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THE ROLE OF GENDER DIVERSITY ON DEBT POLICY

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ABSTRACT

This study aims to evaluate the effect of gender diversity in the board of directors on debt policy in the Indonesian banking sector. Using balanced panel data analysis, this study examines the impact of gender diversity, firm size, profitability, and current ratio on debt policy. The results show that gender diversity does not have a significant influence on debt policy. Meanwhile, firm size is shown to have a positive influence, and profitability has a negative influence on debt policy. The current ratio does not show a significant influence. This study contributes to the existing literature by highlighting the factors that influence debt policy in the banking sector, particularly in the context of a modernizing economy and gender diversity in debt policy decision-making. It also provides a reference for other academic studies exploring the relationship between board gender diversity, capital structure, financial performance, and corporate governance across different industries and regions.

KEYWORDS *Gender Diversity, DER, ROA, CR*

INTRODUCTION

Indonesia is a country with a large number of public companies from various sectors, both financial and non-financial. Indonesia Business Coalition for Women Empowerment (IBCWE) released census data, only about 4% of women are leaders in companies included in the IDX200. In 2021, as many as eight out of 10 state-owned companies have less than 20% female executives. Then, six out of 10 companies in the private sector had less than 20% female executives (Rabbi, 2022). Legal provisions and mandatory appointments of female leaders to corporate boards continue to grow and attract public attention, with female boards seen as a form of admiration and equality. However, this cannot be the only justification for promoting the position of women on corporate boards. Gender diversity is expected to increase creativity, innovation, and problem solving based on education, work experience, work style, wisdom, and company atmosphere so that it is not only based on feminism (Singh et al., 2023).

Female chief executive officers (CEOs) take a more cautious approach in executing corporate strategies than their male counterparts due to lower risk

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preferences. This cautious attitude can reduce the likelihood of loan defaults, restraint in spending driven by surplus cash flow, maintenance of conservative debt levels and greater equity accumulation. This lower risk aversion preference makes Female boards able to contribute to the effectiveness of strong corporate board governance practices, which then protect shareholders from managerial choices that could adversely affect firm performance (Siregar et al., 2023).

Some studies that look at whether gender can have an impact on debt policy show inconsistent results such as research stating that women's boards have no influence on corporate debt policy decision making or tend to minimize the risk of possible financial difficulties carried out b (Adusei & Obeng, 2019; García & Herrero, 2021; Georgakopoulos et al., 2022; Singh et al., 2023; Siregar et al., 2023; Suherman, 2017; Zaid et al., 2020) while research with the opposite results where gender has a significant effect on the quality of better corporate governance and has a positive impact on corporate leverage was conducted by (Amin et al., 2022).

According to agency theory, agency conflicts can occur if the interests of managers differ from those of shareholders. To prevent this from happening, a system is needed to oversee how managers act. One way to do this is by implementing the principles of Good Corporate Governance (GCG) (Suherman, 2017). According to agency theory, it is found that boards have better monitoring capabilities and also increase manager accountability so that board diversity serves as a mechanism to strengthen corporate governance because female boards are considered more sensitive to ethical issues, behave less opportunistically and bring new perspectives on complex issues so that they add expertise, experience and relationships to the organization to be more strategically relevant (Arvanitis et al., 2022; Marquez-Cardenas et al., 2022).

The ability of the female board to build communication and harmony with stakeholders that can reduce agency costs, gain support and also create legitimacy in the external environment so that it can show better financial management related to the quality of corporate loans and make decisions with low risk (Fauziah et al., 2022). Top management has an obligation to pay off the debt owned, so an increase in leverage is used to overcome agency problems because it is considered to reduce agency costs by reducing the surplus cash flow available to spend so as to stop excessive investment behavior (Zaid et al., 2020). The female board is also considered to increase the independence of the board directors while reducing agency costs, tax avoidance, and as a consequence can increase firm value and information transparency while also affecting the quality and quantity of information disclosed by the company so that it can affect debt policy decisions made (Ben Saad & Belkacem, 2022; Jarboui et al., 2020).

