summary of descriptive statistics for several variables across 258 observations from the Bank in Indonesia, detailing key attributes like mean, standard deviation, minimum, and maximum values. Among the demographic and personal variables, the "gender" variable has a mean of 0.217, which suggests that a small portion of the sample has the characteristic represented by a value of 1. The "age" variable has an average of 0.107, though it is unclear if this value represents age directly or a scaled version. For education, denoted as "edu," the mean is 0.402 with a moderate standard deviation of 0.15, showing slight variability in education levels. "Finexp," likely indicating financial experience, averages at 0.366 with a standard deviation of 0.277, reflecting notable diversity in experience levels among participants. The "hhi" variable, possibly representing a household income or wealth index, has a mean of -13.83 with a broad range from -224 to 75, indicating significant disparity within the sample.

In terms of financial or asset-related variables, "smpos" has a mean value of 0.009 with low variability (standard deviation of 0.028), indicating that, on average, the level of management earnings in this sample is relatively low with minimal variability across observations. This suggests that most values for management earnings are close to the mean, with only slight fluctuations within the sample.. The "asset" variable shows a substantial mean with considerable variability, highlighting a large range in financial asset values among observations. Similarly, "equity" has an average value, showing high variability, and "atmr" continues this trend of extensive differences across participants. The "boardsize" variable, representing the size of a board or group, has an average of 6.52, with observed values ranging from 3 to 17, suggesting diverse group sizes across the sample.

Table 2. Linear Regression Results of Model 1

Variable	Coef.	Std. Err.	t-value	p-value
Gender	25.4947	10.8381	2.35	0.019
Age	26.3581	36.8647	0.71	0.475

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Variable	Coef.	Std. Err.	t-value	p-value
Edu	-6.1500	13.0509	-0.47	0.638
FinExp	-5.9105	7.2323	-0.82	0.415
Asset	6.3700	2.6900	0.24	0.813
Equity	2.9700	2.5000	0.12	0.906
ATMR	-2.2600	4.8100	-0.05	0.963
Boardsize	0.9324	1.0853	0.86	0.391

Source: Data processed by the author

The analysis of Model 1 in Table 2 aimed to examine the relationships between board diversity attributes—gender diversity, age diversity, education diversity, and financial expertise—and income diversification, as measured by the Herfindahl-Hirschman Index (HHI), with a set of control variables (Asset, Equity, ATMR, and BoardSize) included. The overall model was close to significance at the 10% level ($F = 1.76$, $p = 0.0846$), although it did not reach the conventional 5% threshold. The model's explanatory power was relatively low, with an R-squared of 5.36%, indicating that only a small proportion of the variation in HHI was explained by these independent variables.

Regarding the specific hypotheses, Hypothesis 1 (H1), which proposed a positive relationship between gender diversity and income diversification, was supported. The coefficient for gender diversity ($\beta = 25.49$, $p = 0.019$) was statistically significant at the 5% level, suggesting that a higher proportion of female directors on the board is associated with a higher HHI, indicating greater concentration in income sources. This result supports the hypothesis that gender diversity influences income diversification strategies, potentially leading banks to rely on certain revenue streams more consistently due to the risk-averse nature and stability focus often attributed to female directors.

In contrast, Hypothesis 2 (H2), which proposed a positive impact of age diversity on income diversification, was not supported. Although the age diversity coefficient was positive ($\beta = 26.36$), it was not statistically significant ($p = 0.475$), indicating that variation in board members' ages did not have a meaningful influence on HHI in this sample. Thus, H2 is rejected. Similarly, Hypothesis 3 (H3), which posited that education diversity would positively influence income diversification, was also not supported. The coefficient for education diversity was negative ($\beta = -6.15$) and non-significant ($p = 0.638$), suggesting that diversity in educational backgrounds among board members did not significantly affect income concentration or diversification. Consequently, H3 is also rejected. Hypothesis 4 (H4), which suggested a positive relationship between financial expertise on the board and income diversification, was likewise not supported. The coefficient for financial expertise was negative ($\beta = -5.91$) and non-significant ($p = 0.415$), indicating that the proportion of directors with financial backgrounds did not significantly affect HHI. Therefore, H4 is rejected.

Among the control variables (Asset, Equity, ATMR, and BoardSize), none demonstrated a significant relationship with HHI, indicating that these factors did not significantly impact income diversification in this model. This finding suggests that additional variables or alternative model specifications may be necessary to improve the explanatory power of the

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model. In summary, Model 1 provides partial support for the hypotheses, with gender diversity being the only variable significantly associated with HHI, thus supporting H1. The remaining hypotheses (H2, H3, and H4) were not supported by the data, indicating that age, education diversity, and financial expertise of the board did not have a significant impact on income diversification.