It can be concluded that the presence of women in the board provides a change and tends to be less risky because they want to reduce agency costs and increase company legitimacy so that they reduce company spending costs in order to control and be more careful about the debt policy made because it has an impact on company bankruptcy. The hypotheses developed in this study are:

H1: gender diversity has a negative effect on debt policy

Specifically, this study is conducted to investigate whether the presence of female executives contributes to the improvement of the decision-making process in corporate debt policy. The contribution of the study is that the study will use gender diversity in the board of directors on corporate debt policy decisions used as well as three control variables, namely firm size, profitability (ROA), and current ratio (CR) in the banking company sector in Indonesia in 2019-2022, this study will provide a new perspective on how human resources affect corporate debt policy. The results show that debt policy in the Indonesian banking sector is not affected by gender diversity. This suggests that both men and women will undertake debt policy if necessary in business.

RESEARCH METHOD

This study analyzes companies in the banking sector on the Indonesia Stock Exchange (IDX) from 2019 to 2022. Since outlier data is eliminated, this study uses balanced panel data analysis. There are 75 observations. The OSIRIS database and company annual reports used are sourced from the IDX website and the company's official website.

Debt policy is used as the dependent variable in this study. Total debt divided by total equity (DER) is the way to calculate it. To determine gender, the percentage of women on the board is compared to the total directors. The control variable firm size is calculated by the natural logarithm of total assets. Profitability (ROA) is calculated by dividing net income by total assets, and current ratio is calculated by dividing current assets by current debt. Table 1 contains details of the variable measurements.

Table 1 Operational Variables

Variable	Concept	Measurement
Debt Policy (DER)	Debt held by the business	Total debt divided by total equity (DER)
Gender Diversity (GD)	Board gender diversity	Pe rcentage of women on the board compared to the total number of directors
Firm Size (FS)	Total assets of the company	Logaritma natural total aset
Profitability (ROA)	The company's net profit from assets owned	Net income divided by total assets
Current Ratio (CR)	The company's current ratio to pay short-term liabilities	Current assets divided by current liabilities

Source: Processed Data (2024).

RESULT AND DISCUSSION

Based on table 2 descriptive analysis illustrates the results of the mean, min, max and standard deviation of the data used. the debt ratio variable has a mean value of 0.20 with a standard deviation value of 0.07, a maximum data value of 0.46 and a minimum of 0.04. The gender diversity variable has a mean value of 5.68 with a standard deviation of 3.042, the maximum value of GD is 17.07 and the minimum value is 0.12. The control variables in this study use 3 measurements, namely firm size, profitability and current ratio. the mean of each variable is 24.64

FS, 0.004 ROA, and 78.70 CR. the standard deviation for each variable is 1.799 FS, 0.022 ROA, and 59.09 CR. the maximum value for FS is 28. The profitability variable measured using ROA has a maximum value of 0.11 with a minimum value of -0.09. The last control variable used is the current ratio with a maximum value of 493.82 and a minimum value of 0.00.

Table 2 Descriptive Statistics

Construct	Obs	Min.	Max	Mean	Std. Deviation
Kebijakan Utang (DER)	75	0.04	0.46	0.20	0.107
Gender Diversity (GD)	75	0.12	17.07	5.68	3.042
Ukuran Perusahaan (FS)	75	20.39	28.32	24.64	1.799
Profitabilitas (ROA)	75	-0.09	0.11	0.004	0.022
Current Ratio (CR)	75	0.00	493.82	78.70	59.09

Source : Processed Data (2024)

In table 3, the simultaneous test (F test) shows whether the independent variables in the model have an overall (simultaneous) influence on the dependent variable (Zahari et al., 2019). Looking at the ANOVA table on the test shows a sig result of 0.00 which is smaller than 0.05 which means that the research variables GD and control as a whole are significant to variable DER with a statistical F value of 28.89.

The t-statistic test based on table 4 is used to see partially how far the influence of each variable X in the study by looking at the t-statistic in the coefficient table with a significance level of 0.05 (Zahari et al., 2019). The constant value shows a negative significant result with a t-statistic value of -7.671 with a coefficient -18.323. This result means that when DER is not influenced by other variables, DER has a value of -18.323. The GD variable has a t-statistic of 1.304 and sig 0.196 which means that GD has no effect on DER in banking companies. These results are supported by agency theory because gender diversity has no influence on debt policy decisions in general, supporting the findings of previous research (Singh et al., 2023; Suherman, 2017) and rejecting research (Amin et al., 2022). So that the hypothesis in this study is rejected, because GD has no effect on debt policy but the direction of this study is appropriate, namely negative on debt policy. The FS variable has a t-statistic of 7.127 and sig 0.000 which means that FS has a positive effect on DER in banking companies. This explains that the level of DER will be higher along with the size of this company in accordance with research (Alkurdi et al., 2023; Mahsina & Agustia, 2023; Mehmood et al., 2023). The ROA variable has a a t-statistic of -7.150 and sig 0.000 which means that ROA has a negative effect on DER in banking companies. This explains that the higher the profitability, the lower the DER level. This is consistent with research (Siregar et al., 2023) and inconsistent with research (Chu & Oldford, 2023). The CR variable has a t value of 1.345 and sig 0.183 which means that CR has no influence on DER in banking companies. This explains that the level of current ratio in banking companies to pay short-term liabilities does not affect debt policy decisions. This is consistent with research (Sari et al., 2016).

The determination test in table 5 is used to measure the model that can explain the variation in the dependent variable by looking at the R2 value (Zahari et al., 2019). The coefficient test results show the value of the independent variable, namely GD, is able to explain the debt policy (DER) by 62.3%. the rest is explained by other factors.

Table 3 Goodness of Fit Results with F Test

ANOVA						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	21.560	4	5.390	28.899	.000[b]
	Residual	13.056	70	0.187		
	Total	34.616	74			
a. Dependent Variable: DER						
b. Predictors: (Constant), CR, ROA, GD, FS						

Source: Processed Data (2024)

Table 4 Linear Regression Analysis

Coefficients								
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	-18.323	2.389		-7.671	0.000		
	GD	0.110	0.084	0.099	1.304	0.196	0.934	1.071
	FS	5.103	0.716	0.548	7.127	0.000	0.911	1.098
	ROA	-0.713	0.100	-0.531	-7.150	0.000	0.975	1.026
	CR	0.128	0.095	0.101	1.345	0.183	0.960	1.042
a. Dependent Variable: DER								

Source: Processed Data (2024)

Table 5 Test Results Coefficient of Determination (R^2)

Model Summary					
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.789	0.623	0.601	0.43187	0.847
a. Predictors: (Constant), CR, ROA, GD, FS					
b. Dependent Variable: DER					

Source: Processed Data (2024)

CONCLUSION

The results of testing gender diversity on board of directors in the company's debt policy produce an insignificant value which rejects the hypothesis and this is in accordance with research from Suherman (2017) and Siregar et al. (2023) which states that gender has no significant effect on debt whether measured by debt-to-total asset ratio (DAR), debt-to-equity ratio (DER), or short-term debt-to-total assets (STD). Suherman (2017) states that in general gender diversity has no effect on capital structure in Indonesia because the appointment of a female board as a director is due to the possibility of a family relationship with the company owner, not because of experience and expertise as well as another possibility is that the company appoints a female board just because the company wants to do it not based on other backgrounds. According to Siregar et al., (2023) there is no evidence to indicate that female boards are more likely to have lower debt levels and have higher risk preferences and experience discrimination regarding perceptions of credibility and competition with men.

This rejects agency theory where this theory expects the board have better monitoring capabilities and also increase manager accountability so that board diversity serves as a mechanism to strengthen corporate governance because female boards are considered more sensitive to ethical issues, behave less opportunistically and bring new perspectives on complex issues so as to add expertise, experience and relationships to the organization to be more strategically relevant (Arvanitis et al., 2022; Marquez-Cardenas et al., 2022).

Firm size (FS), which is calculated by the natural logarithm of total assets, has a positive impact on debt policy, which suggests that larger firms will require better debt policy (Alkurdi et al., 2023; Mahsina & Agustia, 2023). The debt policy of banking companies is negatively affected by the profitability control variable calculated by ROA. This explains the relationship between DER and profitability in accordance with research (Siregar et al., 2023). The debt policy decisions of banking companies are not influenced by the current ratio (CR) variable. The level of current ratio used by banking companies to pay short-term liabilities does not affect their debt policy decisions in accordance with research (Sari et al., 2016).

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