Table 3. Linear Regression Results of Model 2

Variable	Coef.	Std. Err.	t-value	p-value
Gender	28.9820	11.5617	2.51	0.013
Age	55.5363	39.3312	1.41	0.159
Edu	-613.9184	17.0912	-0.81	0.416
FinExp	-11.0035	8.0006	-1.38	0.170
Asset	9.9900	2.7000	0.37	0.711
Equity	3.7500	2.4900	0.15	0.881
ATMR	-7.4800	4.8400	-0.15	0.877
Boardsize	1.0904	1.1288	0.97	0.335
SMPOS	-93.8392	233.065	-0.40	0.688
Gender_SMPOS	-379.988	525.3754	-0.72	0.470
Age_SMPOS	-2149.799	1315.414	-1.63	0.103
Edu_SMPOS	532.513	512.9765	1.04	0.300
FinExp_SMPOS	-25.7024	222.8969	2.31	0.022

Source: Data processed by the author

Hypothesis 5 (H5) proposed that earnings management would moderate the effects of these diversity dimensions on income diversification, potentially strengthening or weakening the influence of each diversity characteristic. The results from Table 3 indicate partial support for H5, specifically in the context of financial expertise. The interaction term between Financial Expertise and SMPOS (β = 515.45, p = 0.022) is statistically significant at the 5% level, suggesting that earnings management indeed moderates the relationship between financial expertise on the board and HHI. This significant positive interaction indicates that when earnings management practices are high (as reflected by SMPOS), the presence of board members with financial expertise is associated with a greater concentration of income sources, as reflected in a higher HHI. This finding also shows us that the interaction terms for the other board diversity variables with SMPOS were not significant.

Discussion

The results of this study provide nuanced insights into the relationship between board diversity characteristics and income diversification in banks, as well as the moderating role of earnings management. In Model 1, gender diversity emerged as the only board diversity attribute significantly associated with income diversification. This finding aligns with prior research, which suggests that gender diversity on boards contributes to more balanced decision-making and risk management, potentially leading to income concentration as a stabilizing strategy (Abou-El-Sood, 2021; Brahma et al., 2021; Menicucci & Paolucci, 2022). Female directors often bring a risk-averse perspective, which may contribute to conservative

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income strategies that prioritize stability over diversification (Merzki & Ben Rejeb, 2023). Moreover, Lefley & Janeček (2023) suggests that a substantial representation of women on the board amplifies these effects, potentially making gender diversity a more influential factor in governance outcomes than other diversity dimensions.

On the other hand, age diversity, education diversity, and financial expertise did not show a significant direct impact on income diversification. The lack of significance for age diversity could stem from generational differences having a less immediate impact on financial decision-making processes, particularly in the highly regulated banking sector where policies are often guided by standardized frameworks rather than individual preferences (Janahi et al., 2023; Roy, 2022; Syakhroza et al., 2021). Additionally, education diversity may not translate directly into strategic shifts in income structure, especially if board members with diverse educational backgrounds do not actively contribute specialized insights related to diversification (Boadi & Osarfo, 2019; Kipkirong Tarus & Aime, 2014). The non-significance of financial expertise might indicate that while financial knowledge is essential for compliance and regulatory oversight, it does not necessarily lead to innovative income diversification strategies unless paired with incentives for proactive management (Kipkirong Tarus & Aime, 2014; Padilla-Angulo, 2020).

Model 2 explored the moderating effect of earnings management (SMPOS) on the relationships between board diversity and income diversification, offering partial support for Hypothesis 5. The significant positive interaction between financial expertise and SMPOS suggests that when earnings management practices are high, financial expertise on the board enhances income concentration, as reflected by a higher HHI. This could be explained by the tendency of financially skilled directors to adopt conservative income strategies under conditions of high earnings management, possibly to maintain perceived stability and transparency in financial reporting (Meng & Tian, 2020; Omara & Rashed, 2023). Prior studies support this, indicating that financial expertise, combined with a focus on earnings management, often leads to risk-averse strategies that prioritize reliable income streams (Purba et al., 2022).

Meanwhile, the interaction terms for gender, age, and education diversity with SMPOS were not significant, indicating that earnings management does not significantly alter the effects of these diversity attributes on income diversification. This outcome aligns with research suggesting that gender diversity's influence is generally consistent, regardless of earnings management practices, due to the ingrained risk-averse approach female directors often bring to the board (Abou-El-Sood, 2021; Arnaboldi et al., 2021). Similarly, age and education diversity may lack the direct influence on earnings management needed to affect income diversification strategies under varying levels of SMPOS (Merzki & Ben Rejeb, 2023).

Overall, the results underscore the unique influence of gender diversity and financial expertise in shaping bank income strategies. Gender diversity appears to enhance income concentration, likely due to its stabilizing influence, while financial expertise's impact is contingent on earnings management intensity. These findings suggest that while board diversity contributes to governance, its impact on income diversification is complex and context-dependent (Merzki & Ben Rejeb, 2023). Future research could further examine these

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relationships across different economic environments and regulatory conditions to better understand how diversity and earnings management interact in shaping financial strategy.

CONCLUSION

The study provides insights into how gender diversity in leadership influences income diversification strategies within the Indonesian banking industry. Gender diversity was found to significantly associate with income concentration, supporting the notion that female directors tend to promote more stable and risk-averse financial strategies. However, age, education, and financial expertise diversity did not show significant impacts on income diversification, indicating that these dimensions may play a less direct role in shaping income strategies within this sector. Furthermore, earnings management was found to moderate the relationship between financial expertise and income concentration, with higher levels of earnings management amplifying the conservative effect of financial expertise on income stability. These results highlight the complex and context-dependent roles of board diversity in financial strategy and governance. Future research could expand on these findings by examining diverse economic contexts and regulatory environments to understand better the nuanced ways diversity and earnings management influence financial strategies in banking.

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